



**Future Initiatives Regarding
“Action to Implement Management that is
Conscious of Cost of Capital and Stock Price“
and “Better Dialogue with Shareholders
and Related Disclosure”**

Exchange & beyond

Tokyo Stock Exchange, Inc.

October 11, 2023

1. Action to Implement Management that is Conscious of Cost of Capital and Stock Price



Assessment of efforts by listed companies

- The fact that many companies are taking action in such a short period of time led to positive feedback (31% of Prime Market listed companies disclosed information for the fiscal year ending March 31).
- On the other hand, the low disclosure rate, especially for companies with P/B ratios above 1x, is an issue.

Future follow-up

- Currently, there are three types of companies: (1) companies that take the request as an opportunity to try internal reforms, (2) companies that lack resources and wait and see what other companies do, and (3) companies that have doubts about the significance of addressing the request.
 - To create an environment conducive to disclosure, it is also effective to publish a list of companies that have disclosed.
 - Compiling and distributing a list of issues investors would like to see addressed is a measure that meets the needs of companies.
 - In addition to continuing to inform the public of the purpose of this request, more in-depth guidance could be provided.
- There is the misunderstanding that if a company's P/B ratio is above 1x, the request is irrelevant, so the purpose of the request should be reiterated to the public.

Other

- Some companies disclose information in their mid-term plans or integrated reports, but do not mention it in their CG reports, and they should be reminded to state that they disclose such information in their CG reports.
- If a company's status is "under consideration," we need to ask again for a specific process and timeline, and what kind of materials they plan to disclose.

- Based on the previous discussion, what are your thoughts on the following initiatives to encourage companies to consider and disclose actions to improve their return on capital and market valuation?
 - Are there any particular points that should be emphasized when reiterating the purpose of disclosure to listed companies?

**Publication of a list
of companies who
have disclosed
+
Reminding
the purpose of
the request**

- Publish a list of companies that are disclosing information in accordance with the request. By doing so, we can inform investors of who is taking action, thereby encouraging companies to take effort (to be started by the beginning of next year and updated monthly).
 - The list will include companies that have the keywords “actions to implement management that is conscious of cost of capital and stock price” in their CG reports.
Note: Although this request does not specify a specific format or document for disclosure, if any form of disclosure is made, the CG report should include a statement to notify investors that the disclosure has been made and how to view it (e.g., a link to the disclosure document).
 - When stating that disclosure is simply “under consideration” without providing specifics, the keyword “under consideration” is newly required following the keyword above, and the company’s disclosure status will fall under the “under consideration” category on the list.
- Before publication, listed companies will be reminded of the purpose of the request and points to keep in mind (scheduled for October).
Points to reiterated:
 - Even if the P/B ratio is already over 1x, further improvement efforts are expected, taking into account the expectations of shareholders and investors.
 - Even when the term “under consideration” is used, the company is expected to be as specific as possible about what they are considering and when they plan to disclose.
 - If disclosure is made in response to the request, it is required that the corporate governance report include the key phrase “action to implement management that is conscious of capital cost and stock price”.

**Publication of key
points about
responses/
examples of initiatives**

- Compile and publish several key points based on responses from investors and examples of initiatives that have been praised by investors for companies of several different sizes and situations.
(By the beginning of next year)

**Response status
compilation and
distribution**

- Compile corporate disclosures and feedback from investors, etc., approximately once every six months.
(The next one is scheduled for the beginning of next year)

2. Promotion of Dialogue with Shareholders and Disclosure



Dialogue and engagement

- Dialogue and engagement is generally up to the investor, and we are not implying that all listed companies must engage in dialogue. This is a misunderstanding.
- Setting up appointments for dialogue is a global, investor-led process.
- Insufficient disclosure of information about management on the part of the company may cause stress for both investors and listed companies, as this information is a prerequisite for dialogue.
- Even if the company is small, if they are about to make interesting changes, there may be room for improvement in IR and other areas in terms of appealing to investors, since investors are also interested in dialogue with the company.
- There are many companies with large market capitalization whose CEOs are top salespeople, selling their companies to investors and showing a strong commitment.

Measures to promote corporate initiatives

- The exchange should encourage alignment and prevent misunderstandings between companies and investors, including providing examples of companies that are making positive efforts and requesting "actions to implement management that is conscious of capital cost and stock price."

- Based on the previous discussion, what are your thoughts on the following initiatives to support Prime Market listed companies that are willing to engage in dialogue with their shareholders and encourage institutional investors to proactively lead that dialogue?
 - Are there any particular points that should be emphasized when reiterating the purpose of the request to listed companies?

Provide examples of good corporate practices

- Introduce the following types of companies through management interviews and seminars: companies whose management takes the initiative in committing to dialogue, companies that utilize the insights gained through dialogue to enhance corporate value, and companies that actively engage in the disclosure of information about their management and investor relations activities to appeal to investors, as knowledge of this information is the prerequisite for dialogue. (around the beginning of next year)

In addition, the purpose of this request and points to keep in mind should be made known to listed companies.

Points to keep in mind:

- While there are, of course, cases in which a company approaches investors, dialogue and engagement is generally initiated from the investor's side, and this is a request for a sincere response when an investor makes a request for dialogue.
- If the company has no track record of dialogue with shareholders, the company may disclose its efforts to develop a system to sincerely respond to requests for dialogue and to appeal to investors through enhanced disclosure of information and investor relations activities, etc.

Provide perspectives from investors

- Share the views of actual investors through interviews and seminars on how investors view dialogue and engagement and what kind of disclosure and IR they expect from companies (around the beginning of next year)

Inform investors

- As institutional investors are the ones responsible for leading the dialogue, we will inform them of the purpose of this request and ask them to be proactive in doing so by, for example, setting an agenda for companies initiatives based on "action to implement management that is conscious of cost of capital and stock price" (to be implemented in phases).

Other

- Continue to consider and implement support measures as an exchange, such as creating points of contact between companies and investors, to improve the effectiveness of dialogue and engagement, and ensure that corporate disclosure and investor relations activities reach investors appropriately.