

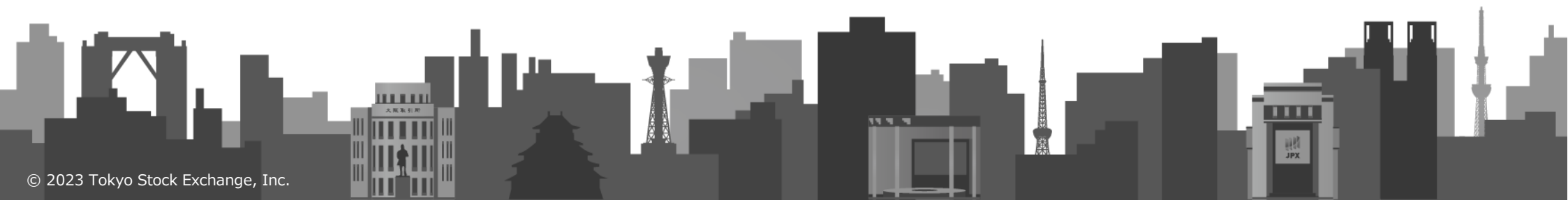


Secretariat's Explanatory Material

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

Exchange & beyond
Tokyo Stock Exchange, Inc.

August 31, 2023



- 1** Quarterly Earnings Reports for 1Q and 3Q
- 2** Handling of Earnings Reports for 2Q and Full Year
- 3** Data Distribution Format of Earnings Reports
- 4** Enhancement of Information Disclosure
- 5** Items to be Discussed Today



1. Quarterly Earnings Reports for 1Q and 3Q (Summary of the 1st Council and Revised Draft Policy)



Summary of the 1st Council (General Topics)

<Summary of the 1st Council>

- The simplification of the quarterly disclosure system is our major objective.
- It is necessary to discuss in terms of maintaining a timely disclosure.
- The premise of this revision is to simplify and streamline the process by eliminating duplication of Quarterly Securities Reports and Quarterly Earnings Reports. In this sense, the simplification of quarterly disclosure has already been done by abolishing Quarterly Securities Reports.
- In the past, Quarterly Earnings Reports have been simplified under the assumption that Quarterly Securities Reports were available. In integration, we should consider which items disclosed in Quarterly Securities Reports are transferred to Quarterly Earnings Reports.
- While taking into account the opinions of investors, we should consider the items of Quarterly Earnings Reports in consideration of maintaining a timely disclosure.
- It is explained externally that the purpose of this revision is to reduce the burden on companies by doing away with Quarterly Securities Reports and integrating them into Quarterly Earnings Reports to eliminate overlapping information. Going forward, the Exchange will consider the contents of Earnings Report, taking into account the opinions of investors and companies, to ensure that necessary information for investors is provided to them in the same way as in the past.

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

(Background of the integration of the 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.

(Reasons for integrating into 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**.

<Summary of the 1st Council>

(Policy)

- No objection regarding the policy of adding the items with strong investor demands (Segment Information and CF Information).

(Notes on the CF and CF Statements)

- IFRS and US-GAAP should be treated in the same way as being under J-GAAP, and the CF notes should be used instead of the CF statement. The burden on making CF statements is so heavy that it is possible to prevent promoting the voluntary application of IFRS.
- We agree to the draft policy because companies applying to IFRS or US-GAAP must disclose CF statements in the current Quarterly Securities Report.
- CF information is very important when considering corporate value. It is originally necessary for companies applying J-GAAP to disclose CF statements, so that the Exchange should request to disclose it.

(Whether or not a review is conducted)

- Whether or not a review is conducted should be disclosed in summary information in terms of providing information to investors. A review report should also be attached.
- To avoid defeating the purpose of the review being voluntary, it should be disclosed in the summary information only when a review is received.

<Thoughts based on the 1st Council>

(Notes on the CF and CF Statements)

- The handling of IFRS and US-GAAP should be considered while taking into account that the simplification in J-GAAP has been done. (Refer to P.7 for history of the simplification)
- Requests to proactively disclose CF statements as useful information for investment decisions in the case that the Exchange allows to omit CF statements in financial reporting framework.

(Whether or not a review is conducted)

- It is suggested in the DWG report that whether or not a review by an auditor is conducted should be disclosed in the Quarterly Earnings Reports from the viewpoint of providing information to investors, so the Exchange will require to disclose it in summary information.
- Regarding the part to be disclosed, it will not be required in the front cover of the summary information but as part of the notes, which is in the latter part of the summary information. (Referred to P.10)

<Summary of the 1st Council>

(Other Items to be Added)

- In terms of the disclosure status and importance, the Exchange should require to disclose (or request to proactively disclose) an explanation of the operating results and financial condition.
- Taking voluntary disclosures into account, management should always disclose the explanation of operating results and financial condition, but it is not necessary that the Exchange stipulates the content or the part to be disclosed.
- Regarding the notes related to BS, PL, and CF statements, from the perspective of fair disclosure, the Exchange should require the notes which are related to matters disclosed in a timely disclosure or for which an extraordinary report was filed. In addition, the Exchange should require the notes on financial instruments, securities, and derivative transactions because of high price volatility or business combination due to a large impact on financial performance.
- Disclosure of R&D expenses and number of employees should be required when there is a material change, as the information has been enhanced due to the revision of the CG Code and the revision of the ordinance of the cabinet office on the reporting of information and investors' needs are strong. It is necessary to consider contingencies and subsequent events.
- Additional items to be disclosed should be limited to the minimum necessary since the scope of this study includes future voluntary disclosures of Quarterly Earnings Reports and the promotion of voluntary disclosure

<Thoughts based on the 1st Council>

(Other Items to be Added)

- The Exchange will stipulate the disclosure of explanation of operating results and financial condition in terms of the disclosure status and the importance.
- However, taking into account the practice that listed companies have made proactive information disclosure in explanatory materials for financial results, it will be allowed to disclose information on things other than Earnings Reports.
- Regarding matters other than those required to be disclosed, it is important in principle for listed companies to understand the needs of investors properly and proactively disclose the information that investors need
- Therefore, the Exchange will exemplify the useful information for investment decisions in the Timely Disclosure Guidebook and prompt the proactive disclosure of listed companies. (regarding subject of example, consider that there are the items expected to be disclosed separately)

(Reference) History of Simplification of CF Information (J-GAAP)

- When the quarterly report system was introduced in 2008, the preparation of CF statements in 1Q and 3Q were required.
- The New Growth Strategies published by governance in 2010 called for significant simplification of quarterly reporting, and the Quarterly Consolidated Financial Statements were revised in 2011 which allowed companies applying to J-GAAP to omit CF statements in 1Q and 3Q on the Quarterly Accounting Standard and Ordinance on the Terminology, Forms, and Preparation Methods.

<Summary of Discussion about Revision in ASBJ>

(Market participants' evaluation)

Financial Statements Preparers	<ul style="list-style-type: none"> • It greatly delays the disclosure. • Semiannual report system is mainly used in Europe, the omission of CF statements in 1Q and 3Q is strongly hoped for.
Financial Statements Users	<ul style="list-style-type: none"> • Based on the results of the survey conducted by the Securities Analysts Association of Japan (SAAJ), a majority of respondents agreed that disclosure should be continued. • Even if CF statements in 1Q and 3Q are omitted, it will be necessary to ensure the methods to calculate CF information by the users themselves with the disclosure of information related to capital investment and depreciation.

(Main Opinions (Related to notes when omitted))

- A relatively large number of analysts agree with the omission of 1Q and 3Q CF statements, assuming that non-cash items such as depreciation and amortization will be disclosed.
- The impact of omitting the CF statements can be minimized by enhancing the notes for non-cash items and providing information that enables the calculation of operating CF in a simplified manner.

(Result of Consideration)

- Allow the omission of CF statements in 1Q and 3Q in the condition of disclosure of the amount of non-cash items (Amount of depreciation and amortization of goodwill) as notes

<Summary of Public Comments>

Thoughts on comments opposing the direction of omitting disclosure of CF statements

(ASBJ)

- **Based on opinions received from users of financial statements,** the Board decided to require the disclosure of depreciation and amortization of goodwill **as information that contributes to the understanding of cash flows by users of financial statements,** **while reducing the burden on financial statement preparers.**
 Note: There were same comments in public comments of the revision of Ordinance on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements of FSA.

(Reference: Explanation of Revisions)

- The preparation of quarterly consolidated CF statements in 1Q and 3Q is optional, but if not prepared, **notes on depreciation and amortization and goodwill amortization, which are considered difficult to determine directly from the quarterly financial statements, are required so that users of the quarterly consolidated financial statements can obtain an estimate of the status of cash flows.**

Source: Masahiro Tokushige (Assistant Director, Corporate Disclosure Division, General Affairs and Planning Bureau, Financial Services Agency), "Explanation of Cabinet Office Ordinance Partially Amending Regulations for Quarterly Consolidated Financial Statements [Part 1]". Shojihomu, No.1930

Source: Compiled by Tokyo Stock Exchange based on ASBJ's various documents.

Draft Policy (Contents of Quarterly Earnings Reports)

【Basic Concept】

Adding 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 the omission of items other than requirements by Exchange Rules among items required by Ordinance on Terminology, Forms and Preparation Methods of Financial Statements, etc. and accounting standards which will be revised, and addition of necessary items (Notes on the CF)

Note: Assumption that the Exchange will permit some omissions about disclosure items from the current 1Q and 3Q Quarterly Securities Reports

Note: The base framework will be discussed based on the future actions to be taken by the parties concerned. 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"> ➤ Adding whether or not a review by an auditor is conducted (distinguish between review by rule and voluntary review) ➤ Changing significant changes in the scope of consolidation during the period (note1)
Attachment	Financial Statements	<p>There is no difference in treatment between J GAAP, IFRS and US GAAP, and the followings are required uniformly.</p> <ul style="list-style-type: none"> ➤ Consolidated Balance Sheet, Consolidated Profit and Loss Statement, and Consolidated Comprehensive Income Statement (note2) <p>(CF statement is requested for a proactive disclosure a useful information for investment decisions.)</p>
	Notes	<p>Adding Notes on Segment Information, etc. and Notes on Quarterly CF Statements to current required notes</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 CF statement)
	Others	<p>Overview of operating results, etc. (note3)</p> <p>Significant events, etc. on the Going Concern Assumption (Same as current)</p> <p>Review Report (only when receiving a review by an auditors)</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: 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 Reports in the new system and other factors

Note 3: It is also possible to make a disclosure in explanatory materials for financial results other than financial statements.

- Regarding matters other than those required to be disclosed, it is important in principle for listed companies to understand the needs of investors properly and proactively disclose the items for which investors need
- The Exchange will exemplify the useful information for investment decisions in Timely Disclosure Guidebook and prompt the proactive disclosure of listed companies.

<Items for which proactive disclosure is requested as the useful information for investment decisions (Example) >

(Financial Statements and Notes)

- CF Statements
- Notes of Financial Statements
 - ✓ Notes on BS, notes on PL
 - ✓ Notes on Financial Instruments, Securities and Derivative Transaction

(Others)

- Items which are considered useful for investment decisions when explaining operating results and financial condition
 - ✓ 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: The current Quarterly Securities Reports handle the following

- Notes are required if they are material to the operation of the business of the corporate group and if there are significant changes from the end of the previous fiscal year. In addition, except in cases where financial assets and liabilities account for a large portion of the total assets and liabilities of the corporate group, the notes for 1Q and 3Q can be omitted.

Note 2: regarding the explanation of operating results and financial condition, it is considered that the items to be disclosed on “Management's discussion and analysis of financial position, operating results, and cash flow status” in Quarterly Securities Reports are referred to.

(Reference) Image 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 XXX)

(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	%
MM DD, YYYY								
MM DD, YYYY								

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
MM DD, YYYY		
MM DD, YYYY		

(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	%
MM DD, YYYY			
MM DD, YYYY			

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

- 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)
- Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: Yes/None
- Changes in accounting policies, changes in accounting estimates, and restatement
 - Changes in accounting policies due to revisions to accounting standards and other regulations: Yes/None
 - Changes in accounting policies due to other reasons: Yes/None
 - Changes in accounting estimates: Yes/None
 - Restatement: Yes/None
- Number of issued shares (common shares)
 - 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
 - Number of treasury shares at the end of the period

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

(5) Reviewed by a certified public accountant or an audit firm: Yes (by rules)/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
 XXX

<Summary of the 1st Council>

(Disclosure Timing)

- Listed companies always have responded focusing on the speediness. (added items to be disclosed should be limited in order not to lose the speediness.)
- It is necessary for listed companies to improve the efficiency of internal information gathering and ensure that the timing of disclosure is not delayed even if more information of Quarterly Earnings Reports are needed.

- It will be not a problem for users that the Quarterly Earnings Reports are disclosed within 45 days after the end of quarter in the case timing of the disclosure is delayed by a review.
- When the Quarterly Securities Reports are abolished, the benchmark of the timing of disclosure will be lost, so investors will be not care too much about the delay of the timing.
- A review period is required when a review is conducted. The exchange should consider the details of the disclosure timing, whether the company will first disclose the information and then the review will be done and disclosed, or the company will disclose all at once after the review is completed.

<Thoughts based on the 1st Council>

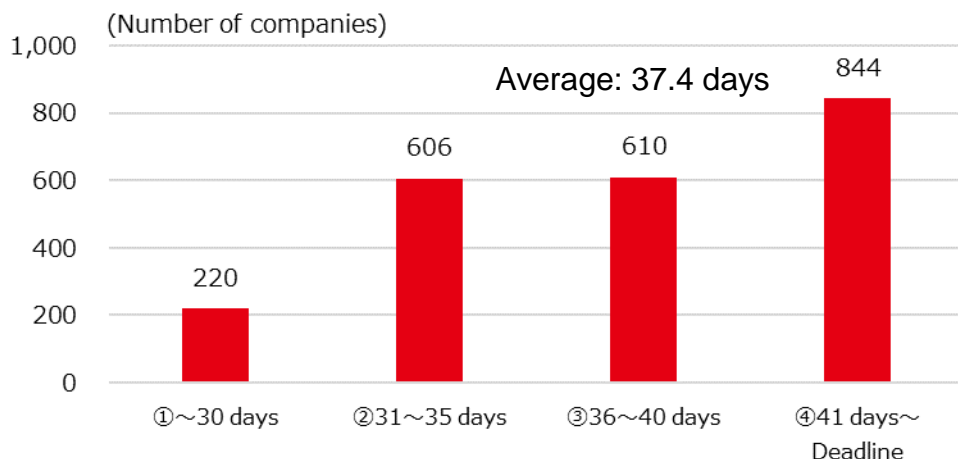
(Disclosure Timing)

- Keep the basic concept “Where details of the account settlement are settled, a company must disclose such details immediately.”
- Based on the fact that it will be integrated into Quarterly Earnings Reports, the listed company itself will determine the timing of “details of the account settlement are settled.”
- The exchange does not prevent multiple disclosures of the Quarterly Earnings Reports as in the past. (Referred to P.13 when a review is conducted.)

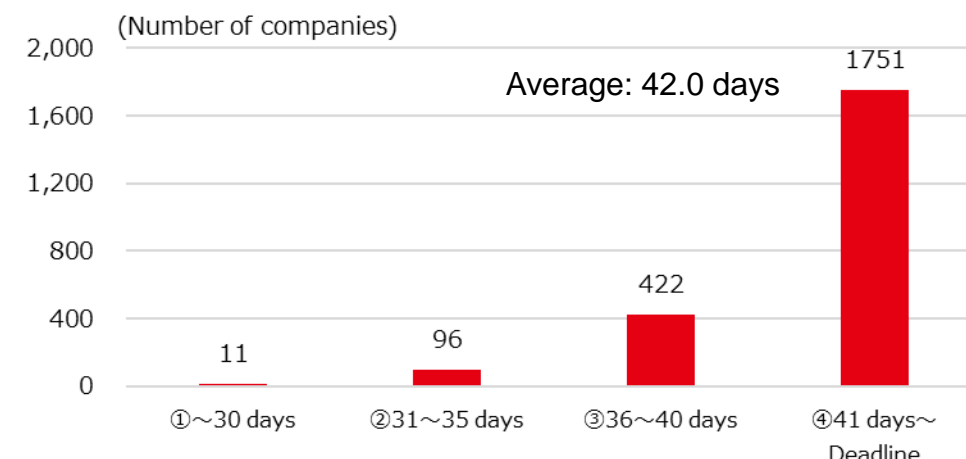
Disclosure Timing of Quarterly Earnings Report and Quarterly Securities Report

- Although the Quarterly Earnings Reports 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>



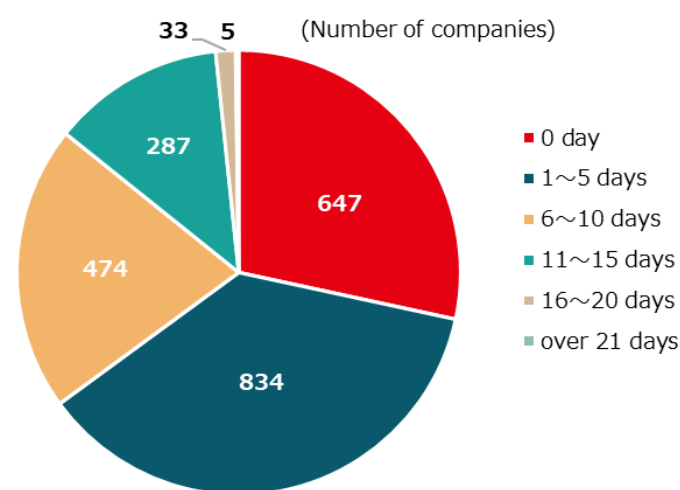
<Distribution of the filing dates of Quarterly Earnings Reports and Quarterly Securities Reports>

(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】

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.**

<About the Details of the Account Settlement>

- Because of the integration into the Quarterly Earnings Reports in 1Q and 3Q, **companies will be required to disclose the report where the items to be disclosed in the report** (including items to be required (referred to P.8) and items for which proactive disclosure is requested as the useful information for investment decisions (referred to P.9)) are settled.
- It is expected to happen that companies enhance the disclosure of Quarterly Earnings Reports (such as the disclosure of the financial statements and notes of current Quarterly Securities Reports) in the perspective of proactive information disclosure for investors. The Exchange does not prevent the companies from disclosing in advance a part of items to be disclosed in Quarterly Earnings Reports (such as summary information and financial statements excluding notes), taking into account the rapid communication with equity markets.
Note: Under the current treatment, prior disclosure of summary information, etc. is permitted if there is no risk of misleading investment decisions.

<About the Timing of “Details of the Account Settlement are Settled” (when a review is conducted)>

- The current Quarterly Earnings Report is requested to be disclosed without waiting for the completion of the review so that it can fully function as a flash report that discloses the financial results prior to the statutory disclosure. But because of the integration into the Quarterly Earnings Reports in 1Q and 3Q, the role of a flash report in advance of the statutory disclosures will get lost.
- And, if a review is voluntarily conducted, **each company oneself will judge** the timing when “details of the account settlement are settled” **based on the fact that it will be integrated into Quarterly Earnings Reports. (it shall be acceptable to judge the timing of settlement after the completion of the review.)** However, **“it is hopeful to disclose the not reviewed Earnings Reports priorly based on investor needs etc.”** from the viewpoint of prompt provision of information, based on the fact that approximately 35% of listed companies disclose Quarterly Earnings Reports more than 6 days prior to Quarterly Securities Reports .
- Regarding the treatment of mandatory review by the Exchange rules, referred to Items to be Discussed Today.

<Summary of the 1st Council>

(Requirements of the obligation)

- No opposite opinions about the requirements.

(Applicable period of the obligation)

- The significance of retroactive review to Quarterly Earnings Reports is limited based on that the reports will be corrected with general principle rule of timely disclosure and that a corrective audit to Annual Securities Reports will be conducted when Annual Securities Reports are corrected.
- The retroactive review to Quarterly Earnings Reports is not necessary because of the few cases of administrative surcharges subject only to 1Q and 3Q, and the purpose of Quarterly Earnings Reports to check the progress.
- As an auditor, conducting a retroactive review is difficult.
- If the retroactive review is not required, effectively the timing for requiring a review would be lost, so it is considered to extend the cancellation period for example to next fiscal year.

(Review (Compliance Framework))

- It is necessary to sort out the specific procedures of review.
- Regarding the framework of fair presentation and compliance, educational activities are needed in the Exchange, SAAJ and JICPA

<Thoughts based on the 1st Council>

(Applicable period of the obligation)

- Regarding the applicable period, retroactive review to the already submitted Quarterly Earnings Reports of 1Q and 3Q will be not needed. (In the case there is an item to be corrected, correction is needed.)
- Cancellation period is when none of the requirements is met in Annual Securities Report and Internal Control Report submitted after any of requirements is met because of the few cases that the obligation is cancelled without conducting review. (referred to P.17)

(Review (Compliance Framework))

- Sort out a review of compliance framework at this council. (referred to explanatory material of Ms. Fujimoto of JICPA)
- In the future, related organizations will make efforts to ensure that stakeholders understand properly the concept of compliance framework.

Relationship between Financial Reporting Framework and Review

- There are the frameworks of fair presentation and compliance in review, and regarding to current Quarterly Securities Reports reviews of fair presentation framework are conducted.
- Regarding to the financial reporting framework of revised Quarterly Earnings Reports that the Exchange will stipulate, it is assumed that reviews of compliance framework will be conducted because certain omission from revised Ordinance on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements and accounting standards will be permitted, and explicit provisions for additional disclosures to achieve the fair presentation will not be required.

Step	Revised Quarterly Earnings Reports (draft)	(Reference) Current Quarterly Securities Reports
1. Whether there is an explicit provision for additional disclosures to achieve the fair presentation	No	Yes Note: Notes on Additional Information of Article 14, Ordinance on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements
2. Judge comprehensively the following items when there is an explicit provision for additional disclosure	—	—
(1) Purpose of establishment of the explicit provisions for additional disclosures	No explicit provision for 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) GAAP (Disclosure) financial reporting framework which the Exchange stipulates Note: In the framework that the Exchange will stipulate, it is assumed that certain omission 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	Fair Presentation

(Reference) The Definition 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 of the framework and:

- (1) 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
- (2) 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 (1) or (2) above.

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)”

(Reference) Opinion Expression before the Legalization of Quarterly Reporting System

- Before the legalization of the quarterly reporting system, the listing rules required the disclosure of "quarterly financial and business results" for 1Q and 3Q, and for companies listed on the former Mothers, an auditor's opinion expression was also required.
- This auditor's opinion was similar to a review required by the International Standards on Auditing at that time and this opinion was about "presentation of useful information."

<Comparison of the Example of Report Writing>

Opinion expression before the legalization of the quarterly reporting system
(Quarterly financial and business results (TSE))

Review on current Quarterly Securities Reports
(Quarterly Securities Reports (FIEA))

Report on Quarterly Consolidated Financial Statements

(omitted)

Based on the procedures performed, **nothing has come to our attention that causes us to believe that the quarterly consolidated financial statements referred to above do not present useful information** about ○○○○ Corporation and its consolidated subsidiaries for the XXth quarter (XXXX to XXXX) of the consolidated fiscal year from XXXX to XXXX, in accordance with the standards for the preparation of interim consolidated financial statements.

(omitted below)

Quarterly Review Report of the Independent Auditor

(omitted)

Based on our review, **nothing has come to our attention that causes us to believe that the accompanying quarterly consolidated financial statements do not present fairly, in all material respects,** the financial position of ○○○○ Corporation as at XXXX, and its financial performance and cash flows for the XX month period then ended, in accordance with Standards for Preparation of Quarterly Financial Statements Generally Accepted in Japan.

(omitted below)

Note: Companies listed on the former Mothers were required to prepare the quarterly financial statements in accordance with the standards for preparation of interim financial statements or interim consolidated financial statements issued by the Business Accounting Council.

Source: Compiled by Tokyo Stock Exchange based on the JICPA's "Publication of "Opinion Expression of Tokyo Stock Exchange on Quarterly Financial Statements of Companies Listed on Mothers (Interim Report)" and the JICPA's "Audit and Assurance Practice Committee Report No. 83, Practical Guidelines for Quarterly Reviews"

(Reference) Simulation of the Mandatory Review

- Simulations were conducted on the status of mandatory reviews in the fiscal year ending March 31, 2023 for companies with a fiscal year ending March 31.
- Total of 41 companies were obliged to a review in the result, but the case of the cancellation of the obligation with no review conducted was just 1 company and it was a few against the whole.
(this company did not meet any requirements of the obligation in Annual Securities Report and Internal Control Report submitted after any of requirements had been met.)

(# of companies)

(1) 1 or more reviews in FY2023/3 (Not mandatory in FY2024/3)	28
(2) 1 or more reviews in FY2023/3 (Mandatory in FY2024/3)	7
(3) No reviews in FY2023/3 (Not mandatory in FY2024/3)	1
(4) No reviews in FY2023/3 (Mandatory in FY2024/3)	4
(5) Obligated to a review in FY2023/3 but delisted in the term	1
Total	41

(Aggregation Target)
Statutory disclosures of companies with fiscal years ending in March for the period from April 1, 2022 to June 30, 2023.

<Reference: the case of the cancellation of the obligation with no reviews conducted>

- Meet any of the requirements after the disclosure of Earnings Report in 3Q
 - Meet none of the requirements in Annual Securities Report and Internal Control Report submitted after any of requirements had been met. (= meet the cancellation requirements)
- ⇒ The obligation will be cancelled with no reviews.

【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.

(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.**

(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.

Summary of the 1st Council and Draft Policy (Enforcement)

<Summary of the 1st Council>

(Enforcement)

- It is necessary to enhance the cooperation with auditors and to establish the system of early overview of fraud.
- Release of confidentiality is heavy for both of auditors and listed companies. From the viewpoint of deterrence, the scope of the requirements of confidentiality release should be expanded.
- The cooperation with auditors is important. At first, it is assumed to incorporate a provision regarding the confidentiality against companies into the listing rules and cooperate with auditors.
- It should be announced steadily that Earnings Reports are applicable to the statutory prohibition of wrongful actions (Disseminating Unfounded Rumors) as with the current system.

<Draft Policy>

【Basic Concept】

- On the examination related to disclosure in the Exchange, the confirmation to a listed company is basic, but the system of early overview of fraud with the enhancement of the cooperation with auditors shall be established in order for the Exchange to implement enforcement more appropriately.
Note: The Exchange shall announce and make the listed companies understand that Earnings Reports are applicable the statutory prohibition of wrongful actions (Disseminating Unfounded Rumors).

【Specific Policies】

- (1) Regarding the listing rule related to duty of cooperation against listed companies in the case of request to interview with certified public accountants, etc., the scope shall be extended from the case that the Exchange deems it necessary to decide the appropriateness pertaining to delisting to the case that the Exchange deems it necessary to consider the measures of ensuring effectiveness.
- (2) JICPA shall be expected to deal in order to make the above function properly, such like including the response to the Exchange's request into a "justifiable grounds" of confidentiality release in an audit contract (sample of JICPA).

(Reference: Securities Listing Regulations, Rule 604, Paragraph 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.

(Reference: examples of the justifiable grounds of confidentiality release)

- Where 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
- Where 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
- Where 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.
- Where providing information to a successor auditor (including a prospective auditor) for the purpose of handing over audit work To provide information to the successor auditor (including prospective auditors) for the purpose of handing over audit work
- Where using other certified public accountants, etc. or outside experts for auditing services

Source: Compiled by Tokyo Stock Exchange based on JICPA's "Audit Agreement Form 2-1 Consolidated with Limited Liability Agreement (May 31, 2023)"

(Reference) 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*¹
 - Securities on Alert*²

* 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

< Contents of the Quarterly Earnings Reports (P.8~9) and the Disclosure Timing (P.13) >

- What do you think about the draft policy based on the discussion in the 1st Council?
- Are there excesses or deficiencies about the contents, especially items for which proactive disclosure is requested as the useful information for investment decisions (P.9) ?
- What do you think about the treatment of the disclosure timing in the case of the obligation by the rules. The following treatments will be assumed.
 - ✓ Same treatment as the draft policy in P.13 from the viewpoint of prompt provision of information
 - ✓ Required to disclose it after the review completed in light of the fact that the review is required from the perspective of ensuring reliability.

< Partial Obligation to Review in Quarterly Earnings Report of 1Q and 3Q (P.18) and the Enforcement (P.19) >

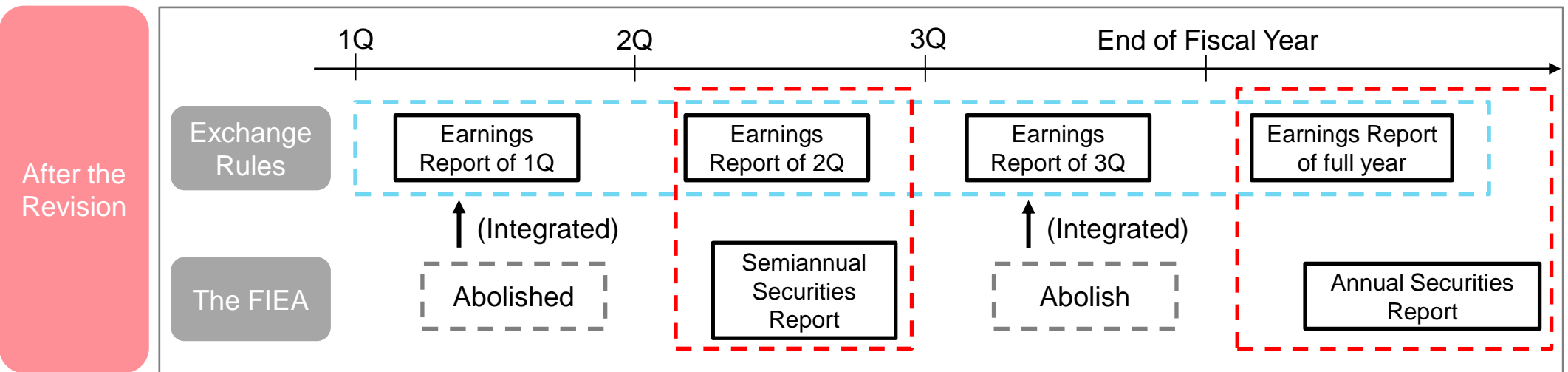
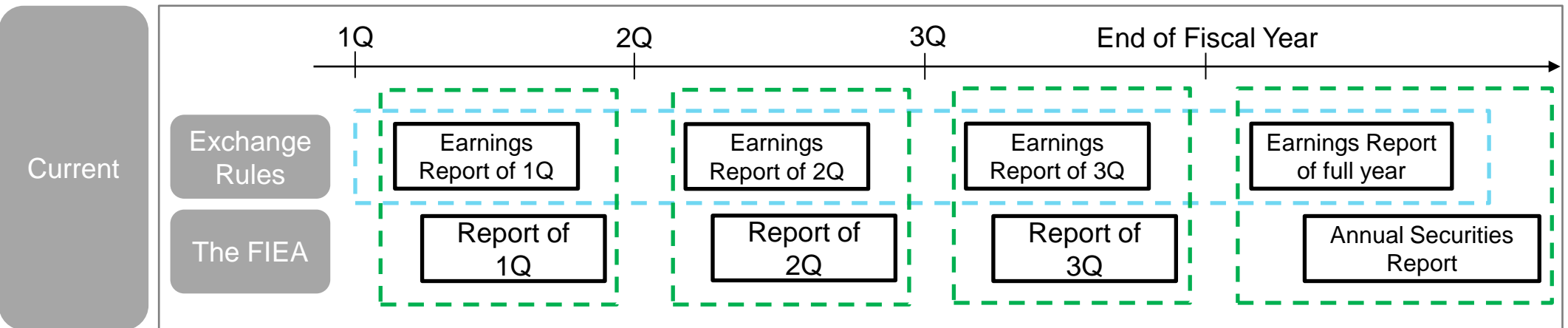
- What do you think about the draft policy based on the discussion in 1st Council?

2. Handling of Earnings Reports of 2Q and Full Year



Disclosure of Earnings Reports and Securities Reports in the Year

- In the current system, the Earnings Reports have the role of the flash news through the simplification of the contents etc. because there are statutory disclosures under the FIEA corresponding to each Earnings Reports.
- With this revision of the quarterly disclosure, while statutory disclosures corresponding to the Earnings Reports of 1Q and 3Q will be abolished, statutory disclosures corresponding to the ones of 2Q and full year will continue to exist.



Draft Policy and Items to be Discussed

(Handling of Earnings Reports of 2Q and Full Year)

<Draft Policy>

【Basic Concept】

- Regarding the Earnings Reports of 2Q and full year, the corresponding statutory disclosures exist, keep the current treatment.

(Position)

- Keep the roles of the flash news against the statutory disclosures (Semiannual Securities Reports and Annual Securities Reports).
- The Earnings Reports of 2Q and full year are not subject to the review nor audit (same for the cases of the being obliged to a review by the Exchange rules in 1Q and 3Q).

(Contents of Disclosures)

- Not change from the current treatments (regarding the Earnings Reports of 2Q, items to be added in the Earnings Reports of 1Q and 3Q are not be required but disclosed by the judgement of each companies based on the speediness and needs for investors).

Note: Regarding the disclosure style of the consolidated financial statements of 2Q, the companies should prepare them according to the Ordinance on the Terminology, Forms, and Preparation Methods which is applicable to Semiannual Securities Reports in the new system, not to the financial reporting framework of the Earnings Reports of 1Q and 3Q.

(Name of Documents (2Q))

- The name should be not “Earnings Reports of Half Year” but “Quarterly Earnings Reports of 2Q” from the viewpoint of the continuity of the Earnings Reports of 1Q and 3Q.

<Item to be Discussed>

- What do you think about the draft policy?

3. Data Distribution Format of Earnings Reports



Current Data Distribution Format in Earnings Reports

- At present, submission to XBRL files of “Summary Information” and “Financial Statements” are required in the Earnings Reports (including the quarterly ones), and other items are disclosed in PDF format (experimental test has been done since December in 2021, in which the companies can optionally submit to the attachments in HTML format).
- On the other hand, it is possible that the abolish of the Quarterly Securities Reports will affect the information users because the full text of the reports are published in XBRL format.

(Current Data Distribution Format in Earnings Reports)

		Current Format		
		PDF	XBRL (note 2)	HTML
Summary Information		✓	✓	—
Attachments	explanation of operating results and financial condition (note 1)	✓	—	voluntary
	Financial Statements	✓	✓	Voluntary
	Notes	✓	—	Voluntary

Note 1: it is voluntary in current Quarterly Earnings Reports.

Note 2: XBRL for summary information and financial statements is "inline XBRL," which embeds XBRL data in XHTML format files and can be viewed with web browsers in the same way as HTML.

Current Data Distribution Format in Quarterly Securities Reports

- At present, the full text of the Quarterly Securities Reports are published in XBRL format except for the part of foreign companies etc., and regarding the J-GAAP, the details tags are attached as shown below (inclusive tags are attached in the others information).

Quarterly Securities Reports (Form 4-3) J-GAAP (note)	Subject to detail tags
Part 1 [Company Information]	
1. [Company Outlines]	
(1) Transition of major management indicators, etc.	<u>Amount and number in table</u>
(2) Details of Business	—
2. [Outline of Business]	—
3. [Information on Reporting Company]	<u>Items in table (number of shares, etc.)</u>
4. [Status of Accounting]	
(1) Quarterly Consolidated Financial Statements	
Financial Statements	<u>Each number in table</u>
Notes	<u>A part of notes on BS and PL</u>
Notes on CF Statements	—
Segment Information, etc.	<u>Segment Information</u>
(2) Others	—
Part 2 [Information on Guarantee Companies, etc. of Submitting Company]	
1. [Information on Guarantee Companies]	
2. [Information on Companies other than Guarantee Companies]	—
3. [Information of Index, etc.]	
[Quarterly Review Report of the Individual Auditor]	Name of Auditing Firm and Accountant in Charge

Note: The treatments of IFRS and US-GAAP

- ✓ Regarding “Status of Accounting”, in IFRS the detail tags are attached to main financial statements and the inclusive tags are attached to the others, and in US-GAAP only the inclusive tags are attached (same as the J-GAAP in other than “Status of Accounting”).

(Reference: XBRL Specifications)

- XBRL files are delivered with either of the “details tag” or “inclusive tag” being attached.
- “Detail tag” is a tag attached to each of strings, text, amounts or numbers, etc., and defines it with a detailed granular concept.
- “Inclusive tag” is a tag used to enclose multiple pieces of information such as text or tables, etc., and is the element of the text block type.

Source: Compiled by Tokyo Stock Exchange based on FSA’s “Summary Description of EDINET Taxonomy (2023)”

- The Exchange interviewed various information vendors about the effect of the abolishment of Quarterly Securities Reports in 1Q and 3Q.
- Specifically, the Exchange interviewed them about what information such like the information in only the reports they obtain from Quarterly Securities Reports and how they obtain the information.

(Information to be obtained)

- They obtain **a part of the notes (“segment information”, “notes on CF” and “notes on BS and PL”)** and **a part of numeric data in “MD&A” (“R&D cost” and “sales of each services”, etc.)**.

Note: Data of financial statements are obtained from Quarterly Earnings Reports (also obtained from Quarterly Securities Reports as fixed information).

(How to Obtain the Information)

- **The scope of XBRL used by the information vendors for the obtainment of these information is limited.** They obtain automatically the information based on detail tags, and they obtain **“segment information” and “Notes on BS and PL” by XBRL**, which is attached with detail tags.
- In addition, the case of automatic obtainment from HTML to the extent possible and the case of manual input based on PDF were found.

(Summary of Experimental Test)

- The test started on December in 2021 that companies can optionally disclose HTML of the Earnings Reports including the qualitative information.
- With the cooperation of PRONEXUS INC. and TAKARA PRINTING CO.,LTD., the function of making HTML files of the Earnings Reports was added on their creation tools of Earnings Reports, etc.

(Expected Effect by Disclosures of HTML)

- The text copy is not available in some settings in PDF, but it is available in HTML. The analysis and extraction of the text is easier in HTML than in PDF.
- By HTML disclosures, it is expected that the users will utilize it in text analysis and that the foreign investors utilize it in automatic translation with Browser translation functions. As a result, it is expected to make the collection and analysis of information easier.
- In addition, it is expected that contributing to improve the convenience of information extraction or processing in information vendors or news media will contribute to improve the convenience of investors as a user (usage example: provision of search function with text data and enhancement of delivery information).

Note: The questionnaire of the seminar held for data file users such like institutional investors, securities companies or operating companies, etc. showed that 71% of the attendance want to utilize HTML of the Earnings Reports in practice.

Source: Compiled by Tokyo Stock Exchange based on the questionnaire of the event “Hands-on data extraction of financial statement segment information” of JPX Market Innovation & Research, Inc. and Amazon Web Services Japan G.K.

(The Way of Preparation in Listed Companies)

- From before, the creation tools of the Earnings Reports provided by printing companies have offered the function of making the attachments of the Earnings Reports (qualitative information such like “explanation of operating results and financial condition”, financial statements and notes), and all of the listed companies use the tools.
- The output format had been PDF (XBRL was also output for financial statements), but the function was improved to output HTML in addition. Listed companies can make HTML files without additional work by the creation tools.

(Status of Disclosures, etc.)

- The number of the companies to disclose the HTML files has increased since this experimental tests started, and **cumulatively, approximately 70% of listed companies disclose them at the end of May in 2023.**

Note: The companies disclosing the HTML files of the Earnings Reports express the opinion that the burden of the preparation is minor by the function of making files on printing tools. On the other hand, there are the opinions that it is hard to feel the merit of the proactive disclosure in the position of voluntary.

Source: Compiled by Tokyo Stock Exchange based on “Digitalization of Disclosure and Promotion of Dialogue with Investors” of JPX Market Innovation & Research, Inc. and Amazon Web Services Japan G.K.

Draft Policy (Data Distribution Format in Earnings Reports)

- The Exchange will change the data distribution format in Earnings Reports as follows based on the continuity of vendor's means of obtaining information, the convenience of a wide range of users of the information including individual investors, and the impact on the practical burden on listed companies.
- In 2Q and full year, it will be treated in the same manner from the viewpoint of parity.

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

(changes are shown in red (note 3))

Note 1: Regarding US-GAAP, it is not necessary to submit XBRL in current format, but in new format XBRL (inclusive tags) will be required.

Note 2: The scope of notes required to be submitted in XBRL includes items with which detail tags are attached in Quarterly Securities Reports and which are obtained with XBRL by information vendors, and the following shall apply for each accounting standard (required to submit XBRL only for applicable notes on be disclosed).

J-GAAP: “Notes on Segment Information”, “Notes on BS” and “Notes on PL”

IFRS: “Notes on Segment Information”

US-GAAP: None

Note 3: Submission of XBRL is requested in the description outline, but it will be required to submit XBRL and HTML in the description outline 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 such like foreign companies).

<Data Distribution Format in Earnings Reports>

- What do you think about the draft policy regarding the data distribution format in Earnings Reports?

4. Enhancement of Information Disclosure (Summary of the 1st Council and Revised Draft Policy)



Summary of the 1st Council and Thoughts

(Enhancement of Information Disclosure)

<Summary of the 1st Council >

(Changes in the Business Environment)

- The changes in macro economics affect the business environment in many ways and it takes a long time to judge the impact, so that some things are not suitable for timely disclosure.
- Information of exposure or sensitivity (exchange rate sensitivity, etc.) is an objective fact and must be disclosed early as a first report.
- Key points of disclosure regarding changes in the business environment should be described at least in Timely Disclosure Guidebook (if possible, it should be in the basic concept of the Exchange rule).
- The Exchange should enhance the disclosure by setting the minimum rules and showing the good case collection, etc. based on the fact that different companies have different environments.
- The Exchange should continue to publish the good case collection, etc. in order to motivate the companies to make the disclosure optionally.
- Consideration based on the reason why the request of the disclosure and the publication of good case collection did not prompt companies to disclose in COVID-19 expansion and deterioration of the situation in Ukraine

(Basket Clause)

- At present, each company deals based on the premise of the basket clause, etc. And basically, that's all we need as far as stipulations go.
- The disclosure guideline of the basket clause is one of the report standards in collection of information from the group companies and is important in practice.
- It is considered in future to move to the principle-based disclosure system, but it is not very necessary to revise the basket clause rapidly at present.
- At first, companies should become able to consider the necessity of the disclosures in themselves. Essentially, the smooth communication with the market is achieved through that listed companies consider the effect to enterprise value (CF in future) and judge the importance.

(Others)

- Is the system of measurement of effectiveness by the Exchange not important?
- How is the status of the monitoring for the practice of the timely disclosures?

- Based on the discussion of this council and the Financial System Council's DWG and the result of interviews with companies conducted in that time, the Exchange shall verify the reasons why the disclosures about the changes in business environment were limited in spite of the request or the publication of good case collection by TSE in COVID-19 expansion and deterioration of the situation in Ukraine.

<Evaluation of the Status of Disclosure about Changes in the Business Environment>

- The events that indirectly affect financial results is not able to be grasped rapidly because of the many factors involved and it takes a long time to estimate the effect (note 1).
 - ⇒ As a result, there were some cases to explain the effect, etc. at the timing when the effect to financial results were found as a financial figure.
- Listed companies have the tendency to aim for "Error-free and reliable disclosure" and are unwilling to disclose information of "impact unknown" or "estimated basis" (note 2).
 - ⇒ In the timely disclosure, it is required to judge the importance on "estimated-basis" in principle.
 - ⇒ If there is a difference between the estimated and actual result, that alone does not make it an inappropriate disclosure. (it is considered as a way to explain the presence of absence, the summary or the outlook of the current effect, not specific amount of effect.)
- Characteristic Differences between the effect of changes of business environment and the requirements of the existing timely disclosures
 - ⇒ The requirements of timely disclosures are subject to individual decisions by listed companies and facts which occurred for listed companies
 - ⇒ It is possible for COVID-19 or deterioration of the situation in Ukraine not to fit in the concept of the existing facts which occurred because the various factors affect it continuously depending on the industry.

Note 1: For example, there was an opinion "we are affected by the macroeconomy from various aspects, some positive and some negative, and the reality is that ascertaining this takes a considerable amount of time." (Matsumoto member) in the discussion of this previous council.

Note 2: For example, there was an opinion "Japanese listed companies are indeed very conscious of this kind of "error-free disclosure," while investors are globally seeking more up-front information, especially with regard to risk information. (omitted) In Japan, I think there is a concern that by releasing this kind of risk information, they may lower their own reputation or receive a severe evaluation." (Ueda member of DWG) in the discussion of the 8th Financial System Council's DWG in 2021.

<Promotion Policy of the Disclosure about Changes in the Business Environment Based on the above>

- The Exchange shall request to disclose the objective facts which does not take time to examine the impact at first, if the examination takes a long time.
Example: business size or exposure in areas expected to be affected (regions and products) and the exchange rate sensitivity, etc. (Referred to P.37)
- The Exchange shall make the public aware that it is required to disclose on an estimated base in timely disclosure and request to disclose the status or quantitative estimates of the impact as soon as even it is grasped before the examination is complete (if the timing is at the time of the Earnings Reports announcement, request to explain it proper in Earnings Reports or explanatory materials for financial results).

(Reference) Practice of Timely Disclosure in TSE

- TSE shall make an inquiry to listed companies in the case of the natural disaster or the stock price trends, and request to disclose it depending on the responses.
- In addition, if it is deemed as an inappropriate disclosure, TSE preaches a person in charge of the listed company and Japan Exchange Regulation (“Regulations”) considers the measures of ensuring effectiveness.

Preliminary Response

- Inquiry from TSE
TSE makes an inquiry in the case that the natural disasters such like the earthquake, hitting limit high (or low) or news about the unclear information, etc. occurred.
- Preliminary Consultation
Preliminary consultation is required when listed companies do third-party allocation of shares above a certain scale or express an opinion on the application recommendation for an TOB contemplated for delisting, etc.. In addition, TSE takes part in a preliminary consultation about other than timely disclosures or the revision of the forecast, etc. (there are some cases TSE individually requests a consultation).

Procedure on the day

- Preliminary Explanation to TSE
TSE obliges listed companies to explain the summary of the disclosure and request to disclose insufficient items.

Response after the Disclosure

- Interview about the progress and additional disclosure request
- Preaching a person in charge of the listed company about an inappropriate disclosure
(example of inappropriate disclosure: forgetting disclosure, delay of disclosure or deficiency of disclosure contents)
- Examination related to Disclosure (Consideration of the measures of ensuring effectiveness)
Regulations shall carry out examinations related to the disclosure of corporate information in light of the followings wherever the Exchange deems that an examination is necessary and appropriate for the goal of ensuring that listing companies disclose corporate information appropriately. (Guidelines concerning Listed Company Compliance, etc. II)
 - ✓ Whether or not the timing of disclosure is appropriate;
 - ✓ Whether or not the details of disclosed information are false;
 - ✓ Whether or not disclosed information lacks information deemed important for investment decisions;
 - ✓ Whether or not disclosed information gives rise to misunderstandings for investment decisions; and
 - ✓ Whether or not disclosed information lacks appropriateness of disclosure.

【Basic Concept】

- The Exchange shall develop a market environment in which listed companies voluntarily judge the importance and proactively disclose any useful information.

【Immediate Measures (draft)】

(1) Disclosure of Changes in the Business Environment

- The Exchange shall add key points of the disclosure regarding changes in the business environment (see next page) in Timely Disclosure Guidebook and request to disclose it.

(2) Disclosure of the Other Information

- The Exchange shall prompt the understanding of original purpose (judging whether or not disclosure is required based on the importance of investment decisions).
- The Exchange shall not delete the disclosure guideline in basket clauses based on the impact on the practice but revise the position and way of showing (explicit statement that it is one of the guideline in judging whether or not disclosure is required).

(3) Publishment of the good case collection

- The Exchange shall continuously publish the disclosure examples and make a cycle to prompt the enhancement of disclosure.
- In addition, it shall be important to enhance the periodic disclosure of Annual Securities Reports contemplated for interim disclosure by the continuous publishment of the good case collection of FSA.

【Subsequent Prospects (draft)】

- The Exchange shall follow the change of listed companies' attitude of disclosure in asking the opinions of investors.
- If practices are fostered that listed companies voluntarily judge the importance and proactively disclose the useful information, it will be considered good starting point of consideration of right or wrong about the change from the current detailed rules-based approach to a principle-based approach and about making Quarterly Earnings Reports voluntary.
Note: It is necessary to consider it from the broad viewpoint such like the relation with insider trading regulations and fair disclosure rules.

(Reference; DWG Report)

- 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.

Key Points of Disclosure Regarding Changes in the Business Environment

- Regarding information of the impact, etc. on the changes of business environment, the timely disclosure of the status is preferred, but it is assumed to take a long time to examine the impact because of the many factors involved.
- In that case, the objective facts which are the premise of the investment decisions, such like business size in areas expected to be affected and the exchange rate sensitivity, are not assumed to take a long time relatively, so the Exchange shall prompt to disclose them proactively as a first report (it is also important to disclose such prerequisite information in advance in the periodic disclosures of Annual Securities Reports or Earnings Reports).

<Key Points of Disclosure Regarding Changes in the Business Environment (image)>

Occurrence of changes in the Business Environment

Information on the impact of changes in the business environment, etc.

(Information that requires time to examine the situation)

- **Impact on business activity and operating results**
 - ✓ Impact on sales, profits and financial position (including disclosure of results on a monthly basis)
 - ✓ Trends in customers, orders, etc. and KPIs
 - ✓ Influence on medium- and long-term management policies and strategies, and measures to deal with them
- **Earnings Forecasts and Other Forwards-Looking Information**
 - ✓ 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**
 - ✓ Overview of new risks, their likelihood of materialization, and the impact on business activities and operating results if they materialize

Note: It is also considered important to disclose the estimated impact to investors as a provision before the examination completed

Objective facts on which investment decisions are based (Information that does not require time to examine the situation)

- **Status of Businesses, etc.**
 - ✓ Size of business and exposure in areas expected to be affected.
 - ✓ Availability and operational status of major business locations
 - ✓ Status of production and supply of products
- **Impact on operating results**
 - ✓ Profit sensitivity to exchange rates and resource prices

(Reference) SEC Request for Disclosure (Deterioration of Situation in Russia and Ukraine)

- Direct or indirect exposure to Russia, Belarus, or Ukraine through their operations
- Direct or indirect reliance on goods or services sourced in Russia or Ukraine or, in some cases, in countries supportive of Russia
- Actual or potential disruptions in the company's supply chain
- Business relationships, connections to, or assets in, Russia, Belarus, or Ukraine

Source: Compiled by Tokyo Stock Exchange from "Sample Letter to Companies Regarding Disclosures Pertaining to Russia's Invasion of Ukraine and Related Supply Chain Issues" by SEC

<Enhancement of Information Disclosure>

- What do you think about the draft policy based on the discussion in the 1st Council?

5. Items to be Discussed Today



<Contents of the Quarterly Earnings Reports (P.8~9) and the Disclosure Timing (P.13) >

- What do you think about the draft policy based on the discussion in the 1st Council?
- Are there excesses or deficiencies regarding the contents, specifically items for which proactive disclosure is requested as the useful information for investment decisions (P.9) ?
- What do you think about the treatment of the disclosure timing in the case of the obligation by the rules.
The following treatments will be assumed.
 - ✓ Same treatment as the draft policy in P.13 from the viewpoint of prompt provision of information
 - ✓ Required to disclose it after the review completed in light of the fact that the review is required from the perspective of ensuring reliability.

< Partial Obligation to Review in Quarterly Earnings Report of 1Q and 3Q (P.18) and the Enforcement (P.19) >

- What do you think about the draft policy based on the discussion in the 1st Council?

<Handling of Earnings Reports of 2Q and Full Year (P.24)>

- What do you think about the draft policy?

<Data Distribution Format in Earnings Reports (P.30)>

- What do you think about the draft policy?

<Enhancement of Information Disclosure (P.36)>

- What do you think about the draft policy based on the discussion in the 1st Council?