



# **Secretariat's Explanatory Material**

*The First Council of Experts Concerning  
the Revision of the Quarterly Disclosure System*

---

**Exchange & beyond**  
**Tokyo Stock Exchange, Inc.**

June 29, 2023



- 1 Summary of DWG Report and Objectives of the Council**
- 2 Contents of Quarterly Earnings Reports of 1Q and 3Q**
- 3 Review and Enforcement of Quarterly Earnings Reports of 1Q and 3Q**
- 4 Enhancement of Information Disclosure**
- 5 Items to be Discussed Today**



# 1. Summary of DWG Report and Objectives of the Council

---



# Summary of DWG Report (1)

- The Financial System Council's Working Group on Corporate Disclosure ("DWG") proposed in its report in June 2022 a direction to integrate Quarterly Securities Reports (for the 1Q and 3Q) required by the Financial Instruments and Exchange Act into Quarterly Earnings Reports required by the Tokyo Stock Exchange rules.
- In addition, the December 2022 report provided direction for each issue in its implementation.

## <Direction of the Revision of the Quarterly Disclosure System in DWG Report>

### (Background of Integration)

- Overlapping of the contents and proximity of disclosure timing between Quarterly Securities Reports and Quarterly Earnings Reports were pointed out.
- To reduce costs and improve the efficiency of disclosure, for the 1Q and 3Q, DWG report recommended the integration of them into a single disclosure system.

### (Reasons for integrating the 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 are **widely used by investors**, in which information is proactively disclosed to investors.

### (Disclosure Obligation of the Quarterly Earnings Reports )

- In light of the current situation surrounding the disclosure of 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 future voluntary disclosure of Quarterly Earnings Reports, it is necessary to 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 enhanced information.
- DWG suggested the 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.

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)"

# Summary of DWG Report (2)

## <Provided direction of each issue in its implementation>

### Contents of Quarterly Earnings Reports

From the perspective of ensuring that this revision is not perceived as a retreat from information disclosure, the Exchange may consider adding items for which investors have particularly strong requests (segment information, cash flow information, etc.) to the disclosure content of Quarterly Earnings Reports, while ensuring that the information is preliminary in principle.

### Partial Obligation of Auditor Review

From the viewpoint of quick response times, etc., it is conceivable that a 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 as a result of 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 rules from the perspective of ensuring credibility.

### Enforcement Against Misstatements

Enforcement may be more appropriately implemented at 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, from the viewpoint of avoiding practical confusion, it was commented that it would be 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 an important issue 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 stock exchange.

## <Trend in Legal Reform of the Financial Instruments and Exchange Act >

- Based on the December 2022 DWG report, a bill to partially revise the Financial Instruments and Exchange Law was submitted to the 211th ordinary session of the Diet on March 14, 2023, which includes the abolition of Quarterly Securities Reports. After being passed by the House of Representatives on June 8, it has been placed under continuing examination by the House of Councilors.
- Since the proposed law sets April 1, 2024 as the effective date for the repeal of Quarterly Securities Reports, this is a practical study in advance to meet the effective date if the proposed law is enacted.

## <Objectives of the council>

- It will hold discussions, taking into full consideration the opinions of investors, listed companies, academic experts, and other market users in order to realize practical operation in line with specific directions for the integration indicated by the DWG report.

## <Major Possible Issues>

- Contents of Quarterly Earnings Reports
  - ✓ Specific Disclosure Items
- Partial Obligation of Auditor Review
  - ✓ Requirements and Duration of Partial Obligation
- Enhancement of Information Disclosure in the Exchange
  - ✓ Consideration of Measures toward the Enhancement

## <Procedure of the Council (Planned)>

- A total of approximately three meetings will be held, and a practical policy of the integration will be compiled this Autumn.

## **2. Contents of Quarterly Earnings Reports of 1Q and 3Q**

---



# Summary of DWG Report (Contents of Quarterly Earnings Reports)

## (Background of the integration of quarterly disclosure system)

- Overlapping of the contents and proximity of disclosure timing between Quarterly Securities Reports and Quarterly Earnings Reports was pointed out.
- To reduce costs and improve the efficiency of disclosure, for the 1Q and 3Q, DWG report recommended the integration of them into a single disclosure system.

## (Opinions in DWG Report)

- Additional expansion of disclosure content is unnecessary from the perspective of ensuring the quick disclosure of Quarterly Earnings Reports, considering the burden on companies, and promoting voluntary disclosure by companies that is made in conjunction with the announcement of Quarterly Earnings Reports.
- The contents of Quarterly Earnings Reports have been simplified from the viewpoint of quick disclosure on the assumption that the Quarterly Securities Report will be disclosed afterwards. In addition, there is a practice among investors to use the notes and other information in the Quarterly Securities Report for investment decisions. Therefore, there is a risk that the current disclosure content of Quarterly Earnings Reports after the “integration” will not provide sufficient information necessary for investment decisions.
- With regard to ensuring the quick disclosure, even if the timing of the disclosure of Quarterly Earnings Reports is delayed due to the addition of information, it would be acceptable if the timing is the same as the current Quarterly Securities Reports (within 45 days after the quarterly accounting period).

## (Provided Direction in DWG Report)

- In light of these opinions and the current disclosure stance of the average Japanese company, and from the viewpoint of not being perceived as a regression in information disclosure, the Exchange may consider adding items for which investors have particularly strong requests (segment information, cash flow information, etc.) to the disclosure content of Quarterly Earnings Reports, while ensuring that the information is preliminary in principle.
- Disclose in the Quarterly Earnings Reports whether or not a review by an auditor is conducted from the viewpoint of providing information to investors.



# Comparing Quarterly Earnings Report and Quarterly Securities Report (Financial Information)

- Fewer notes are required in Quarterly Earnings Reports than the Quarterly Securities Report on the assumption that the Quarterly Securities Report will be disclosed afterwards.

	Quarterly Earnings Report	Quarterly Securities Report
Main table	Quarterly Balance Sheets	○
	Quarterly Profit and Loss Statement	○
	Quarterly Cash Flow Statements	—
Major notes	Going Concern Assumption	○
	Change in scope of consolidation and application of equity method	△ note1 (summary information)
	Changes in Accounting Policies	○
	Accounting Method Specific to the Preparation of Quarterly Consolidated Financial Statements	○
	Changes in Accounting Estimates	○
	Subsidiaries outside the scope of consolidation (only important ones)	—
	Additional Information	—
		○ note2 (only 2Q)
		○

	Quarterly Earnings Report	Quarterly Securities Report
Major notes	Notes to Quarterly BS	—
	Notes to Quarterly PL	—
	Notes to Quarterly CF Statements	—
	Notes to Shareholders' Equity, etc.	○
	Financial Instruments	—
	Securities	—
	Derivative Transactions	—
	Business Combination	—
	Revenue Recognition	—
	Segment Information, etc.	—
	Per share information	—
	Material Post-Balance Sheet Events	—
		○

note1 In Quarterly Earnings Report, notes to changes in specified subsidiaries resulting in the change in scope of consolidation during the period. If there is such a change, the number and name of the subject specified subsidiary company(ies) are stated.

note2 Omitted for the 1Q and 3Q. In this case, notes to depreciation and amortization expense (including that related to intangible assets excluding goodwill) and amortization expense of goodwill are required.

note3 Notes are required if the financial instruments are material for the operation of business of the company and there has been a significant fluctuation in the amount recorded on the quarterly balance sheet or any other amount as compared to the last day of the previous business year. And a company may omit these notes in the 1Q and 3Q, excluding cases in which financial assets account for the majority of all assets and financial liabilities and liabilities arising from insurance contracts account for the majority of all liabilities.

Source: Compiled by Tokyo Stock Exchange based on the Financial Services Agency's "Secretariat's Explanatory Material of the 1<sup>st</sup> meeting of the Working Group on Corporate Disclosure of the Financial System Council (FY2022)"

# Comparing Quarterly Earnings Report and Quarterly Securities Report (Non-Financial Information)

	Quarterly Earnings Report	Quarterly Securities Report	Timely Disclosure	
Company outlines	Summary Information (including forecasts of financial results)	Transition of major management indicators, etc.	—	
	—	Details of business (Only if there is a material change)	However, the disclosure is required when a decision is made or a material matter occurs that significantly affects investors' investment decisions, such as mergers and other reorganization actions.	
Outline of business	Significant events regarding a going concern assumption (only if present)	Business-related risks, etc. (Only if there is a material change, note1)		—
	—	Material contracts, etc. for business management (note2) (Only if there is a material change)		
	—	Management's discussion and analysis of financial position, operating results, and cash flow status (Cash Flow analysis is only for 2Q)		
	—	Amount of research and development activities (Only if there is a material change)		
Information on reporting company	Number of issued shares (Number at the end of the period, and average for the period)	Information on shares, etc.	Change in representative directors or representative executive officers	
	—	Company's officers (Only if there is a material change)		

Note 1 Required to be stated in the following cases

- that matters that are likely to have a material impact on the decision of investors occurred in the current cumulative quarterly consolidated accounting period;
- that there was a material change in "Business-related risks" disclosed in the Annual Securities Report for the previous business year in the current cumulative quarterly consolidated accounting period; or
- there is an event or circumstance that would raise material doubt about an assumption that the reporting company will stay in business in the future or any other event that would have a material impact on the reporting company's business management.

Note 2 In DWG Report of December, it was recommended that when there is a material change or a new contract is entered into, this should be a reason for filing an extraordinary report.

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)"

# (Reference) Notes to Segment Information and CF Information

## 【Notes to Segment Information】

I .Previous first quarter consolidated cumulative period (from April 1, XXX to June 30, XXX)

(omitted)

II .Current first quarter consolidated cumulative period (from April 1, XXX to June 30, XXX)

1. Information on sales and profit or loss by reportable segment

(unit: million yen)

	Reportable Segments				Other	Total
	A	B	C	Total		
Sales						
Sales to external customers	XXX XX	XXX XX	XXX XX	X,XXX XX	XX X	X,XXX XX
Intersegment sales and transfers						
Total	XXX	XXX	XXX	X,XXX	XXX	X,XXX
Segment Profit	XXX	XXX	XXX	XXX	XXX	XXX

Note: "Other" is a business segment not included in the reportable segments and includes D business, E business and F business, etc.

2. Difference between the total amount of profit or loss of the reportable segments and the amount recorded in the quarterly consolidated statements of income, and main details of such difference (matters concerning difference adjustment)

(unit: million yen)

Profit	Amount
Total of Reportable Segments	XXX
Profit of the "other"	X
Elimination of intersegment transactions	△XX
Amortization of goodwill	△XX
Corporate expenses	△XX
Inventory adjustments	△XX
Operating Profit in Consolidated Quarterly Profit and Loss Statement	XXX

Note: Corporate expenses mainly consist of general and administrative expenses and technical testing expenses that do not belong to the reportable segments.

3. Information on Impairment Loss on Fixed Assets and Goodwill by Reportable Segment

(Significant impairment losses on fixed assets)

In Segment "A", ..... The amount of such impairment loss recorded was XX million yen for the first quarter of the current fiscal year.

(Significant changes in the amount of goodwill)

In Segment "B", ..... The increase in goodwill due to this event was XX million yen in the first quarter of the current fiscal year.

(Significant gain on negative goodwill)

In Segment "C", ..... The amount of gain on negative goodwill resulting from this event was XX million yen in the first quarter of the current consolidated cumulative period.

## 【Notes to Quarterly Cash Flow Statements】

Quarterly consolidated statements of cash flows for the first quarter of the current fiscal year have not been prepared. Depreciation and amortization (including amortization related to intangible assets excluding goodwill) and amortization of goodwill for the first quarter of the current fiscal year are as follows.

	Previous first quarter consolidated cumulative period (from April 1, XXX to June 30, XXX)	Current first quarter consolidated cumulative period (from April 1, XXX to June 30, XXX)
depreciation and amortization	XXX million yen	XXX million yen
amortization of goodwill	XXX million yen	XXX million yen

Source: Compiled by Tokyo Stock Exchange based on the Financial Accounting Standards Foundation's "Guidelines for Preparation of Quarterly Reports"

# (Reference) History of Simplification of Earnings Reports

- In DWG report of 2016, it was recommended that the three institutional disclosures (business reports, etc., Annual Securities Reports, and earnings reports) under the Companies Act, Financial Instruments and Exchange Act, and listing rules should be made more timely, easier to understand, and more effective and efficient as a whole, including by increasing the degree of freedom of disclosure, to promote constructive dialogue.
- In response to this recommendation, the following simplification of earnings reports was implemented (effective March 31, 2017) in order to increase the flexibility of disclosure of financial statements and other information and to specialize them in their role as bulletins.

	Before revision	After revision
Summary Information	Obligation	Request
Quarterly Financial Statements and major notes	Request	Request (May be disclosed at a later date if there is no risk of misleading investment decisions)
Useful information for investment decisions	Proactive disclosure requested	Cancel the request

Note: Items listed as specific examples of information useful for investment decisions

- Explanation of Operating Results and Financial Condition(Qualitative Information)
- Explanation of Consolidated Financial Forecasts and Other Forward-Looking Statements(Qualitative Information)
- Quarterly consolidated Cash Flow Statements, Segment Information or other notes
- Quarterly Non-Consolidated Financial Statements and notes
- Important indicators for business management
- Production, Orders and Sales
- Actual and projected capital expenditures, depreciation and R&D expenses
- Summary of Business Results of Major Consolidated Subsidiaries, etc.

(Reference) Disclosure Status of "Explanation of Operating Results and Financial Condition

Disclosed in earnings reports	2,223 companies (97.1 %)
NOT disclosed in earnings reports	66 companies (2.9 %)
Explanatory Materials for Financial Results are disclosed	38 companies (1.7 %)
Explanatory Materials for Financial Results are NOT disclosed	28 companies (1.2 %)

Note: Compiled from 2,289 companies' earnings reports for the third quarter of the fiscal year ending March 31, 2023

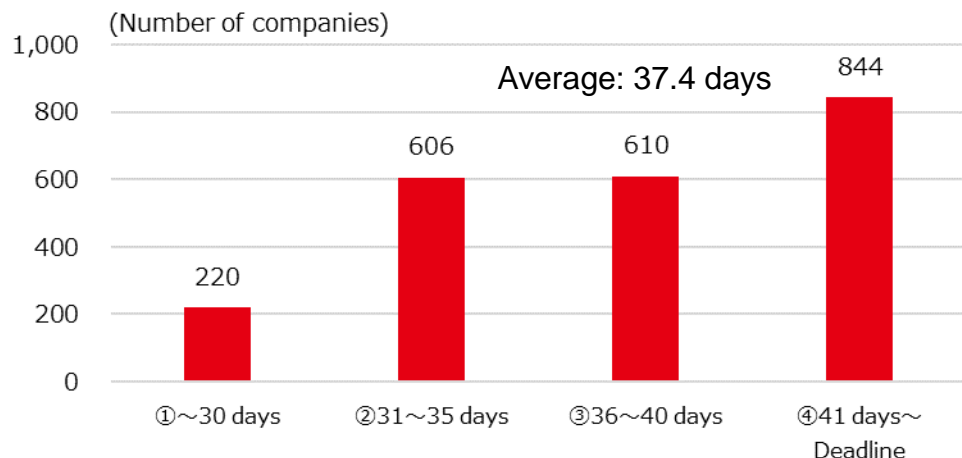
Note: Explanatory Materials for Financial Results are only counted if they are disclosed on TDnet.

Note: Figures in parentheses are percentages of the total (2,289 companies).

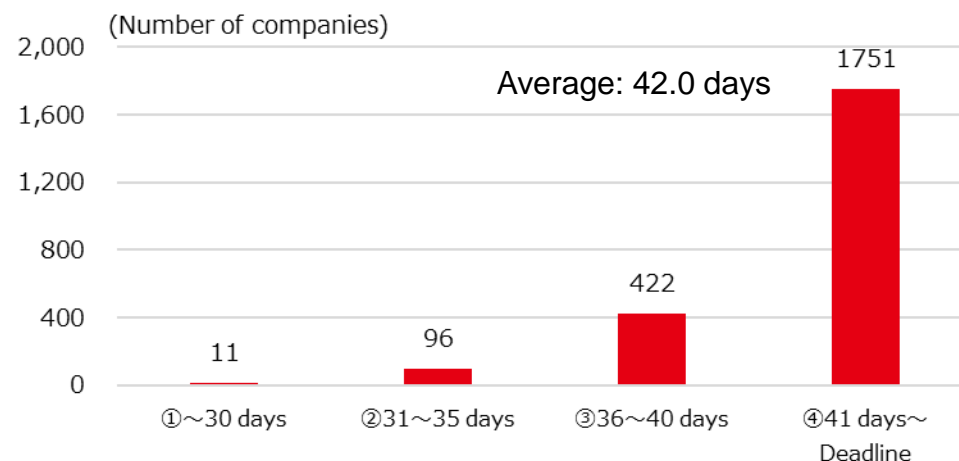
# Disclosure Timing of Quarterly Earnings Report and Quarterly Securities Report

- Although the Quarterly Earnings Report is more preliminary than the Quarterly Securities Report, there are many cases where the submission dates of both are in close proximity to each other.

<Distribution of Quarterly Earnings Reports as of the disclosure date>



<Distribution of Quarterly Securities Reports as of the disclosure date>



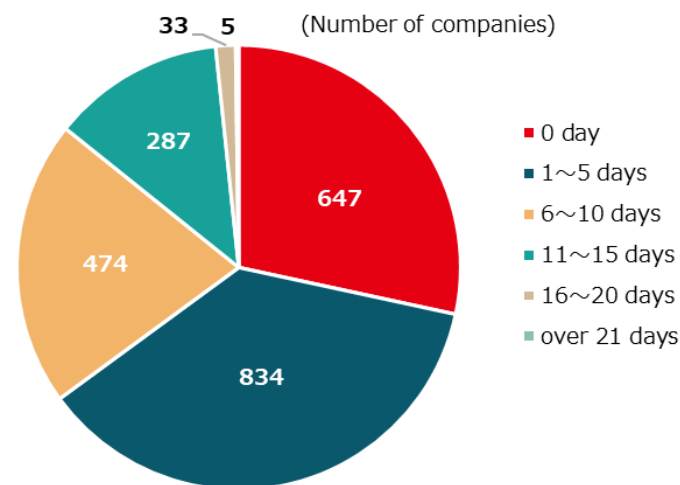
<Distribution of the filing dates of Quarterly Earnings Reports and Quarterly Securities Reports>

(Quarterly Earnings Report)

④ 41 days~ Deadline	0	0	0	844
③ 36~40 days	0	0	210	400
② 31~35 days	0	56	168	382
① ~30 days	11	40	44	125
	① ~30 days	② 31~35 days	③ 36~40 days	④ 41 days~ Deadline

(Quarterly Securities Report)

<Difference between the filing date of the Quarterly Securities report and the Quarterly Earnings Report>



Note: Aggregated for the Quarterly Earnings Reports and Quarterly Securities Reports for the third quarter of the fiscal year ending March 31, 2023.  
Note: as of February 14, 2023

# Draft Policy (Contents and Disclosure Timing of Quarterly Earnings Report)

## 【Basic Concept】

Transferring items for which investors have particularly strong requests in Quarterly Securities Report to Quarterly Earnings Report, and mandating disclosure of them

## <Financial Reporting Framework>

**Admission of omission of items other than requirements by Exchange Rules among items required by Ordinance on Terminology, Forms and Preparation Methods of Financial Statements, etc., which will be applied to Semiannual Securities Report in the new system**

Note: ASBJ has raised dealing with reviewing quarterly disclosure system as a theme, and seems to consider related accounting policy etc.

## <Contents>

Summary Information		<ul style="list-style-type: none"> <li>➤ Adding <b>whether or not a review by an auditor is conducted</b></li> <li>➤ Changing Significant changes in the scope of consolidation during the period (note1)</li> </ul>
Attachment	Financial Statements	<p><b>Financial statements required in current 1Q and 3Q Quarterly Securities Reports</b></p> <ul style="list-style-type: none"> <li>➤ JP-GAAP : Consolidated Balance Sheet, Consolidated Profit and Loss Statement, and Consolidated Comprehensive Income Statement</li> <li>➤ IFRS·US-GAAP : Financial Statements including Consolidated statements of Cash Flow (note2)</li> </ul>
	Notes	<p><b>Adding Notes on Segment Information, etc. and Notes to Quarterly CF Statements</b> to current required notes</p> <ul style="list-style-type: none"> <li>➤ Notes on the Going Concern Assumption</li> <li>➤ Notes in the event of significant changes in shareholders' equity</li> <li>➤ Changes in accounting policies, changes in accounting estimates, and restatements</li> <li>➤ Accounting Method Specific to the Preparation of Quarterly Consolidated Financial Statements</li> <li>➤ <b>Notes on Segment Information</b> (Same level as Semiannual Securities Report)</li> <li>➤ <b>Notes on Cash Flow</b> (only for companies applying JP-GAAP)</li> </ul>
	Review Report	Only when receiving a review by an auditors (Refer to “3. Review and Enforcement of Earning Report of 1Q and 3Q” )

Note1: replace “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

Note2: permit an omission of Consolidated Profit and Loss Statement and Consolidated Comprehensive Income Statement for the quarterly period, in light of that it is expected that these information for the 2Q will not be disclosed on Semiannual Securities Report in the new system and other factors

## <Timing of Disclosure>

- Where details of the account settlement are settled, a company must disclose such details immediately. And, if a company is not able to disclose such details within 45 days after the quarterly accounting period, a company must disclose the situation.

## <Contents of Quarterly Earnings Reports>

- What do you think about the Draft Policy of contents of the Quarterly Earnings Report?
- Under the concept of transferring items for which investors have particularly strong requests in Quarterly Securities Report to Quarterly Earnings Report, are there other items\* than shown in Draft Policy, and should it be disclosed obligatory or be treated as a request for proactive disclosure (be considered by a company in light of requests by investors, etc.)?

\* Note18 of DWG Report of December 2022 shows that “Furthermore, there were opinions, mainly from investors, that from the perspective of confirming progress over the medium to long term, it is necessary to add items that are important in understanding financial statements, such as notes to the balance sheet and income statement, as well as qualitative analysis of business performance and other information. On the other hand, some commented that, in considering the addition of additional disclosure content, due attention should be paid to the disclosure burden on companies and the need for quick disclosure.”

## <Disclosure Timing of Quarterly Earnings Report>

- What do you think about the Draft Policy of disclosure timing of Quarterly Earnings Reports?
- What do you think that it is assumed that the timing may be slower than now in the event of receiving an auditor’s review required by Exchange rules (refer to next section) or receiving an optional review, or in the light of the increase of items to be disclosed from current Quarterly Earnings Reports?

# **3. Auditor Review and Enforcement of Quarterly Earnings Reports of 1Q and 3Q**

---





### <Auditor Review of Quarterly Earnings Report of 1Q and 3Q>

#### (Opinions in DWG Report)

- A review by auditors has been required for Quarterly Securities Reports from the viewpoint of ensuring credibility of quarterly consolidated financial statements, and the quarterly financial statements after "unification" will also be required to be reviewed by auditors from the viewpoint of ensuring credibility of financial information, early detection of misstatements, and deterrence of motives for misstatements.
- Even if an auditor review in the 1Q and 3Q is not required, auditor review of Semiannual Securities Report and audit of Annual Securities Reports submitted by listed companies could ensure the reliability of financial information.
- Eliminate the requirement for an auditor review in the interest of promptness.

#### (Provided Direction in DWG Report)

- From the viewpoint of quick response, etc., a review by auditors is not uniformly required for Quarterly Earnings Reports.
- Whether or not to undergo a review is voluntary, but from the perspective of providing information to investors, the presence or absence of an auditor review is disclosed in the Quarterly Earnings Report.
- For example, in the event of accounting irregularities (including cases where statutory disclosure documents are submitted late as a result of such irregularities) or where deficiencies in a company's internal controls are discovered, Exchange rules require a review by an auditor for a certain period of time to ensure credibility.

### <Enforcement against Misstatements>

#### (Provided Direction in DWG Report)

- Enforcement may be more appropriately implemented at 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 Quarterly Securities Reports of 1Q and 3Q, it is possible that this will be unnecessary at this time
- With regard to the timely disclosure to the Exchange, including Quarterly Earnings Reports, if intentional and malicious misstatements are made, such as for the purpose of market fluctuation, they would still be subject to penalties under the Financial Instruments and Exchange Law even under the current law.

# Situation in Other Countries

- In Germany, quarterly disclosures are mandatory, but auditor reviews are not required. Some companies undergo reviews on a voluntary basis.

	United States (Form 10-Q)	Germany (Frankfurt Stock Exchange Prime Standard Market)		UK and France
Disclosure Obligation	Mandatory	Mandatory		Not Mandatory
Contents of Quarterly Disclosure	<ul style="list-style-type: none"> <li>➤ Condensed Financial Statements</li> <li>➤ MD&amp;A</li> <li>➤ Management's Opinion on Internal Controls</li> <li>➤ Risk Information , etc.</li> </ul>	In principle, submit a Quarterly Statement Quarterly Financial Report may be submitted in lieu		Optional  In the UK, over 60% of the FTSE100 Components continue to disclose quarterly financial statements (of which about half disclose condensed financial statements)
		<ul style="list-style-type: none"> <li>➤ Significant transactions and events of the listed company during the period and their impact</li> <li>➤ Explanation of Financial Condition and Results of Operations of Listed Company</li> <li>➤ Any material changes to the disclosed forward-looking information</li> </ul>	<ul style="list-style-type: none"> <li>➤ Condensed Financial Statements</li> <li>➤ Management Report</li> </ul>	
Auditor Requirement	Required (*1)	Not Required 7 companies of DAX40 Components have disclosed the statement (*2)	Not Required 32 companies of DAX40 Components have disclosed the report. (of which 6 companies undergo reviews)	Not Required
Enforcement	Material misstatements in filings with the SEC <Individuals> Up to 20 years imprisonment or a fine of up to USD 5 million (with concurrent convictions) <Corporation> Fine of USD 25 million (Securities Exchange Act of 1934, Article 33)	Failure to disclose inside information in a timely and accurate manner  Fine in an amount not exceeding EUR 200,000 (Securities Trading Act, Article 26 and Article 120)		Fines for failure to disclose inside information in a timely and accurate manner

Note1: Attachment of quarterly review report is not required. If the quarterly report states that it has been reviewed, the quarterly review report must be attached.

Note2: Of the DAX index components, only Porsche was excluded from the tabulation because it is listed on the General Standard Market.

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)"

# Standards of Review

- Quarterly reviews in the current Quarterly Securities Reports are conducted in accordance with the "Quarterly Review Standards" established by the Business Accounting Council and the Quarterly Review Standards Report No. 1 "Quarterly Review" established by the Japanese Institute of Certified Public Accountants (JICPA).
- For reviews of financial statements other than Quarterly Securities Reports, the Assurance Practice Guideline 2400 "Review Services for Financial Statements" ("Assurance Practice Guideline 2400") developed by JICPA is applied.
- Other international review standards include International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("ISRE 2410"), developed by the International Auditing and Assurance Standards Board ("IAASB").

## <Organizing the characteristics of the review standards>

(Common Matter)

- Conducting questioning and analytical procedures and performing additional procedures when it is more likely than not that a material misstatement exists in the financial statements.

(Main Differences)

	Quarterly Review Standards	Assurance Practice Guideline 2400	ISRE2410
Standard-setting Entity	the Business Accounting Council	JICPA	IAASB
Subject Financial Information	Financial Statements required under the Financial Instruments and Exchange Law	Financial statements other than Quarterly Securities Reports	(No corresponding guidelines in Japan)
Executor	Auditor of financial statements for the fiscal year	Not limited to auditors of financial statements for the fiscal year	Auditor of financial statements for the fiscal year
Risk of Misstatement/ Possibility of Misstatement	Consideration of the assessment of the risk of material misstatement in the annual audit	Only identification of areas of the financial statements in which material misstatement is likely to occur	Consideration of the assessment of the risk of material misstatement in the annual audit
Understanding of Internal Controls	In addition to understanding the company and its environment, consider understanding internal controls and evaluating their operation in the audit.	Only an understanding of the company and its environment and the applicable financial reporting framework is performed; an assessment of internal control is not required.	In addition to understanding the company and its environment, consider understanding internal controls and evaluating their operation in the audit.

Source: Compiled by Tokyo Stock Exchange based on the JICPA's "Practical Guidance on Assurance Engagements 2400, Practical Guidance No.1, "Q&As Pertaining to Review Services for Financial Statements (Practical Guidance)"

# (Reference) Framework of “Fair Presentation” and “Compliance”

In the Auditing Standards Statements, the "fair presentation framework" and the "compliance framework" are defined as follows.

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

- (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the 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 (i) or (ii) above.

However, it is envisioned that there may be cases where the financial reporting framework does not fit within the “fair presentation framework”, even if it formally meets the definition of the “fair presentation framework”.

In Japan, the following should be considered when determining whether or not fair presentation framework is in place.

- 1 . Whether there are explicit provisions for additional disclosures to achieve fair presentation
- 2 . Considerations when there is an explicit provision for additional disclosure
  - (1) Purpose of establishing explicit provisions for additional disclosure
  - (2) The extent to which it differs from general-purpose accounting standards ("generally accepted accounting principles") 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.

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

# Enforcement Measures at Exchanges

- In order to ensure the effectiveness of the listing rules, TSE will take measures such as designating issues as a Security on Alert for violations of the listing rules.
- In addition, where TSE deems it necessary to decide the appropriateness pertaining to delisting of a listed stock and requests certified public accountants to give explanation on the circumstances, etc. , the listed company shall cooperate in this process. (Securities Listing Regulations, Rule 604.)

## <Outline of Enforcement Measures>

Penalty Measures	Improvement Measures
<p><b>(Public Announcement Measures)</b> In the event of a violation of a provision(s) pertaining to timely disclosure or "Matters to Be Observed" in the Code of Corporate Conduct, TSE may employ "Public Announcement Measures" regarding such violation when it deems necessary.</p>	<p><b>(Improvement Reports / Improvement Status Reports)</b> In the event of a violation of a provision(s) pertaining to timely disclosure or "Matters to Be Observed" in the Code of Corporate Conduct, when <b>TSE deems the need of improvement to be high</b>, it may request the listed company to submit an improvement report containing its background and improvement measures.</p>
<p><b>(Listing Agreement Violation Penalty)</b> In the event of a violation of a provision(s) pertaining to timely disclosure or "Matters to Be Observed" in the Code of Corporate Conduct, when TSE deems that <b>a listed company has harmed shareholder and investor confidence</b> in the TSE market, TSE may request such listed company to pay a "Listing Agreement Violation Penalty".</p>	<p><b>(Securities on Alert)</b> In the event of a violation of a provision(s) pertaining to timely disclosure or "Matters to Be Observed" in the Code of Corporate Conduct, or a false statement in its securities report, etc. , when it is deemed that <b>there is a high necessity to improve the internal management systems</b> of a listed company, TSE shall designate the listed stock, etc. issued by such listed company as a "Security on Alert".</p>

## <Requesting Explanation to certified public accountants>

(Securities Listing Regulations, Rule 604.)

1. Where the Exchange **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.**
2. Where the Exchange requests a listed company for the purpose of requiring such certified public accountants, etc. to give explanation on the circumstances, etc. pursuant to the provisions of the preceding paragraph, the listed company shall promptly submit a document stating that such certified public accountants, etc. shall agree to give explanation on the circumstances, etc.

# Enforcement under Exchange Rules and Law

- There are two types of enforcement over quarterly disclosures: enforcement under the FIEA and enforcement under Exchange Rules.
- Enforcement under the Exchange Regulations covers not only false disclosures in Earnings Reports as stipulated in the Listing Rules, but also misstatements in statutory disclosures such as Annual Securities Reports.

## <Organizing Enforcement under Exchange Rules and Law>

### Exchange Rules

### Financial Instruments and Exchange Law

Misstatements  
in Statutory  
Disclosure

#### 【Enforcement Measures】

- ✓ Penalty Measures
  - Public Announcement Measures
  - Listing Agreement Violation Penalty (Up to 91.2 million yen)

#### ✓ Misstatements in Continuing Disclosure Documents

- 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 500 million yen
- Administrative Surcharges 3 million yen 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  
Report

- ✓ Improvement Measures
  - Improvement Report\*<sup>1</sup>
  - Securities on Alert\*<sup>2</sup>

\* 1 If the Exchange deems that there has been no improvement in the implementation and operation of remedial measures, the issue will be placed on special caution market.

\* 2 If the Exchange deems that the internal control system, etc. has not been improved, etc., the issue will be delisted.

#### ✓ Disseminating Unfounded Rumors

- ✗ Purpose requirement (in addition to the misstatement constituting spreading 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).
- Criminal Penalty (Individuals) Up to 10 years imprisonment or a fine of up to 10 million yen (with concurrent convictions)  
(Corporation) A fine of Up to 700 million yen
- Administrative Surcharges  
✗ Calculate the amount of the surcharge based on the price of securities transactions, etc., conducted during the period of the violation (if there is only a mere 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

# Draft Policy (Partial Obligation to Review )

## 【Basic Concept】

- Although **there is no uniform mandate for a review** by an auditor regarding Quarterly Earnings Reports of 1Q and 3Q, **when ensuring reliability of financial statements are considered necessary** in the event of accounting irregularities, etc. , Exchange obligate a company to receive the review.
- **Requirements of the obligation is clearly defined from the viewpoint of foreseeability** in listed companies and auditors. Specifically, it could be auditor's opinion in light of accounting irregularities, management's assessment of internal control over financial reporting under the Financial Instruments and Exchange Act, or status of submission of statutory disclosure documents in which an audit or a review by an auditor, etc. .

## (Requirements of the obligation)

- 1) Where a listed company receives **other than unqualified opinion (conclusion)** in audit report of the latest Annual Securities Report, Semiannual Securities Report or Quarterly Earnings Report (only if conducted review)
- 2) Where a listed company receives **other than unqualified opinion in Internal Control Audit Report** of the latest Annual Securities Report
- 3) Where a listed company expresses **significant deficiencies in internal control** that should be disclosed in the latest Internal Control Report
- 4) Where a listed company **does not submit** the latest Annual Securities Report or Semiannual Securities Report **by the initial deadline** (except for the cases of it is clear that reliability of financial statements is not in question)
- 5) Where **an audit review report are attached to corrected financial statements in case of correcting Semiannual Securities Report** in the current term

Note: also covered if requirements of 1) and 3) are met in the corrected securities reports in case of correcting the latest Annual Securities Report or Semiannual Securities Report

## (Applicable period of the obligation)

- A company must receive an audit review to the financial statement of the 1Q and 3Q submitted after any of requirements is met.
- About the handling of the submitted financial statements of the 1Q and 3Q, refer to “Items for Discussion”(P.24).

## (Cancellation Requirement of the Obligation)

- **TSE cancels the obligation when none of the requirement above 1) through 4) is met in Annual Securities Report and Internal Control Report submitted after any of requirements is met.**

Note: for example, a company with weak internal controls is assumed that any of the requirements of the obligation will be met continuously in Annual Securities Report or Internal Control Report in the current term.

## (Implementor of review (including optional review))

- Review by the same auditor as the auditor for the fiscal year is needed.

## (Standard of review (including optional review))

- Review (compliance framework) based on the practical guidelines in the JICPA are needed in accord with institutional positioning, etc.

### <Review of Quarterly Earnings Report of 1Q and 3Q>

- What do you think about the Draft Policy of Partial Mandatory Review?
- Regarding the term of Obligation of Review, how should the already disclosed financial statements of 1Q and 3Q be treated?  
If exchange obligates companies to receive a review for the already disclosed financial statements retroactively, how far back should companies receive a review?

### <Enforcement against Misstatement>

- In light that quarterly disclosure system of 1Q and 3Q will be integrated into the Quarterly Earnings Reports, it is considered to establish the system of early overview of fraud by enhancing the cooperation with auditor of a company for performing the enforcement more properly.  
What do you think about this idea?
- What are the specific measures that could be taken? It is considered, for example, to add report against Exchange's request as a "justifiable ground" for breach of confidentiality in an audit contract (sample in JICPA), or to extend the scope of exchange rule (refer to P.21) regarding hearing to an auditor of a company to the event that Exchange deems it necessary to decide the appropriateness pertaining to regulatory measures. Are there any matters to be noted?

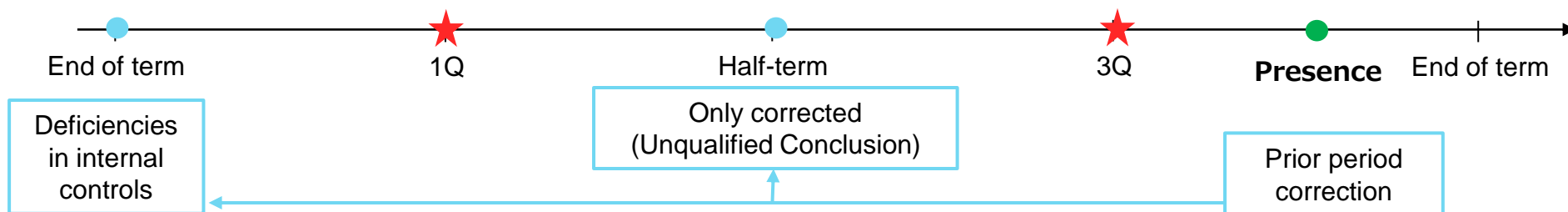


# (Conference) Consideration of Necessity of Retroactive Review

## ① About the submitted Quarterly Earnings Reports of the 1Q and 3Q in case of prior period correction

Example: where a company expresses significant deficiencies in internal control that should be disclosed at the end of the previous period when the company corrects the financial statements over prior years after the company submitted a Quarterly Earnings Reports of the 3Q.

- ✓ Whether to request a retrospective review of the Quarterly Earnings Reports of the 1Q and 3Q for the current period (about the report of the 1Q, retrospective review may be considered unnecessary because the review is performed on the corrected Semiannual Securities Report that includes the content of the report of the 1Q. )



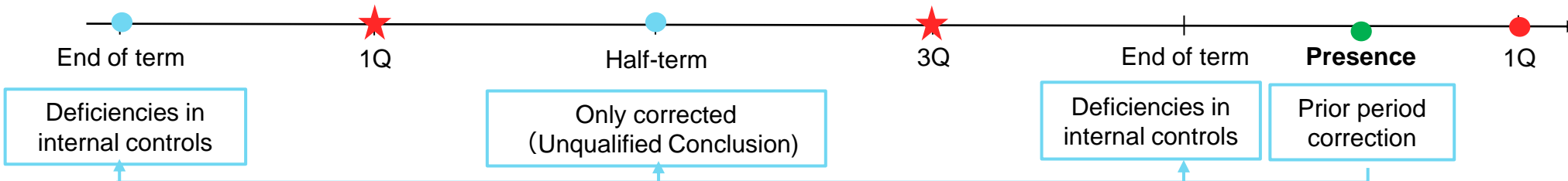
## ② How far back in the fiscal year for retrospective reviews

Example: where a company corrects the financial statements over prior years before the 1Q of the current term and the statutory documents prior to the end of the previous period are in the scope of the correction

- ✓ How about the necessity of review of the earnings report of the 1Q and 3Q, in consideration of the corrected audit of the Annual Securities Report of the previous term.

(about the report of the 1Q and 3Q of the previous term, retrospective review may be considered unnecessary because the review is performed on the corrected Annual Securities Report that includes the content of report of the 1Q and 3Q. )

Note: review of the report of the 1Q in the current term (rightmost in the chart) is assumed to be needed because of expressed deficiencies in internal control at the end of the previous term.



# 4. Enhancement of Information Disclosure

---



## (Opinions in DWG Report)

- 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 an important issue 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 stock exchange.**
- In addition, **timely disclosure is an important factor to consider as a precondition for considering voluntary quarterly disclosure.**

## (Provided Direction in DWG Report)

- In order to encourage companies to proactively disclose information in a timely manner, the Exchange should continue to **review their timely disclosure rules (review from a detailed rules-based approach to a principle-based approach and review of the de minimis criteria in the Comprehensive Clauses)**, in addition to **publicizing good practices** and **strengthening enforcement at the Exchange** .
- In doing so, there are opinions that the timely disclosure rules have been practiced under the detailed rules and that **the relationship with insider trading regulations and fair disclosure rules should be taken into consideration.**

## (Assumptions for discussion of the future voluntary disclosure of quarterly financial results)

- Regarding the future voluntary disclosure of quarterly financial results, it is necessary to 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 enhanced information.**
- DWG suggested the 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.

- The main discussions in DWG regarding enhanced disclosure are as follows

## < Comments on "Enhancing Timely Disclosure" in DWG >

(Disclosure regarding changes in the business environment)

- It is an important issue for **companies to properly identify and assess risks** of previously unforeseen events, such as the recent spread of infectious diseases and changes in the international situation, and **enhance information disclosure within the framework of the Exchange's timely disclosure**

(The Bylaws Principle versus the Principles Principle)

- **Essentially principle-based**, companies **must be able to accurately determine the matters** to be disclosed and their materiality
- Not disclosing the information because it does not fall under the individual reasons would not be in accordance with the current Comprehensive Clause. The Comprehensive Clause also provides for a de minimis criteria. Since it is conceivable that a company may not disclose information without complying with the Comprehensive Clause, it would be better to delete this criteria.
- There are situations where **companies could benefit from having bylaws in place**.
- If the principle-based approach is revised, **careful consideration should be given to the relationship with insider trading regulations and the impact of the revision**.

(Timely Disclosure and Regular Disclosure)

- Timely disclosure and regular disclosure are different, and the nature of the two is different, so **they can't simply be substituted**
- **It is very important that disclosures be made by a specific deadline** in a quarter, thereby ensuring comparability of financial statements, or financial information. This is a very important issue **because it ensures comparability of corporate performance over the same period**, rather than having them come out in pieces as timely disclosures.
- The hurdles to voluntary disclosure are extremely high. In addition to establishing a system of timely disclosure, there is a **need to improve awareness of the disclosure stance of companies**. Only then will timely and appropriate disclosure take place.
- It is very significant that it indicated that it would continue to consider making Quarterly Earnings Reports voluntary based on the status of enhanced timely disclosure.

Note: Compiled by Tokyo Stock Exchange from "Report by the Working Group on Corporate Disclosure of the Financial System Council," Financial Services Agency; "Third Meeting of the Working Group on Corporate Disclosure of the Financial System Council (FY2022) Secretariat's Report," etc.

# Overview of Timely Disclosure System on the Exchange

## <Basic Philosophy of Disclosure on the Exchange>

- The basic principles regarding disclosure on the Exchange are as follows, which require listed companies to practice proactively from the investor's perspective

Rule 401. A listed company shall make efforts to carry out such faithful execution of business as strengthening **prompt, accurate and fair** disclosure of corporate information at all times from the viewpoint of investors with full recognition that timely and appropriate disclosure of corporate information to investors is the basis of a sound market for financial instruments.

Rule 411-2. **The provisions of this section state the minimum requirements, methods, etc.** that a listed company should observe with respect to timely disclosure of corporate information, etc., and **a listed company shall not use the provisions of the same section as an excuse for failures to disclose corporate information in a more timely and appropriate manner.**

## <Items required to be disclosed by the Exchange>

Item	Summary
Decisions by Listed Companies · Facts which Occurred for Listed Companies (Event Occurrence)	<ul style="list-style-type: none"> <li>✓ Immediate disclosure when the body that decides business execution decides on important matters or when important facts occur.</li> <li>✓ In addition to individual clauses (*1), the listing rules stipulate a basket clause (umbrella clause) (*2).</li> </ul> (*1) : De minimis criteria available (*2) : See next page for details.
Financial Results (earnings reports)	<ul style="list-style-type: none"> <li>✓ Quarterly disclosure of financial results as soon as they are finalized.</li> </ul>
Revisions to Results Forecasts · Revisions to Dividend Forecasts	<ul style="list-style-type: none"> <li>✓ If there is a difference between the newly calculated forecast and actual results compared to the publicly announced earnings and dividend forecast (or actual results from the previous year if the forecast has not been publicly announced) (*), immediately disclose the difference.</li> </ul> (*) : De minimis criteria available
Other Information	<ul style="list-style-type: none"> <li>✓ Disclosure of matters concerning controlling shareholders, etc.</li> <li>✓ Disclosure of plans to comply with listing standards</li> <li>✓ Disclosure of business plans and growth potential (Growth Market only), etc.</li> </ul>

- Securities Listing Regulations stipulate principle-based comprehensive clauses in addition to individual provisions that stipulate matters to be disclosed individually.
- Comprehensive clauses are not subject to any de minimis criteria, but guidelines for disclosure are provided in the Timely Disclosure Guidebook to help investors make substantive judgments.

## <Positioning of Basket Provisions in Securities Listing Regulations>

### Rule 402.

Where a listed company falls under any of the following items (excluding those which the Exchange deems as matters whose effect on investors' investment decisions is of minor significance, such as cases which fall under the criteria specified by the Enforcement Rules), the listed company must disclose details immediately pursuant to the provisions of the Enforcement Rules:

(1) When the organ that decides the business execution of a listed company makes a decision to do any of the matters listed in a. through ar. below (including cases where the organ decides not to do any of the matters pertaining to such decision)

a. to aq. (abbreviated)

ar. In addition to the matters referred to in a. through the preceding aq., important matters related to operation, business or assets of such listed company or such listed stock, etc. **which have a remarkable effect on investors' investment decisions.**

(2) Where any of the facts referred to in the following a. through x. occurs:

a. to w. (abbreviated)

x. In addition to the facts referred to in a. through the preceding w., matters relating to operation, business or assets of such listed company, or important matters related to a listed stock, etc. **that have a remarkable effect on investors' investment decisions.**

## <Statement in the Timely Disclosure Guidebook regarding disclosure guidelines(Fact of Decision)>

- Whether or not a decision "significantly affects the investment decisions of investors" must be determined substantially, **based on the content of the fact of the decision**, its impact, and other factors.
- If any of the following a. through f. (including cases where it is not clear that the decision does not fall under any of the a. through f. below) is found to be the case ), etc., **if the impact of the decision on investors' investment decisions is deemed to be material**, the details of the decision should be disclosed immediately.

- a. Fact falling under Article 166, Paragraph 2, Item 4 of the FIEA
- b. The estimated amount of increase or decrease in consolidated total assets due to the fact of the said decision is equal to or more than **30% of consolidated net assets** at the end of the immediately preceding consolidated fiscal year.
- c. The expected increase or decrease in consolidated net sales due to the fact of the said decision is equal to or more than **10% of consolidated net sales** for the immediately preceding consolidated fiscal year.
- d. The expected increase or decrease in consolidated ordinary income as a result of the said decision is equal to or more than 30% of consolidated ordinary income for the immediately preceding consolidated fiscal year.
- e. The amount of expected increase or decrease in net income attributable to shareholders of the parent company due to the relevant decision is equal to or more than **30% of net income attributable to shareholders of the parent company** for the immediately preceding consolidated fiscal year.
- f. Fact for which an extraordinary report is to be submitted for reasons based on Article 19, Paragraph 2, Item 12 or Item 19 of the Disclosure Office Ordinance (events affecting the financial position and business performance)

- Regardless of whether or not any of the guidelines for disclosure listed in a. through f. above applies, **if the impact of the corporate information on investors' investment decisions is deemed to be material, the details of such information should be disclosed immediately.**
- For example, **a material change is expected to occur in the basic conditions of the listed company's operations, business or assets**, such as a change in the business structure or profit structure of the listed company, or **a return to profitability or loss is expected after the consolidated fiscal year** that includes the date of the determination of the relevant corporate information.

# Disclosure Status at the Time of COVID-19 Expansion and Deterioration of the Situation in Ukraine

- TSE requested listed companies to proactively and promptly disclose the impact of COVID-19 and the situation in Russia and Ukraine on their business activities and operating results
- At the time of COVID-19 outbreak, only a limited number of companies made timely disclosures prior to the arrival of earnings announcements.

## <Status of disclosure at the time of COVID-19 expansion>

### ◆ TSE Response

- TSE requested proactive and prompt disclosure of **the impact of the spread of COVID-19 on business activities and operating results**, with priority given to preventing infection. (Feb. 10, 2020)
- TSE requested **early disclosure of risk information** pertaining to COVID-19. (Mar. 18, 2020)
- TSE **provided examples of disclosures and points of explanation** regarding COVID-19. (7 times in total after Apr. 3, 2020)

### ◆ Disclosure Status

- About 10% of all companies made timely disclosure of the impact of COVID-19 prior to the announcement of their financial results (late April to mid-May).
- In the subsequent earnings announcement period (late April-May 2020), although there was an increase in the number of cases where the existence and details of the current impact were described, only about 10% of cases were disclosed as risk information, and more than half of the companies with a fiscal year ending in March did not disclose earnings forecasts (in previous years, more than 90% of companies disclosed earnings forecasts when they announced their full-year results).
- More than half of the companies with a fiscal year ending March 31 disclosed a 30% or more YoY decline in earnings in their 1Q results (many companies experienced a considerable earnings impact).

## <Status of disclosure on the Situation in Ukraine>

### ◆ TSE Response

- TSE requested **a careful explanation of the risks and impact of the situation** in Russia and Ukraine on business activities and operating results (Mar. 9 and 17, 2022)
- TSE **provided examples of disclosures** regarding the impact of the situation in Russia and Ukraine (Mar. 17, 2022)

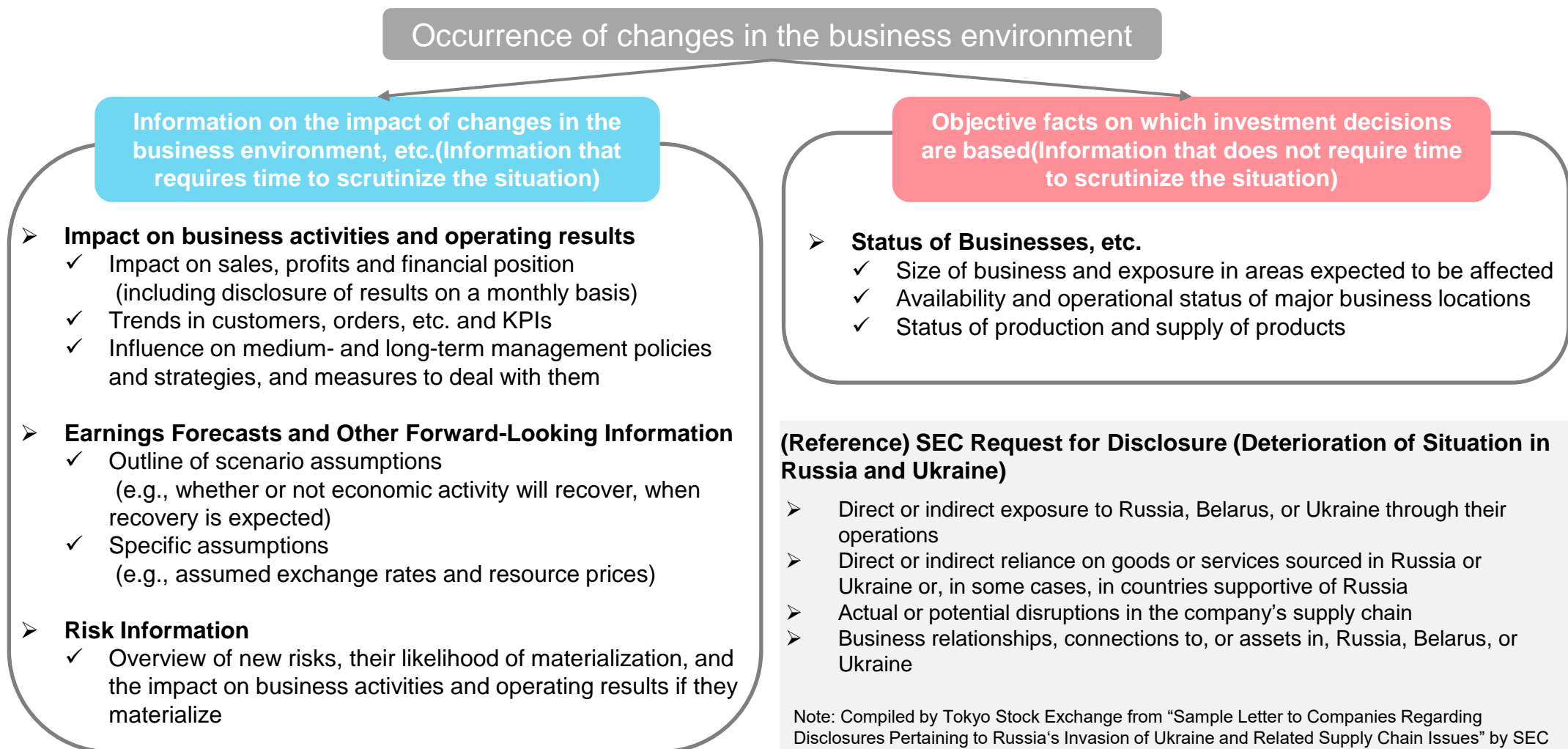
### ◆ Disclosure Status

- In light of the current situation in Russia and Ukraine, Western companies are beginning to proactively disclose information on the impact of the situation and their response to the risks, but there are only a few examples of Japanese companies disclosing such information. (as of March 2022)

# Disclosure of Changes in the Business Environment

- When the business environment changes significantly, such as COVID-19 or the situation in Russia and Ukraine, TSE requested listed companies to disclose such changes in the business environment, organizing and providing good examples from actual disclosures.
- The key points of the matters TSE has requested and the examples of cases TSE has compiled as examples of disclosure can be roughly summarized as follows

## < Key points of disclosure regarding changes in the business environment (image) >







## <Enhancement of Information Disclosure>

In developing a market environment in which listed companies voluntarily and proactively disclose information that is important for investment decisions in a timely manner, what is thought on the following matters?

### (Disclosure on Changes in Business Environment)

- If there is a change in the business environment that may have a significant impact on investment decisions (not limited to cross-industry events, but also including individual company circumstances), what kind of information is required to be actively disclosed by the company and what kind of information can be disclosed by the company? For example, even if the impact is not yet clear, is it conceivable that objective facts (e.g., business scale in the area expected to be affected), current trends (e.g., status of customers and orders, KPI trends), and risk information (e.g., impact if it materializes) should be promptly disclosed as premises for making investment decisions?
- What information is required to be actively disclosed by companies and what information can be disclosed by companies in periodic disclosures such as Annual Securities Reports and other periodic disclosures of forward-looking information such as earnings forecasts, as a prerequisite for disclosure during the period regarding changes in the business environment?
- In order to enhance disclosure regarding changes in the business environment, it is envisioned that disclosure will be encouraged based on a new approach that is not limited to existing facts of decision and occurrence due to the occurrence of events. Specifically, the Exchange would provide examples of key points for disclosure, request the disclosure of such points, and promote voluntary disclosure by listed companies by continuously publishing examples of such disclosure (in addition, the FSA would continue to publish a "Collection of Good Practices for Disclosure of Descriptive Information"). Are there any issues that should be kept in mind when proceeding with this initiative?
- Are there any other possible initiatives to enhance and establish the disclosure of such information?

### (Other Timely Disclosures)

- Are there any possible measures to enhance the timely disclosure of existing facts of decisions and occurrences? For example, a review of the basket clauses (clarification of the concept, review of the positioning of disclosure guidelines) could be considered, but are there any matters that should be kept in mind when proceeding with such efforts?
- Are there any other possible initiatives to enhance and establish other timely disclosures?

# 5. Items to be Discussed Today

---



## <Contents of Quarterly Earnings Reports>

- What do you think about the Draft Policy of contents of the Quarterly Earnings Report?
- Under the concept of transferring items for which investors have particularly strong requests in Quarterly Securities Report to Quarterly Earnings Report, are there other items\* than shown in Draft Policy, and should it be disclosed obligatory or be treated as a request for proactive disclosure (be considered by a company in light of requests by investors, etc.)?

\* Note18 of DWG Report of December 2022 shows that “Furthermore, there were opinions, mainly from investors, that from the perspective of confirming progress over the medium to long term, it is necessary to add items that are important in understanding financial statements, such as notes to the balance sheet and income statement, as well as qualitative analysis of business performance and other information. On the other hand, some commented that, in considering the addition of additional disclosure content, due attention should be paid to the disclosure burden on companies and the need for quick disclosure.”

## <Disclosure Timing of Quarterly Earnings Report>

- What do you think about the Draft Policy of disclosure timing of Quarterly Earnings Reports?
- What do you think that it is assumed that the timing may be slower than now in the event of receiving an auditor’s review required by Exchange rules (refer to next section) or receiving an optional review, or in the light of the increase of items to be disclosed from current Quarterly Earnings Reports?

### <Review of Quarterly Earnings Report of 1Q and 3Q>

- What do you think about the Draft Policy of Partial Mandatory Review?
- Regarding the term of Obligation of Review, how should the already disclosed financial statements of 1Q and 3Q be treated?  
If exchange obligates companies to receive a review for the already disclosed financial statements retroactively, how far back should companies receive a review?

### <Enforcement against Misstatement>

- In light that quarterly disclosure system of 1Q and 3Q will be integrated into the Quarterly Earnings Reports, it is considered to establish the system of early overview of fraud by enhancing the cooperation with auditor of a company for performing the enforcement more properly.  
What do you think about this idea?
- What are the specific measures that could be taken? It is considered, for example, to add report against Exchange's request as a "justifiable ground" for breach of confidentiality in an audit contract (sample in JICPA), or to extend the scope of exchange rule (refer to P.21) regarding hearing to an auditor of a company to the event that Exchange deems it necessary to decide the appropriateness pertaining to regulatory measures. Are there any matters to be noted?

## <Enhancement of Information Disclosure>

In developing a market environment in which listed companies voluntarily and proactively disclose information that is important for investment decisions in a timely manner, what is thought on the following matters?

### (Disclosure on Changes in Business Environment)

- If there is a change in the business environment that may have a significant impact on investment decisions (not limited to cross-industry events, but also including individual company circumstances), what kind of information is required to be actively disclosed by the company and what kind of information can be disclosed by the company? For example, even if the impact is not yet clear, is it conceivable that objective facts (e.g., business scale in the area expected to be affected), current trends (e.g., status of customers and orders, KPI trends), and risk information (e.g., impact if it materializes) should be promptly disclosed as premises for making investment decisions?
- What information is required to be actively disclosed by companies and what information can be disclosed by companies in periodic disclosures such as Annual Securities Reports and other periodic disclosures of forward-looking information such as earnings forecasts, as a prerequisite for disclosure during the period regarding changes in the business environment?
- In order to enhance disclosure regarding changes in the business environment, it is envisioned that disclosure will be encouraged based on a new approach that is not limited to existing facts of decision and occurrence due to the occurrence of events. Specifically, the Exchange would provide examples of key points for disclosure, request the disclosure of such points, and promote voluntary disclosure by listed companies by continuously publishing examples of such disclosure (in addition, the FSA would continue to publish a "Collection of Good Practices for Disclosure of Descriptive Information"). However, are there any issues that should be kept in mind when proceeding with this initiative?
- Are there any other possible initiatives to enhance and establish the disclosure of such information?

### (Other Timely Disclosures)

- Are there any possible measures to enhance the timely disclosure of existing facts of decisions and occurrences? For example, a review of the comprehensive clauses (clarification of the concept, review of the positioning of disclosure guidelines) could be considered, but are there any matters that should be kept in mind when proceeding with such efforts?
- Are there any other possible initiatives to enhance and establish other timely disclosures?