



Practical Policy Concerning the Revision of the Quarterly Disclosure System (Draft)

Exchange & beyond
Tokyo Stock Exchange, Inc.

● ●, 2023

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1. Introduction



Background of Consideration

- The Financial System Council's Working Group on Corporate Disclosure ("DWG") proposed in its report in June 2022 a direction to reduce costs and improve the efficiency of disclosure by eliminating overlapping contents between quarterly securities reports (for the first and third quarters) required by the Financial Instruments and Exchange Act (FIEA) and quarterly earnings reports required by the Tokyo Stock Exchange (TSE) rules, and integrating them into a single disclosure system. It was recommended that the quarterly securities report should be integrated into the quarterly earnings report, taking into consideration the timing of disclosure and the wide use of these reports by investors. In addition, the December 2022 report indicated a direction of each issue in the implementation of the recommendation.
- In order to realize practical operation in line with specific directions for the integration indicated by the DWG report, a council of experts was established. It held discussions, taking into full consideration the opinions of investors, listed companies, academic experts, and other market users, and TSE has compiled this "Practical Policy Concerning the Revision of the Quarterly Disclosure System" (hereinafter referred to as "Practical Policy").

Issues addressed at the Council

- Contents and Disclosure Timing of Quarterly Earnings Reports for Q1 and Q3
- Partial Obligation to Review and Enforcement of Quarterly Earnings Reports for Q1 and Q3
- Handling of Earnings Reports of Q2 and Full Year
- Data Distribution Format of Earnings Reports
- Enhancement of Information Disclosure

About the Future

- In accordance with this Practical Policy, TSE will revise the exchange rules and Timely Disclosure Guidebook including the guidelines for preparation of earnings reports (in revising the exchange rules, TSE will publish the outlines of the revision and conduct public comment procedures).
- Related authorities such as the Financial Services Agency, the Accounting Standards Board of Japan (hereinafter referred to as "ASBJ"), and the Japanese Institute of Certified Public Accountants (hereinafter referred to as "JICPA") have also made necessary considerations with this revision, therefore it is possible that TSE will change some of the Practical Policy and proceed with the process of the revision of the exchange rules based on the trends (if necessary, TSE will hold the council for discussion).

List of Members of the Council



(As of ● ●, 2023)

Chairman	Kansaku Hiroyuki	Professor, Gakushuin University Law School
Members	Fujimoto Takako	Deputy President, The Japanese Institute of Certified Public Accountants
	Iguchi George	Executive Officer, Deputy Head of Investment Division, Chief Corporate Governance Officer, Nissay Asset Management Corporation
	Kanda Hideki	Professor, Gakushuin University Law School
	Kumagai Goro	Senior Fellow, Industry-Government-Academia Collaboration Office, Global Strategy Department, Mizuho Securities Co., Ltd. Senior Vice President of Corporate Accounting Research, The Securities Analysts Association of Japan
	Kuroda Kohei	Joint General Manager, Financial Accounting Dept., Sumitomo Mitsui Banking Corporation
	Kuronuma Etsuro	Professor, Waseda University, Waseda Law School
	Matsumoto Michiaki	Chief Manager, Head of Department, Financial Accounting & Tax Dept., Accounting & Finance Div., Nippon Steel Corporation
	Sampei Hiroki	Principal, Astonering Advisor LLC
Uemura Kazuyuki	General Manager, Special assistant to Group CFO including External relation, Panasonic Holdings Corporation	

(in alphabetical order by surname)

Observer

Financial Services Agency, Accounting Standards Board of Japan

Background of the Revision of the Quarterly Disclosure System (Summary of DWG Report (1))

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

(Background of Integration)

- It was pointed out that the timing of disclosure is close between Quarterly Securities Reports and Quarterly Earnings Reports, and their contents are repeated.
- To reduce costs and improve the efficiency of disclosure, for the Q1 and Q3, DWG's report recommended the integration of them into a single disclosure system.

(Reasons for integrating 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.

(Disclosure Obligation of the Quarterly Earnings Reports)

- In light of the current situation surrounding the disclosure of Japanese companies, a uniform requirement for Quarterly Earnings Reports shall be enforced for the time being, considering its significance as a confirmation of the progress of management strategies, concerns about the disclosure stance of the average company, and the possibility that the overall reputation of the Japanese market may be damaged if disclosure is perceived as a setback.
- Regarding the future voluntary disclosure of Quarterly Earnings Reports, it is necessary to address the above concerns of investors by improving and enhancing corporate awareness of disclosure and establishing a market environment that encourages companies to proactively provide investors with enhanced information.
- 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.

Source: Compiled by Tokyo Stock Exchange based on the Financial Services Agency's "Report by the Working Group on Corporate Disclosure of the Financial System Council (FY2021)" and "Report by the Working Group on Corporate Disclosure of the Financial System Council (FY2022)"

Background of the Revision of the Quarterly Disclosure System (Summary of DWG Report (2))

Provided direction of each issue in its implementation

Contents of Quarterly Earnings Reports

From the perspective of ensuring that this revision is not perceived as a retreat from information disclosure, the exchange may consider adding items for which investors have particularly strong requests (segment information, cash flow information, etc.) to the disclosure content of Quarterly Earnings Reports, while ensuring that the information is preliminary in principle.

Partial Obligation of Auditor Review

From the viewpoint of quick response times, etc., it is conceivable that a review by an auditor may not be uniformly required. For example, in the event of accounting irregularities (including cases where statutory disclosure documents are submitted late as a result of such irregularities), or when deficiencies in a company's internal controls are discovered, a review by an auditor could be mandated for a certain period of time under exchange rules from the perspective of ensuring credibility.

Enforcement Against Misstatements

Enforcement may be more appropriately implemented by the exchange. With regard to statutory enforcement - (omitted) - given that there have been very few surcharge payment orders targeting only Quarterly Securities Reports to date and that statutory enforcement will be maintained in Semiannual Securities Reports and Annual Securities Reports after the abolition of 1st and 3rd Quarterly Securities Reports, it is possible that this will be unnecessary at this time.

Development of Accounting and Auditing Standards

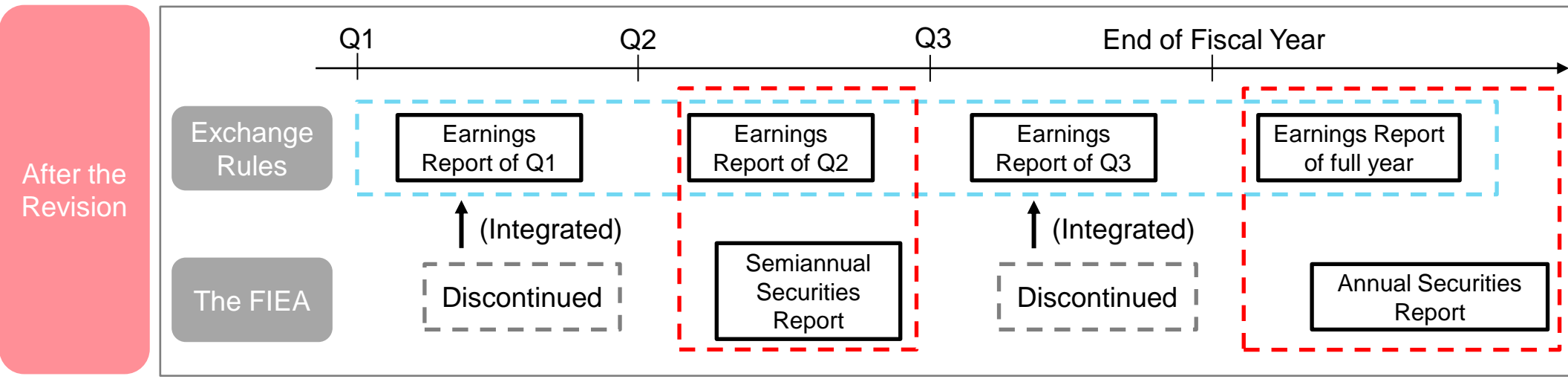
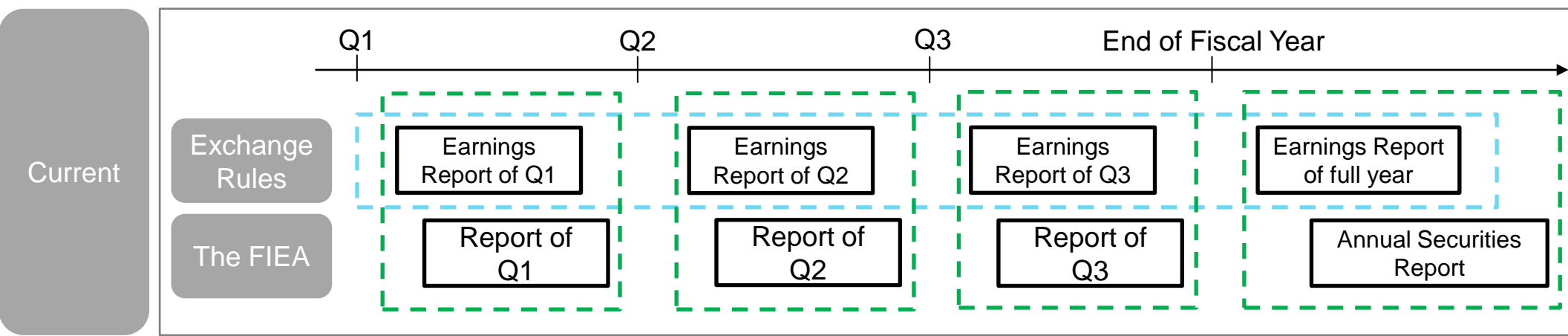
With respect to quarterly accounting standards and quarterly review standards, from the viewpoint of avoiding practical confusion, it was commented that it would be reasonable to allow them to be applied to Quarterly Earnings Reports and Semiannual Securities Reports after the integration. In light of this, the authorities, ASBJ, exchanges, JICPA, and other related parties may take necessary actions in accordance with this review.

Enhancement of Information Disclosure

Against the backdrop of rapid changes in the corporate environment and advances in information technology, the importance of timely information disclosure by companies is increasing for investors in making investment decisions. It is an important issue for companies to properly identify and assess risks of previously unforeseen events, such as the recent spread of infectious diseases and changes in international circumstances, and to enhance information disclosure within the framework of timely disclosure on the stock exchange.

Disclosure of Earnings Reports and Securities Reports in the Year

- In the current system, since there are statutory disclosures under the FIEA corresponding to each financial report, through the simplification of the contents, the Earnings Reports play a similar role to a news flash.
- With this revision of the quarterly disclosure, while statutory disclosures corresponding to the Earnings Reports of Q1 and Q3 will be discontinued, statutory disclosures corresponding to the reports of Q2 and to the full year will be continued.



2. Direction of Each Issue

2-1. Contents and Disclosure Timing of Quarterly Earnings Reports for Q1 and Q3



Contents of Quarterly Earnings Reports for Q1 and Q3

Basic Concept

Items disclosed in Quarterly Securities Reports for which there is a particularly strong demand from investors will be added to Quarterly Earnings Reports, and disclosure of them will be made mandatory.

Framework for Financial Reporting

The omission of items from the Regulation on Terminology, Forms, and Preparation of Financial Statements and accounting standards in the new system will be allowed unless required by TSE, and items may be added as necessary (Notes on cash flow).

Note: The base framework will be discussed based on the future actions to be taken by the parties concerned. The ASBJ is currently discussing the response to the revision of the quarterly reporting system, and is examining related accounting standards, etc.

Contents

Summary Information		<ul style="list-style-type: none"> ➤ Including whether or not a review by an auditor has been conducted (distinguish between mandatory review and voluntary review) ➤ Changing to “Significant changes in the scope of consolidation during the period” (Note 1)
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 (Note 2) <p>(Cash flow statements are requested based on investors needs as useful information for investment decisions.)</p>
	Notes	<p>Adding Notes on Segment Information, etc. and Notes on Quarterly Cash Flow Statements to the 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 cash flow statements)
	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 auditor)</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: TSE will permit omission of Consolidated Profit and Loss Statement and Consolidated Comprehensive Income Statement for the quarterly period, as it is expected that this information for the Q2 will not be disclosed in Semiannual Securities Reports in the new system or due to other factors.

Note 3: It is also possible to make a disclosure in explanatory materials for financial results other than financial statements (in that case, state that the relevant documents should be referred to and how to refer to them.).

Contents of Quarterly Earnings Reports for Q1 and Q3

- For items 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 relevant items.
- TSE will give examples of useful information for investment decisions in the Timely Disclosure Guidebook and prompt voluntary disclosure based on investors' needs.

Example of useful information for investment decisions

Note: since the needs of investors are different depending on the industry or the business, each company should judge the information to be disclosed based on investors' needs.

(Items other than those required to be disclosed from the regulations of the new system)

- Cash Flow Statements
- Notes of Financial Statements
 - ✓ Notes on Balance Sheets, notes on Profits and Loss Statements
 - ✓ Notes on Financial Instruments, Securities and Derivative Transaction
 - ✓ Notes on Material Post-Balance Sheet Events

(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 important to the operations 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 Q1 and Q3 can be omitted.

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

Basic Concept

- A company must disclose details of an account settlement **immediately after the details are decided.**
- If a company is **not able to disclose such details within 45 days after the quarterly accounting period, the company must disclose the details of the situation.**

Details of the Account Settlement

- Due to the integration into the Quarterly Earnings Reports in Q1 and Q3, **companies will be required to disclose the report when the items to be disclosed in the report** (including items to be required (referred to P.10) and items to be disclosed as useful information for investment decisions (referred to P.11)) are decided.
- It is expected that companies will enhance the disclosure of Quarterly Earnings Reports (such as the disclosure of the financial statements and notes of current Quarterly Securities Reports) for the proactive disclosure of information for investors. TSE does not prevent 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), for the sake of rapid communication with equity markets.
Note: With the current procedure, prior disclosure of summary information, etc. is permitted if there is no risk of misleading investment decisions.

Timing of Decisions regarding Details of Account Settlements (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 like a news flash that discloses the financial results prior to the statutory disclosure. But because of the integration into the Quarterly Earnings Reports in Q1 and Q3, its role will be changed.

For mandatory reviews:

- In principle, decisions regarding details of account settlements shall be made **when the review is completed in line with the purpose of the obligation, which is to encourage reliability.**

For optional reviews:

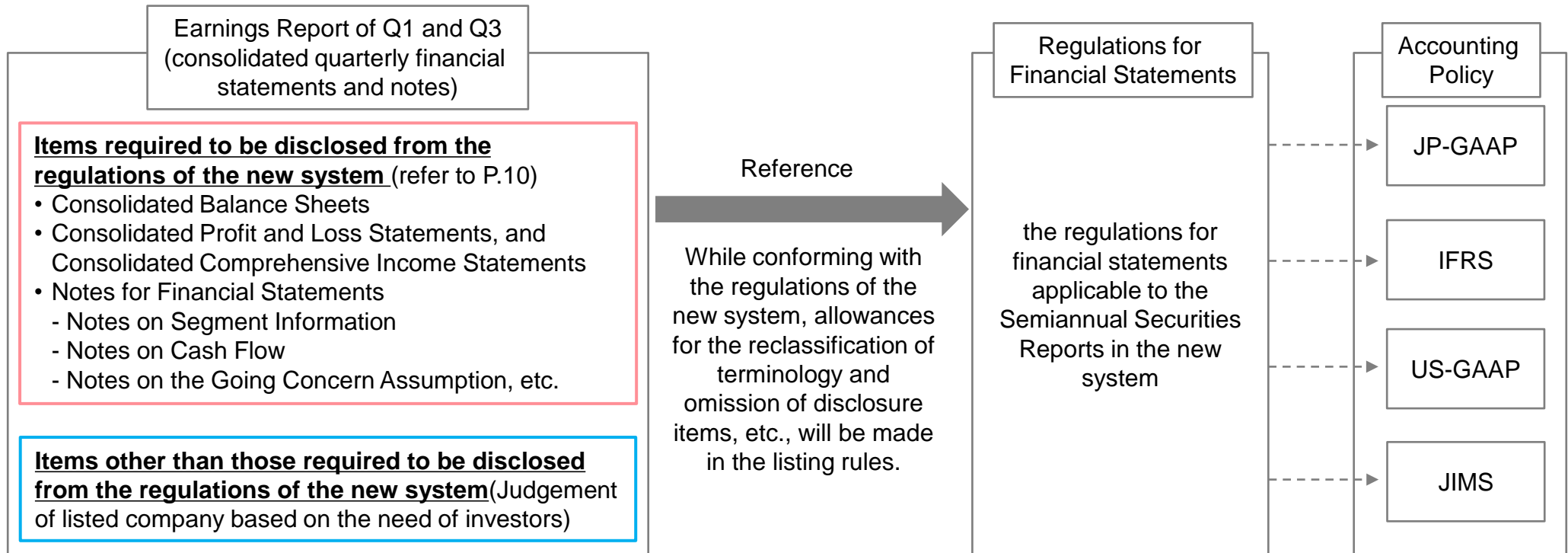
- **Each company will judge** for itself when decisions regarding details of account settlements shall be made **(it shall be acceptable to decide on the timing after the completion of the review since it will be integrated into Quarterly Earnings Reports.)**

(Reference) Image of Framework for Financial Reporting

- To ensure the comparability between listed companies and the continuity of accounting procedures, listed companies shall refer to the regulations for financial statements applicable to the Semiannual Securities Reports in the new system (hereinafter referred to as “regulations of the new system”) in preparation for the earnings reports of Q1 and Q3.

Framework for Financial Reporting Stipulated by TSE (Financial Statements and Notes)

- Recognition and Measurement: accounting standards such as those stipulated by the ASBJ will be conformed to while reclassifying the terms through the regulations of the new system.
- Disclosure: the omission of items other than the items required by TSE will be allowed. Also, items other than the items required by the listed company’s decision based on the need of investors can be disclosed (but it is necessary to prepare voluntary disclosures based on the regulations of the new system).



Note 1: The ASBJ intends to develop an accounting standard with a six-month accounting period for Semiannual Securities Reports.

The ASBJ plans to discuss issues that need to be resolved in relation to the existing quarterly accounting standards by setting a six-month accounting period.

Note 2: When a review by an auditor is conducted, the review will cover the quarterly consolidated financial statements and notes.

Note 3: Since notes on cash flows are not expected to be stipulated in the regulations of the new system, TSE will stipulate the same matters as in the current Quarterly Securities Reports.

Note 4: Based on the DWG report, it is assumed that the contents of Semiannual Securities Reports will be of the same standard as the current Quarterly Securities Reports.

(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 XXXX)

(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) Review of attached consolidated quarterly financial statements by a certified public accountant or an audit firm: Yes (mandatory)/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

2-2. Review and Enforcement of Quarterly Earnings Reports for Q1 and Q3



Basic Concept

- **Reviews** by an auditor regarding Quarterly Earnings Reports of Q1 and Q3 **shall be optional in principle**, but **when ensuring reliability of financial statements is considered necessary** in the event of accounting irregularities, etc., TSE will require the company to receive such review.
- **In doing so, the conditions will be clearly defined to aid preparations of listed companies and auditors.** The conditions will be based on the auditor's assessment considering accounting irregularities, the evaluation of internal control over financial reporting by management under the FIEA, and details regarding the submission of statutory disclosure documents required to be audited and reviewed by the auditor.

Conditions for Mandatory Review:

- 1) A listed company receives a result **other than an unqualified opinion** in an audit report of the latest Annual Securities Report, Semiannual Securities Report or Quarterly Earnings Report (only if a review has been conducted)
 - 2) A listed company receives a result **other than an unqualified opinion in an Internal Control Audit Report** of the latest Annual Securities Report
 - 3) A listed company has **significant deficiencies in internal controls** that should be disclosed in the latest Internal Control Report
 - 4) A listed company **does not submit** the latest Annual Securities Report or Semiannual Securities Report **by the initial deadline** (except where it is clear that the reliability of financial statements is not in question)
 - 5) The **Semiannual Securities Report** for the current term is amended and a review report is attached to the amended financial statements
- Note: 1) and 3) are also **applicable to cases where** the most recent Annual Securities Report or Semiannual Securities Report is amended **and the amendment report meets the conditions.**

Applicable Period for Conditions

- A company must receive an audit review for the financial statements of Q1 and Q3 submitted after any of condition is met.

Cancellation of the Mandatory Review

- **TSE will lift the requirement for review when none of the conditions above from 1) through 4) apply to the Annual Securities Report or Internal Control Report submitted after meeting the conditions.**

Reviews (including optional reviews)

- It is required that the review be conducted by the same auditor as the auditor for the fiscal year.
- Reviews based on the practical guidelines of the JICPA are required.
Note: In addition to the JICPA, the Audit Subcommittee of the Business Accounting Council has discussed the standards regarding interim reviews including quarterly earnings reports
- While based on the compliance review, a review may be considered as a review of fair presentation if it complies with the regulations of the new system and does not omit and items from disclosure.
- In cooperation with the JICPA and the Securities Analysts Association of Japan, and others, TSE will disseminate information on reviews based on the compliance framework to deepen the understanding of stakeholders.

(Reference) Relationship between Framework for Financial Reporting and Reviews

- The framework for fair presentation and compliance is under review, and the current Quarterly Securities Reports are being reviewed against the fair presentation framework.
- For the framework for financial reporting of the revised Quarterly Earnings Reports that TSE will stipulate, it is assumed that reviews of the compliance framework will be conducted because certain omissions from disclosures will be permitted while conforming to the regulations of the new system, and explicit provisions for additional disclosures to achieve fair presentation will not be required.

Step	Revised Quarterly Earnings Reports (planned)	Current Quarterly Securities Reports
1. Whether there are explicit provisions of additional disclosures to achieve fair presentation	No	Yes Note: Please see Notes on Additional Information of Article 14, Ordinance on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements
2. Comprehensively determine the following items when there is an explicit provision of additional disclosure	—	—
(1) Purpose for the establishment of explicit provisions of additional disclosures	No explicit provision of 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: Reclassification of terms is permitted while conforming to GAAP Disclosure: Framework for financial reporting which TSE stipulates Note: It is assumed that certain omissions 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
Framework for Financial Reporting	Compliance (note)	Fair Presentation

Note: If a company prepares financial statements conforming to the regulations of the new system without any omissions of disclosure items, this will be considered a fair presentation framework.

Definitions of “Fair Presentation Framework” and “Compliance Framework”

The term “fair presentation framework” is used to refer to a framework for financial reporting that requires compliance with the requirements of the framework and:

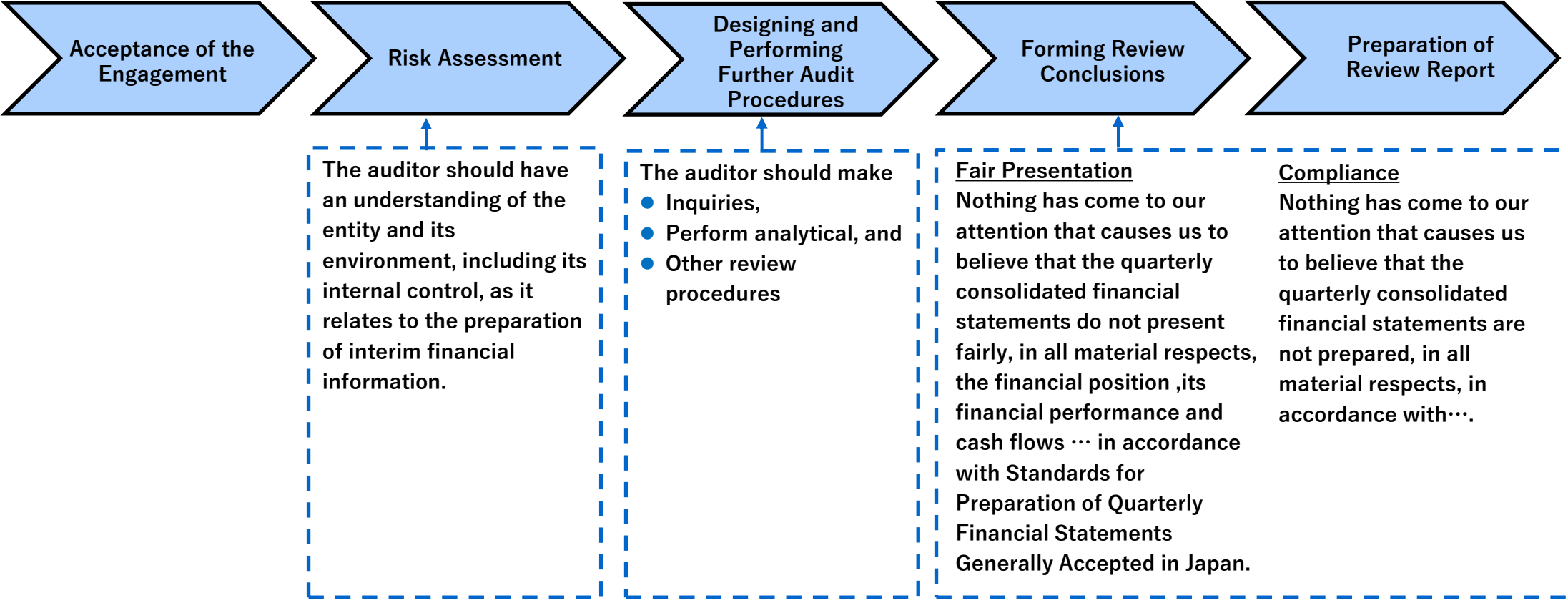
- (1) Acknowledges explicitly or implicitly that, to achieve fair presentation of financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (2) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a framework for financial reporting 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) Difference of Framework for Financial Reporting, and Process and Assurance Level of Review

- There are no differences with the audit methodology based on the risk-based approach.
- The level of assurance is the same for a review of financial statements under either framework (fair presentation/compliance).



Note The auditor’s evaluation as to whether the financial statements achieve fair presentation shall include consideration of the overall presentation, structure and content of the financial statements. Procedures in that regard may differ from compliance (Statement on Auditing Standards 700, Forming an Opinion and Reporting on Financial Statements, Paragraph 12).

Source: Compiled by Tokyo Stock Exchange based on the Ms. Fujimoto (JICPA) Explanatory Material of The Second Council of Experts Concerning the Revision of the Quarterly Disclosure System (Document 3 “Material for the Second Council of Experts Concerning the Revision of the Quarterly Disclosure System” of JICPA)

Basic Concept

- While TSE's examinations of disclosures are based on confirmations with listed companies, TSE will strengthen cooperation with auditors and establish a system for early identification of irregularities to ensure that enforcement is conducted more appropriately.

Note: The prohibition of unfair trading (dissemination of rumors) under laws and regulations will also be made known to the public by TSE so that it is properly understood.

Specific Policies

- (1) TSE shall clearly stipulate in the listing rules that listed companies are required to conduct necessary investigations and report the results (and disclose the details of such investigations when deemed necessary and appropriate) for accurate reporting when deemed necessary, such as for suspicions of fraud.
- (2) The scope of Rule 604, which is related to the obligation of listed companies to cooperate when requesting a survey with certified public accountants, etc., shall be expanded beyond cases in which TSE deems it necessary to decide the appropriateness of delisting to cases in which TSE deems it necessary to consider the measures for ensuring effectiveness.
- (3) To assist the proper functioning of the measure described in (2) above, the JICPA shall be expected to take additional measures, such as by including requests for information sharing from TSE as "justifiable grounds" for terminating confidentiality obligations in audit contracts (convention for the JICPA).

Reference: Securities Listing Regulations, Rule 415, Paragraph 1 and 2, and Rule 416, Paragraph 1

Rule 415 1. Where TSE makes an inquiry of corporate information of a listed company by deeming that it is necessary to do so, such listed company shall make an accurate report on an inquiry matter immediately.

2. Where TSE deems that it is necessary and appropriate to disclose a fact pertaining to an inquiry as prescribed by the preceding paragraph, a listed company shall disclose details immediately.

Rule 416 1. In circumstances where a change or correction should be made to the information disclosed pursuant to the provisions from Rules 402 through 411-2 or the provisions of Paragraph 2 of the preceding rule, a listed company shall disclose details of such change or correction immediately.

Reference: Securities Listing Regulations, Rule 604, Paragraph 1

Where TSE 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 justifiable grounds for termination of confidentiality obligation

- 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

- TSE rules and the FIEA each have enforcements in place to ensure and improve the effectiveness of the regulations and laws.

Organizing Enforcement under Exchange Rules and Law

Exchange Rules

Misstatements
in Statutory
Disclosure

【Enforcement Measures】

- ✓ Penalty Measures
 - Public Announcement Measures
 - Listing Agreement Violation Penalty (Up to JPY 91.2 million)

False
Disclosures in
Earnings
Report

- ✓ Improvement Measures
 - Improvement Report*¹
 - Securities on Alert*²

* 1 If TSE deems that there has been no improvement in the implementation and operation of remedial measures, the issue will be designated as a security on alert.

* 2 If TSE deems that the internal control system, etc. has not been improved, etc., the issue will be delisted.

Financial Instruments and Exchange Law

✓ 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 JPY 500 million
- Administrative Surcharges
JPY 3 million or 3/100,000 of the total market value, whichever is higher
- Civil Liability (Shift of burden of proof from the claimant, etc.)

✓ Disseminating Unfounded Rumors

- Condition of purpose (in addition to the misstatement constituting the spreading of 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 JPY 10 million (with concurrent convictions)
Corporation: A fine of up to JPY 700 million
 - Administrative Surcharges
The surcharge will be calculated based on the price of securities transactions, etc., conducted during the period of the violation (if there is only a minor misstatement and no transactions accompanying the violation, the surcharge cannot be imposed).
 - Civil Liabilities (General Wrongful Act Liability)

2-3. Handling of Earnings Reports of Q2 and Full Year



Basic Concept

- Since statutory disclosures will continue for Q2 and the full year, the current procedure will be maintained for Q2 and full-year earnings reports.

Role

- Q2 and full-year earnings reports will maintain their role as “news flashes” to statutory disclosures (Semiannual Securities Reports and Annual Securities Reports).
- Earnings Reports for Q2 and the full year are not subject to review nor audit (even if review is required by TSE rules in Q1 and Q3).

Contents of Disclosures

- There will be no change from the current procedure (for the Earnings Reports of Q2, items to be added in the Earnings Reports of Q1 and Q3 are not required but will be determined by each company based on the speed of the report and the needs of investors).

Note: Companies should prepare consolidated financial statements for Q2, not to the framework for financial reporting of the Earnings Reports of Q1 and Q3, but according to the Ordinance on the Terminology, Forms, and Preparation Methods which is applicable to Semiannual Securities Reports in the new system.

Name of Documents (Q2)

- Considering the continuity of the Earnings Reports of Q1 and Q3, the name will be not be something along the lines of “Interim Earnings Reports” but “Earnings Reports for Q2 (Interim)”.

2-4. Data Distribution Format in Earnings Reports



Data Distribution Format in Earnings Reports

Basic Concept

- TSE will change the data distribution format in Earnings Reports as follows, taking into account the continuity of vendors' 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 Q2 and the full year, data will be handled in the same manner to maintain consistency in delivery format.

		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 Q1 or Q3) Review Report	—	—	—	✓	—	✓

(changes are shown in red (note 3))

Note 1: For US-GAAP, it is not required to submit in XBRL for the current format, but in the 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 in XBRL by information vendors, and the following shall apply for each accounting standard (required to submit in XBRL only if applicable notes are disclosed).

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

IFRS: “Notes on Segment Information”

US-GAAP: None

Note 3: Currently, the guidelines require submission only in XBRL, but the guidelines will require submission in both XBRL and HTML 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).

2-5. Enhancement of Information 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

(1) Disclosure of Changes in the Business Environment

- TSE shall request disclosure regarding changes in the business environment (see next page) and will stipulate key points to be included in the disclosure in the Timely Disclosure Guidebook.

(2) Disclosure of Other Information

- TSE shall promote understanding of the original purpose of the basket clause (to determine whether disclosure is required based on the importance of investment decisions).
- The disclosure guideline in the basket clause shall be retained in light of its practical impact, but its presentation should be reviewed (clearly state that it is a guideline for determining whether disclosure is required or not).

(3) Publication of Disclosure Examples

- TSE shall continuously publish disclosure examples and make a cycle to encourage the enhancement of disclosure.
- It is also important to enhance the periodic disclosure of Annual Securities Reports which is intended to be an interim disclosure by the continuous publication of the exemplary disclosure collection from the FSA.

Subsequent Prospects

- TSE shall follow changes in listed companies' stances on disclosure while listening to the opinions of investors.
- If listed companies proactively make decisions and foster a practice of proactively disclosing information that is useful to investors, this will provide a basis for considering whether or not to shift from the current detailed rules framework to a principle-based system, and whether or not to make Quarterly Earnings Reports voluntary.
Note: It is necessary to consider disclosure with a broad perspective which includes the relationship with insider trading regulations and fair disclosure rules.

Reference; DWG Report

- DWG suggests 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

- Information on the impact of changes in business environment is subject to various factors, and it can be expected that it may take time to investigate the impact of such changes.
- It is considered preferable to disclose the objective facts on which investment decisions are based such as the size of business and profit sensitivity of the area expected to be affected as soon as the change occurs, and to disclose the qualitative or quantitative information regarding the impact as soon as it is ascertained.

Key Points of Disclosure Regarding Changes in the Business Environment

	Information on the impact of changes in the business environment, etc.	Objective facts on which investment decisions are based
Example of the preferred items to be disclosed	<ul style="list-style-type: none"> ➤ Impact on business activity and operating results <ul style="list-style-type: none"> ✓ 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 Note: Even before the definitive impact amount is known, the estimated amount and qualitative information may be disclosed. ➤ Earnings Forecasts and Other Predictive Information <ul style="list-style-type: none"> ✓ 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 <ul style="list-style-type: none"> ✓ Overview of new risks, their likelihood of materialization, and the impact on business activities and operating results if they materialize 	<ul style="list-style-type: none"> ➤ Business conditions <ul style="list-style-type: none"> ✓ Size of business and vulnerability of areas expected to be affected. ✓ Availability and operational status of major business locations ✓ Status of production and supply of products ➤ Impact on operating results <ul style="list-style-type: none"> ✓ Profit sensitivity to exchange rates and resource prices <p>Note: It is expected that values will be disclosed not as of the time of disclosure but as of the end of the most recent fiscal year.</p>
Expected timing of disclosure	As soon as the impact is ascertained	Promptly when changes in the business environment occur
Expectation as investors	<ul style="list-style-type: none"> • Manager's awareness regarding the impact (including the possibility) or the risk about the changes 	<ul style="list-style-type: none"> • Identifying the maximum losses on the areas expected to be affected or risk of raw material price fluctuations (which could be materials presented for reinsurance that there will be no further impact)

Note: In cases where investor interest is considered to be high, even if the impact of a company's changes in the business environment is expected to be negligible, the company is expected to disclose this fact.

Note: It is also important to disclose information related to the above (e.g., earnings forecasts and other prerequisites, risk information, etc.) in advance in periodic disclosures such as annual securities reports and earnings reports.

(Reference) Revision of Supplementary Explanation of Basket Clause (Image)

- The disclosure guideline in the basket clause shall be retained in light of its practical impact
- The Timely Disclosure Guidebook will be reviewed to ensure the original intent of the Basket Clause, which calls for a principled judgment, is appropriately conveyed.

Direction of the revision of the supplementary explanation of the basket clause on Timely Disclosure Guidebook

39. その他上場会社の運営、業務若しくは財産又は当該上場株券等に関する重要な事項(2)

(1) 上場規程に基づく開示義務

上場会社は、「上場規程第402条第1号aからaqまでに掲げる事項のほか、当該上場会社の運営、業務若しくは財産又は当該上場株券等に関する重要な事項であって、投資者の投資判断に著しい影響を及ぼすもの」を行うことについての決定をした場合は、直ちにその内容を開示することが義務付けられています。

【上場規程第402条第1号ar】

※ 「投資者の投資判断に著しい影響を及ぼす」かどうかについては、決定事実の内容、その影響等を踏まえて、実質的に判断することが求められます。

次のa. からf. までのいずれかに該当する場合（該当しないことが明らかでない場合を含む。）など投資者の投資判断に及ぼす影響が重要であると認められる場合には、直ちにその内容を開示するようにしてください。

- 金商法第166条第2項第4号に該当する事実
- 当該決定事実による連結総資産の増加又は減少見込額が、直前連結会計年度の末日における連結総資産の30%に相当する額以上
- 当該決定事実による連結売上高の増加又は減少見込額が直前連結会計年度の連結売上高の10%に相当する額以上
- 当該決定事実による連結経常利益の増加又は減少見込額が、直前連結会計年度の連結経常利益の30%に相当する額以上（*）
- 当該決定事実による親会社株主に帰属する当期純利益の増加又は減少見込額が、直前連結会計年度の親会社株主に帰属する当期純利益の30%に相当する額以上（*）
- 開示府令第19条第2項第12号又は第19号の規定に基づく事由（財政状態及び経営成績に影響を与える事象）で臨時報告書が提出される事実

（*）ただし、直前連結会計年度の連結経常利益が直前連結会計年度の連結売上高の2%に満たない場合又は直前連結会計年度の親会社株主に帰属する当期純利益が直前連結会計年度の連結売上高の1%に満たない場合は、利益が少額の場合の開示基準の特例があります。当該特例の詳細は、「第7章【利益が少額の場合の開示基準の特例について】」を参照してください。

※ 連結財務諸表非作成会社については、「連結会計年度」を「事業年度」、「連結総資産」を「総資産」、「連結純資産」を「純資産」、「連結売上高」を「売上高」、「連結経常利益」を「経常利益」、「親会社株主に帰属する当期純利益」を「当期純利益」と読み替えてください。

※ IFRS任意適用会社については、「連結総資産」を「資本合計」、「親会社株主に帰属する当期純利益」を「親会社の所有者に帰属する当期純利益」と読み替えてください。

※ 開示府令の内容については、上場会社ナビより「適時開示項目に関連する条文一覧」を参照してください。

【開示に関する注意事項】

① 開示を行う際には、本項目の内容と併せて「第1編第2章 適時開示に関する実務要領」も確認してください。

② 上記b. に該当する資金の借入を行うことについての決定をした場合は、原則として、本項目に該当するものとして開示するようにしてください。

③ 上記a. からf. までに掲げる開示の目安への該当の有無にかかわらず、投資者の投資判断に及ぼす影響が重要であると認められる場合には、直ちにその内容を開示するようにしてください。投資者の投資判断に及ぼす影響が重要であると認められる場合としては、例えば、当該会社情報の決定によって、上場会社の事業構成・収益構造等の転換を伴うなど、上場会社の運営、業務又は財産に係る基本的状況に重要な変化が生じることが見込まれる場合や、当該会社情報の決定によって、当該会社情報の決定の日の属する連結会計年度以降に、黒字転換又は赤字転換が見込まれる場合などが考えられます。

④ 買収防衛策のうち、導入時点では新株又は新株予約権の発行を伴わない買収防衛策の導入についても、当該情報が投資者の投資判断に重大な影響を与えない場合を除き、本項目に該当するものとして開示が必要となります（公開項目は、「買収防衛策の導入、発動、変更又は廃止」を選択してください）。

※ 買収防衛策に係る開示の表題には、「買収防衛策」という文字を必ず入れてください。

※ 導入の前例のないスキームを検討されている場合や遵守義務などの関係で懸案事項がある場合などには、十分な余裕をもって必ず東証の上場会社担当者まで開示資料（案）をメールにてご送付ください。

⑤ 買収防衛策の導入に関しては、具体的に買収者が出現した場合、導入した買収防衛策を発動した場合、又は廃止した場合にも、「開示事項の経過」として開示が必要となります。また、買収防衛策の内容の変更を行った場合も、「開示事項の変更」として開示が必要となります。具体的に買収者が出現した場合には、買収者に関する情報、買収提案に関する内容、会社の当該買収提案に対する考え方、今後の対応方針といった事項を、買収防衛策を発動又は廃止する場合には、当該決定に至った経緯及び理由、今後の手続・日程、株主・投資者に与える影響といった事項を、それぞれ記載してください。詳細は、「第3編第1章【買収防衛策の導入等に係る上場制度の概要】」を参照してください。

⑥ 当連結会計年度中に上場会社の決定した事項の実施日等が到来する場合等であって、経営成績等に与える影響の程度を踏まえて、当連結会計年度等の予想値を新たに算出した場合には、「業績予想の修正等」の開示が必要となることも考えられます。

(2) 開示事項及び開示・記載上の注意

開示資料には、投資者が会社情報を適切に理解・判断できるよう少なくとも事実の概要、決定の理由、今後の見通し等を記載してください。また、所定の開示事項に限らず、投資者が会社情報を適切に理解・判断するために必要な事項も記載してください。

- 事実の概要
- 決定の理由
- 今後の見通し

- ・ 当期以降の業績に与える影響の見込みを記載する。
- ・ 今後の方針等がある場合は、その内容を記載する。

d. その他投資者が会社情報を適切に理解・判断するために必要な事項

（本行為が支配株主との取引等に関するものである場合）

○ 支配株主との取引等に関する事項

- ・ 当該取引が支配株主との取引等である旨を記載する。
- ・ 当該取引の「支配株主との取引等を行う際における少数株主の保護の方策に関する指針」との適合状況を記載する。
- ・ 公正性を担保するための措置及び利益相反を回避するための措置に関する事項について

(1) Explanation of Disclosure Guideline

- In order to appropriately convey the fact that the basket clause requires substantive judgment based on the degree of impact on investors' investment decisions, the section describing the disclosure guidelines will be moved to behind the principle judgment approach (the latter part of the "Disclosure Notes").

Note: Currently, it is presented in the same way as the de minimis criteria for individual enumerated items (the guideline for disclosure indicates that disclosure is at least considered necessary, and is different from the de minimis criteria for individual enumerated items).

(2) Approach of Principle Judgements

- An explanation of the importance of considering the impact on corporate value (future cash flow, etc.)