

Minutes of the Second Council of Experts Concerning the Revision of the Quarterly Disclosure System

Date: Thursday, August 31, 2023 17:00 - 19:00

Place: Tokyo Stock Exchange 15F Special Conference Room

Attendees: See member list

[Kansaku, Chair]

The time has now come to begin the Second Council of Experts Concerning the Revision of the Quarterly Disclosure System. Thank you all for taking time out of your busy schedules to participate in this Council as for the previous meeting. First of all, I would like to mention that Mr. Kumagai is participating online.

Now, I would like to begin today's proceedings straight away. Today, we will have an explanation from the secretariat of the materials and then Ms. Fujimoto from the Japanese Institute of Certified Public Accountants will explain the expected nature of the review and specific procedures for reviewing quarterly earnings reports (*kessan tanshin*) after the revision. After that, I would like to have an exchange of opinions. Now, I would like to ask the secretariat for an explanation of the materials.

[Naito, Manager, Listing Department, TSE]

My name is Naito from the Listing Department, and I will now explain the secretariat's material. Today's topics include the details of the proposed policies for point based on the first meeting, the treatment of Q2 (second quarter) and full year results, and the format for data distribution.

First, on page 4, by way of a general overview of the first meeting, we summarized your opinions regarding the purpose and approach of the revision. We have received a variety of opinions, and in line with the point of view in the report of the DWG (Financial System Council's Working Group on Corporate Disclosure), our aim is to reduce the burden on companies by abolishing quarterly securities reports and eliminating duplication and provide necessary information to investors in the same way as before.

On page 5, we show the previous discussion on the details of the disclosure and the thoughts based on that discussion. With regard to cash flow information, there was an opinion that for companies adopting IFRS and US GAAP, the treatment should be the same as Japanese GAAP and that companies should be allowed to omit the cash flow statement from the perspective of the preparation burden and encouraging voluntary adoption. Based on these opinions, companies adopting IFRS or other standards will also be allowed to omit the cash flow statement. However, from the perspective of the importance of cash flow information, there is a request for proactive disclosure of the cash flow statement as

information that is useful for making investment decisions. The policy is to require the presence or absence of a review to be stated in accordance with the DWG report, and such information should be described in the notes near the end of the summary information.

The next page, page 6, presents the previous discussion on “Other Items to be Added” and the thoughts based on that discussion. We require the disclosure of explanation of operating results, taking into account the disclosure status and its importance. In doing so, considering the practice that there are proactive disclosures in documents such as the explanatory materials for the financial results, it is allowed to refer to other sources than earnings reports.

We have also received comments on other matters, and concerning these we are expected to list some examples of information that is useful for investment decisions to encourage proactive disclosure.

On page 7, the discussion at the time when the omission of the cash flow statement was permitted under Japanese GAAP in 2011 is attached for reference.

Page 8 shows the draft policy on disclosure matters to be required. As for changes from the first meeting, the new [quarterly disclosure] system does not differentiate the treatment of financial statements by accounting standard, but uniformly requires disclosure of balance sheet, profit and loss statement, and comprehensive income statement, as well as requiring proactive disclosure of the cash flow statement as information that is useful for investment decisions. In addition, “Overview of Operating Results” has been added in the “Other” section.

Since IFRS has no provisions regarding notes when the cash flow statement is omitted, we have added a note under “Financial Reporting Framework” in order to provide the necessary information.

Next, on page 9, based on the notion that listed companies need to have an appropriate understanding of investor needs and to proactively disclose items that are needed by investors, we have highlighted some examples of information that is useful for investment decisions and we would request companies to be proactive in disclosing this. We would appreciate any comments you may have on this content - what is missing and what is unnecessary - today.

Page 10 shows an image of changes to the summary information.

On page 11, we show the previous discussion on the timing of the disclosure and thoughts based on that discussion. The feedback we have received is that a delay in timing is not a major issue as long as disclosure is made within 45 days. Based on the previous discussion, the basic concept under the current system of “disclosure of financial results as soon as they are finalized” will be maintained. However, the actual timing of when the results are finalized will be determined by the listed companies, taking account of the fact that quarterly securities reports, which are definitive, will no longer be issued.

Page 12 presents data on the difference in timing of disclosure of quarterly earnings reports and quarterly securities reports.

Page 13 shows the proposed policy for the timing of disclosure.

First of all, the term “details of financial results” is referred to items to be disclosed in the earnings reports, since quarterly securities reports are integrated into earnings reports for the Q1 and Q3.

Regarding the timing for when the financial results are “finalized” especially if they are subject to review, this is also determined by the listed companies since quarterly securities reports are integrated into earnings reports. Therefore, it is acceptable to judge that they are finalized upon the completion of the review. In addition, since some companies have disclosed their earnings reports a certain number of days ahead of their quarterly securities reports, “based on investor needs, it is desirable to disclose unreviewed earnings reports in advance of the review” from the perspective of the prompt provision of information.

I would also appreciate your comments today on how we should handle cases where review is required by regulation, as we believe there are two factors here - credibility and speed.

Starting on page 14, the theme is the partial mandate of the review.

At the first meeting, with respect to the period for which the review is required, it will be decided not to make the retrospective review mandatory since the view of the majority of respondents was that such a review does not need to be requested because, a correction audit is carried out whenever annual securities reports are corrected.

Also, with regard to the period for lifting the requirement, the feedback was that there may be cases where there is no practical period of time for a mandatory review. The secretariat verified that such cases were limited. In the case that requirements are not met in annual securities reports or internal control reports submitted after the application of the requirements, these requirements will be lifted.

Additionally, we have received feedback that specific procedures need to be clarified regarding the compliance framework of reviews. Ms. Fujimoto of the Japanese Institute of Certified Public Accountants (JICPA) will explain this later.

Page 15 describes the nature of the review, but I will omit the details as this topic will be covered by Ms. Fujimoto’s presentation.

Page 16 shows the auditor’s opinion, which was required in the former Mothers market prior to the introduction of the quarterly reporting system under the Financial Instruments and Exchange Act. This information is included for reference purposes because the question raised in the previous meeting was not fully answered.

Page 17 shows a theoretical estimate of the number of companies to be required with reviews for the fiscal year ending March 2023. Although 41 companies in total were required to conduct a review, there were only a limited number of cases shown in point 3 of the table, where there was virtually no mandatory review period.

Page 18 shows the draft policy regarding the partial mandate of the review. Except for the

change as not requiring retrospective review, but no other changes have been made since the first meeting.

Next, on page 19, we show the discussion at the first meeting and draft policy on enforcement. At the first meeting, we received feedback that it is important to strengthen cooperation with auditors, as well as comments that we should inform the public that the legal ramifications of the spread of rumor or misinformation apply to earnings reports, in the same way as the current.

In this light, the basic idea of the draft policy on enforcement is to strengthen cooperation with auditors and establish a system to identify fraud at an early stage in order to implement enforcement more appropriately, while confirming this, as the basic policy, with the listed company in question. For this purpose, the Listing Regulations regarding the listed companies' obligation to cooperate in consultations with certified public accountants will be expanded from cases about the determination of applicability of delisting to cases where it is deemed necessary to consider regulatory measures.

In addition, to ensure that this measure functions properly, we are asking the Japanese Institute of Certified Public Accountants to take measures such as including a report at the exchange's request as a valid reason for canceling the confidentiality obligation of an audit agreement.

On page 20, we have included the status of legal enforcement in connection with the continuous application of legal enforcement after the revision.

Next, on page 21, we have shown the items that are up for discussion. In addition to your comments on the draft policy for each item, we would like to ask whether the list of examples of items useful for investment decisions provided on page 9 is excessive or else not enough with respect to "disclosure content." Regarding the "timing of disclosure," if a review is required by the regulations, should we treat it in the same manner as the draft policy on page 13, with an emphasis on promptness? Or else should we require disclosure after completion of the review, given that the review is required from a credibility standpoint? We would be interested in your opinions.

Next, page 23 provides an overview of the system for treatment of earnings reports for Q2 and full-year results.

As shown on page 24, statutory disclosure will continue for Q2 and full year results, and we have a draft policy for keeping the current treatment of the corresponding earnings reports as preliminary reports. Additional disclosure items for Q1 and Q3 are also determined at the companies' discretion based on the need for prompt disclosure and investor demands.

We would appreciate any comments you may have on this draft policy today.

Next, page 26 shows the format for data distribution for earnings reports. Currently, as for the earnings report, the summary information and financial statements are submitted in XBRL, with other items in PDF only. However, as for the quarterly securities report, the full text is in

XBRL format.

Please turn to page 27. XBRL uses detailed tagging with a high level of granularity. This section lists the items that will be detail tagged in the quarterly securities report.

Page 28 shows the results of the secretariat's interviews with information vendors concerning their use of the information in the quarterly securities reports. The information obtained is segment information, notes related to BS, PL, and cash flow, and some MD&A items such as research and development expenses. In terms of the method of acquisition, XBRL is utilized for some notes with detail tags.

Page 29 describes the experimental test concerning HTML for earnings reports that began in December 2021. Compared to PDF, text analysis is easier in HTML, with the browser's translation function expected to fully utilize automatic translation.

In addition, when preparing reports in HTML, the utilization of printing company tools, which all listed companies use, means HTML can be created with no additional effort. Although we are still in the experimental stage, a cumulative total of 70% of listed companies have disclosed information in HTML in recent years.

Page 30 describes the draft policy on the format of data distribution. The right side of the table shows the data distribution format to be used in the new format. For XBRL, as shown in note 2, new submissions for some notes with detail tags will be required. In addition, all listed companies have to submit information in HTML format.

The same will apply to Q2 and full year results in order to maintain consistency of the distribution format.

Moving to page 31, we are keen to receive your comments on the draft policy on page 30.

Starting on page 33, we have included details concerning the enhancement of information disclosure. In our first discussion, there was feedback that the disclosure of changes in the business environment is not appropriate for timely disclosure because macroeconomic changes affect companies in various ways and need time to be assessed. However, some commented that information on exposure and sensitivity is an objective fact and should be disclosed as early as possible.

Regarding the basket clause, there were opinions that the disclosure guidelines in the guidebook are important for disclosure practice and that, in the first place, it is important for listed companies to examine the impact on corporate value and make an assessment of its importance.

On page 34, the secretariat summarizes the reasons why there was no progress on disclosure despite the request from TSE and publication of examples of disclosure at the time of the COVID-19 pandemic and other events. Potential reasons for the lack of progress in disclosure are that it takes time to examine the impact, and that there is a tendency for companies to aim for "Error-free and reliable disclosure" and there is resistance to disclose the information of estimated basis. Taking these considerations into account, a draft

“Promotion Policy of the Disclosure about Changes in the Business Environment” is included at the foot of the page.

On page 35, we provide TSE’s actions before and after the disclosure date regarding comments on monitoring timely disclosure, which we received at the first meeting.

The next page, page 36, shows the draft policy on enhanced disclosure of information. As an immediate response, we will add the content of the disclosure points on page 37, which were also presented at the first meeting, to the Timely Disclosure Guidebook to request companies to disclose changes in the business environment. Regarding the disclosure of other information, the guidelines for disclosure of the basket clause will not be deleted from the guidebook in order to ensure understanding of the original intention of the basket clause, but it is clearly stated that these are guidelines for determining whether disclosure is necessary. We are reconsidering the positioning and presentation of these guidelines. We also plan to continue to publish examples of disclosure in order to create a cycle that encourages enhanced disclosure.

In future, we plan to monitor changes in the disclosure stance of listed companies while continuously asking investor opinions. If it becomes established practice to proactively disclose useful information for investors, this will provide a basis for considering whether or not to shift to a principle-based disclosure system and whether or not to make quarterly earnings reports voluntary.

Moving to page 38, we would appreciate any comments you may have on this draft policy today.

The remaining pages are a restatement of the points that we would like you to discuss regarding each of the issues. That completes my explanation of the document.

[Kansaku, Chair]

Thank you very much. Following on from the previous explanation, Ms. Fujimoto from the Japanese Institute of Certified Public Accountants will explain the expected nature of the review and specific procedures for reviewing the quarterly earnings report after the revision.

Ms. Fujimoto, please go ahead.

[Fujimoto, member]

My name is Fujimoto. Following on from the previous meeting, thank you very much for the opportunity to make a presentation today. Today, I would like to report on the nature of our review of quarterly earnings report and the status of our consideration of the practical guidelines for the interim review.

To begin with, in terms of the conclusion of our review of the quarterly earnings report, I would like to refer you to slide 3. This was already explained in the first meeting, so I apologize

if there is any overlap, but I will go over it again briefly.

First, the conclusion of the review on whether it is about fairness or compliance is made in accordance with the financial reporting framework. It shows the perspectives from which the applicable financial reporting framework is determined in the first place. The first perspective is that of the intended user: a general-purpose framework that assumes a wide range of users and a special-purpose framework that assumes specific users. From the perspective of disclosure, the framework for fair presentation or compliance is based on whether additional disclosure requirements are needed in order to achieve fair presentation. Additional disclosure provisions are defined in the auditing standards, as noted below, in terms of whether or not there are provisions that require additional disclosures to ensure that the financial statements overall are fairly presented.

Next is slide 4. The slide shows how the financial reporting framework affects the conclusions of the review. Each framework involves its own opinion. The difference is that for the fair presentation framework, the opinion includes a substantive judgment that the financial statements as a whole are fairly presented. On the right, in terms of the compliance framework, the opinion is on whether the financial statements have been prepared in accordance with accounting standards based on the fact that there are no additional disclosure requirements.

Next, we move to slide 5. As a step to determine whether it should be under the fair presentation framework, last time we used the FIEA as an example, and we are considering this based on the disclosure details at the first Council of Experts concerning the revision of the quarterly disclosure system. As the first step, there are no additional disclosure provisions required that we are aware of in order to achieve fair presentation. On that basis, step 2 is omitted, and there is deemed to be a high possibility of compliance [framework].

Next is slide 6. There was a question at the first meeting as whether there is any difference between the procedures under compliance framework and fair presentation framework, so this is a diagram of details of the procedures. In terms of the procedure, from the left, first of all a review agreement is established, then a risk assessment is carried out for the purpose of the review. Next, the risk response initiatives are planned and implemented, a review conclusion is prepared, and a review report is created. Risk assessment or planning and implementation of risk response initiatives do not vary regardless of whether the fair presentation or compliance framework is applied. The risk assessment is conducted on the basis of a thorough understanding of internal controls related to the preparation of interim financial statements. Based on the results of the risk assessment, risk response initiatives are formulated, and procedures such as questioning and analysis, and other review procedures stay unchanged. In terms of differences between fair presentation and compliance, these are stated in the dotted line box on the right-hand side. To reiterate, in the case of fair presentation framework, [the text of conclusion is that] there is no material

evidence that would lead us to believe that financial statements are not presented fairly in accordance with generally accepted standards for preparing financial statements. Under the compliance framework, “not fairly presented” is replaced by “not prepared in accordance generally accepted standards” which shows the difference in wording between fair presentation and compliance. In terms of the difference in procedures, my point is that there is no difference, but as shown in the notes below, since fair presentation means confirming that the overall presentation of financial statements is fair, this is where procedures differs from the case of compliance framework. In the case of the FIEA, the annual audit is performed, and from the perspective of the review of the interim financial report within that framework, this is considered fair presentation. However, regarding separate quarterly reviews, if notes on impairment losses or notes on related parties are omitted, there may concerns as to whether this can be considered fair presentation.

Slide 7 (Reference 1) explains the details of the agreed-upon procedures. The slide shows that the details involve reporting the results once the procedures decided between the [review] practitioner and the engaging party have been carried out. This is different from the details of the review.

Slides 8, 9 and 10 are shown for reference purposes.

Next, I would like to report on the status of our consideration of the the practical guidelines for interim review. Please take a look at slide 12. You may already be aware of the details, but the Japan Institute of Certified Public Accountants is considering practical guidelines based on the premise of the review being optional, based on the possibility that auditors may conduct a voluntary review.

Slide 13 shows information on this, including the FIEA. First of all, under the framework of FIEA, based on the Quarterly Review Standards of the Business Accounting Council, the Japanese Institute of Certified Public Accountants has prepared its “Quarterly Review” (Quarterly Review Standards Report No. 1). This is due to be revised in accordance with the FIEA’s disclosure requirements. Separately, we have already developed Practical Guidance on Assurance Engagements 2400, which applies even for those who are not auditors for the fiscal year. We recognize that even voluntary reviews must now be conducted on the premise that there is an auditor for the fiscal year, and the Japanese Institute of Certified Public Accountants is currently developing practical guidelines based on ISRE 2410, the international standard for these reviews.

That is all from me.

[Kansaku, Chair]

Thank you very much. Now I would like to move on to an exchange of views.

Since there are many topics today, I would like to start by receiving comments from members based on the “Items to be Discussed” regarding “Q1 and Q3 Quarterly Earnings

Reports” “Handling of Q2 and Full-Year Earnings Reports after the Revision,” and “Data distribution Format for Earnings Reports” on pages 40-41 of the Secretariat’s materials. If you have any questions regarding the presentation by Ms. Fujimoto, please submit these as well.

If you would like to speak, please raise your hand and I will nominate you. Since some members are participating online today, I would appreciate it if you would first start by saying your name before making your comment. When speaking, please press the button on the bottom right of the mic and speak when the “TALK” light above the button turns green.

Also, if you are joining us online, please let us know in the chat that you wish to speak and I will nominate you to speak. Please turn your camera on and unmute yourself before speaking.

So, who would like to start?

[Matsumoto, member]

Thank you for your explanation.

First of all, based on the first meeting, I understand that the basic purpose of this simplification of quarterly reporting is to improve efficiency and ensure promptness of disclosure. Therefore, we need to make sure that there are not delays to publication of the earnings report due to an increase in the workload. In addition, the usefulness of quarterly information differs by company and by business. Therefore, as a basic principle, I think that any items added to the required disclosures of the earnings report should be kept to the minimum necessary.

Based on this premise, I appreciate finding that regarding the financial statements attached to the earnings report, the draft policy requires uniformly the notes to the consolidated cash flow statement, rather than only requiring companies applying IFRS or US GAAP to provide a consolidated cash flow statement.

On the other hand, the draft policy would request companies to proactively provide a consolidated cash flow statement because this is useful for investment decisions. However, in the past, for companies applying Japanese GAAP, consolidated cash flow statements for Q1 and Q3 have been simplified and only notes are required, which I feel is counter to the trend. The notes to the financial statements are also stated as a proactive disclosure request, but they too are very general and vague and are likely to cause confusion on the part of companies. In particular, for financial instruments, Q1 and Q3 are essentially exempted under Japanese GAAP. As with the consolidated cash flow statement, since it leads to the recommendation for a higher level of disclosure than that in the current quarterly securities reports under Japanese GAAP, this is beyond the scope of this discussion and should be excluded from the examples.

In addition, DWG have members expressed opinions for and against the mandatory disclosure of analysis of operating results. However, in many cases companies are already

making voluntary disclosures and diligently explaining their analysis of operating results. Under such circumstances, I do not believe that we need to make this mandatory, and that it is sufficient for this to be voluntary.

Regarding the issue of whether or not a review is included in the summary information, I think users of financial statement should understand that the review is voluntary. However, instead of disclosing this at the beginning of the document, it would be better to include it later on. Otherwise, it might lead to misunderstanding. On the other hand, I believe it is also very important to state that the review is voluntary in principle, in a way that does not mislead users of financial statements, including the summary information in the earnings report, as well as other rules and guidance materials. I would ask you to pay close attention to this point.

Regarding the timing of disclosure of quarterly earnings reports, I do not see any particular problem with the requirement that the financial statements are disclosed as soon as they are finalized and that if they are not disclosed within 45 days, timely disclosure is required. On the other hand, I do not believe that the so-called two-step disclosure of the unreviewed earnings report followed by the reviewed financial statement, which is recommended when a company voluntarily undergoes a review, should be encouraged because this may confuse users of financial statements as a result of disclosing the same earnings report twice.

Regarding the partial mandate of reviews in earnings reports and enforcement, I think it is reasonable that the period concerned does not require a retrospective review of Q1 and Q3 earnings reports that have already been submitted. On the other hand, regarding the topic of expanding the scope of consultations with certified public accountants when the exchange deems it necessary to consider regulatory measures, as I stated last time, in practical terms, I would ask that TSE does not request the opinion of a certified public accountant without first checking with the relevant company. At the very least, I would like to see some sort of regulation that would require TSE to confirm with listed companies in advance that their confidentiality obligations will be lifted. In practice I am told certified public accountants are not asked for hearings without confirmation from the relevant company, but I would appreciate it if you could clarify this point.

I am told that the current treatment of earnings reports for the Q2 and full year after the revision will be maintained, and I have no particular objection to this.

Regarding the data distribution format of earnings reports, in your explanation, you mentioned that all listed companies use tools provided by printing companies and the like, and I believe HTML conversion is hardly time-consuming. Based on this, I have no particular opinion to offer, but if there are any other issues, I would be interested in hearing them. Basically, I appreciate that the companies can handle this without any problems or issues.

Finally, regarding the enhancement of timely disclosure, it was noted that it would be preferable for objective facts to be disclosed as a premise for investment decisions. As previously mentioned, it may well be the case that disclosure of objective facts is easy if the

company has a simple business. However, some companies are very sensitive to the macro economy through their long supply chains, and this includes many positive and negative factors. Therefore, even if it is just objective facts, we believe that companies need to closely scrutinize their information to avoid indiscreet disclosure, including the possibility that disclosing certain parts of the information may mislead investors and other stakeholders. In this regard, in the current proposal, some information can be read as objective facts without the need for close scrutiny. At the very least, I think it would be better to use the expression “objective factual information that can be readily disclosed without the need for detailed examination of the impact of disclosure.” In fact, I would appreciate it if you could understand that there are certain difficulties in making such decisions on the corporate side.

In addition, with regard to the request for disclosure of information on the impact of changes in the business environment on a prospective basis where a detailed assessment has not been completed, companies cannot irresponsibly disclose figures without completing a thorough examination because they have their own social position and responsibility to consider. I am sure different companies will have different approaches, but for companies who have a significant social responsibility, I am sure that there are aspects that they want to examine carefully. That is why I am making this point. In the first place, it is not the case that investors get all the information they need through timely disclosure only; this information should be provided in its entirety, including voluntary disclosures. On this basis, I believe it is essential to encourage this to become established in corporate practice through continuous sharing of best practices.

That’s all from me.

[Kansaku, Chair]

Thank you very much. There are also comments on improving information disclosure. We have a question regarding the data distribution format for the earnings reports. Does the secretariat have any comment on this?

[Naito, Manager, Listing Department, TSE]

I understand the question is about why we chose to focus on the data distribution format of the earnings reports. As stated in the secretariat’s document, my understanding is that the listed companies do not have to bear a large burden of effort since they can use tools provided by the printing companies and other measures. On the other hand, given that there will be changes to the current treatment and that we need to have a systematic response in place, we have chosen this topic because we would like to discuss and present a policy here.

[Kansaku, Chair]

Now, I would like to start by asking for your opinions and comments on issues other than

the enhancement of information disclosure. Mr. Sampei, please go ahead.

[Sampei, member]

This is Sampei. Thank you for your attention.

The proposed disclosure details and timing on pages 8 and 9 have been given some consideration based on the discussions so far, and I think they are appropriate. I would like to keep these in place at all costs.

However, I would like to say that I am slightly disappointed that the cash flow statement is now requested rather than a mandatory requirement. This is because I think that there is a risk that TSE's decision is seen as a message that cash flow is not so important. As I am sure you are aware, there has been a lot of discussion about the importance of cash flow management. Many companies now provide free cash flow figures in their voluntary disclosures. The integrated report in particular includes financial data at the end of the report, and companies have started to provide free cash flow data for the past 10 years. However, companies provide free cash flow data because this is something that is always highlighted by overseas investors. Even though they publish the numerical figures, they are not yet managing their businesses with an emphasis on free cash flow. For now they are just disclosing these figures on the basis that they have them to hand. We are still only catching up on this. I am worried that TSE's message that the cash flow statement is optional with just a request for proactive disclosure might look very passive if not properly interpreted. However, since users can formulate the data themselves, I think this might be a solution and I think it cannot be helped.

I am grateful that the discussions to date have been taken into account, with examples of items where proactive disclosure is requested on page 9, and reflected in the timely disclosure guidebook and other documents.

And as for disclosure timing on page 13, I think it is becoming normal practice to make the disclosure as soon as the content is finalized and approved by the board of directors. I hope that it will be perceived as such. However, each company will have its own view as to whether to consult the board of directors before or after the review. I think we have no choice but to leave this to the companies to decide. On the other hand, as to whether companies should be free to disclose before or after the review, even in the case of a partial mandate, the disclosure is mandatory because a problem has arisen, so it is normal to expect that companies will disclose the information promptly after the review. As to whether or not there should be a clear statement that this must be after the review, my concern is that there may be some problems if it is a clear obligation. Surely it would be better for the companies to provide the financial figures even if they have not yet been reviewed, since the market will be very suspicious if it takes a long time to produce the figures with the review attached. In terms of this, the expectation is as mentioned previously. It is up to the companies to decide

what to do. However, I would like TSE to monitor the actual situation at that time and follow up in the future to see if the situation is as expected or if different practices are being implemented.

Regarding the review and enforcement on pages 18 and 19, on page 18, I think it is reasonable to state that while a review is not mandatory across the board, it is mandatory if certain criteria are met. I also think that the timing of lifting the mandate is appropriate. Enforcement is also carefully stated. I think it would be good if enforcement could be implemented in this way, and I think this is also appropriate.

Next, regarding the Q2 and full year results section on page 24, I think this is fine as it currently stands.

Regarding the data distribution format for earnings reports, we asked you to speak with the vendors for the DWG and at the time of the preliminary explanation of this Council. We are grateful that you spoke with many vendors, providing a very detailed picture of the situation. In terms of the data distribution format, the characteristics of various methods and formats have been clarified, which is very helpful. Also, I was not aware that there was a separate HTML experimental test. It would be excellent to make use of this. The distribution format for quarterly earnings reports is being changed, and I think there will be an upgrade as far as the data is concerned. I think being able to do this is a very positive point for this initiative. That's all from me.

[Kansaku, Chair]

Thank you very much. Does anyone else have anything to say? Ms. Fujimoto, please go ahead.

[Fujimoto, member]

Thank you for this very valuable opportunity. Thank you very much for putting the information together based on the previous meeting. I would mainly like to make a comment on the disclosures in the Q1 and Q3 earnings reports.

In terms of the disclosure content of quarterly earnings report, I generally agree with the proposal. In particular, as mentioned earlier, I think there has been appropriate consideration of the treatment of cash flow statements under IFRS/US GAAP from the perspective of aligning this with Japanese GAAP.

I understand that the items for proactive disclosure on page 9 are just examples, but I think it would be a good idea to include the contingent liabilities and subsequent events that were commented on in the first meeting. In particular, I know that subsequent events are also disclosed in the timely disclosure items, but since this is important information, I believe that including them in the examples is one approach.

I think the sample of changes in the summary information on page 10 makes the point

clearly. Although this is a minor point, I would like to refer to the suggestion to delete the part in blue. The current wording in the quarterly earnings report includes the phrase “Not subject to quarterly review by a certified public accountant or auditor,” but there is a proposal to delete this. Since the review concerns the quarterly financial statements and notes, and the summary itself is not the subject of this review, so I think it is a good idea to leave this description as is. If a review report is disclosed at a later date, this should be noted in the column. It would be good to clarify what the subject of the review is in this case.

With regard to the timing of disclosure, I am aware that there are cases where disclosure is made when the financial statements are finalized regardless of whether a review is undertaken or not. I think that the approach being considered is acceptable from the perspective of the prompt provision of information.

However, if the information is disclosed before the review and also after the review, the review report must always be disclosed together with the financial statements and notes that are the subject of the review. I would appreciate it if this could be set out in an easy-to-understand manner.

Thank you for the simulation on page 17 regarding the mandatory review. I also agree with the approach of not requiring a retrospective review. With regard to cases where a review is mandatory, I can see some cases where the period for a review may be insufficient, particularly with regard to case 4) where the annual or semiannual securities report was not submitted by the initial deadline, and case 5) where a correction is made to the semiannual securities report and the review report is attached to the corrected report, as stated on page 18. I believe that the 45-day rule is fundamental, but I would appreciate your understanding regarding the need for a certain period of time to do the review. I would like to ask for your understanding in advance that, depending on the circumstances, there may be cases where corrections are made and the 45 day limit may be exceeded.

Regarding enforcement, the basic idea is to check with the listed companies, and I agree with this. In addition, the purpose of expanding the scope has been clarified, and I agree with the policy itself. I think the Japanese Institute of Certified Public Accountants would like to consider its response to this proposal. In addition, in the specific policies, 2) includes “reporting in response to a request from the exchange” as a valid reason for lifting confidentiality obligations. However, considering the importance of lifting confidentiality obligations, I think the purpose is more about improving cooperation where necessary rather than reporting, so I would like to confirm this point again.

That’s all from me.

[Kansaku, Chair]

Thank you very much. Mr. Kuroda, please go ahead.

[Kuroda, member]

Thank you for reflecting my previous comments as well. There have been some changes in the situation since the last meeting, and I would like to make a few comments based on those changes.

In terms of the overall direction regarding quarterly disclosure, I understand that the only information that should be added in accordance with strong demand from investors is “segment information” and “cash flow information.” I would appreciate if there were no additional obligations other than these beyond the DWG’s discussion.

The next point is a specific matter. On page 5, regarding the discussion and approach of removing the obligation to disclose the cash flow statement under IFRS and US GAAP in the first meeting, I think that this is an excellent revision, as it is consistent with Japanese policy to increase the number voluntary applications of IFRS. However, with regard to the stated approach of “request for proactive disclosure”, I believe the disclosure should remain voluntary and not be taken as mandatory. Primarily, I believe that the term “proactive disclosure” should be removed, but even if it is included, we need to carefully consider where this should be included in TSE’s Timely Disclosure Guidebook for corporate information so that it is not seen as mandatory. Given the fact that voluntary quarterly disclosure is under consideration for the future, I do not think we should add unnecessary details that may taken as a disclosure requirement.

In addition, although I totally understand your comment about the usefulness of cash flow statements, I would like to remind you that this does not apply to all industries. In September 2020, the Accounting Standards Board of Japan (ASBJ) issued comments on the IASB’s “General Presentation and Disclosures” document, in which it refers to the relevance of the “cash flow statements of financial institutions.” It stated that some users, namely investors, pointed out that cash flow statements are not used in the liquidity analysis that they conduct to assess the soundness of financial institutions. In other words, if it is not useful across all industries, I see no particular reason to make it mandatory for all companies.

I would also like to add that the notes to the segment information on page 8 are of equal level to the semiannual securities report under the new system. Please bear in mind that the segment information currently required under the regulations for quarterly consolidated financial statements are at the same level as the semiannual report under the new system, as far as this is acceptable for the preparers of the reports, and not the information currently required under the regulations for interim consolidated financial statements. I hope you understand that the effort of preparation is different.

In the DWG report released last December, some DWG members suggested that the “Analysis of Operating Results” should be added as a disclosure item, but I understand that there were many objections to this addition. Since there are differences in the perception of effort required among the companies, requiring companies to provide “Overview of Operating

Results” goes beyond the decisions in the DWG report. I hope that you will consider carefully whether this is truly necessary.

Next, regarding the timing of disclosure on page 13, it appears that the premise when undertaking a review is to disclose information twice, before and after the review. Disclosing twice involves an additional burden. I would like to know if it is common practice internationally to make two disclosures, and if possible, it would be good to have feedback from this Council based on an overview of disclosure in other countries, such as Germany, where disclosure is actually voluntary.

Regarding the partial mandate for reviews on page 18, as there is increased discussion of changes in the treatment of reviews, I believe this only applies for some auditors, but I have heard that some consider that it is better to encourage companies to undertake a review, since it is expected that audit fees will be reduced. I believe that TSE, which has jurisdiction over the quarterly earnings report, needs to clearly communicate the fact that voluntary review is actually optional to ensure that audit firms do not lead companies on to undertake reviews. Taking this point into consideration, regarding the opening of the basic principle, “Although there is no uniform mandate for review...” I think that if instead it was worded as “Although reviews are voluntary,” that would further emphasize the voluntary nature of reviews. I hope that you will respond on this, taking into account that TSE’s document will have a significant impact on the companies. As a preparer of reports, my personal view is that reviews are primarily a matter for companies that have issues with credibility.

Regarding the need for enforcement on page 19, I fully understand the direction, but on the other hand, I struggle to know what exactly needs to be done. For example, even if TSE asks for a meeting with a certified public accountant, I am not really sure what response an audit firm can give on a quarterly report that has not undergone a voluntary review. I believe that the background of the issue of enforcement is discussions on the environment for fraud. If we are talking about finding out the background of fraud from the past, I think the discussion is about the fair representation of past securities reports, which I believe is also a matter for discussion by the FSA. Therefore, I believe that a certain level of organization is needed in terms of dividing duties between the FSA and TSE.

Regarding the treatment of Q2 results on page 22, this goes back to the previous discussion about segment information, but even if segment information in the semiannual securities under the new system become more burdensome than the current Q2 report, I would like to request that the content of Q2 earnings report is in line with the requirements for the Q1 and Q3 earnings reports.

Finally, regarding the review procedures explained by Ms. Fujimoto, I understand the broad outline, but there are a few points that I do not quite understand, so I would appreciate your response if possible. Under the premise that no new disclosures are added for the compliance review, I am slightly doubtful that the compliance review will be possible, for example, if a

company following IFRS discloses the cash flow notes that are now being requested in place of the cash flow statement. I would also like to know whether or not the notes required under the regulations for quarterly consolidated financial statements, which companies disclose on a voluntary basis, are subject to review.

Even if there is no review, those who prepare the report assume that the auditing firm will essentially look at the figures as part of their annual audit, even if they do not actually audit them. As far as I understand from your earlier explanation of the points to keep in mind on page 6 of the JICPA document, you explained at the time that the procedures for this review differ from the review as part of the annual audit. Regarding this, if the review is ranked below the procedures that are implicitly viewed by auditors as part of the annual audit, then I do not see the need for it. I hope you can help me understand how I should think about this.

Thank you very much.

[Kansaku, Chair]

Thank you very much. I believe this was a question for Ms. Fujimoto, and I would appreciate if you could answer this.

[Fujimoto, member]

In cases where the IFRS cash flow statement is omitted and cash flow notes are used instead, once the regulations have been decided, it will be necessary to confirm whether this disclosure is in accordance with such regulations. If this is clarified in TSE regulations, we can then conclude that the information is compliant since the disclosure is made in accordance with the regulations.

The same applies to voluntary disclosure items. Determining whether or not any other disclosure should be made is not an issue because it is not fair presentation. It is about checking whether the disclosure is based on the regulations established for compliance and whether the disclosed content is correct. In any case, I believe the review will be under compliance framework.

I am aware that it was not properly explained earlier whether the review would be part of the annual audit, but this is still essentially a quarterly review conducted by the auditor for the fiscal year. However, since the review will be for disclosures made in accordance with TSE regulations and not within the framework of the FIEA, I understand that if some notes, which are required under the FIEA, are omitted, compliance [with TSE regulation] will be reviewed.

That's all from me.

[Kansaku, Chair]

Thank you very much. Now, Professor Kanda, please go ahead.

[Kanda, member]

This is Kanda. I would like to make two comments.

The first point is on the timing of disclosure. Basically, as stated on page 13, it is up to each company to decide whether to disclose before or after the review. I think it is fine to disclose when the time is right. In exceptional cases where a review is mandatory, I think that at least as a general rule, disclosure should be made after the review is done. In addition, I am slightly concerned as to whether there will be any changes for the annual audit and half-year review that have existed so far, especially the annual audit, when the system changes so that reviews are voluntary in principle. If it comes to doing something different, I do not think it is appropriate to have to do this twice with an increase in costs. I would like to ask that we take care to ensure that the current practices for the annual audit and for quarterly reporting are not unduly impacted.

The second point is about enforcement. I think what is written in the document is fine, but what will actually happen with the effects and penalties. Will these remain the same as before? The table on page 20 shows misstatements, but I think correction orders should also be possible as part of the listing system. Regarding earnings reports, I believe the current practice is that there are conversations where TSE points out to companies that they need to make corrections, how many corrections are done actually? Based on the actual circumstances, I think there should be a provision in the listing agreement or the listing regulations that allows for asking companies to make corrections. Although we may not need to go this far, I think it would be a good idea to consider this from the point of view of improving effectiveness, taking into account past practice. That's all from me.

[Kansaku, Chair]

Thank you very much. The member raised a question regarding the practical handling of requests for corrections. Could you please make a comment on this?

[Naito, Manager, Listing Department, TSE]

I would like to answer your question in detail after researching. Currently there are no regulations that explicitly issue correction orders, but there are rules that require corrections if there is an error in the disclosed content. As a matter of fact, I do not think TSE will take any clear action in the form of a correction order since the earnings report is currently issued as a preliminary version in respect of the finalized report, but I would like to confirm the actual situation again.

[Kansaku, Chair]

Thank you very much. Now, Professor Kuronuma, please go ahead.

[Kuronuma, member]

This is Kuronuma. Thank you for your attention. At this time, we have received a summary of our previous discussion and the draft policies. I believe that all of these details are reasonable. I thought the reasoning behind these points was compelling, as shown in the materials.

There are some opinions that are against it at the moment. Although I disagree with such opinions, I would like to refrain from discussing them here in detail, as there is no point in doing so.

I would just like to point out two areas where there is an issue. The first is the timing of the disclosure. While maintaining the basic policy of disclosing financial results as soon as the timing is set, it is fine to leave it up to the companies to determine whether the details of their financial results have been finalized and to determine that they have been finalized after the review is completed, and companies should disclose unreviewed earnings reports before the review has been done. It is not clear whether there should be a stipulation about this, or whether to make this explicit, but inclusion of a review is optional, it becomes very unclear whether companies are fulfilling their obligation under the listing regulations to publish financial results in this case. If a company says that it has not yet published its financial results because it has not yet finalized them, it could delay them as long as it wants. I think we need to ensure that we avoid such a situation. I was slightly skeptical about whether it would be okay to leave the rule about disclosure of results as soon as they are finalized completely unchanged.

Regarding the second point about the partial mandate of the review, I think it is reasonable to expect that the obligation will be lifted if all the problems in the annual securities report and internal control report are resolved. On the other hand, I think the timing of when it is lifted may be determined by whether any irregularities come out in the Q1 or Q3 results. I am a bit doubtful whether it would be better to have a total of two reviews, continuing for a year, for example, if there is no unqualified opinion, so that the earnings report would have more credibility in the eyes of investors. I have some doubts, but I thought it might be okay provided that the annual securities report and internal control report are properly audited with an unqualified opinion issued, and provided that there are no deficiencies in the internal controls.

Thank you for listening. That's all from me.

[Kansaku, Chair]

Thank you very much. Does anyone else have anything to say? Mr. Iguchi, please go ahead.

[Iguchi, member]

Thank you very much. First of all, thank you for the compilation based on everyone's

opinions in the first meeting. I don't have many comments because the details are well summarized. I believe that the necessary information is included as shown on pages 8 and 9.

"Overview of Operating Results" is essential, so I am very pleased that this has been included. It says that the relevant document should be referred to when quoting, but I would appreciate it if you could do so clearly to ensure there is no confusion. It is fine to quote, but you need to be careful about this. As Mr. Sampei has pointed out, the removal of obligation to disclose cash flow statement is a little disappointing, since the practice of using discounted cash flow to look at companies over the medium to long term has been spreading among Japanese investors since the Stewardship Code was introduced. Nevertheless, since this is in line with Japanese standards, I think it is unavoidable. On the other hand, I would very much appreciate it if the cash flow statement was included in the items that require proactive disclosure on page 9. If cash flow statements were omitted, people may think that we are not paying enough attention to cash flow, so I would appreciate it if this could be done.

As mentioned in the disclosure timing section on page 13, I am slightly uncomfortable about disclosing earnings reports, that have not been reviewed, in advance from the perspective of prompt provision of information. There may be various conditions attached, but up till now, earnings reports have only served as preliminary reports vis-a-vis securities reports, although you may not appreciate my saying this. With the dropping of the quarterly securities report, we need to strike a balance between the quality of the information provided and the promptness of the report, and I am not sure about this recommendation. Also, I am somewhat uncomfortable that the reason is from the perspective of prompt provision of information.

This was also a question at DWG, and at that time, the question was whether inclusion of a review would cause a delay. As I remember, most users stated, "Even if there is a delay, it's only 4 or 5 days. It's just one milestone in the year overall, so 4 or 5 days is not a problem." I think that there is a need to reconsider this, including the reasons for it. In addition, with respect to the inquiries made by the secretariat on page 21 in the case where a company must undergo a mandatory review, I believe the principle will be to request disclosure following completion of the review. That's all from me. Thank you for compiling these materials.

[Kansaku, Chair]

Thank you very much. Are there any other comments? Mr. Uemura, please go ahead.

[Uemura, member]

This is Uemura. I am here in person today, thank you for your time.

I have a general comment to make, but first, I would like to comment on the content of the quarterly earnings report. In terms of the basic approach on page 8, the previous version has

been slightly improved: “Adding items for which investors have particularly strong requests [...] to Quarterly Earnings Report.” Thank you very much.

However, I believe that the description should essentially reflect the precise wording of the DWG report issued on December 27 last year. Specifically, the first part, “concerning items disclosed in Quarterly Securities Report” needs to be revised to “while ensuring that information is promptly provided in principle,” as stated in the middle of page 6 of the DWG report, and it would be appropriate to make disclosure a request rather than a mandate. In other words, we should clarify that the starting point for discussion should be the current quarterly earnings report, not the quarterly securities report that is due to be abolished.

The next point is on the financial reporting framework. “Additional necessary matters” are referred to, but I believe that the “additional necessary matters” section should be deleted because this wording implies that the exchange may require disclosure that exceeds the rules for financial statements and accounting standards.

It is also important to note that this new financial reporting framework starts from the revised rules for financial statements and accounting standards, but it is also important to note that the rules for quarterly financial statements will be abolished, and that European listed companies are not required to disclose financial statements and notes in 1Q and 3Q, as mentioned in the previous explanatory materials. Rather than making the financial reporting framework so complicated, I believe it is sufficient for the exchange to simply highlight the Q1 and Q3 disclosures.

Regarding the financial statements in the attachment at the bottom of the table, I am grateful that the differences in disclosure requirements for all financial statements, including items such as cash flow statements for companies that voluntarily adopt standards such as IFRS, which were in the draft policies in the previous explanatory material, have been withdrawn. I really appreciate that the current policy proposal focuses on consolidated PL and consolidated BS, without differentiating between the treatment of each standard. Furthermore, I would like it to be clarified that, as before, these two quarterly financial statements are just items that can be summarized. Furthermore, under Japanese GAAP there is no legal requirement to disclose cash flow statements for Q1 and Q3. Therefore, I think it would be problematic to make this a proactive disclosure request.

Regarding items such as the notes on segment information, these are set to be at the same level as the semiannual securities report under the new system, but this may require complicated disclosures such as disclosures regarding adjustment of differences and intersegment sales. Although I do not believe this will happen, I think it would be appropriate to delete the statement “same level as the semiannual securities report under the new system” in parentheses to avoid any misunderstanding and leave the content of the disclosure to the judgment of the management.

Regarding the “Overview of Operating Results, etc.” listed in the “Other” section at the

bottom, I appreciate the fact that this allows for disclosure other than in the quarterly earnings reports. However, I do not believe that this is a matter requiring disclosure. This is in line with the text of the DWG report, where the summary of operating results was not included as an item to be added to the disclosure.

Next is the content of the quarterly earnings report on page 9 of the explanatory materials. Although it states “examples of matters that require proactive disclosure,” I think that it would be appropriate to classify these as voluntary disclosure as “examples of matters for disclosure in response to investor needs” rather than as actual disclosure requirements. The division into three layers in TSE’s review of quarterly earnings reports, which was revised in April 2010 pre-simplification, was very helpful. These were: “items to be clarified as minimum requirements such as listing regulations” as the first layer of disclosure obligations; “items that are uniformly requested to be attached” as the second layer, and “examples of items for disclosure in response to investor needs” as the third layer of voluntary disclosure. I think these categories should be followed this time as well.

Regarding the specific content, first of all, I believe that the notes to the financial statements that are requested to disclose, namely the “Notes to the BS and PL” and “Notes on financial instruments/securities/derivatives, etc.” should be deleted from the examples. Since requesting “Notes to the BS and PL” may be deemed as a request for comprehensive disclosure, I think it would be appropriate to remove these from items for which disclosure is requested and examples, and to disclose those items that management deems to be of particular importance on a voluntary basis.

I think that “Notes on financial instruments/securities/derivatives” should be deleted from the examples because they are effectively exempted from statutory disclosure in Q1 and Q3 under Japanese GAAP. This disclosure is also extremely burdensome in Q1 and Q3 for companies that voluntarily adopt IFRS.

Next, I think that items other than the above, such as “cash flow statement” and “items deemed to be useful for investment decisions in explaining operating results” in “Other” sections, should be positioned as voluntary disclosure as “examples of items for disclosure in response to investor needs” as mentioned earlier, rather than as “items requesting proactive disclosure.” I would also like to see a disclosure example which allows such disclosures in the financial results presentation materials.

Regarding the inclusion of an auditor review or not, the suggested location is shown in the “image of changes in summary information” on page 10. However, I believe that this should be included as a special note as it has always been, since it was never originally included in the notes to the financial statements.

Secondly, in the examples of the timing of disclosure of quarterly earnings reports on page 13 or the undertaking of a review on page 10, the explanatory materials indicate that it is advisable to have a two-step disclosure with and without the review. However, I think it would

be more appropriate to require one single disclosure after the review has been done. This is down to concerns that two-step disclosure may encourage companies to undertake a voluntary review. Also, as was already stated, in cases where a review is required by regulation, this is from the perspective that credibility is in doubt, so I think the disclosure should be made after the review is complete.

Next, I would like to discuss page 18 of the document. As I commented in the last meeting, first of all, I would like to request that it is clearly communicated to the companies that the quarterly review is voluntary, rather than a uniform requirement.

The “Criteria for a partial mandate for review” also needs to be reconsidered. I believe that criterion 5 goes beyond the requirements for accounting irregularities and internal control deficiencies, which is the thrust of the DWG report, and should be deleted. Even in the case of late submission as stated in criterion 4, I believe that the main point is that it should be “limited to cases of accounting irregularities or deficiencies in internal controls,” rather than any cases “other than cases where it is clear that there is no problem from a credibility standpoint.” Also, although this is a detail, I understand that the preferred person to conduct the review is the auditor of the fiscal year. However, there can be exceptional cases where the auditor of the fiscal year declines or is not available. I do not think it is necessary to specify that the same person should always do the review, so I think it is fine to use a softer expression, such as “considered.”

In terms of the “compliance framework” of the review standards, please first make sure that everyone is aware that the quarterly review of earnings reports is only voluntary, except for rare or partially mandated cases. The “compliance framework” is a framework that was first introduced at this Council of Experts meeting, but regarding the review report for quarterly earnings report, there is only a brief explanation on the right side of page 6 of the document from Ms. Fujimoto. The specific procedures, review period, feasibility of implementation, issues and other matters are not clear, and as someone who prepares reports, I am worried about the feasibility of implementation. When considering revisions to the practical guidance, I would ask JICPA to discuss and listen carefully to the opinions of the preparers of the reports.

Next, I would like to talk about enforcement on page 19. I have concerns about the draft policy here. In the specific policy, regarding the listing rule related to certified public accountants, “the scope shall be extended from the case that the Exchange deems it necessary to decide the appropriateness pertaining to delisting to the case that the Exchange deems it necessary to consider the measures of ensuring effectiveness”, even though the party concerned is a listed company. However, I am wary of such an expansion of the scope of the listing rules. I also think that the vague provision of “case that the Exchange deems it necessary to consider the measures of ensuring effectiveness” is problematic because there is a risk of infinite broadening of the scope. As for enforcement, as was added this time, since the basic role of the exchange is listening to the companies concerned, I must say that I do

not agree with a system that allows auditors to unilaterally lift the confidentiality obligation without consent from the listed companies.

As for the second agenda item, statutory disclosure of Q2 and full-year financial results will remain in place, so I strongly support the policy proposals to maintain the current treatment and disclosure content for these.

The third agenda item is a proposal for a review of the data distribution format for earnings reports, XBRL and HTML, and I am opposed to this because I am not sure if this is feasible and if the timing is right. In terms of HTML, we are still in the testing phase, and I believe that there are some issues that are currently dependent on a small number of specific printing companies. You also say that “all the listed companies are using tools to prepare their earnings reports” but my understanding is that the exchange itself has not yet verified and compared the results, so I think it is premature to make HTML a blanket requirement from all 3,800 listed companies under the current circumstances. I think at least two years of preparation is needed.

One idea might be to just make this a requirement for the Prime Market, for example. Is enhanced disclosure of information something that will come later? That’s all from me. Thank you very much.

[Kansaku, Chair]

Thank you very much. Now, I have received a request to speak from Mr. Kumagai who is participating online. Mr. Kumagai, please go ahead.

[Kumagai, member]

Thank you very much. This is Kumagai.

First of all, regarding the Q1 and Q3 disclosure items and the disclosure requirements on page 8, I think that as always there will be points of disagreement with the preparers of the reports, but I appreciate that the greatest common denominator of the users’ requests has been applied, while taking into account the DWG’s discussions. Thank you very much.

I think that the requests for proactive disclosure on page 9 are appropriate overall. Regarding the cash flow statement, I believe that the established practice of IFRS companies is to disclose the cash flow statement in accordance with the statutory disclosures. In addition, companies that voluntarily adopt IFRS probably have their own in-house mechanism and system in place for preparing cash flow statements. Since we are the users, it is difficult to imagine how much effort is required from those who prepare the accounts, but I think that the burden is relatively small because this has already been done. However, since this is a matter where disclosure is a request and not a mandate, I understand that there is some leeway in terms of not disclosing information if the burden is excessive. From a user’s perspective, I have a lot of sympathy for Mr. Sampei and Mr. Iguchi’s view that it is unfortunate that this was

not made mandatory. However, when considering consistency with companies that have not adopted IFRS, with these regulations, even if this is just a request for proactive disclosure, I think users will understand. In addition, some companies will probably disclose information proactively while others will not, and I believe that different stances on disclosure like this will also be useful information for making investment decisions.

Then, regarding the timing of disclosure, it would be preferable to publish a preliminary version prior to publishing reviewed earnings reports, but I do not think that there would be material errors or misstatements even if the earnings reports were not reviewed. I call it a preliminary version because the reviewed earnings reports will come out later, but I think the preliminary version also guarantees a high level of accuracy, and that is the kind of relationship we think. In that sense, since there is an analogy to the relationship between the current earnings reports and quarterly securities reports, from the standpoint of timeliness, I consider that early disclosure might be preferable unless a review is mandatory. However, as many people have pointed out, if a review is mandatory, there is a problem with the internal controls of the disclosing party, so I think it would be better to disclose the information after it has been reviewed, rather than disclosing it beforehand.

Here, there is a problem with vocabulary, with the phrase “unreviewed.” Just because a review is incomplete that does not mean it is not being carried out. If it is an audit or assurance statement that says the review has not been conducted, this is fine as it is, but I think this is quite hard to understand.

Also, on the subject of enforcement, with the inclusion of requirements for the release of confidentiality, I think it is a good thing that there is this kind of initiative is because it will serve as a deterrent to fraud. I think this would also enable more effective enforcement.

I do not see any problem with publishing Q2 and full year earnings reports after this revision of the system as has been suggested.

I also agree with the data distribution format for the earnings reports. The scope of distribution for PDF, XBRL, and HTML is increasing, and I think this is to be welcomed. As for text data, HTML is certainly much easier to use than PDF. With AI becoming more widespread, I think that users can process large amounts of information quicker if its data is converted to HTML rather than PDF.

Also regarding XBRL, in addition to summary information and tables in the financial statements, notes with detail tags will also be covered. I think this should improve usability, so I would support this as well.

[Kansaku, Chair]

Thank you very much. We are running a little over our scheduled time and I would like to move on to the next topic. As the second topic for discussion, I would like to open the meeting up for comments on the “Items for discussion” regarding “Enhancement of information

disclosure” on page 42 of the document.

As before, if you would like to speak, please raise your hand and I will nominate you. Mr. Kumagai, if you would like to comment, please let me know in the chat function.

If anyone has an opinion they would like to share, please feel free to speak. Mr. Sampei, please go ahead.

[Sampei, member]

This is Sampei. First, regarding the proposal on page 36 about the enhancement of information disclosure, I think that adding the disclosure points concerning changes in the business environment on Page 37 to the Timely Disclosure Guidebook would make this much easier to understand. In addition, in point 2), clarification of the original purpose of the basket clause is exactly what was discussed by the DWG concerning the format of timely disclosure in the future and whether it can be improved. This is an important step for that purpose.

In terms of the points of disclosure on page 37, for considering whether to paste this content as it is into the guidebook, I think it would be better to have a little more explanation of the text. For example, in the pink section on the right, regarding objective facts on which investment decisions are based and information that does not require time for examination of the impact, what does this mean? If finalized information for the fiscal year is based on the end of March, then the finalized financial statements as of the end of March 2023 apply for the fiscal year. The total value of assets in Russia, such as factory assets, is a fact that is clearly known at the time when the accounts are settled. And how many Russian rubles are held in cash, for example, is exactly the kind of information that does not require time for examination that is under discussion here. That is because there should be a definite value at the time of the finalization of the accounts. In some cases, companies may have already disclosed the information, but if it is noted in a less obvious place, in these situations, reporting that exposure to Russia was such and such is objective and does not require examination.

As for whether such disclosure is misleading, investors are naturally aware of this, but since this was the situation at the end of last year, we do not know if this pertains now. But at least this is what it was at the end of the last fiscal year. Assuming that there has been no significant change since then, if for example the assets were destroyed or confiscated, it would be easy to quantify the loss. The conclusion is not so much the total loss, but that the maximum downside can be quantified. So, we can say, “we would not worry about it anymore than that..” That is the purpose of disclosing this information. If the numbers are not properly quantified, we can worry they will be seen out of context or may be misleading, but that is not the case.

Also, if we look at the section in blue on the left side, regarding information that requires time for examination of the impact, why is this necessary? Close examination does not necessarily mean that something is strictly correct or accurately understood. What is needed

is for management to quantify as early as possible how much they know about the potential impact of something. So, this includes the fact that they have a broad idea of a certain amount, and that they think this is a possibility. So, it is a premise that is subject to change later on. But it may be that circumstances change in the future. So, what will happen if management do not say something because they are not sure how accurate the information is? If it is not disclosed, investors will assume that management is unable to grasp the situation. They would be increasingly concerned that the management or the company was confused, or that they are unable to gather or analyze the required information. Therefore, at this stage, rather than focusing on accuracy, it would be better for management to state that they know what the risks are, which areas are at risk and which problems need to be closely monitored, and that it is necessary to take countermeasures as soon as possible to address these.

Therefore, although circumstances could change in a moment, disclosure of such information as soon as it is known would market confidence in the company, and that is why information disclosure is necessary. That is precisely what timely disclosure is all about. This needs further explanation in writing. Otherwise, it is just a list of examples. If this is the case, is the information something that needs to be calculated and published? If the text refers to “sales”, this needs to be a calculated figure. In that case, how accurate would this be? I think there needs to be a little more explanation about the original purpose. That’s all from me.

[Kansaku, Chair]

Thank you very much. Are there any other comments? Mr. Matsumoto, please go ahead.

[Matsumoto, member]

I think that we can disclose objective facts on which investment decisions are based concerning simple events that do not require time for examination of their impact. However, as mentioned earlier, in reality, it is often the case that the interplay of different positive and negative factors makes it hard to view these impacts from an overall perspective. I would ask you to refine the descriptions of this section in the current proposal, since objective facts on which investment decisions are based can be taken as equivalent to information that does not require time for examination.

Also, even if it is disclosed before the process of examination is completed, I wonder if, in practice, companies will disclose what they need to say in order to fulfill a social responsibility, regardless of its accuracy, in terms of providing information and other data to investors that they deem to be important. However, I think this is a matter of the way it is written, but if you say that it is also important to disclose information before the any examination is completed, companies may get the wrong impression that disclosure is required separately from an assessment of the actual situation and circumstances. Therefore, I would be very grateful if sufficient consideration could be given to this area as well.

Companies are always mindful of how they will be viewed in the eyes of general society if they do not disclose the information, so I would appreciate it if you could take these points into consideration.

[Kansaku, Chair]

Thank you very much. Are there any other comments? Mr. Uemura, please go ahead.

[Uemura, member]

This is Uemura. I do not have many comments, but regarding the proposal to enhance information disclosure on page 35, I welcome the retention of the basket clause since this is essential from a practical perspective. However, some of the specifics of reconsidering the positioning do not seem right to me, so I remain concerned as someone who prepares the reports.

I believe that careful consideration is needed in the first place as to whether we should reconsider the positioning of the basket clause at this time, and I would appreciate your careful consideration.

Also, as a minor point, in the second point in the square at the bottom of page 36, the original draft stated “the basis for consideration of making quarterly earnings reports voluntary,” but now it is changed to “consideration of right or wrong about making quarterly earnings reports voluntary”. I would like to ask the secretariat why the phrase “right or wrong” is included. I am concerned about this because it was not part of the prior lecture.

As Mr. Matsumoto said earlier, as a company our emphasis is always on dialogue with users, so we will always provide disclosure of what is essential, or what we understand to be the case, or matters that need to be communicated as a message. This is the dialogue that is originally hoped for, and we are complying with this since our initiative will be evaluated and promoted. As far as Russia and Ukraine are concerned, we mentioned the crisis at the start, but since it has little impact on us, we have not mentioned it since then. Since we have not stated this explicitly in the text, I am concerned that this may be taken as a sign that the company does not properly appreciate the severity of the situation, so I think we need to be creative in how we include this kind of information in the guidelines and how it is presented.

In other words, if there is no impact, there is no materiality and I think this needs to be included in the notes or stated in the text to clarify that just because we have not communicated on this matter that does not mean we do not understand its significance. Thank you for your attention.

[Kansaku, Chair]

Thank you very much. He asked one question for the secretariat regarding the wording on page 36, specifically the reason why it was phrased as “consideration of right or wrong about

making quarterly earnings reports voluntary.” Could you please comment on this?

[Naito, Manager, Listing Department, TSE]

As to the point highlighted by Mr. Uemura, the excerpt from the DWG report is shown at the bottom of this page. The DWG report was compiled with the intention of considering from a broad range of perspectives as well as considering changes in the stance on corporate disclosure, as described here. Based on this point of view, the expression “consideration of right or wrong about making reports voluntary” was used.

[Uemura, member]

If the DWG report had included the words “consideration of right or wrong about the basis for considering that quarterly earnings reports should be on a voluntary basis” in its text, I would understand, but seeing as it did not, and I think there were annotations made from both sides, if what was in that text had been in this text, I think that would be a little different.

[Kansaku, Chair]

Thank you very much. Mr. Sampei, please go ahead.

[Sampei, member]

I was the one who said that the phrase “right or wrong” should be included. I was also at the DWG and this issue was quite a heated matter. First, the secretariat’s material contained wording about making the report voluntary, but the discussion was about the fact that making it voluntary should not be a given, and that various circumstances should be in place to consider making the report voluntary.

Therefore, we should consider this from a broad range of perspectives, including whether the quarterly report can be made voluntary. So, we must see if we are ready to make it voluntary on an ongoing basis, which is why the term “broadly” was used. The original text on page 36 refers to the review of making it voluntary, which is not the intention of what was discussed by the DWG in the first place, so that is why I requested the addition of a few words to aid understanding.

[Kansaku, Chair]

Thank you very much. Mr. Kumagai would like to make a comment online. Mr. Kumagai, please go ahead.

[Kumagai, member]

Thank you very much. I think Mr. Sampei is right about enhancing information disclosure and about the current situation. First, in terms of information disclosure, rather than requiring

the information at the time of occurrence of an event, I think it would be sufficient for users to have confirmed information from last year that can be disclosed.

Regarding the consideration of right or wrong about making reports voluntary, my sense is that the voluntary nature of quarterly financial earnings reports is taken as given, but at least when the DWG was discussing this, I do not think that making the reports voluntary was a done deal at that point, so I thought it was fine to discuss the rights and wrongs of the matter.

My comment refers back to a previous one, but Ms. Fujimoto explained earlier about compliance and fair presentation. My understanding is that the major point of difference between the existing review under the FIEA and the review of the quarterly earnings report is that it is not possible to make a judgment based on the framework of fair presentation because there are no additional disclosure provisions, so this is limited to compliance. On the other hand, on the point that was raised by those who prepare reports before, as shown on page 9 of the secretariat's explanatory material, this is a matter that requires proactive disclosure. However, this was originally only an example, so it would appear that if it is material, a similar disclosure to Article 15 of the Regulations on Financial Statements would have to be made. Is it correct to understand that since disclosure is not mandatory, but only requested as items of proactive disclosure, it is not possible to make a judgment of fair presentation, and therefore it is only compliant?

Also, if it is not possible to express an opinion on fair presentation because of this, I understand why the preparers of reports are concerned about this. Can I assume that we do not need to be concerned about this because it is only a recommendation rather than an obligation? That is why I am asking this question. That's all from me.

[Kansaku, Chair]

Ms. Fujimoto, would you like to respond to this?

[Kumagai, member]

I would request that this question is directed to Ms. Fujimoto.

[Fujimoto, member]

Thank you for your question. As you understand, the information on page 9 is given as examples of items for which proactive disclosure is requested. They are not obligatory for inclusion. This is a compliance review, with no judgment as to whether or not other disclosures are to be included.

[Kumagai, member]

Thank you very much. On that basis, these are just examples, and I hope the preparers of reports do not feel too apprehensive.

Without some examples, there would be no material available for companies to make an assessment about proactive disclosures. What is written here is a list of examples, so these are not subject to review. We do not want companies to be overly nervous about this or discourage some companies which actively disclose their information according to new TSE rules.

[Kansaku, Chair]

Thank you very much. Mr. Iguchi, please go ahead.

[Iguchi, member]

Thank you very much. This is the same point as made by everyone else. As mentioned last time, the basket clause (2) on page 36 is used by asset management companies to manage insider information and for compliance purposes. I think it is good to make changes for the better, but if changes are going to be made, people should be properly notified of them and they should be done carefully. It is separate from management, but I would ask you to note that there could be ripple effects in many other areas besides management.

I think you are right about the rights and wrongs of making quarterly reporting voluntary. I do not think this is at all related at this council, but if we really go ahead with this, there is the issue of how disclosure is handled, not just quarterly reporting. I have said in the DWG that this is something that should be discussed, including the disclosure of the annual securities report before the shareholders' meeting. Based on that, I think the current wording is fine.

On page 37, the phrase "examination of the impact" seems quite severe, and I think companies are struggling with it. I think there are some companies that are actually implementing best practices, and TSE may be trying to do this as well. I think it would be better if TSE publicized more examples of good disclosure. If it is a positive example, I think it is okay to include the company name. I thought that highlighting examples of best practice would also increase the number of instances of good disclosure and help with understanding the issue. Thank you very much.

[Kansaku, Chair]

Thank you very much. Are there any other comments?

Finally, I would appreciate any comments from observers. It looks like there are no further comments.

With that, since the scheduled finishing time is approaching, I would like to close today's discussion.

Finally, the secretariat will comment on the forthcoming schedule.

[Naito, Manager, Listing Department, TSE]

Thank you very much for the lively discussion today.

Regarding the next meeting date, we will fix a date which is convenient for you, and let you know later.

Thank you for your attention.

[Kansaku, Chair]

Thank you very much.

With that, I hereby declare today's meeting adjourned. Thank you very much for taking the time to participate today.

End