



TSE's Future Actions in Response to the Summary of Discussions of the Follow-up Council

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

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- The purpose of the reorganization of market segments implemented by TSE on April 4, 2022 is to create an environment in which listed companies can take advantage of the characteristics of the three new market segments "Prime Market," "Standard Market," and "Growth Market" to enhance corporate value in each market segment.
- In order to realize this purpose, and from the perspective of improving the effectiveness of the restructuring, TSE established the "Council of Experts Concerning the Follow-up of Market Restructuring" to discuss this issue from July 2022, and will implement additional measures in the future, based on this summary of Discussions of the Follow-up Council.
- Specifically, from the perspective of ensuring a healthy industrial metabolism, TSE will immediately clarify when the transitional measures will be terminated with respect to the continued listing criteria. In addition, for listed companies that are not concerned about violating the continued listing criteria, TSE will, with a focus on the Prime Market and the Standard Market, quickly establish a framework to motivate autonomous actions to enhance their medium- to long-term corporate value, such as promoting cost of capital-conscious management.

Note: Issues in the Growth Market will be discussed at future council meetings.

1. Clarification of the End Date of Transitional Measures



1. Clarification of the End Date of Transitional Measures

Purpose

- Immediately clarify how the transitional measures, including the timing of termination, will be handled in the future from the perspective of ensuring a healthy industrial metabolism.
- Put a specific framework in place for securing opportunities for shareholders to sell their shares in companies to be delisted before those companies are delisted due to the termination of the transitional measures.

Specific Actions

Actions	Implementation Timing	Market Segment
<p>a</p> <p>Promptly decide on the policy for handling transitional measures based on the follow-up council's summary and publish the outline of specifications.</p> <p>Note: For specific plan for the handling, please refer to P5.</p> <p>Note: TSE will also consider how to inform investors in companies to which the transitional measures apply (company name, non-compliant criteria, planning period, etc.).</p>	Implement promptly	All
<p>b</p> <p>Decide on how to secure opportunities for shareholders to sell their shares in companies to be delisted due to not meeting the continued listing criteria and publish the outline of specifications.</p> <p>Note: TSE will consider extending the period of designation as Securities to Be Delisted, which is currently set at one month from the decision to delist. (For details, please refer to P8.)</p>	Implement promptly	All

Discussions at the Follow-up Council

- It is a common view among Follow-up Council members that the transitional measures should be terminated as soon as possible from the viewpoint of promoting a healthy industrial metabolism.
- However, opinions were expressed that the specific date of the termination of the transitional measures should be a date two years following the transition to the new market segments or that it should be three years.



TSE's Action

- TSE considered the termination date based on discussions at the Follow-up Council and decided to terminate three years after the transition for the following reasons;
 - If the transitional measures were to end two years after the transition, it would send a positive message that the market reform would proceed quickly, but for listed companies, the measures would end abruptly with only about one year remaining, even as each company has considered and set its own plan and time frame to meet the criteria. Therefore, there are some concerns in relation to the viewpoint that it is important to encourage "autonomous" efforts by companies to achieve new market reforms, as well as the impact on shareholders.
 - Three years would cover a considerable number of plans for companies that are making positive efforts, while ensuring a certain degree of speed. In addition, considering that this is a process of setting a deadline later for something that has been designed as "for the time being", it seems as though there is consensus among the council members that the time limit can be shortened to at latest three years.

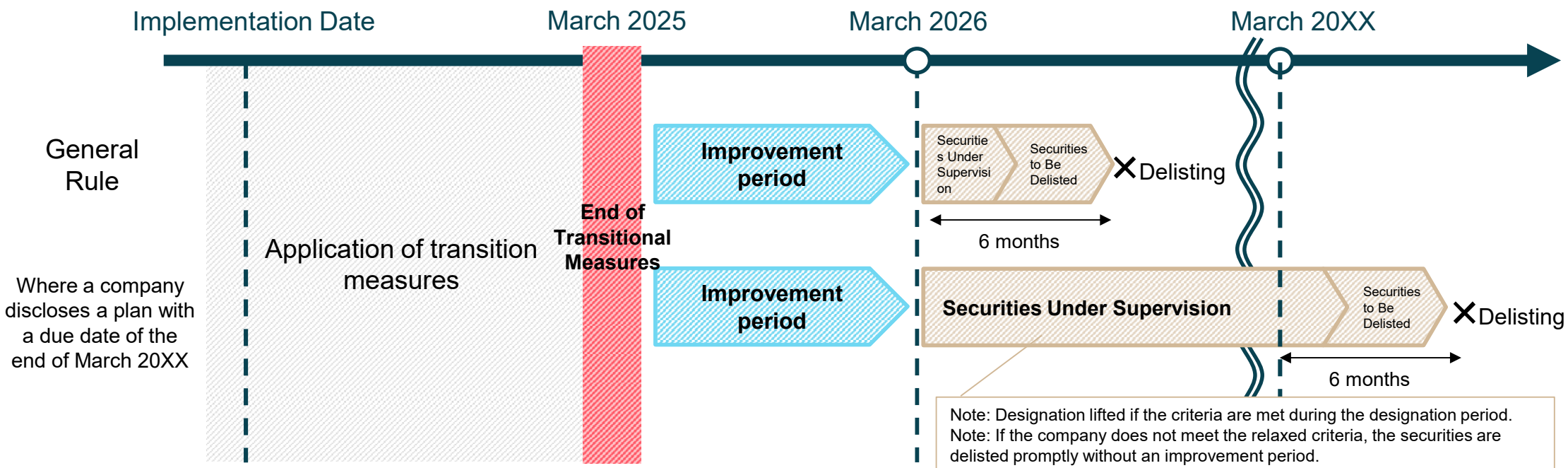
Note: For details of the handling of the transitional measures, please refer to P5.

Note: The above considerations are based on the condition that a one-year improvement period is provided in the case of a violation of the original criteria after the termination of the transitional measures.

Handling of Transitional Measures

- The regular continued listing criteria will be applied **from record dates that fall on or after March 2025**.
 - If a company does not meet the continued listing criteria and fails to meet it within one year (**improvement period**), its securities will be designated as **Securities Under Supervision and Securities to Be Delisted (generally, total six months)**.
 - However, as of the day before the implementation date of this revision, if **a company has disclosed a plan to meet the continued listing criteria with an end date that goes beyond the first record date that falls on or after March 1, 2026**, considering that the plan was made without a clear deadline of the transitional measures, and that some companies are making steady progress based on the plan, **the company's securities shall be designated as Securities Under Supervision until the company is confirmed to meet or not meet the criteria at the end of its Plan**.
 - As it would be inappropriate for the length of Conformance Plans to be set with the aim of falling under this exception, even between the publication of these revisions and the day before the implementation date, TSE will carefully check the rationale and other circumstances behind any changes.
- In light of the decision on the transitional measures' end date, companies listed on the Prime Market that had been listed on the First Section as of April 3, 2022 may **make a reselection to select the Standard Market as their listing segment** during the six-month period following the implementation date of this revision. (**A market segment transfer examination is not required in the period.**)

Example of schedule for a company with a fiscal year ending March 31



Reference: Companies that do not Meet the Continued Listing Criteria

- **510 companies** do not meet the continued listing criteria but have disclosed their plans to do so (as of Dec. 31, 2022).
 - After the transition to the new market segments, 76 companies have met the criteria, 12 companies withdrew their plans as they went private, and 41 companies newly disclosed their plans as they could not meet the criteria.

Number of Companies that do not Meet the Criteria

Prime

Note: As of Dec. 31, 2022

Tradable Share Market Cap (JPY 10 bil.) :	227
Tradable Share Ratio (35%) :	38
Trading Value (daily avg. JPY 20 mil.) :	77
Total (excluding duplications) :	269

Note: In addition, 8 companies were officially confirmed to be in compliance after the transition, and 33 companies announced that they have exceeded the criteria, based on their own calculation.

Standard

Tradable Share Market Cap (JPY 1 bil.) :	136
Tradable Share Ratio (25%) :	73
# of Shareholders (400 shareholders) :	11
Total (excluding duplications) :	200

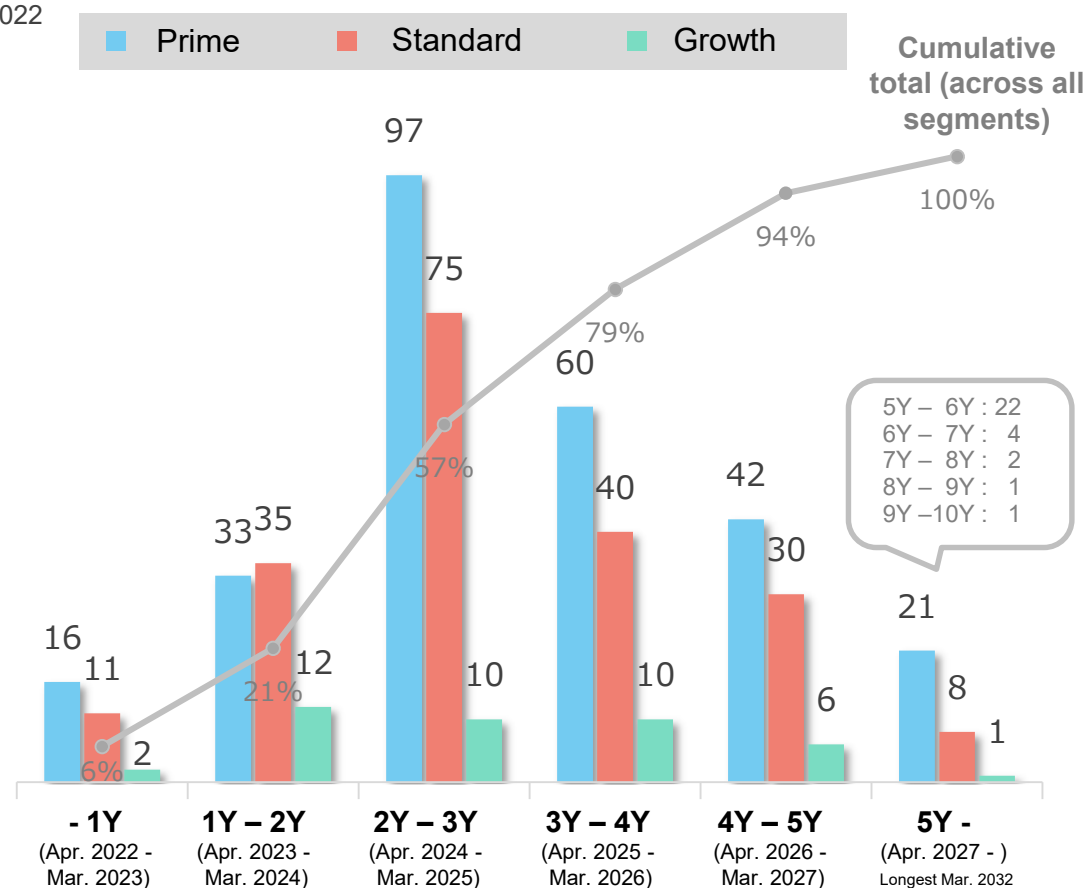
Note: In addition, 8 companies were officially confirmed to be in compliance after the transition, and 16 companies announced that they have exceeded the criteria, based on their own calculation.

Growth

Tradable Share Market Cap (JPY 0.5 bil.) :	5
Tradable Share Ratio (25%) :	21
Market Cap. (JPY 4 bil. from 10 th yr. of IPO) :	17
Total (excluding duplications) :	41

Note: In addition, 6 companies were officially confirmed to be in compliance after the transition, and 5 companies announced that they have exceeded the criteria, based on their own calculation.

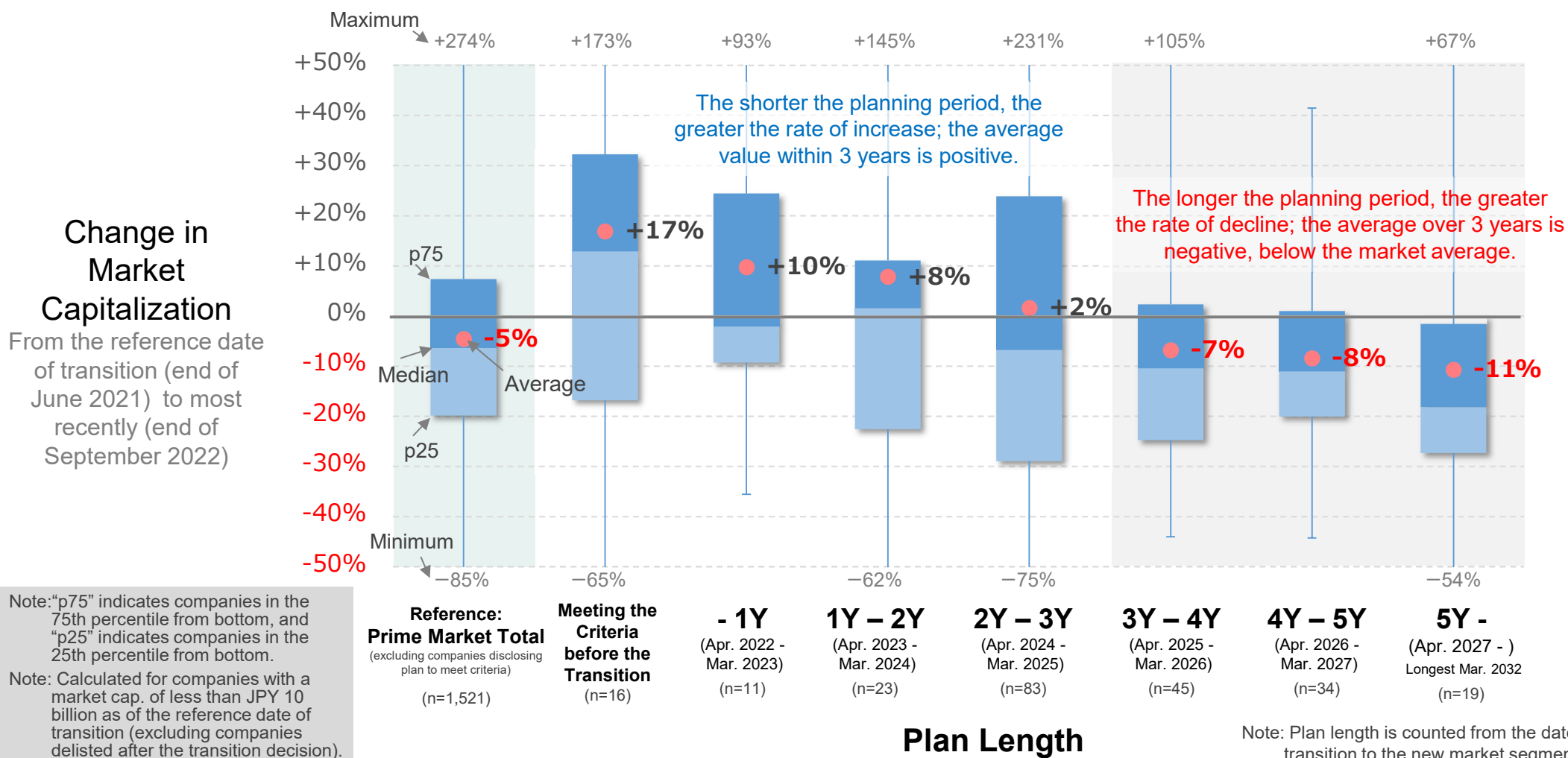
Distribution of Plan Lengths



Note: Plan length is counted from the date of transition to the new market segment. If multiple criteria are not met and different length plans are set for each, the longest length plan is used.

- The market cap. of companies that disclosed plans to meet the criteria within 3 years is on the rise, while the market cap. of companies that disclosed plans which will extend beyond 3 years has fallen below the market average.

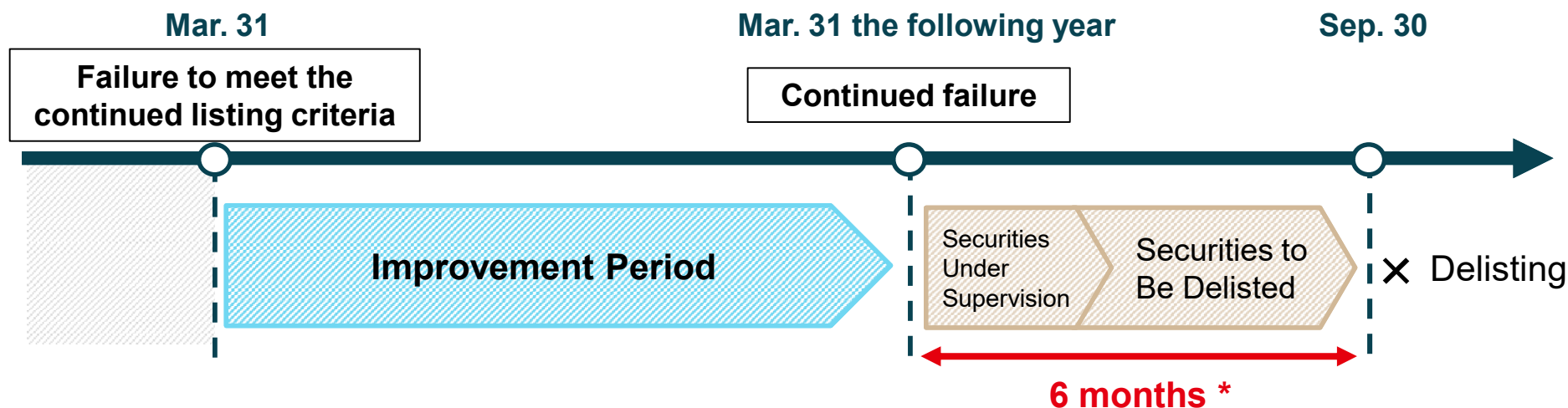
Change in Market Cap. of Companies in the Prime Market that do not Meet the Criteria for Tradable Share Market Cap. (10 billion yen)



- For **securities that are set to be delisted due to not meeting the continued listing criteria**, the current one-month designation period as **Securities to Be Delisted shall be extended** in order to ensure opportunities for existing shareholders to exit their positions.
 - As a general rule, securities designated as Securities to Be Delisted following the delisting decision shall be **delisted six months after the day following the record date related to the decision on the continued listing criteria**.

Note: The designation period and delisting date of Securities to Be Delisted in relation to other delisting criteria will remain unchanged.

Example of Delisting Schedules (for a company with a fiscal year ending in March)



* TSE designates the company as Securities under Supervision after the end of the Improvement Period.

* TSE decides to delist and designates the company as Securities to be Delisted as soon as it confirms that the company does not meet the criteria, based on the "Table of Distribution of Stocks, etc." submitted by the company within two months of the end of its fiscal year.

2. Motivate Efforts to Enhance Medium- to Long-term Corporate Value



2. a) Raise Awareness and Literacy regarding Cost of Capital and Stock Price

Purpose

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

Specific Actions

Actions	Implementation Timing	Market Segment
<p>Require that management and the 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.</p> <p>a ➤ Especially for companies that clearly need to improve, such as those with a PBR consistently below 1x.</p> <p>Note: Notify listed companies of the above request as a principle-based response in accordance with the intent of the Principle 5.2 of the Corporate Governance Code.</p> <p>Note: Approach for companies listed in the Growth Market will be considered based on their characteristics, etc.</p>	Spring 2023	Prime and Standard
<p>b 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.</p>	During FY2023	All
<p>c 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.</p>	Implement at appropriate timing from Spring 2023	All

2. b) Improve the Quality of Corporate Governance

Purpose

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

Specific Actions

Actions	Implementation Timing	Market Segment
Re-emphasize the purpose of the “Comply or Explain” principle and clearly state sufficient and insufficient cases of explanations. a Note: Encourage self-inspections to ensure that “Comply or Explain” is being conducted appropriately and encourage listed companies with a high need for improvement on an individual basis.	Spring 2023	Prime and Standard
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.	Autumn 2023	Prime and Standard

2. c) Further Expansion of English Disclosure Practices

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	Implementation Timing	Market Segment
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.	Autumn 2023	Prime
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.	Autumn 2023	All

2. 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	Implementation Timing	Market Segment
<p>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.</p> <p>a Note: In case such information is provided in another disclosure document or the company's website, it is acceptable that the company refers to such a document or website in the corporate governance report.</p>	Spring 2023	Prime
<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.)</p>	Spring 2023	All
<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>	Implement at appropriate timing from Spring 2023	-