



Guide to Establishing Systems Required for Lead Underwriters

Exchange & beyond

Tokyo Stock Exchange, Inc.

September 30, 2022 version 1.0



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1. Role of Lead Underwriters in TSE



- When applying for initial listing or market segment transfer, a "lead underwriter (administration managing securities company)" is required to submit a "Report on Listing Eligibility Examination" to the TSE.
- **Lead underwriters play an important role in providing guidance to companies preparing for listing and conducting underwriting examinations. They are required to establish an autonomous and well-developed organizational structure. TSE also requires the establishment of organizations and internal rules, etc., in accordance with the "Regulations Concerning Listing Eligibility Examination Systems for Trading Participants" in order to maintain and improve the standard of listing eligibility examinations.**
- The TSE posts a list of trading participants who are candidates for lead underwriters (the "List of Securities Company Candidates for Lead Underwriters") on the JPX website.

Lead Underwriter (TSE trading participant)

A lead underwriter is comprehensively involved in the procedures and preparations for listing overall. It provides underwriting business by entering into a lead underwriting agreement with an issuer and provides advice and consultation on the listing and listing schedule. At the time of listing, the lead underwriter submits a Sponsor's Letter of Recommendation to TSE.

<Reference> Lead Managing Securities Companies

- AIZAWA SECURITIES CO.,LTD.
- Daiwa Securities Co.Ltd.
- Goldman Sachs Japan Co., Ltd.
- H.S. SECURITIES CO., LTD.
- Ichiyoshi Securities Co., Ltd.
- JPMorgan Securities Japan Co., Ltd.

<https://www.jpx.co.jp/english/equities/listing-on-tse/new/basic/03.html>

Verification of Lead Underwriter Systems

- **Japan Exchange Regulation verifies the implementation status of the "Rules Concerning Listing Eligibility Examination System for Trading Participants" by conducting examinations of lead underwriters, as necessary.**

For more details, please refer to the Target Notice dated September 9, 2011, "Review of the Operation to Verify the Systems of Listing Eligibility Examination for Trading Participants (to Underwriters and Inspectors)" by the Tokyo Stock Exchange Regulation (currently Japan Exchange Regulation).

- **If it is determined that further examination is necessary based on the results of the document examination regarding the implementation of internal rules and organizational structures and the progress of the listing examination, a more detailed "special examination" will be conducted.**
- **If it is determined that further examination is necessary based on the results of the document examination regarding the implementation of internal rules and organizational structures and the progress of the listing examination, a more detailed "special examination" will be conducted.**

Trading participants subject to examination of listing eligibility examination systems (excerpt from Target Notice mentioned above)

(1)	Trading participants who wish to conduct document examination regardless of whether or not they apply for a new listing.
(2)	A lead managing trading participant who does not have any experience in the managing role*1, or a lead managing trading participant who does not have the experience for a certain period of time*2 at the time of applying for initial listing (excluding trading participants who have conducted documented examination within a certain period of time.)
(3)	A lead managing trading participant for which said corporation has determined that the system for listing eligibility examinations has changed significantly since its most recent role as a lead managing trading participant at the time of application for initial listing (excluding trading participants who have undergone document examination after the system change)
(4)	A lead managing trading participant for which said corporation determines that further examination of the operation status of the listing eligibility examination systems is necessary based on the results of the document examination or the progress of the listing examination.
(5)	Trading participants for which said corporation deems it necessary to verify the listing eligibility examination systems based on various other information.

1 In the case of joint underwriting, only the lead underwriter who plays a primary role in the listing examination is eligible. The same applies hereafter.

2 The target period is three years.

2. System Required for Lead Underwriters



- Based on the purpose of the “Rules concerning Trading Participants' Listing Eligibility Examination Systems, etc.,” the status of the organizational structure will be checked to identify **whether there are sufficient personnel to conduct a listing eligibility examination** through the document examination.

Main check points concerning organizational structure

- | | |
|-----|---|
| (1) | The Listing Eligibility Examination Department and the Listing Guidance Department (if any) each have a person with sufficient experience in conducting listing eligibility examination or providing listing guidance as a lead underwriter for other companies or for the company itself. |
| (2) | There must be a system capable of systematically examining and judging the listing eligibility and providing listing guidance, in addition to the aforementioned person under (1) above. |
| (3) | In the process of examining listing eligibility and providing listing guidance, the company must have systems that allow it to conduct in-depth examination using outside agencies and personnel, as necessary. |
| (4) | There must be a system of blocking information between the Listing Eligibility Examination Department and the Listing Guidance Department, etc. (firewall) |
| (5) | There must be a system to coordinate with the Listing Guidance Department and other departments to exchange necessary information for the listing eligibility examination. |

(Excerpt)

Rule 3. Implementation of Listing Eligibility Examination

1. Managing trading participants shall examine whether or not an entity, which either intends to file or has filed an initial listing application for securities referred to in each of the following items, and its corporate group are likely to meet the requirements or criteria provided for in each of such items.

(1) Stocks, etc. for which an application for initial listing on the Standard Market is to be filed (excluding stocks, etc. to which the provisions for technical listing are to be applied)

Requirements described in each item of Rule 207, Paragraph 1 of the Listing Regulations

(2) Stocks, etc. for which an application for initial listing on the Prime Market is to be filed (excluding stocks, etc. to which the provisions for technical listing are to be applied)

Requirements described in each item of Rule 213, Paragraph 1 of the Listing Regulations

(3) Stocks, etc. for which an application for initial listing on the Growth Market is to be filed (excluding stocks, etc. to which the provisions for technical listing are to be applied)

Requirements described in each item of Rule 219, Paragraph 1 of the Listing Regulations

- In addition to the organizational structure described on the previous page, the following items must also be **clearly stated in regulations, and effective operation systems must be implemented.**

(Excerpt)

Rule 4. Seeking the Opinion of an Auditor

Managing trading participants shall seek the opinion of a certified public accountant or other person undertaking the audit certification, etc. of the financial statements or interim financial statements of the person who is subject to the listing eligibility examination (meaning the examination provided for under each paragraph of the preceding rule; the same shall apply hereinafter).

Rule 5. Action in Response to Change of Managing Trading Participant, etc.

If a managing trading participant becomes aware that any of the facts enumerated in each of the items below apply to the person who is intending to file an initial listing application (referring to the application provided for under each paragraph of Rule 3;

the same shall apply hereinafter), the said participant shall verify the reasons therefor and shall give due consideration to the compatibility of these circumstances with listing; provided, however that Item 3 is only applicable when an initial listing application

provided for under Rule 3, Paragraph 1. is to be filed or has been filed.

(1) Change of managing trading participant due to be designated

(2) Change of certified public accountant selected or due to be designated to undertake audit certification of financial statements or interim financial statements, etc.

(3) Change of financial instruments exchange, etc. with which initial listing application was due to be filed

Rule 6. Creation and Keeping of Internal Records

When conducting listing eligibility examinations in respect of a person who has filed an initial listing application, etc., the managing trading participant is required to create internal records of the matters enumerated in each of the following items and to keep

such records, together with the documents and information on the basis of which the records are created for a period of 5 years from the date on which the initial listing application, etc. is filed.

(1) Documents and information collected during the course of the listing eligibility examination (limited to documents and information judged to have an impact on the results of the listing eligibility examination) and records of the details of analysis and evaluation of the said documents and information

(2) Records of the result formation process pertaining to the listing eligibility examination

Rule 7. Monitoring Corporate Developments Up to Listing Date, etc.

When an initial listing application, etc. has been filed, for the period from the time of filing of the initial listing application, etc. to the date of listing, etc., (meaning initial listing date for a case where the initial listing application provided for under Rule 3, Paragraph 1 is filed, date of transferring the market segment for a case where an application for transferring the market segment provided for under Rule 3, Paragraph 2 is filed, and a date when the requirements provided for under each item of Rule 3, Paragraph 3 are confirmed to be applicable when an application for examination provided for under Rule 3, Paragraph 3 is filed) a managing trading participant shall notify the Exchange without delay of any developments that are deemed likely to have an impact on the results of the listing eligibility examination.

Rule 8. Ensuring Independence of Listing Eligibility Examination

A managing trading participant shall establish organizational systems which meet each of the following items; provided, however, that this requirement shall not be applicable if the Exchange deems that the managing trading participant has already essentially established structures that allow the formation of an independent opinion during the course of the listing eligibility examination.

(1) The managing trading participant shall establish a department responsible for the listing eligibility examination (hereinafter referred to as the "listing eligibility examination department").

(2) Persons attached to the listing eligibility examination department who are responsible for carrying out listing eligibility examinations shall not be permitted to undertake business promotion work for attracting new listing candidates nor provide guidance to persons applying for initial listings.

(3) Directors with responsibility for the listing eligibility examination department shall be prohibited from holding responsibility for divisions that undertake business promotion work nor provide guidance on listing.

Rule 9. Establishment of Internal Regulations

Managing trading participants shall draw up internal regulations setting out matters necessary for the implementation of listing eligibility examination and the formation of independent opinions by the listing eligibility examination department.

Rule 10. Implementation of Internal Inspections

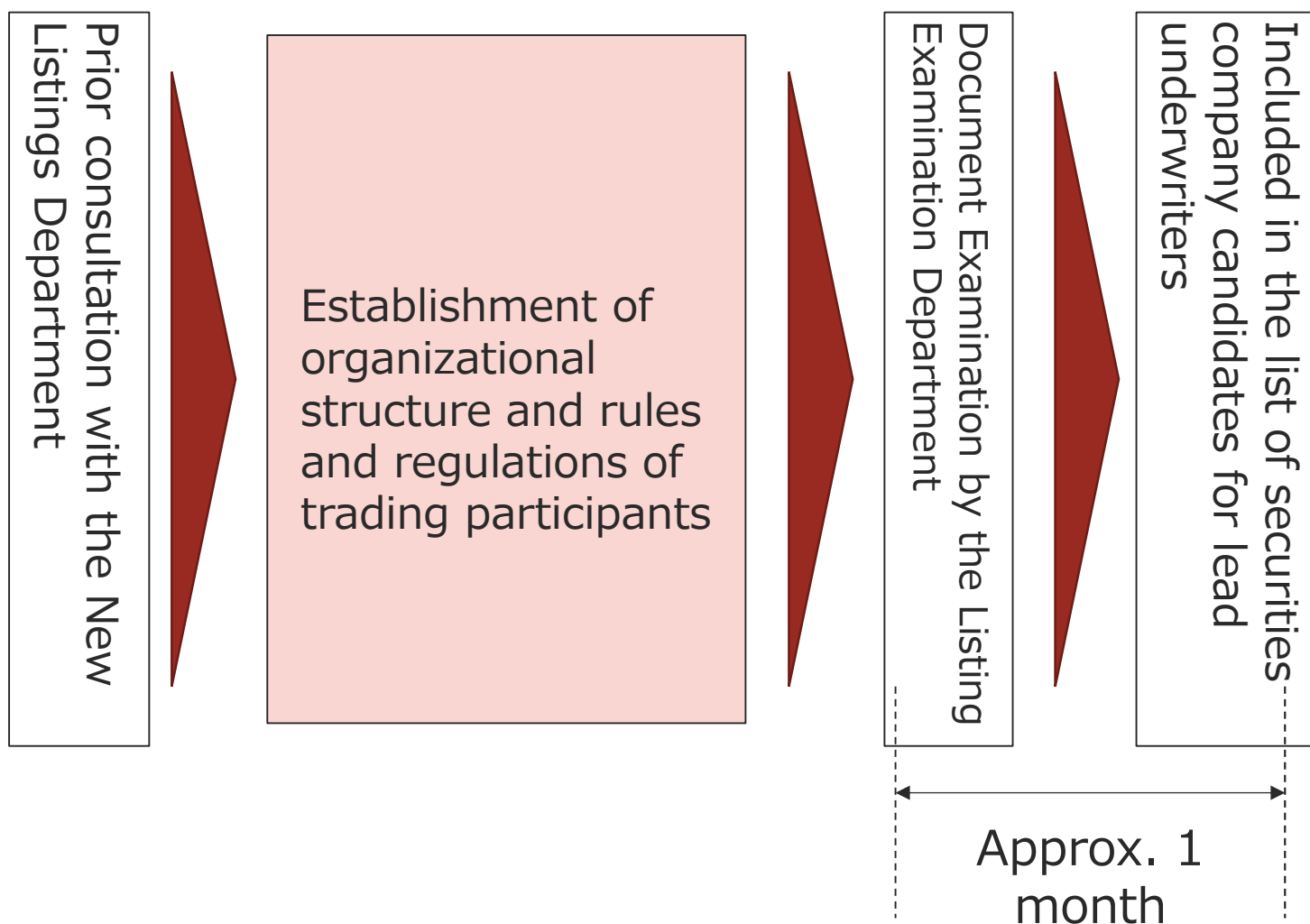
Managing trading participants shall carry out internal inspections of compliance with these internal regulations at regular intervals, and implement any other measures necessary to ensure the efficacy of the internal regulations described in the preceding rule.

3. Procedures for Document Examination



Procedures for Document Examination

- Please consult with the Lead Underwriter Consultation Center in the New Listings Department to undergo a document examination and make preparations for establishing the necessary organizational structures and rules and regulations.
- In principle, the period required for a document examination is one month, and interviews will be conducted as necessary.



4. Submission of Documents for Examination¹



■ Internal Rules and Organizational Structure

Item number	Document Name	
1	Internal rules and manuals	(1) Internal organization rules
		(2) Internal rules for segregation of authority
		(3) Rules on authority of decision-making
		(4) Rules stipulating the contents and procedures of listing guidance services
		(5) Rules and regulations governing the contents and procedures of listing eligibility examination services
		(6) Bylaws, etc., stipulating the contents and procedures of listing guidance services
		(7) Bylaws, etc. stipulating the contents and procedures of the listing eligibility examination services
2	Letter pertaining to internal organizational structure class (If there is independent listing eligibility examination department)	(1) Various documents pertaining to the organizational structure of the Listing Examination Department
		(1) Organization Chart
		(2) Career summary of representative
		(3) Representative's experience in providing listing guidance
		(2) Various documents related to the organizational structure of the Listing Eligibility Examination Department
		(1) Organization Chart
		(2) Career summary of representative
(3) Representative's experience in providing listing guidance		

■ Internal Rules and Organizational Structure

Item number	Document Name	
3	Documents pertaining to internal organizational structure (If there is no independent Listing Eligibility Examination Department set up)	(1) Organization
		(2) Career summary of representative
		(3) Representative's experience in providing listing guidance
4	Procedure flowchart	(1) Flowcharts of procedures for Listing Guidance Services and Listing Eligibility Examination Services

■ Documents related to in-house examination

Item number	Document Name	
5	Documents related to in-house examinations	(1) Internal inspection plan for the Listing Eligibility Examination Department
		(2) A report on the results of the internal examinations to the Listing Eligibility Examination Department

5. Lead Underwriter Consultation Center



- The New Listings Department of TSE assists trading participants who wish to undergo a document examination to become a lead underwriter.
- Please contact us using the details below for assistance in developing an organizational structure and rules and regulations for the duration of the document examination.
- Please feel free to inquire about starting or resuming business as a lead underwriter securities company at any stage of your consideration process.

Contact

<https://www.jpx.co.jp/equities/listing-on-tse/new/basic/03.html>

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