

Future Discussion Topics in the Follow-up Council

Tokyo Stock Exchange, Inc. Listing Department
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Future Discussion Topics in the Follow-up Council

- ◆ This Follow-up Council will continue to follow up on the status of listed companies after the market restructuring.
- ◆ In addition, the following items will be considered in the future, and we would like to receive feedback on prioritization and additional items to be considered.

Schedule	Topics for Discussion
Dec. 18, 2023 <i>(The 13th council)</i>	<ul style="list-style-type: none"> ● Consideration to improve the functionality of the Growth Market ● Consideration to expand English disclosure practices in the Prime Market
In January 2024 and thereafter <i>(In the 14th council and thereafter)</i>	<ul style="list-style-type: none"> ● Promote management that is conscious of cost of capital and stock price, and improve the effectiveness of communication with investors <ul style="list-style-type: none"> ➢ Consideration of content of key points and examples of measures to be taken based on investors' viewpoints ➢ Consideration of additional measures, based on monitoring of the company's disclosure status and feedback from investors (generally once every six months) ● Improve the functionality of the Growth Market <ul style="list-style-type: none"> ➢ Consideration of more specific measures based on today's discussion ● Further expansion of English disclosure practices <ul style="list-style-type: none"> ➢ Consideration of more specific contents of expansion based on today's discussion ● General review of the Code of Corporate Conduct <ul style="list-style-type: none"> ➢ Consideration of the purpose of the Code ➢ Reorganization of the framework (e.g., the relationship with the Corporate Governance Code and other requirements) ➢ Consideration of specific items (e.g., consciousness of cost of capital, respect for shareholders' rights, especially in cases where there is a controlling shareholder, etc.)) ● Other

Reference Materials



Status of Considerations and Actions Taken in Response to Date

- ◆ In January 2023, the Follow-up Council published the Summary of Discussions up to that point.
 - In conjunction with this, TSE announced its future actions in response to the Summary of Discussions, and the future handling of the transitional measures.
- ◆ Subsequently, TSE has been promoting measures based on the action plan, such as the special exception of market segment transfers (Prime to Standard), request for management that is conscious of cost of capital and stock price, etc., as well as discussing the matters to be considered in the future, such as expanding English disclosure practices in the Prime Market and improving the functionality of the Growth Market, etc.

Summary of Discussions and TSE's Future Actions (published in Jan. 2023)

- ◆ Clarify the future handling of transitional measures, including the timing of their termination, from the perspective of ensuring a healthy metabolism.
 - Transitional measures to end 3 years after transition (March 2025).
 - Provide Prime Market listed companies with an opportunity to transfer to the Standard Market

- ◆ Create a framework to motivate listed companies to take action independently to enhance their medium- to long-term corporate value
 - a. Raise awareness and literacy regarding cost of capital and stock price
 - b. Improve the quality of corporate governance
 - c. Further expansion of English disclosure practices
 - d. Improve the effectiveness of communication with investors

Note: Improvement of the functionality of the Growth Market will be discussed at future council meetings.

Status of Major Subsequent Actions

- ◆ 177 Prime-listed companies chose to transfer to the Standard Market during the special exception period and were transferred in October 2023.
- ◆ The total number of companies subject to transitional measures is 371.
- ◆ Requested all listed companies in the Prime and Standard Markets to take actions to implement management that is conscious of cost of capital and stock price, etc. in March 2023.
- ◆ Started consideration of the expansion of English disclosure practices in the Prime Market.
- ◆ Conducted a survey for executives in the Growth-listed companies and continued to consider measures for improvement of the functionality of the Growth Market.

Purpose

- ◆ Encourage awareness and literacy on cost of capital and stock price and market capitalization of listed companies and promote efforts to improve them.

Specific Actions

Actions (published in Jan. 2023)	Status of implementation / Future plans (updates)
<p>a</p> <p>Require that management and board of directors properly identify the company's cost of capital and capital efficiency, evaluate those statuses and its stock price and market capitalization, and disclose policies and specific initiatives for improvement and the progress thereof as necessary. [Prime and Standard]</p>	<ul style="list-style-type: none"> • Made a request to take “actions to implement management that is conscious of cost of capital and stock price” in March 2023. • Publish a list of companies that have disclosed information in accordance with the request in January 2024. • Compile corporate disclosure status, etc., approximately once every six months, and continue to consider and implement additional follow-up measures, while also gathering feedback from investors.
<p>b</p> <p>Review and revise the Code of Corporate Conduct as necessary to clarify the responsibilities of listed companies, such as awareness of the cost of capital profitability and respect for shareholders’ rights, especially protection of minority shareholders’ rights, and to ensure their effectiveness, among other things. [All segments]</p>	<ul style="list-style-type: none"> • Start consideration from 2024.
<p>c</p> <p>In addition, in order to raise awareness among management in listed companies, promote understanding and recommend stock compensation plans, inspect and update e-learning and other training content related to capital markets and corporate governance, and compile and publish case studies. [All segments]</p>	<ul style="list-style-type: none"> • Disseminate the purpose and points to keep in mind regarding the request through various seminars, etc. from April 2023 onward. • Publish several key points based on responses from investors and examples of initiatives in January 2024. • Continue to disseminate information at various seminars to support the efforts of listed companies and consider updating and expanding training content.

b) Improve the Quality of Corporate Governance

Update on TSE's
Future Actions published
in January 2023



Purpose

- ◆ Promote listed companies' efforts to improve the “quality” of corporate governance.

Specific Actions

Actions (published in Jan. 2023)	Status of implementation / Future plans (updates)
a Re-emphasize the purpose of the “Comply or Explain” principle and clearly state sufficient and insufficient cases of explanations. [Prime and Standard]	<ul style="list-style-type: none">• Published “Using “Explain” to Contribute to Constructive Dialogue” in March 2023.• Ongoing follow-up on the status of each listed company’s “Explanation.”
b Investigate the actual status of roles, functions, and activities of nomination committees and remuneration committees, and compile and publish the status and examples thereof. [Prime and Standard]	<ul style="list-style-type: none">• Plan to report on the results of the investigation on the actual status of the Nominating Committee and Compensation Committee.

c) Further Expansion of English Disclosure Practices

Update on TSE's
Future Actions published
in January 2023



Purpose

- ◆ Encourage companies listed in the Prime Market to expand the coverage of English disclosure practices and eliminate the time lag between the publication of documents in Japanese and English, with a view to making English disclosure of necessary information mandatory as the transitional measures expire.
- ◆ Promote voluntary English disclosure practices in the Standard Market and Growth Market as well.

Specific Actions

Actions (published in Jan. 2023)	Status of implementation / Future plans (updates)
<p>a Decide and announce the contents to be made mandatory in the Prime Market, while continuing to implement individual approaches, information dissemination activities, and other initiatives. [Prime]</p>	<ul style="list-style-type: none"> • Started consideration from the 12th meeting (held in October 2023).
<p>b Compile and publish case studies of English disclosure in each market segment and promote English disclosure practices in the Standard Market and Growth Market by introducing the case studies. [All segments]</p>	<ul style="list-style-type: none"> • Promote spread of know-how by expanding interview articles on listed companies actively engaging in English disclosure and disseminating the "Practical Handbook for English Disclosure".

d) Improve the Effectiveness of Dialogue with Investors

Purpose

- ◆ Promote constructive dialogue with investors in the Prime Market.
- ◆ Encourage independent directors to fully understand their role.
- ◆ Expand the base of investors who are responsible for dialogue, while maintaining their quality.

Specific Actions

Actions (published in Jan. 2023)	Status of implementation / Future plans (updates)
<p>a Require companies listed in the Prime Market to include in their corporate governance reports the status of dialogue between management and investors and the content of such dialogue. [Prime]</p>	<ul style="list-style-type: none"> • Made a request to implement “better dialogue with shareholders and related Disclosure” in March 2023. • Publish several key points based on responses from investors and examples of initiatives in January 2024.
<p>b Conduct educational activities to promote understanding of the roles expected of independent directors (e.g., sending booklets to independent directors that refer to their roles, etc.) [All segments]</p>	<ul style="list-style-type: none"> • Sent a booklet of "Practical Guidelines for Independent Directors" (published by Ministry of Economy, Trade and Industry) to all outside directors in April 2023. • Plan to present an explanation of the roles expected of independent directors in listed companies with controlling shareholders, based on the discussion at the “Study Group to review Minority Shareholder Protection and other Framework of Quasi-Controlled Listed Companies” .
<p>c Consider measures to increase awareness and interest in dialogue with companies among asset owners, such as corporate pension funds, in cooperation with stakeholders.</p>	<ul style="list-style-type: none"> • Continuously review necessary measures to be taken by TSE, taking into account the status of the government’s initiatives*. <p>* Currently, considerations are underway to reform asset ownership, including formulation of the Asset Ownership Principles, in the "Subcommittee on Asset Management Nation" established on October 4, 2023 under “the Council of New Form of Capitalism Realization” of the Cabinet Secretariat.</p>

Companies that do not meet the continued listing criteria

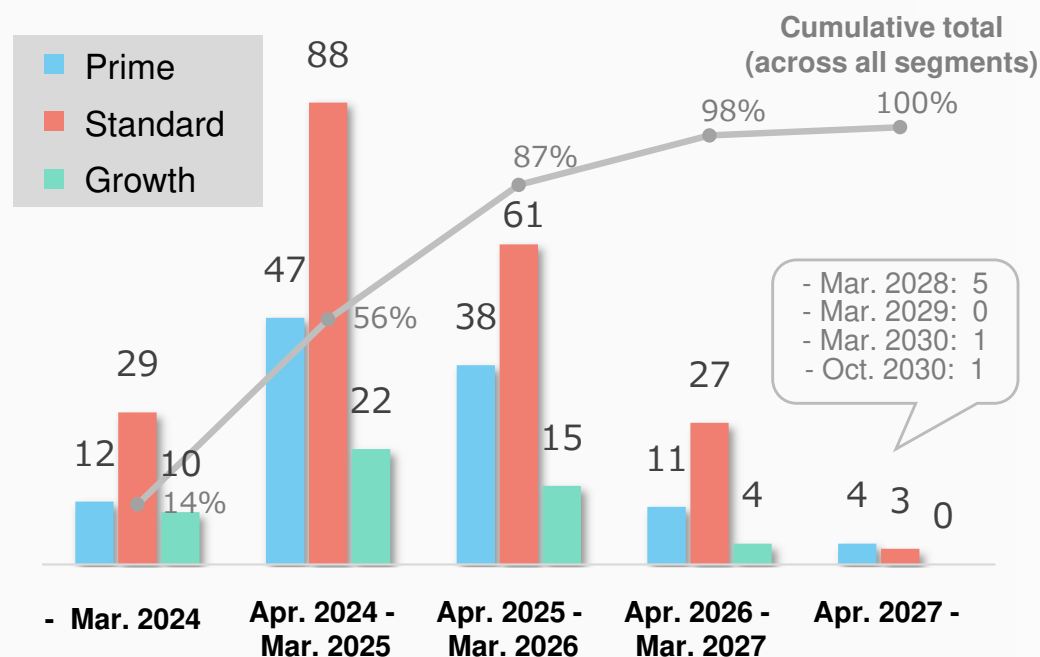
- The total number of companies subject to transitional measures is **371**.

Note: Reflects status of market segments of listed companies as of the most recent date, and status of judgment until July 31.

Number of Companies That Do Not Meet the Criteria

Prime	Tradable Share Market Cap (JPY 10 bil.):	78
	Tradable Share Ratio (35%) :	26
	Trading Value (daily avg. JPY 20 mil.) :	16
	Total (excluding duplications) :	112
Standard	Tradable Share Market Cap (JPY 1 bil.) :	139
	Tradable Share Ratio (25%) :	82
	# of Shareholders (400 shareholders) :	6
	Total (excluding duplications) :	208
Growth	Tradable Share Market Cap (JPY 0.5 bil.) :	7
	Tradable Share Ratio (25%) :	21
	Market Cap. (JPY 4 bil. from 10 th yr. of IPO):	25
	Total (excluding duplications) :	51

Distribution of Plan Lengths



Note: Reflects status of judgment until July 31, 2023.

Note: Excluding companies that plan to go private.

Note: If multiple criteria are not met and different length plans are set for each, the longest length plan is used.

(Reference) List of Companies Subject to Transitional Measures: <https://www.jpx.co.jp/english/listing/market-alerts/improvement-period/index.html>