



TSE Explanatory Material

*The Fifth Council of Experts Concerning
the Follow-up of Market Restructuring*

Exchange & beyond
Tokyo Stock Exchange, Inc.

December 28, 2022



- Today, we would like to **discuss the promotion of initiatives to enhance medium- to long-term corporate value** in preparation for summarizing the discussions to date.

Council Agenda

| Meeting Date, Schedule | Contents |
|---|---|
| The first council on July 29, 2022 | <ul style="list-style-type: none">• Discussion of issues for follow-up |
| The second council on September 9, 2022 | <ul style="list-style-type: none">• Guest speaker presentations (Fidelity International and JPX Market Innovation & Research) |
| The third council on October 5, 2022 | <ul style="list-style-type: none">• Council member presentation (Mr. Ando)• Guest speaker presentation (Mizuho Securities) |
| The fourth council on November 25, 2022 | <ul style="list-style-type: none">• Council member presentation (Mr. Koike)• Guest speaker presentation (Daiwa Institute of Research)• Results of the call for comments• Handling of the transitional measures |
| The fifth council on November 25, 2022 | <ul style="list-style-type: none">• Promotion of companies' efforts to enhance medium- to long-term corporate value |

Promotion of Initiatives to Enhance Medium- to Long-term Corporate Value

- In order to revitalize the Japanese economy, which has been stagnant for many years, **it is important to further encourage listed companies representing Japan** which have no concerns about violating the continued listing criteria **to make efforts to enhance medium- to long-term corporate value.**
- What is required of Japanese companies is not a conventional management reform, **but a redesign of management itself from the perspective of backcasting and long termism**, and **a shift away from profit and loss management and a move toward balance sheet management and cash flow management.**
- In particular, given that the purpose of this market restructuring is to contribute to the improvement of corporate value of listed companies, **it will be meaningless unless we address the fact that about half of all listed companies have a PBR below 1/ROE below 8%. Whether or not we can take any steps forward to improve financial indicators such as PBR and ROE is a point of discussion at the council.**



- In doing so, it is of the utmost importance that TSE does not micromanage individual companies, but rather **allow autonomy in corporate management to function. As a common effort for all market segments**, it is necessary to contribute to **the improvement of managements' awareness of capital efficiency and stock price**, and to **the improvement of the quality of corporate governance.**
- Furthermore, based on the characteristics of each market segment, it is necessary to promote initiatives such as **further expansion of English disclosure practices and more effective dialogue with investors**, etc. In particular, **companies listed on the Prime Market** are expected to **drive the Japanese economy while attracting funds from global investors.**

Raise Awareness of Capital Efficiency and Stock Price

- In Japan, there are many cases where management is unaware of capital efficiency and stock price. Efforts are needed from the perspective of changing management's awareness and making autonomy in corporate management functions.
 - In particular, one idea would be to require companies with a PBR lower than 1 to **publish a roadmap of their efforts and continue the PDCA cycle of dialogue and engagement with investors regarding the roadmap's contents.**
 - TSE could **publish a list of PBRs and ROEs.**
 - TSE should clearly present **the actual responsibilities of being a listed company.**
 - Although these responsibilities have already been addressed to some extent in **the Code of Corporate Conduct and other guidelines**, it may be necessary to **check whether the contents of the code are appropriate and whether anything else should be added.**
 - In addition, in order to raise awareness among listed companies, TSE could be proactive in **recommending stock compensation plans, providing training opportunities and sharing best practices to improve literacy related to capital markets**, etc.

Improve the Quality of Corporate Governance

- Since the establishment of Japan's Corporate Governance Code, listed companies have made progress in their efforts to improve governance, but **their awareness of the need to gain insight in order to improve their own management skills is still low.**
- Corporate governance has so far tended to be more formalistic, but **corporate governance reform in a substantive sense should be implemented** from now on.
 - **“Comply or Explain” has become a formality** for some companies. For example, there are some companies whose explanations have been **"under consideration"** for several years.
 - TSE needs to **not only make rules, but also follow-up and correct companies that do not understand the rules.**
 - **We should not overlook** the fact that **only 3.9% of Prime Market listed companies currently have statutory nomination committees and remuneration committees.**

Further Expansion of English Disclosure Practices

- **There is room for improvement in the dissemination of information, especially information disclosed in English, as quite a few foreign investors cite conglomerates, group relationships, complex business structures, and a complete lack of information, all of which is unique to Japanese companies as reasons for their reluctance to invest in Japan.**
 - **Even in the Prime Market** which is for companies committed to dialogue with global investors, **English disclosure practices are inadequate. Regardless of market capitalization, English disclosure practices should improve at the very least.**
 - **English disclosure is also important in the Standard Market and Growth Market** since it is necessary to improve valuation by domestic and foreign investors in order to increase PBR, etc.

Improve the Effectiveness of Dialogue with Investors

- Although companies should work to improve their corporate value through dialogue with investors, some companies remain **reluctant to engage in dialogue with investors, and only a small number of investors are doing so.**
 - Especially in **the Prime Market**, a market segment for companies committed to dialogue with global investors, **companies should be more proactive.**
 - **There should be more opportunities for investors to directly communicate their opinions with outside directors. Requiring companies to disclose the number of meetings between outside directors and investors can be a good way to start.**
 - Since **only a small number of investors are engaging in dialogue**, it is essential that **asset owners** including corporate pension funds **actively participate in such dialogue.**
 - In order to encourage listed companies to increase their corporate value, **investors also need to improve the quality of dialogue.**

I . Raise Awareness of Capital Efficiency and Stock Price

1. In order to promote listed companies' awareness of capital efficiency and stock price, for example, the following initiatives could be considered. Are there any issues that should be kept in mind when proceeding with any of these initiatives? In addition, are there any other possible initiatives?
 - a. Encourage (or require) listed companies with PBR below a certain level to disclose management policies and plans for initiatives to improve corporate value, such as improving capital efficiency and profitability
 - b. Publish a list of PBR and ROE of listed companies
 - c. Conduct a comprehensive inspection of the Code of Corporate Conduct, etc., and reorganize and clarify the responsibilities of listed companies in this context
 - d. Other measures to raise management's awareness, such as actively encouraging the introduction of equity compensation plans, providing training opportunities related to capital markets, and proactively publishing case studies

II . Improve the Quality of Corporate Governance

1. In order to promote the improvement of the quality of corporate governance in listed companies, for example, the following initiatives can be considered. Are there any issues that should be kept in mind when proceeding each of these initiatives? In addition, are there any other possible initiatives?
 - a. Compile and publish key points and examples of how to "Explain"
 - b. Research the actual status of activities of nomination committees and remuneration committees in listed companies, and publish a summary of that information with examples.

III. Further Expansion of English Disclosure Practices

1. In order to encourage further expansion of English disclosure practices of companies listed in the Prime Market, what do you think about requiring English disclosure on a mandatory basis in the future? In doing so, what documents should be prioritized and what points should be kept in mind?
2. What are your thoughts on how English disclosure practices should be promoted in the Standard Market and the Growth Market? What approaches could be taken to promote English disclosure practices in these market segments?

IV. Improve the Effectiveness of Dialogue with Investors

1. In order to promote more effective dialogue with investors, for example, it is conceivable to encourage (or require) listed companies to disclose the status of dialogue between management/outside directors and investors. Are there any issues that should be kept in mind when proceeding with this initiative? In addition, are there any other possible initiatives?
2. Is there anything that TSE can do to expand the base of investors who are responsible for dialogue with companies, while maintaining quality of dialogue? In particular, is there anything TSE can do to raise awareness and interest in dialogue with companies among asset owners?