



Practical Policy Concerning the Revision of the Quarterly Disclosure System

Exchange & beyond
Tokyo Stock Exchange, Inc.

November 22, 2023

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1. Introduction



Background

- The Financial System Council Working Group on Corporate Disclosure ("DWG") proposed in its June 2022 report a direction to reduce costs and improve disclosure efficiency by eliminating overlapping content between the first and third quarter securities reports required by the Financial Instruments and Exchange Act (FIEA) and the quarterly earnings reports required by Tokyo Stock Exchange (TSE). To do so, they suggested integrating them into a single disclosure system. It was recommended that the quarterly securities report should be integrated into the quarterly earnings report, taking into consideration the timing of disclosure and the wide use of these reports by investors. In addition, the December 2022 report included specifics regarding the execution of this proposal.
- A council of experts was established to work out the logistics of implementing the measures specified in the DWG report. In their discussions, they carefully considered the opinions of investors, listed companies, academic experts, and other market users. Based on the outcomes of those discussions, TSE has compiled this "Practical Policy Concerning the Revision of the Quarterly Disclosure System" (hereinafter referred to as "Practical Policy").

Issues addressed at the Council

- Content and Disclosure Timing of Quarterly Earnings Reports for Q1 and Q3
- Partial Obligation to Review of Quarterly Earnings Reports for Q1 and Q3 and Enforcement
- Handling of Earnings Reports for Q2 and Full Year
- Data Distribution Format for Earnings Reports
- Enhancement of Information Disclosure

About the Future

- In accordance with this Practical Policy, TSE will revise the exchange rules and the Timely Disclosure Guidebook, including the guidelines for preparing earnings reports (TSE will publish the outlines of the revised rules and take comments from the public).
- Related authorities such as the Financial Services Agency, the Accounting Standards Board of Japan (hereinafter referred to as "ASBJ"), and the Japanese Institute of Certified Public Accountants (hereinafter referred to as "JICPA") have also made necessary considerations with this revision. Therefore, it is possible that TSE will change some of the Practical Policy and proceed with the process of the revision of the exchange rules based on the trends (if necessary, TSE will hold discussions with the Council).

(As of November 22, 2023)

| | | |
|----------|--------------------|---|
| Chairman | Kansaku Hiroyuki | Professor, Gakushuin University Law School |
| Members | Fujimoto Takako | Deputy President, The Japanese Institute of Certified Public Accountants |
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| | Kanda Hideki | Professor, Gakushuin University Law School |
| | Kumagai Goro | Senior Fellow, Industry-Government-Academia Collaboration Office, Global Strategy Department, Mizuho Securities Co., Ltd. Senior Vice President of Corporate Accounting Research, The Securities Analysts Association of Japan |
| | Kuroda Kohei | Joint General Manager, Financial Accounting Dept., Sumitomo Mitsui Banking Corporation |
| | Kuronuma Etsuro | Professor, Waseda University, Waseda Law School |
| | Matsumoto Michiaki | Chief Manager, Head of Department, Financial Accounting & Tax Dept., Accounting & Finance Div., Nippon Steel Corporation |
| | Sampei Hiroki | Principal, Astonering Advisor LLC |
| | Uemura Kazuyuki | General Manager, Special assistant to Group CFO including External relation, Panasonic Holdings Corporation |

(in alphabetical order by surname)

Observer

Financial Services Agency, Accounting Standards Board of Japan

Background Surrounding the Revision of the Quarterly Disclosure System (DWG Report Summary (1))

Direction to Be Taken With the Revision of the Quarterly Disclosure System as Outlined in the DWG Report

(Reason for Integration)

- It was pointed out that Quarterly Securities Reports and Quarterly Earnings Reports are **disclosed around the same time and contain the same information.**
- To **reduce costs and improve the efficiency of disclosure** for Q1 and Q3, DWG's report recommended integrating them into a single disclosure system.

(Reasons for integrating Quarterly Earnings Reports)

- Consolidating information into Quarterly Securities Reports, which are disclosed later, may reduce **the usefulness and timeliness of the information.**
- Quarterly Earnings Reports, in which information is proactively disclosed to investors, are **widely used by investors.**

(Obligation to Disclose Quarterly Earnings Reports)

- In light of the current situation surrounding disclosure by Japanese companies, **a uniform requirement for Quarterly Earnings Reports shall be enforced for the time being,** considering its significance as a confirmation of the progress of management strategies, concerns about the disclosure stance of the average company, and the possibility that the overall reputation of the Japanese market may be damaged if disclosure is perceived as a setback.
- Regarding the possibility of making disclosure of Quarterly Earnings Reports voluntary in the future, it is necessary to first address the above concerns of investors by **improving and enhancing corporate awareness of disclosure and establishing a market environment that encourages companies to proactively provide investors with useful information.**
- DWG suggested further consideration for eventually making Quarterly Earnings Reports voluntary from a broad perspective, taking into account the progress in enhancing timely disclosure, changes in corporate disclosure stance, and opinions on the differences in nature between timely and periodic disclosure.

Source: Compiled by Tokyo Stock Exchange based on the Financial Services Agency's "Report by the Working Group on Corporate Disclosure of the Financial System Council (FY2021)" and "Report by the Working Group on Corporate Disclosure of the Financial System Council (FY2022)"

Background Surrounding the Revision of the Quarterly Disclosure System (DWG Report Summary (2))

Provided direction of each issue in its implementation

Content of
Quarterly
Earnings Reports

To ensure that this revision is not perceived as withholding information, the exchange may consider adding items for which investors have particularly strong requests (segment information, cash flow information, etc.) to Quarterly Earnings Reports, while ensuring that the information is timely.

Partial Obligation
of Auditor Review

To ensure quick response times, etc., it is conceivable that review by an auditor may not be uniformly required. For example, in the event of accounting irregularities (including cases where statutory disclosure documents are submitted late due to such irregularities), or when deficiencies in a company's internal controls are discovered, a review by an auditor could be mandated for a certain period of time under exchange to ensure credibility.

Enforcement In
Case of
Misstatements

Enforcement may be more appropriately implemented by the exchange. With regard to statutory enforcement - (omitted) - given that there have been very few surcharge payment orders targeting only Quarterly Securities Reports to date and that statutory enforcement will be maintained in Semiannual Securities Reports and Annual Securities Reports after the abolition of 1st and 3rd Quarterly Securities Reports, it is possible that this will be unnecessary at this time.

Development of
Accounting and
Auditing
Standards

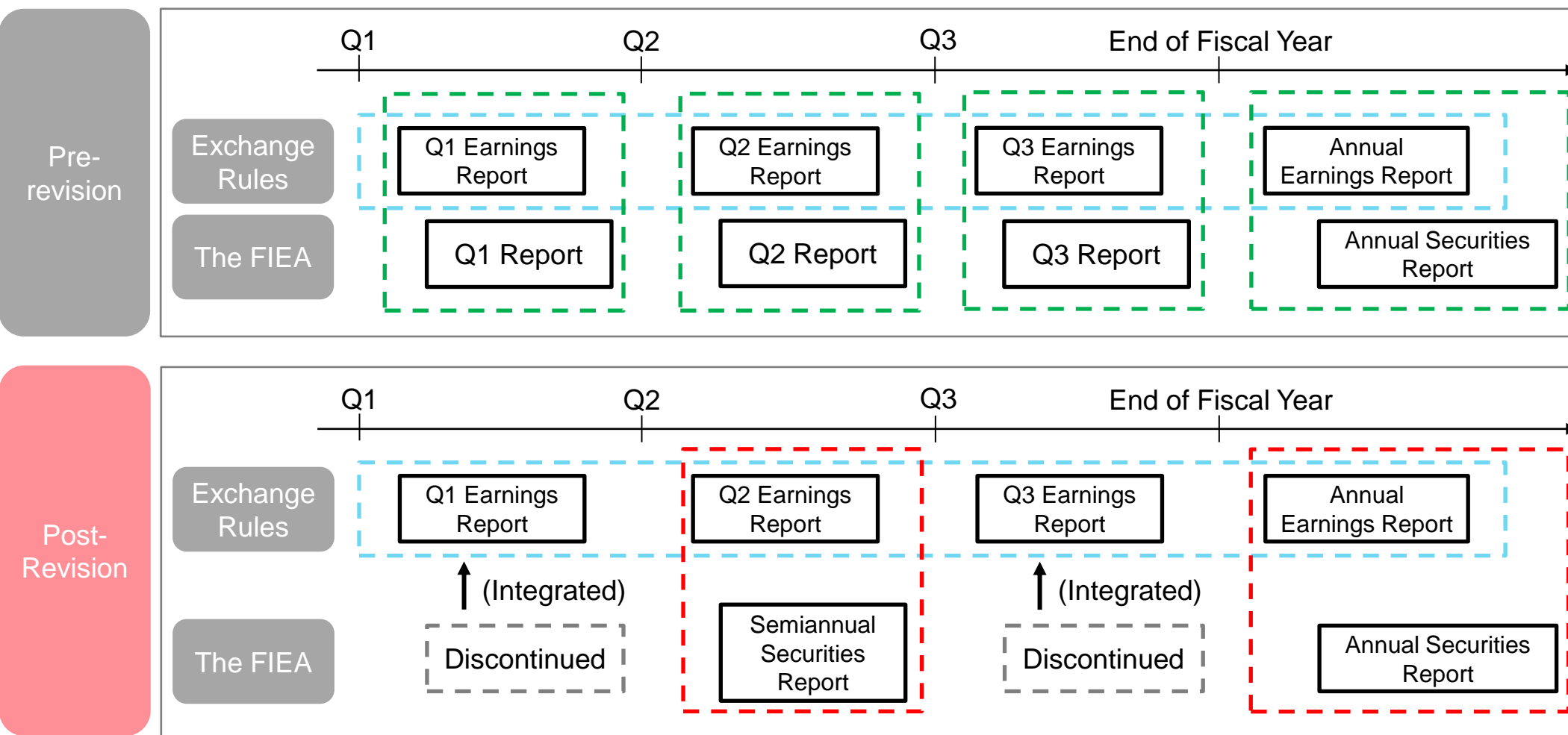
With respect to quarterly accounting standards and quarterly review standards, to avoid practical confusion, it was deemed reasonable to allow them to be applied to Quarterly Earnings Reports and Semiannual Securities Reports after the integration. In light of this, the authorities, ASBJ, exchanges, JICPA, and other related parties may take necessary actions in accordance with this review.

Enhancement of
Information
Disclosure

Against the backdrop of rapid changes in the corporate environment and advances in information technology, the importance of timely information disclosure by companies is increasing for investors in making investment decisions. It is important for companies to properly identify and assess risks of previously unforeseen events, such as the recent spread of infectious diseases and changes in international circumstances, and to enhance information disclosure within the framework of timely disclosure on the exchange.

Disclosure of Earnings Reports and Securities Reports Throughout the Year

- Under the current system, since there are statutory disclosures under the FIEA corresponding to each financial report, through the simplification of the contents, Earnings Reports are akin to a news flash.
- With this revision of the quarterly disclosure, while statutory disclosures corresponding to the Earnings Reports of Q1 and Q3 will be discontinued, statutory disclosures corresponding to the reports of Q2 and to the full year will not.



2. Handling of Related Issues

2-1. Content and Disclosure Timing of Quarterly Earnings Reports for Q1 and Q3



Content of Quarterly Earnings Reports for Q1 and Q3

Basic Concept

Items disclosed in Quarterly Securities Reports for which there is a **particularly strong demand from investors will be added to Quarterly Earnings Reports**, and their disclosure will be made mandatory.

Financial Reporting Framework

The omission of items from the Regulation on Terminology, Forms, and Preparation of Financial Statements and accounting standards in the new system will be allowed unless required by TSE, and items may be added as necessary (Notes on cash flow).

Note: The base framework will be discussed based on the future actions to be taken by the parties concerned. The ASBJ is currently discussing the response to the revision of the quarterly reporting system, and is examining related accounting standards, etc.

Contents

| | | |
|---------------------|----------------------|---|
| Summary Information | | <ul style="list-style-type: none"> ➤ Whether or not a review by an auditor has been conducted (distinguish between mandatory review and voluntary review) ➤ Changing to “Significant changes in the scope of consolidation during the period” (note 1) |
| Attachment | Financial Statements | <p>There is no difference in treatment between J-GAAP, IFRS and US-GAAP, and the following items are required uniformly:</p> <ul style="list-style-type: none"> ➤ Consolidated Balance Sheets, Consolidated Profit and Loss Statements, and Consolidated Comprehensive Income Statements (note 2) <p>(Cash flow statements are requested based on investor needs as useful information for investment decisions.)</p> |
| | Notes | <p>Notes on Segment Information, etc. and Notes on Quarterly Cash Flow Statements will be added to the list of current required notes as shown below.</p> <ul style="list-style-type: none"> ➤ Notes on the Going Concern Assumption ➤ Notes in the event of significant changes in shareholders' equity ➤ Changes in accounting policies, changes in accounting estimates, and restatements ➤ Accounting Method Specific to the Preparation of Quarterly Consolidated Financial Statements ➤ Notes on Segment Information (Same level as Semiannual Securities Report in the new system) ➤ Notes on Cash Flow (in case of the omission of cash flow statements) |
| | Others | <p>Overview of operating results, etc. (note 3)</p> <p>Significant events, etc. on the Going Concern Assumption (same as current)</p> <p>Review Report (only when receiving a review by an auditor)</p> |

Note 1: This means the replacement of “Changes in significant subsidiaries during the period” into “Changing significant changes in the scope of consolidation during the period” in accordance with the Quarterly Securities Reports.

Note 2: TSE will permit omission of Consolidated Profit and Loss Statement and Consolidated Comprehensive Income Statement for the quarterly period, as it is expected that this information for the Q2 will not be disclosed in Semiannual Securities Reports in the new system or due to other factors.

Note 3: It is also possible to make a disclosure in explanatory materials for financial results other than earnings reports (in that case, state that the relevant documents should be referred to and how to refer to them.).

Content of Quarterly Earnings Reports for Q1 and Q3

- For items other than those required to be disclosed, it is important for listed companies to properly understand the needs of investors and proactively disclose the relevant items.
- TSE will provide examples of useful information for investment decisions in the Timely Disclosure Guidebook and prompt voluntary disclosure based on investors' needs.

Example of useful information for investment decisions

Note: since the needs of investors are different depending on the industry or the business, each company should judge the information to be disclosed based on investors' needs.

(Items other than those TSE requires to be disclosed from the regulations of the new system (note 1))

- Cash Flow Statements
- Notes of Financial Statements
 - ✓ Notes on Balance Sheets, notes on Profits and Loss Statements
 - ✓ Notes on Financial Instruments, Securities and Derivative Transactions(note 2)
 - ✓ Notes on Material Post-Balance Sheet Events

(Others)

- Items which are considered useful for investment decisions when explaining operating results and financial condition (note 3)
 - ✓ Major Management Indicators
 - ✓ Capital Investment, and Research and Development
 - ✓ Effect by event disclosed in a timely manner
(ex.) Specific impact on quarterly results by business combination or acquisition of subsidiaries, etc.

Note 1: See P.13 for details about the regulations of the new system.

Note 2: Current Quarterly Securities Reports are handled in the following manner:

- Notes are required if they are important to the operations of the corporate group and if there are significant changes from the end of the previous fiscal year. In addition, notes for Q1 and Q3 can be omitted except in cases where financial assets and liabilities account for a large portion of the total assets and liabilities of the corporate group

Note 3: When explaining operating results and financial condition, refer to the items designated for disclosure under "Management's Discussion and Analysis of Financial Position, Operating Results, and Cash Flow Status" in Quarterly Securities Reports.

Basic Concept

- A company must disclose account settlement details immediately after they are decided.
- If a company is unable to disclose such details within 45 days after the quarterly accounting period, the company must provide an explanation as to why they have been unable to do so.

Account Settlement Details

- Due to the integration into the Quarterly Earnings Reports in Q1 and Q3, companies will be required to disclose the report when the items to be disclosed in the report (including items to be required (refer to P.10) and items to be disclosed as useful information for investment decisions (refer to P.11)) are decided.
- We expect that companies will improve their disclosure of Quarterly Earnings Reports (disclose financial statements, notes for current Quarterly Securities Reports, etc.) to be proactive in their disclosure of information for investors. TSE does not prevent companies from disclosing in advance some items to be disclosed in Quarterly Earnings Reports (such as summary information and financial statements, excluding notes), for the sake of rapid communication with equity markets.

Note: With the current procedure, prior disclosure of summary information, etc. is permitted if there is no risk of misleading investment decisions.

Timing of Decisions regarding Details of Account Settlements (when a review is conducted)

- We currently request that Quarterly Earnings Reports be disclosed without waiting for the review to be completed. This way, they can function like a news flash that discloses the financial results prior to the statutory disclosure. However, this role will change due to the integration into the Quarterly Earnings Reports in Q1 and Q3.

For mandatory reviews:

- In principle, decisions regarding the details of account settlements shall be made when the review is completed in line with the purpose of the obligation, which is to encourage reliability.

For optional reviews:

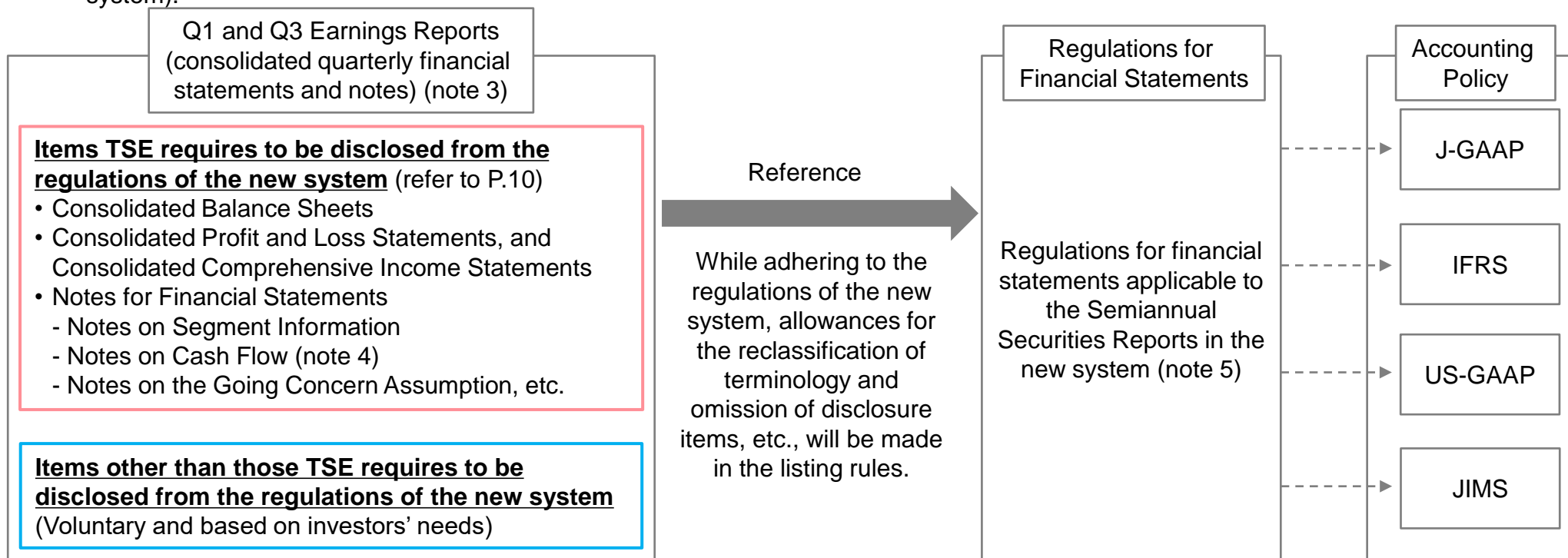
- Each company will judge for itself when decisions regarding details of account settlements shall be made (it shall be acceptable to decide on the timing after the completion of the review since it will be integrated into Quarterly Earnings Reports.)

(Reference) Financial Reporting Framework

- To ensure comparability between listed companies and the continuity of accounting procedures, listed companies shall refer to the regulations for financial statements and accounting standards for Semiannual Securities Reports in the new system (hereinafter referred to as “regulations of the new system”) in preparation for their earnings reports for Q1 and Q3.

Financial Reporting Framework Stipulated by TSE (Financial Statements and Notes)

- Recognition and Measurement: accounting standards, such as those stipulated by the ASBJ (note 1), will be followed while reclassifying the terms through the regulations applicable to the Semiannual Securities Reports in the new system. (note 2)
- Disclosure: The omission of items not required by TSE will be allowed. Also, items other than the items required may be disclosed at the listed company’s discretion based on the need of investors (However, voluntary disclosures must adhere to the regulations of the new system).



(Note 1) The ASBJ intends to develop an accounting standard with a six-month accounting period for Semiannual Securities Reports. The ASBJ plans to discuss issues that need to be resolved in relation to the existing quarterly accounting standards by setting a six-month accounting period. (there is an opinion in the council that it is necessary to develop accounting standards for the preparation of interim financial statements that can be applied to the preparation of financial statements in Q1 and Q3.)

(Note 2) It is assumed to take measures to follow the current accounting treatment and handling for the preparation of quarterly financial statements in Q1 and Q3.

(Note 3) When a review by an auditor is conducted, the review will cover the quarterly consolidated financial statements and notes.

(Note 4) Since notes on cash flows are not expected to be stipulated in the regulations of the new system, TSE will stipulate the same matters as in the current Quarterly Securities Reports.

(Note 5) Based on the DWG report, it is assumed that the contents of Semiannual Securities Reports will be of the same standard as the current Quarterly Securities Reports.

(Reference) Draft of Summary Information Changes

Quarterly Reference Form No. 1 [Japanese GAAP] (Consolidated) MM DD, YYYY

Consolidated Financial Results for the Three/Six/Nine Months Ended MM DD, YYYY (Under Japanese GAAP)

Company name: XXXXXX Co., Ltd.
 Listing: Tokyo Stock Exchange / Nagoya Stock Exchange / Fukuoka Stock Exchange / Sapporo Securities Exchange
 Securities code: 0000
 URL: http://XXXXXXXXXXXXXXXXXX
 Representative: (Name), (Title)
 Inquiries: (Name), (Title)
 Telephone: +81-00-0000-0000
 Scheduled date to file quarterly securities report: MM DD, YYYY
 Scheduled date to commence dividend payments: MM DD, YYYY
 Preparation of supplementary material on quarterly financial results: Yes/None
 Holding of quarterly financial results briefing: Yes/None (for XXXX)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the three/six/nine months ended MM DD, YYYY (from MM DD, YYYY to MM DD, YYYY)

(1) Consolidated operating results (cumulative) (Percentages indicate year-on-year changes.)

| Three/Six/Nine months ended MM DD, YYYY MM DD, YYYY | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | |
|---|-----------------|---|------------------|---|-----------------|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |

Note: Comprehensive income For the three/six/nine months ended MM DD, YYYY: ¥000,000 million [00.0%]
 For the three/six/nine months ended MM DD, YYYY: ¥000,000 million [00.0%]

| Three/Six/Nine months ended MM DD, YYYY MM DD, YYYY | Basic earnings per share | Diluted earnings per share |
|---|--------------------------|----------------------------|
| | Yen | Yen |

(2) Consolidated financial position

| As of MM DD, YYYY MM DD, YYYY | Total assets | Net assets | Equity-to-asset ratio |
|-------------------------------------|-----------------|-----------------|-----------------------|
| | Millions of yen | Millions of yen | % |

Reference: Equity
 As of MM DD, YYYY: ¥000,000 million
 As of MM DD, YYYY: ¥000,000 million

If a review report will be disclosed later, indicate that in this column.

2. Cash dividends

| | Annual dividends per share | | | | |
|---|----------------------------|--------------------|-------------------|-----------------|-------|
| | First quarter-end | Second quarter-end | Third quarter-end | Fiscal year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal year ended MM DD, YYYY | | | | | |
| Fiscal year ending MM DD, YYYY | | | | | |
| Fiscal year ending MM DD, YYYY (Forecast) | | | | | |

Note: Revisions to the forecast of cash dividends most recently announced: Yes/None

Please state here any information that would be considered useful for investors regarding forecasts of financial results for the full fiscal year.
 (If forecasts were revised, please state the revised forecast values together with the reasons for revision.)

* Notes

(1) Significant changes in the scope of consolidation Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): Yes/None

Newly included: 00 companies (Company name)
 Excluded: 00 companies (Company name)

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: Yes/None

(3) Changes in accounting policies, changes in accounting estimates, and restatement

- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes/None
- (ii) Changes in accounting policies due to other reasons: Yes/None
- (iii) Changes in accounting estimates: Yes/None
- (iv) Restatement: Yes/None

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

| | |
|-------------------|--------|
| As of MM DD, YYYY | shares |
| As of MM DD, YYYY | shares |

(ii) Number of treasury shares at the end of the period

| | |
|-------------------|--------|
| As of MM DD, YYYY | shares |
| As of MM DD, YYYY | shares |

(iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

| | |
|---|--------|
| Three/Six/Nine months ended MM DD, YYYY | shares |
| Three/Six/Nine months ended MM DD, YYYY | shares |

* Review of attached consolidated quarterly financial statements by a certified public accountant or an audit firm: Yes (mandatory)/Yes (voluntary)/None Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

XX

2-2. Review of Quarterly Earnings Reports for Q1 and Q3 and Enforcement



Basic Concept

- **In principle, reviews** by an auditor regarding Quarterly Earnings Reports for Q1 and Q3 **shall be optional**, but **in the event that ensuring reliability of financial statements is considered necessary** due to accounting irregularities, etc., TSE will require the company to undergo such review.
- **In doing so, the conditions will be clearly defined to aid preparations of listed companies and auditors.** The conditions will be based on the auditor's assessment of accounting irregularities, the evaluation of internal control over financial reporting by management under the FIEA, and details regarding the submission of statutory disclosure documents required to be audited and reviewed by the auditor.

Conditions for Mandatory Review:

- 1) A listed company receives a result **other than an unqualified opinion** in an audit report of their latest Annual Securities Report, Semiannual Securities Report or Quarterly Earnings Report (only if a review has been conducted)
 - 2) A listed company receives a result **other than an unqualified opinion in an Internal Control Audit Report** of the latest Annual Securities Report
 - 3) A listed company has **significant deficiencies in internal controls** that should be disclosed in their latest Internal Control Report
 - 4) A listed company **does not submit** the latest Annual Securities Report or Semiannual Securities Report **by the initial deadline**
 - 5) The **Semiannual Securities Report** for the current term is amended and a review report is attached to the amended financial statements
- Note: 1) and 3) are also **applicable to cases where** the most recent Annual Securities Report, Semiannual Securities Report, Quarterly Earnings Report (only in receiving a review) or Internal Control Report is amended, **and the amendment report meets the conditions.**
- Note: Except where it is clear that the reliability of financial statements is not in question regarding 4) and 5).

Applicable Period for Conditions

- A company must receive an audit review for the financial statements for Q1 and Q3 submitted after any of condition is met.

Cancellation of Mandatory Review

- **TSE will lift the requirement for review when none of the conditions above from 1) through 4) apply to the Annual Securities Report or Internal Control Report submitted after meeting the conditions.**

Reviews (including optional reviews)

- It is required that the review be conducted by the same auditor as the auditor for the fiscal year.
- Reviews based on the review standards of the Business Accounting Council and the practical guidelines of the JICPA are required.
Note: The Business Accounting Council has discussed the standards regarding interim reviews including quarterly earnings reports
- While based on the compliance review, a review may be considered as a review of fair presentation if it complies with the regulations of the new system and does not omit any items from disclosure.
- In cooperation with the JICPA and the Securities Analysts Association of Japan, and others, TSE will provide information on reviews based on the compliance framework to deepen the understanding of stakeholders.

(Reference) Relationship between the Financial Reporting Framework and Reviews

- The framework for fair presentation and compliance is under review, and the current Quarterly Securities Reports are being reviewed against the fair presentation framework.
- For the financial reporting framework of the revised Quarterly Earnings Reports that TSE will stipulate, it is assumed that the compliance reviews will be conducted because certain omissions from disclosures will be permitted while conforming to the regulations of the new system, and explicit provisions for additional disclosures to achieve fair presentation will not be required.

| Step | Revised Quarterly Earnings Reports (planned) | Current Quarterly Securities Reports |
|---|--|--|
| 1. Determine whether there are explicit provisions of additional disclosures to achieve fair presentation | No | Yes Note: Please see Notes on Additional Information in Article 14, Ordinance on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements |
| 2. Comprehensively determine the following items when there is an explicit provision of additional disclosure | — | — |
| (1) Purpose for the establishment of explicit provisions of additional disclosures | No explicit provision of additional disclosures | Purpose of establishment is proper |
| (2) The extent to which it differs from general-purpose accounting standards (GAAP) applicable to the same type of entity and developed by a recognized accounting standard setter for the purpose of fair presentation in accordance with a transparent process. | Recognition and measurement: Reclassification of terms is permitted while conforming to GAAP Disclosure: Financial reporting framework which TSE stipulates Note: It is assumed that certain omissions from revised accounting standards etc. will be permitted. | Recognition and measurement: GAAP Disclosure: Ordinance on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements, and GAAP |
| Financial Reporting Framework | Compliance (note) | Fair Presentation |

Note: If a company prepares financial statements conforming to the regulations of the new system without any omissions of disclosure items, this will be considered a fair presentation framework.

Definitions of “Fair Presentation Framework” and “Compliance Framework”

The term “fair presentation framework” is used to refer to a financial reporting framework that requires compliance with the requirements therein and:

- (1) Acknowledges explicitly or implicitly that, to achieve the fair presentation of financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (2) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework but does not contain the acknowledgements in (1) or (2) above.

Source: Compiled by Tokyo Stock Exchange based on JICPA’s “Auditing Standards Statements 800 Practical Guidance No.1 “Questions and Answers on Auditing Standards Statements 800 and 805 (Practical Guidance)”

(Reference) Financial Reporting Framework Difference and Review Process / Assurance Level

- Review process is basically similar to the one for current quarterly reviews of financial statements.
- No difference in the level of assurance between two frameworks (fair presentation/compliance) for review of financial statements.

Understand which framework is applied, “fair presentation” or “compliance”

Consider in common for both frameworks of “fair presentation” and “compliance”

Consider only for “fair presentation” framework

What are the contents of the financial reporting framework?

Is it prepared in accordance with each requirement the financial reporting framework?

Are provisions of additional disclosures to achieve fair presentation required?

Consideration of preconditions for an engagement

Forming a basis for auditor’s conclusion

<Assurance Level>
Limited Assurance

Accumulation of audit evidence

- Obtain sufficient and appropriate quantity and quality of evidence to form a basis for auditor’s conclusion
- With the framework of fair presentation or compliance, the sufficiency of quantity and quality of the evidence about whether it is prepared in accordance with each matter is similar and the procedures to obtain them are similar.

- The auditor’s evaluation as to whether the financial statements achieve fair presentation shall include consideration of the overall presentation, structure and content of the financial statements. (Note)

<Obtaining audit evidence (by inquiries, and analytical and other review procedures (additional procedures)) >

Review Process by Auditor
(engagement, designing and performing further review procedures, forming review conclusions and preparation of review report)

Note: referred to Statement on Auditing Standards 700, Forming an Opinion and Reporting on Financial Statements, Paragraph 12

Source: Compiled by Tokyo Stock Exchange based on the material provided by JICPA

(Reference) Wording Image in Review Report

| Conclusion - Fair Presentation Framework | Conclusion - Compliance Framework |
|--|--|
| <p data-bbox="94 331 1057 434"><u>Independent Auditor's Report on Review of Quarterly Financial Statements</u> (omitted)</p> <p data-bbox="49 533 255 568">Conclusion</p> <p data-bbox="49 600 1066 772">We have reviewed the accompanying □□ of ○○ Inc. provided in the “□” section for the X month period from XXXX to XXXX, in accordance with □□□.</p> <p data-bbox="49 804 1093 1177">Based on our review, nothing has come to our attention that causes us to believe that <u>the □□ referred to above does not present fairly, in all material respects, the financial position of ○○ Inc. as at XXXX, and its financial performance for the X month period then ended, in accordance with □□□.</u></p> <p data-bbox="434 1209 721 1244">(omitted below)</p> | <p data-bbox="1191 331 2154 434"><u>Independent Auditor's Report on Review of Quarterly Financial Statements</u> (omitted)</p> <p data-bbox="1146 533 1352 568">Conclusion</p> <p data-bbox="1146 600 2163 772">We have reviewed the accompanying △△ of ○○ Inc. provided in the “△” section for the X month period from XXXX to XXXX, in accordance with △△△.</p> <p data-bbox="1146 804 2168 1043">Based on our review, nothing has come to our attention that causes us to believe that <u>the △△ referred to above is not prepared, in all material respects, in accordance with △△△.</u></p> <p data-bbox="1527 1209 1814 1244">(omitted below)</p> |

Source: Compiled by Tokyo Stock Exchange based on the material provided by JICPA

Basic Concept

- While TSE's examinations of disclosures are based on confirmations with listed companies, TSE will strengthen cooperation with auditors and establish a system for early identification of accounting irregularities to ensure that enforcement is conducted more appropriately.

Note: The prohibition of unfair trading (dissemination of rumors) under laws and regulations will also be made known to the public by TSE so that it is properly understood.

Specific Policies

- (1) TSE shall clearly stipulate in the listing rules that listed companies are required to conduct necessary investigations and report the results (and disclose the details of such investigations when deemed necessary and appropriate) for accurate reporting when deemed necessary, such as for suspicions of accounting fraud.
- (2) The scope of Rule 604, which is related to the obligation of listed companies to cooperate when requesting a survey with certified public accountants, etc., shall be expanded beyond cases in which TSE deems it necessary to decide the appropriateness of delisting to include cases in which TSE deems it necessary to consider the measures for ensuring effectiveness in the listing rules when accounting fraud etc. occurs.
- (3) To assist the proper functioning of the measure described in (2) above, JICPA shall be expected to take additional measures, such as by including requests for information sharing from TSE as "justifiable grounds" for terminating confidentiality obligations in audit contracts (convention for JICPA).

Reference: Securities Listing Regulations, Rule 415, Paragraph 1 and 2, and Rule 416, Paragraph 1

Rule 415 1. Where TSE makes an inquiry of corporate information of a listed company by deeming that it is necessary to do so, such listed company shall make an accurate report on an inquiry matter immediately.

2. Where TSE deems that it is necessary and appropriate to disclose a fact pertaining to an inquiry as prescribed by the preceding paragraph, a listed company shall disclose details immediately.

Rule 416 1. In circumstances where a change or correction should be made to the information disclosed pursuant to the provisions from Rules 402 through 411-2 or the provisions of Paragraph 2 of the preceding rule, a listed company shall disclose details of such change or correction immediately.

Reference: Securities Listing Regulations, Rule 604, Paragraph 1

Where TSE deems it necessary to decide the appropriateness pertaining to delisting of a listed stock, etc. issued by such listed company and requests certified public accountants, etc. (including entities who were such certified public accountants, etc.; the same shall apply in the following paragraph) who carry out audit certification, etc. of financial statements, etc. or quarterly financial statements, etc. to give explanation on the circumstances, etc., the listed company shall cooperate in this process.

Reference: examples of justifiable grounds for termination of confidentiality obligation

- When submitting reports or materials in response to requests from the Certified Public Accountants and Auditing Oversight Board in accordance with the Certified Public Accountants Act
- When submitting an opinion to the Commissioner of the Financial Services Agency regarding the fact that the commissioner has violated laws and regulations, etc., pursuant to the FIEA
- When responding to a quality control review by the JICPA, or when responding to questions or investigations by the JICPA in accordance with the JICPA's rules, etc.
- When providing information to a successor auditor (including a prospective auditor) for the purpose of handing over audit work.
- When using other certified public accountants, etc. or outside experts for auditing services

(Reference) Enforcement under Exchange Rules and Law

- TSE rules and the FIEA each have enforcement measures in place to ensure and improve the effectiveness of rules and law.

Organization of Enforcement Measures under Exchange Rules and Law

| | Exchange Rules | Financial Instruments and Exchange Law |
|---------------------------------------|---|--|
| Misstatements in Statutory Disclosure | <p>Enforcement Measures</p> <ul style="list-style-type: none"> ✓ Penalty Measures <ul style="list-style-type: none"> • Public Announcement Measures • Listing Agreement Violation Penalty (Up to JPY 91.2 million) | <ul style="list-style-type: none"> ✓ <u>Misstatements in Continuing Disclosure Documents</u> <ul style="list-style-type: none"> • Criminal Penalty Individuals: Up to 5 years imprisonment or a fine of up to JPY 5 million (with concurrent convictions) Corporation: A fine of up to JPY 500 million • Administrative Surcharges JPY 3 million or 3/100,000 of the total market value, whichever is higher • Civil Liability (Shift of burden of proof from the claimant, etc.) |
| False Disclosures in Earnings Reports | <ul style="list-style-type: none"> ✓ Improvement Measures <ul style="list-style-type: none"> • Improvement Report*¹ • Securities on Alert*² <p>* 1 If TSE deems that there has been no improvement in the implementation and operation of remedial measures, the issue will be designated as a security on alert.</p> <p>* 2 If TSE deems that the internal control system, etc. has not been improved, etc., the issue will be delisted.</p> | <ul style="list-style-type: none"> ✓ <u>Disseminating Unfounded Rumors</u> Condition of purpose (in addition to the misstatement constituting the spreading of false information, the purpose of the misstatement must be for the purpose of buying and selling securities or for the purpose of changing the market). <ul style="list-style-type: none"> • Criminal Penalty Individuals: Up to 10 years imprisonment or a fine of up to JPY 10 million (with concurrent convictions) Corporation: A fine of up to JPY 700 million • Administrative Surcharges The surcharge will be calculated based on the price of securities transactions, etc., conducted during the period of the violation (if there is only a minor misstatement and no transactions accompanying the violation, the surcharge cannot be imposed). • Civil Liabilities (General Wrongful Act Liability) |

Source: Compiled by Tokyo Stock Exchange based on the Financial Services Agency's "Secretariat's Explanatory Material of the 3rd meeting of the Working Group on Corporate Disclosure of the Financial System Council (FY2022)" and Etsuro Kuronuma, "Enforcement against Misstatements" in Journal of Business Accounting, No.5 of vol.75, 2023

2-3. Handling of Earnings Reports for Q2 and Full Year



Basic Concept

- Since statutory disclosures will continue for Q2 and the full year, the current procedure will be maintained for Q2 and full-year earnings reports.

Role

- Q2 and full-year earnings reports will maintain their role as “news flashes” preceding statutory disclosures (Semiannual Securities Reports and Annual Securities Reports).
- Earnings Reports for Q2 and the full year are not subject to review or audit (even if review is required by TSE rules in Q1 and Q3).

Content of Disclosures

- There will be no change from the current procedure (for Q2 Earnings Reports, items to be added in Q1 and Q3 Earnings Reports are not required but will be determined by each company based on the timing of the report and the needs of investors).

Note: Companies should prepare consolidated financial statements for Q2 not following the financial reporting framework of the Q1 and Q3 Earnings Reports, but according to the Ordinance on the Terminology, Forms, and Preparation Methods, which is applicable to Semiannual Securities Reports under the new system.

Naming of Documents (Q2)

- For continuity with Q1 and Q3 Earnings Reports, the name of the document should be something along the lines of “Earnings Report for Q2 (Interim),” as opposed to “Interim Earnings Report.”

2-4. Earnings Report Data Distribution Format



Earnings Report Data Distribution Format

Basic Concept

- TSE will change the format in which Earnings Report data is distributed as described below, taking into account vendors' means of obtaining information, the convenience of a wide range of users including individual investors, and the impact on the practical burden on listed companies.
- In Q2 and full year reports, HTML submission shall be required to maintain consistency in delivery format.

| | | Current Format | | | New Format | | |
|----------------------------|--|----------------|------|---------------|------------|---------------|---------------|
| | | PDF | XBRL | HTML (note 1) | PDF | XBRL | HTML (note 1) |
| Summary information | | ✓ | ✓ | — | ✓ | ✓ | — |
| Attachments | Explanation of operating results and financial condition | ✓ | — | Voluntary | ✓ | — | ✓ |
| | Financial Statements | ✓ | ✓ | Voluntary | ✓ | ✓ (note 2) | ✓ |
| | Notes | ✓ | — | Voluntary | ✓ | ✓ (note 3) | ✓ |
| | (Only if review is done in Q1 or Q3) Review Report | — | — | — | ✓ | — | ✓ |

(changes are shown in red (note 4))

Note 1: Printing companies have already implemented the ability to convert attached earnings reports, which is used in preparation of Annual Securities Reports or Earnings Reports, to HTML. Users must enter the data of the relevant section, but the additional workloads of the listed companies will be limited (HTML coding, etc. is not required). (there is an opinion in the council that the ability to create PDFs based on HTML and XBRL should be implemented on TDnet, and the submission of PDF by the listed companies should not be required.)

Note 2: For US-GAAP, it is not required to submit in XBRL under the current format, but under the new format, XBRL (inclusive tags) will be required.

Note 3: The scope of notes (Q1 and Q3) required to be submitted in XBRL includes items with which detail tags are attached in Quarterly Securities Reports and are obtained in XBRL by information vendors, and the following shall apply for each accounting standard (required to submit in XBRL only if applicable notes are disclosed).

J-GAAP: “Notes on Segment Information,” “Notes on BS,” and “Notes on PL”, **IFRS:** “Notes on Segment Information”, **US-GAAP:** None

Note 4: Currently, the guidelines require submission only in XBRL, but the guidelines will require submission in both XBRL and HTML based on the submission status and the abolishment of Quarterly Securities Reports (XBRL) (except for some companies for which the format of XBRL is not prepared, like foreign companies). TSE will make known the details of change in data distribution format to the listed companies in cooperation with the printing companies to ensure smooth transition. (Flexible response for companies that have difficulty implementing the submission promptly.)

2-5. Enhancement of Information Disclosure



Basic Concept

- The Exchange aims to develop a market environment in which listed companies can proactively disclose useful information at their own discretion.

Immediate Measures

(1) Disclosure Regarding Changes in the Business Environment

- TSE shall request disclosure regarding changes in the business environment (see next page) and will stipulate key points to be included in such disclosure in the Timely Disclosure Guidebook.

(2) Disclosure of Other Information

- TSE shall work to achieve understanding of the original purpose of the basket clause (to determine whether disclosure is required based on the importance of investment decisions).
- The disclosure guidelines in the basket clause shall be retained due to their practical impact, but their location and presentation should be reviewed (clearly state that it is a guideline for determining whether disclosure is required or not).

(3) Publication of Disclosure Examples

- TSE shall continuously publish disclosure examples and create a cycle that encourages the enhancement of disclosure.
- It is also important to enhance the periodic disclosure of Annual Securities Reports, which are intended to be an interim disclosure, by the continuous publication of the exemplary disclosure collection from the FSA.

Subsequent Prospects

- TSE shall follow changes in listed companies' stances on disclosure while listening to the opinions of investors.
- If listed companies proactively make decisions and foster a practice of proactively disclosing information that is useful to investors, this will provide a basis for considering whether or not to shift from the current framework of detailed rules to a principle-based system, and whether or not to make Quarterly Earnings Reports voluntary.
Note: It is necessary to consider disclosure with a broad perspective, giving due consideration to insider trading regulations and fair disclosure rules.

Reference; DWG Report

- DWG suggests continuous consideration for making Quarterly Earnings Reports voluntary from a broad perspective, taking into account the progress in enhancing timely disclosure, changes in corporate disclosure stance, and opinions on the differences in nature between timely and periodic disclosure.

Key Points to Disclose Regarding Changes in the Business Environment

- Information on the impact of changes in business environment is subject to various factors, and it can be expected that it may take time to investigate the impact of such changes.
- It is considered preferable to disclose the objective facts on which investment decisions are based, such as the size of business and profit sensitivity of the area expected to be affected as soon as the change occurs, and to disclose the qualitative or quantitative information regarding the impact as soon as it is ascertained.

Key Points to Disclose Regarding Changes in the Business Environment

| | Information on the impact of changes in the business environment, etc. | Objective facts on which investment decisions are based |
|--|---|---|
| Examples of preferred disclosure information | <ul style="list-style-type: none"> ➤ Impact on business activity and operating results <ul style="list-style-type: none"> ✓ Impact on sales, profits and financial position ✓ Trends in customers, orders, etc. and KPIs ✓ Influence on medium- and long-term management policies and strategies, and measures deal with them Note: Even before the definitive impact numbers are known, the estimated amount and qualitative information may be disclosed. ➤ Earnings Forecasts and Other Predictive Information <ul style="list-style-type: none"> ✓ Outline of scenario assumptions (e.g., whether or not economic activity will recover, when recovery is expected) ✓ Specific assumptions (e.g., assumed exchange rates and resource prices) ➤ Risk Information <ul style="list-style-type: none"> ✓ Overview of new risks, their likelihood of materialization, and the impact on business activities and operating results if they materialize | <ul style="list-style-type: none"> ➤ Business conditions <ul style="list-style-type: none"> ✓ Size of business and vulnerability of areas expected to be affected. ✓ Availability and operational status of major business locations ✓ Status of production and supply of products ➤ Impact on operating results <ul style="list-style-type: none"> ✓ Profit sensitivity to exchange rates and resource prices <p>Note: It is expected that values will be disclosed not as of the time of disclosure but as of the end of the most recent fiscal year.</p> |
| Expected timing of disclosure | As soon as the impact is ascertained | Promptly when changes in the business environment occur |
| What investors expect | <ul style="list-style-type: none"> • Manager's awareness regarding the impact (including the possibility) or the risk about the changes | <ul style="list-style-type: none"> • Assessment of the maximum potential losses in the areas expected to be affected, or the risk of raw material price fluctuations (Initially, the purpose is to understand the approximate risk information) |

Note: In cases where investor interest is considered to be particularly high, even if the impact of a company's changes in the business environment is expected to be negligible, the company is expected to disclose this fact.

Note: It is also important to disclose information related to the above (e.g., earnings forecasts and other prerequisites, risk information, etc.) in advance in periodic disclosures such as annual securities reports and earnings reports.

- The disclosure guidelines in the basket clause shall be retained due to their practical impact
- The Timely Disclosure Guidebook will be reviewed to ensure that the original intent of the Basket Clause, which calls for a principled judgment, is appropriately conveyed.

Proposed revision to the supplementary explanation of the basket clause in the Timely Disclosure Guidebook

39. その他上場会社の運営、業務若しくは財産又は当該上場株券等に関する重要な事項(2)

(1) 上場規程に基づく開示義務

上場会社は、「上場規程第402条第1号aからaqまでに掲げる事項のほか、当該上場会社の運営、業務若しくは財産又は当該上場株券等に関する重要な事項であって、投資者の投資判断に著しい影響を及ぼすもの」を行うことについての決定をした場合は、直ちにその内容を開示することが義務付けられています。

【上場規程第402条第1号ar】

※ 「投資者の投資判断に著しい影響を及ぼす」かどうかについては、決定事実の内容、その影響等を踏まえて、実質的に判断することが求められます。

次のa. からf. までのいずれかに該当する場合（該当しないことが明らかでない場合を含む。）など投資者の投資判断に及ぼす影響が重要であると認められる場合には、直ちにその内容を開示するようにしてください。

- a. 金商法第166条第2項第4号に該当する事実
 - b. 当該決定事実による連結総資産の増加又は減少見込額が、直前連結会計年度の末日における連結総資産の30%に相当する額以上
 - c. 当該決定事実による連結売上高の増加又は減少見込額が直前連結会計年度の連結売上高の10%に相当する額以上
 - d. 当該決定事実による連結経常利益の増加又は減少見込額が、直前連結会計年度の連結経常利益の30%に相当する額以上（*）
 - e. 当該決定事実による親会社株主に帰属する当期純利益の増加又は減少見込額が、直前連結会計年度の親会社株主に帰属する当期純利益の30%に相当する額以上（*）
 - f. 開示府令第19条第2項第12号又は第19号の規定に基づく事由（財政状態及び経営成績に影響を与える事象）で臨時報告書が提出される事実
- （*）ただし、直前連結会計年度の連結経常利益が直前連結会計年度の連結売上高の2%に満たない場合又は直前連結会計年度の親会社株主に帰属する当期純利益が直前連結会計年度の連結売上高の1%に満たない場合は、利益が少額の場合の開示基準の特例があります。当該特例の詳細は、「第7章【利益が少額の場合の開示基準の特例について】」を参照してください。

※ 連結財務諸表非作成会社については、「連結会計年度」を「事業年度」、「連結総資産」を「総資産」、「連結純資産」を「純資産」、「連結売上高」を「売上高」、「連結経常利益」を「経常利益」、「親会社株主に帰属する当期純利益」を「当期純利益」と読み替えてください。

※ IFRS任意適用会社については、「連結純資産」を「資本合計」、「親会社株主に帰属する当期純利益」を「親会社の所有者に帰属する当期純利益」と読み替えてください。

※ 開示府令の内容については、上場会社ナビより「適時開示項目に関連する条文一覧」を参照してください。

【開示に関する注意事項】

- ① 開示を行う際には、本項目の内容と併せて「第1編第2章 適時開示に関する実務要領」も確認してください。
- ② 上記b. に該当する資金の借入を行うことについての決定をした場合は、原則として、本項目に該当するものとして開示するようにしてください。

③ 上記a. からf. までに掲げる開示の目安への該当の有無にかかわらず、投資者の投資判断に及ぼす影響が重要であると認められる場合には、直ちにその内容を開示するようにしてください。投資者の投資判断に及ぼす影響が重要であると認められる場合としては、例えば、当該会社情報の決定によって、上場会社の事業構成・収益構造等の転換を伴うなど、上場会社の運営、業務又は財産に係る基本的状況に重要な変化が生じることが見込まれる場合や、当該会社情報の決定によって、当該会社情報の決定の日の属する連結会計年度以降に、黒字転換又は赤字転換が見込まれる場合などが考えられます。

④ 買収防衛策のうち、導入時点では新株又は新株予約権の発行を伴わない買収防衛策の導入についても、当該情報が投資者の投資判断に重大な影響を与えない場合を除き、本項目に該当するものとして開示が必要となります（公開項目は、「買収防衛策の導入、発動、変更又は廃止」を選択してください）。

※ 買収防衛策に係る開示の表題には、「買収防衛策」という文字を必ず入れてください。

※ 導入の前例のないスキームを検討されている場合や遵守義務などの関係で懸案事項がある場合などには、十分な余裕をもって必ず東証の上場会社担当者まで開示資料（案）をメールにてご送付ください。

⑤ 買収防衛策の導入に関しては、具体的に買収者が出現した場合、導入した買収防衛策を発動した場合、又は廃止した場合にも、「開示事項の経過」として開示が必要となります。また、買収防衛策の内容の変更を行った場合も、「開示事項の変更」として開示が必要となります。具体的に買収者が出現した場合には、買収者に関する情報、買収提案に関する内容、会社の当該買収提案に対する考え方、今後の対応方針といった事項を、買収防衛策を発動又は廃止する場合には、当該決定に至った経緯及び理由、今後の手続・日程、株主・投資者に与える影響といった事項を、それぞれ記載してください。詳細は、「第3編第1章【買収防衛策の導入等に係る上場制度の概要】」を参照してください。

⑥ 当連結会計年度中に上場会社の決定した事項の実施日等が到来する場合等であって、経営成績等に与える影響の程度を踏まえて、当連結会計年度等の予想値を新たに算出した場合には、「業績予想の修正等」の開示が必要となることも考えられます。

(2) 開示事項及び開示・記載上の注意

開示資料には、投資者が会社情報を適切に理解・判断できるよう少なくとも事実の概要、決定の理由、今後の見通し等を記載してください。また、所定の開示事項に限らず、投資者が会社情報を適切に理解・判断するために必要な事項も記載してください。

- a. 事実の概要
- b. 決定の理由
- c. 今後の見通し
 - ・ 当期以降の業績に与える影響の見込みを記載する。
 - ・ 今後の方針等がある場合は、その内容を記載する。
- d. その他投資者が会社情報を適切に理解・判断するために必要な事項

（本行為が支配株主との取引等に関するものである場合）

- 支配株主との取引等に関する事項
 - ・ 当該取引が支配株主との取引等である旨を記載する。
 - ・ 当該取引の「支配株主との取引等を行う際における少数株主の保護の方策に関する指針」との適合状況を記載する。
 - ・ 公正性を担保するための措置及び利益相反を回避するための措置に関する事項について

(1) Explanation of Disclosure Guidelines

- To adequately convey the fact that the basket clause requires substantive judgment based on the degree of impact on investors' investment decisions, the section describing the disclosure guidelines will be moved to come after the principle judgment approach (in the latter part of "Disclosure Notes").

Note: Currently, it is presented in the same way as the de minimis criteria for individual enumerated items (the guideline for disclosure indicates that disclosure is at least considered necessary, and is different from the de minimis criteria for individual enumerated items).

(2) Principle Judgement Approach

- An explanation of the importance of considering the impact on corporate value (future cash flow, etc.)