

Minutes of the 20th Council of Experts Concerning the Follow-Up of Market Restructuring

Date: Tuesday, February 18, 2025 4:00 - 5:30 p.m.

Place: Tokyo Stock Exchange 15F Conference Room

Attendees: See member list

Watanabe, Director, Listing Department, TSE:

I would like to open the 20th Council of Experts Concerning the Follow-up of Market Restructuring.

Mr. Nagami is participating online today and Mr. Koike is absent.

Now, let us explain today's agenda.

Ikeda, Senior Manager, Listing Department, TSE:

Thank you for joining us today.

I would like to explain today's agenda items based on Document 1, which summarizes our current policy for dealing. We would like to report and discuss today mainly on the items that are listed here as [February].

Document 2 is about "Management that is Conscious of Cost of Capital and Stock Price," which is listed in the upper left-hand corner. It has been almost two years since the request was made, and we have summarized the most recent status and other information. The third year's initiatives will be discussed again at the next meeting. We would also like to take institutional measures to ensure an IR system that takes into account those companies that have not yet disclosed. This is basically a report; we would appreciate your comments if you have any suggestions.

Document 3 is about going private. After the last meeting, we also consulted with market participants on practical matters. We have compiled a review proposal based on the contents of this, and would appreciate your discussion and comments on it.

Document 4 is about the future measures on the Growth Market. Since we discussed the major future directions in the previous session, today we would like to discuss some more specific details of the measures to be taken.

Document 5 is about transitional measures. Finally, the transitional measures will end next month, and some companies will enter a one-year improvement period at the earliest, and some will be delisted after March 2026. We will report on the situation and anticipated future moves. We would appreciate any comments you may have on this.

Documents 6 and 7 are the recently announced materials on the parent-subsidary listings, etc. Those are attached for your reference.

We would like to discuss these diverse topics with you.

Watanabe, Director, Listing Department, TSE:

We would like to start explaining the materials.

First, let us explain initiatives regarding "Management that is Conscious of Cost of Capital and Stock Price."

Sakata, Manager, Listing Department, TSE:

Please refer to Document 2, "Management that is Conscious of Cost of Capital and Stock Price."

Page two shows the recent status of disclosure. More than 90% of companies in the Prime Market have already disclosed. Therefore, we would like to focus more on how we can improve the contents, rather than on whether or not it is disclosed. This page contains facts only.

See page three. Since last month, we have been indicating companies that wish to have more active contact from institutional investors on the list, and as of now 235 companies have submitted applications. The breakdown shows that companies with a market capitalization of several tens of billions of yen, in the red frame, are the volume zone, indicating that companies of the expected size have applied. Since this is an initiative that has just begun, we would like to dig deeper into the status of its utilization and issues, including whether it is leading to actual contacts.

See page four. We plan to conduct a survey of listed companies in March as we consider our initiatives in the third year of the request. We have had many opportunities to brief listed companies and exchange opinions with them at various locations. However, in order to consider more practical measures in the future, we would like to have a comprehensive understanding of the actual situation and issues of companies. As for the specific options for the survey, we will work out the details with the help of all concerned.

See page five. We have just seen the fact that 90% of the companies in the Prime Market have already disclosed their information. However, on the flip side, 10% of companies in the Prime Market and 50% in the Standard Market have not yet disclosed. Some of them are, while being publicly listed companies, making not sufficiently engaging with shareholders and investors. For example, as shown on the right side of page six, there are also a certain number of companies that do not conduct IR activities or even feel the need to do so.

Please return to page five. In order to build relationships with shareholders and investors, listed companies should be encouraged to actively provide information, for example, by holding various information meetings and posting materials on their websites. Therefore, we are planning to indicate that listed companies must develop a system for providing information in the Code of Corporate Conduct.

Each listed company should decide on its own what kind of system it will actually establish, based on its own circumstances. Therefore, we will not set a uniform rule that, for example, a dedicated department must be established. We will require disclosure of this information in the Governance Reports so that investors are well informed of its contents, and we will use this to keep track of the situation.

That is all for my explanation.

Watanabe, Director, Listing Department, TSE:

If you have any comments or questions about the above report, we would be happy to hear from you.

Kumagai, member:

I believe that the implementation of a survey for listed companies on page four is very important to consider the direction of future measures. While I would like to know more details, given that responses are voluntary, a simpler survey might be better from the perspective of improving response rates.

The number of questions must be considered so that the more companies respond. However, I would like to know the details regarding the third from the top on the right side of question two, "Gaps have been identified, but it is difficult to consider and implement improvement measures based on the gaps." I would like to know which specific area is the obstacle, whether it is, for example, scrutiny of the balance sheet, the business portfolio, internal organizational issues, or the time it takes to develop a strategy.

In a previous document, we categorized companies into three groups: one, those that are making autonomous efforts; two, those that are expected to improve in the future; and three, those that have yet to disclose. The point I mentioned concerns the second group of companies, which is the volume zone, and I feel that it will be necessary to listen to the situation carefully. If it is difficult to include this in the survey, we could conduct interviews with the target companies to gather more detailed information.

Okina, member:

Is the survey for listed companies on page four sent to the person responsible for investor relations or to the CFO or other management level?

Monden, Senior Manager, Listing Department, TSE:

The survey is intended to be sent to all listed companies in the Prime and Standard Markets, and will actually be sent to the person in charge of IR and disclosure.

Okina, member:

Thank you very much. For example, I don't think the IR person would give the answer that there is no progress on the board level. Therefore, I think it is necessary for the person in charge to have a thorough internal interview survey.

I also believe that they need to investigate the issues regarding outside directors. I believe that the actual issues will not come out unless those who respond to the survey answer the questions after they have gotten full answers from CEO or CFO.

Uchida, member:

Regarding the survey for listed companies, I agree with the idea of simplifying it as a whole. However, if free-answer fields are included in "other" items, there is a possibility that the respondents will only select the

options and no special description will be made. Therefore, I think it would be a good idea to provide a separate space for free answers.

I have no objection to the content of ensuring establishment of IR system. However, does TSE currently have new listing companies pledge to ensure such a system or inform them of it? If so, you could consider working with lead managing brokerage firms to increase awareness.

Isogai, Manager, Listing Department, TSE:

Currently, while we check to see if a system for timely disclosure is in place, we do not require to develop an IR system. We believe that the points you have pointed out will need to be additionally implemented in the future.

Sampei, member:

Regarding the IR systems on page five, I think it is good that you do not place uniform stipulations. I think it is necessary to clarify that this does not mean that there must be a department named IR. The president may have such a role.

However, as the questionnaire on page six indicates, it is strange that companies that do not conduct IR activities and do not feel the need to do so are listed. I think it is necessary for TSE to confirm whether companies are willing to do IR activities, and for companies that are not willing to do so, to make sure they are aware of their responsibilities as listed companies. The survey was conducted by an outside party, and although the question says "dialogue," some of the options are related to engagement and meetings in general, so the purpose of the survey is not exactly clear. I don't mean to raise an objection on this data. I don't think we should leave companies that don't feel the need on the right.

Kuronuma, member:

Regarding the distribution of companies wishing to have more active contacts from institutional investors on page three, you said that the status of applications is in line with your expectations. However, I was under the impression that there were few applications from companies with low market capitalization. I think the list is aimed at such companies; so the result was somewhat disappointing or surprising.

With regard to ensuring an IR system on page five, listed companies are obliged to disclose information in a timely manner under the rules of the stock exchange. I believe that if you do not sort out the relationship between the obligation of timely disclosure and the obligation to develop an IR system, it could lead to misunderstandings.

Nowadays, IR activities are said to be a matter of course, and I believe that listed companies should be obligated to disclose information. However, while it is in line with recent TSE measures to bring their information into a form that investors can understand and sympathize with corporate activities, I do not think it is a duty that all listed companies are universally obligated to undertake.

This time, it is to be stipulated as a matter to be complied with, so it will not be a comply-or-explain matter like the Corporate Governance Code, but it should be complied. In fact, companies do have some systems in

place, so I don't think there are any cases of violations. However, I do not believe that this is an obligation that a listed company should have. Please be aware that there are many different opinions.

I do not deny the establishment of such an obligation in itself, but I would like to say.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

Next, we would like to explain "Revising the Code of Corporate Conduct on MBOs and Subsidiary Conversions."

Nakamura, Associate, Listing Department, TSE:

Please refer to Document 3, "Revising the Code of Corporate Conduct on MBOs and Subsidiary Conversions."

Page two is the overview of the revision.

The first point is a review of the scope of actions covered by the Code. We will broaden the scope of actions mandated for protecting minority shareholders, such as obtaining opinions and making necessary and sufficient timely disclosures, to MBOs in which structural conflict-of-interest risks are recognized, and to subsidiary conversions by other affiliates with 20% or more of the voting rights.

Another point is the revision of content of the Code. We will review how the "opinion stating that the transaction will not undermine the interests of minority shareholders" at special committees should be and the content of necessary and sufficient timely disclosure to help shareholders make a decision. Details are explained in subsequent pages.

Page three is about the revision of the nature of opinions.

First, with respect to the opinion provider, in recent years, obtaining opinions from special committees has become established in practice. However, this is not clearly regulated, and it is possible, for example, to obtain the information from outside directors or individual outside experts. Therefore, we would like to make it mandatory to obtain opinions from the special committee for the purpose of clarifying the entity conducting the consideration.

Regarding the content of the opinion, first, we are considering requesting the acquisition of an "opinion stating that the transaction is fair to general shareholders" rather than an "opinion stating that the transaction will not undermine the interests of minority shareholders." There have been cases where the opinion of "not undermining" was given just because there would be an opportunity to sell at a price with a certain premium, despite concerns about the fairness of the price. In this context, it is our intention to clarify that we would like them to properly consider even the fairness of the price level, taking into account the Fair M&A Guideline as well.

Second, we intend to specify the viewpoints to be considered by the special committee and stipulate that the specific details of the consideration and the basis for the decision regarding those viewpoints must be fully explained and disclosed in the opinion.

In this regard, the publication of the minutes was controversial at the last meeting. In our interviews with market participants, while they understand the purpose, many expressed concerns about the possibility of intimidated discussions if the content of individual committee member's comments remain as the direction of negotiations may change again and again. There is no set format for the minutes of special committee meetings, and the decision is left to the discretion of each company. If the minutes are required to be published, there is a concern that the minutes themselves may be simplified beforehand, as was previously reported in the Nikkei Shimbun as "stealth minutes." So, while we do not request the form of minutes, we would like to present points of view that we would like to see written in the minutes, and we would like to request proper explanations of those in the opinion.

In addition, as noted below, we will continue to seek a full explanation of the basis for the final decision of the board of directors based on the opinions from the special committee and other factors.

In addition, while the special committee is expected to play a significant role, there are cases where the independent outside directors who are members of the special committee do not necessarily have experience or knowledge in such situations, and the Exchange would like to provide them with information.

Page four describes the matters for consideration in the opinion.

The general framework is the perspective presented in the Fair M&A Guidelines, but the items with hyphen are included for the purpose of enhancing the content in light of current disclosure practices.

The first check mark of fairness of the terms of the transaction is about the process of consultation and negotiation. Even now, there are cases where the number of discussions and negotiations and the fact that a reasonable increase was made from the price initially offered by the purchaser as a result are disclosed, but the negotiation policy, what the issues were, etc. are not disclosed. We envision requesting such things as well.

The second check mark concerns the details of the share value calculation. Currently, the disclosure is limited to, for example, "We did not find anything particularly unreasonable in the overall calculation details." If special assumptions have been made, we expect to ask for an explanation regarding the details of the rationale for the consideration.

The third check mark concerns the reasonableness of the premium compared with past market prices, etc. Investors have pointed out that there have been instances of companies intentionally lowering their prices by disclosing negative information, such as downward revisions to earnings forecasts, at the last minute. We will require consideration of the reasonableness of the price based on the proper consideration, stating that it is not OK merely because a general premium is added to the lower market price.

With regard to the fairness of the procedure, we will ask for an explanation as to whether sufficient measures have been taken to ensure fairness and what specific measures have been taken, based on the measures exemplified in the Fair M&A Guidelines. In addition, appropriate consideration should be given to, for example, the establishment of majority-of-minority conditions, depending on the circumstances of each company. From this perspective, if some of the measures exemplified in the Fair M&A Guidelines are not implemented, we will also request an explanation of the reasons for not implementing them and what they think about them from the perspective of ensuring overall fairness.

Page five is about price restrictions.

I explained earlier that if negative information is disclosed immediately prior to the MBO, we will ask for an explanation as to the reasonableness of the premium level in light of that information. On the other hand, some of the participants at the previous meeting suggested that some kind of uniform regulation should be established, keeping in mind the price restrictions established in other countries.

In this regard, while there have been no cases of acquisitions at prices below the historical average market share price as is the case in other countries, it is conceivable that Japan could set restrictions similar to those in other countries as a minimum bar. However, there is a concern that if this is done, the practice of "as long as it exceeds that level, there is no problem" may take root, and in turn, no substantive consideration will be given to the issue.

Even when a stricter bar is set, it is difficult to establish a univocal or objective standard, such as what percentage of the premium must be above to be fair. Therefore, we suggest that the special committee first consider the reasonableness of the premium level in light of the history of such disclosures and then seek to disclose such information.

There is also the question of why an MBO, etc. would be conducted immediately after disclosing negative information in the first place. So, we will continue to seek more careful explanation of the purpose and background, as indicated in the Fair M&A Guidelines.

Finally, page six is about reviewing the content of necessary and sufficient disclosure.

Specific details of the expansion are shown in the table below. Disclosure of the assumptions underlying the financial projections and calculation methodologies should be expanded.

As noted in the note, we will not require disclosure of specific figures such as capital expenditures and depreciation in the free cash flow calculation process, in light of practical concerns and other factors.

Basically, these disclosures are not differentiated by the type of acquisition consideration. However, as noted in the green box, in case where payment is made in listed shares, such as subsidiary conversion through share exchanges, currently disclosure of the specific figures for financial forecasts is not requested given the existence of a market price.

On the other hand, some investors have voiced their concerns about this point, saying that the fairness of transaction terms in cases where listed shares are used as consideration may be inferior to those in cases where cash is used as consideration. Also, from the perspective of addressing the issue of conflict of interest, there is no rationale for different treatment. So, we would only like to require the disclosure of specific figures of the subject company's financial projections.

That is all for my explanation.

Watanabe, Director, Listing Department, TSE:

We would now like to receive your comments.

Kumagai, member:

I agree with both the review of the scope of actions covered by the Code and the review of the content of the Code. I believe there are two points to be considered in making these amendments.

First, the role of the special committee is so great that it is vital that it function in a healthy manner. The special committee must recognize that it is in the interest of the general shareholders and must respond to the role required of it. Specifically, in addition to extensive knowledge, judgment and integrity will be essential. While it may obtain professional advice from outside advisors, I would very much like to see the TSE consider implementing the information provision as mentioned in the document. At the same time, it is no exaggeration to say that the independence of the independent outside directors who become members of the special committee is fundamental to the functioning of the special committee. Future action, including consideration of independence criteria, is recommended.

The second point is to ensure the usefulness of the information. The "opinion stating that the transaction is fair to general shareholders" requires an explanation of the fairness of the terms and procedures of the transaction, but it must contribute to investors' judgment. A preliminary reminder may be required to avoid the institutional nature seen in the Corporate Governance Report.

Sampei, member:

Overall, I think it is good.

In practice, they would refer to the perspectives for consideration in the opinion on page four, but I think there is an important stance to take before the specific perspectives. Page 19 of the Fair M&A Guidelines states, "Basically, the special committee is expected to consider and make decisions on such M&A from the standpoint of serving the interests of the target company and its general shareholders, rather than from a neutral third-party standpoint with respect to the acquirer and target company/general shareholders, and in such a sense, if the special committee functions effectively, it is considered to be highly regarded as a measure to ensure fairness." The note also states that the position of the committee is different from that of a third-party committee in corporate scandals, where neutrality is required. This is very important, and I think it is important to clarify the axis of our stance by indicating this spirit at the top of page four as the function we expect from the special committee.

The other point is regarding the revision of the content of the information disclosure on page six. I don't think it is realistic to require disclosure of all specific figures for financial projections. However, I think it would be useful just to disclose whether the ratios to sales and to total assets are constant or increasing/decreasing. I thought the "growth rate" in brackets in the specific figures in the financial projections referred to the growth rate of terminal value, but the bottom line also refers to going concern value. I would like to know what you envision.

Nakamura, Associate, Listing Department, TSE:

We assumed a growth rate figure for sales growth over the financial forecast period, rather than a growth rate for the calculation of going concern value.

Sampei, member:

I understood it to mean that if the various ratios are constant, the growth rate is zero. Even if specific figures are not required to be disclosed, it would be easier to infer whether financial projections are conservative or optimistic if the company discloses its view that, for example, it expects these figures to remain constant. Also, although detailed disclosure is not required, I think it would be important for professionals to know whether the DCF model is a one-step model or a two-step model, etc., as these points will help them understand.

Also, I think that the independence criteria pointed out by Mr. Kumagai would be an important issue to consider reviewing in the future.

Kuronuma, member:

In the past discussions, there have been opinions that all the fairness assurance measures exemplified by the Fair M&A Guidelines should be required to be implemented, and as a researcher myself, I feel some sympathy for such opinions. However, from a practical standpoint, I would like to agree at this time with the direction of requiring that opinions be obtained from the special committee and indicating the perspectives to be considered at that time.

However, the information you provided does not include the details of the proposed review, which makes it difficult to evaluate. I would like to ask you a few questions. First, with regard to the review of the subject actions, do you mean to apply not only to cash-outs but also to all cases of subsidiary conversions, including cases where payment is made in listed shares? Second, so far, special committees have been established in all cases of MBOs, etc. I believe that the subject act will now be expanded to require the establishment of a special committee for the subsidiary conversions by other affiliated companies, but will this have any impact on practice?

Nakamura, Associate, Listing Department, TSE:

As you understand, the scope of actions will be applied not only to the case of cash-out but also to the case of stock consideration such as making a company a wholly-owned subsidiary through a stock exchange.

Regarding the second point, under current practice, a special committee is generally established for a subsidiary conversion, regardless of whether it constitutes an MBO or not. Therefore, we do not believe that this point has any particular impact on practice.

Kuronuma, member:

I thought there were instances where a special committee would not be established if there was no capital relationship at all. In practice, if there is a more or less capital relationship, a special committee is established?

Nakamura, Associate, Listing Department, TSE:

We understand so. We understand that, in consideration of conflicts of interest, it is common practice to establish a special committee.

Kanda, member:

It seems to me that the direction described in the document is fine. However, there are some points that I do not understand myself, and I may not be able to convey them well, but I will try it. I believe you require that the opinion of the special committee should fulfill the contents of pages three and four, but I think the question is who will determine whether those are fulfilled or not. It would be difficult for TSE to determine if the requirements are fulfilled. I think there could be one more step. In other words, I believe that the company or the board of directors needs to explain that it believes that the opinion issued by the special committee meets the prescribed content. I believe that this would make it easier for TSE to ask questions if any. In addition, regarding the first item at the bottom of page three, I believe that the basis for the final board decision is of a different dimension. For example, I believe that there is a separate final decision by the board of directors, based on the opinion of the special committee, as to whether they are in favor or opposed to making the company a wholly owned subsidiary. I believe that the board could say that it thinks the special committee's opinion satisfies the content on pages 3 or 4, and that therefore it thinks it is fair.

In any case, I would say that if we just say what items we would like the special committee to consider, enforcement will be very difficult, so we will need to be a little creative. It is the company that has the responsibility, and it is the company to whom the Code of Corporate Conduct is addressed, right? I think it would be better to have the company explain whether they think the special committee's opinion is good or not, and whether it satisfies the viewpoints we have articulated.

Matsumoto, member:

Overall, I think you have done a very good job of balancing the content, but I would like to point out three points.

The first, as others have said, is that the special committee plays a very important role. I think you are absolutely right, as several members have mentioned, that the requirement for independence of the independent outside directors who are members of the special committee is very important. For example, we have seen cases where the chairman of a foundation established by the controlling shareholder was an independent outside director. So, I think it will be necessary to take a hard look at the independence criteria itself.

The second is about the minutes of the meeting. Ultimately, I am fine with what you suggest. However, as I mentioned before, based on the opinions from the special committee, the final discussion will take place at the board of directors meeting, where outside directors who are members of the special committee should also participate. The minutes of the board of directors meetings must include a note of the statements made by outside directors and are available for inspection upon request. So, I don't understand why only the minutes of the special committee meetings would be a practical problem if you require them to be published. I don't think you are trying to hide it, but I think there could be a lot of issues that could arise as a result. Ultimately, I think your suggestion is good, but it needs to be looked at carefully.

The third point, also related to the second, is the extent to which the fairness of the procedures on page four should be covered. I think, for example, that the majority-of-minority condition may be too strict, so the note in red is very important. I think that the items to be complied with in the Code of Corporate Conduct are effective in enforcement and are a very important tool for the governance of listed companies in our country. Therefore, I think it would be very problematic if this is not adhered to, or if it is taken for granted that it is not adhered to. Therefore, I think it is very important to emphasize the explanation that not all of the measures one through six are required to be implemented, as indicated in red, and to design the content to be complied by the listed companies as a result. In that sense, I think it is also very important to have the

mechanism that Mr. Kanda mentioned, whereby the board of directors ultimately confirms that the written opinion is appropriate.

Nagami, member:

I was also comfortable with the general direction of the review. On that basis, I still believe that the effectiveness of the special committee and the balance between that effectiveness and the practical burden are extremely important. I believe that the importance of balancing the burden as well as the effectiveness of the special committee will become even more important, especially as we foresee an increase in MBOs and other such events in the future.

In this regard, I would like to make two practical points. First, I think it would be good in practice for the TSE to disclose a firm example of the format in which opinions in general should be summarized.

I think it would be easier for all stakeholders to confirm and discuss in the same format and protocol if there is a certain formatting, both in terms of confirmation at the board meeting and at the TSE, and it would also reduce the burden in practice.

The second point is about the publication of the minutes. I'm sure there are many opinions on this, but I agree with the direction of not requiring disclosure of the minutes themselves.

Uchida, member:

As has already been commented, I would still like to ask for sufficient information and support for the independent outside directors as the role of the special committee becomes very important.

Another problem that troubles us is the difficulty in creating an incentive structure as the special committees are becoming increasingly important. I apologize for not being able to provide a specific solution to this point. In order for the special committee to follow the Code, I wish we could do something as a support.

I do not disagree with the purpose of the overall review, and I think the extension of the scope to affiliates this time is a step forward. Given the environment, MBOs and corporate restructuring are expected to increase in the future, and this should naturally be taken into account. However, I would not say that companies will shrink, but I would like you to keep a close eye on how activities such as reorganization, including practical responses and others, will develop as a result of the impact of this revision.

Okina, member:

I too believe that this is a balanced review and I agree with you all on the importance of the special committee.

One point I would like to make is regarding the disclosure of the assumptions underlying the financial projections on page six. In particular, since the scope of the transaction will be expanded to include subsidiary conversions by an affiliated company, it would be desirable from the perspective of general shareholders to have the company disclose not only the business environment, but also how it assumes that the business model of the business will change.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

Next, I would like to explain our future measures in the Growth Market.

Isogai, Manager, Listing Department, TSE:

On page two, we show the growth rate of market capitalization after listing, which you have seen in the past, but with a slightly different presentation.

It is of course important to encourage companies in gray areas—companies that have grown less than 1x since listing—to work toward growth. However, considering our goal of "producing large start-ups that will drive the Japanese economy" from the Growth Market, which we confirmed last time, we believe it is important to put together overall measures with an emphasis on how to increase the number of companies aiming for higher growth that are surrounded by the red line.

We believe that it is also important to determine the facts on which to base our awareness of issue and what kind of message to send out. We would be very happy to hear your comments today from that point of view as well.

From the perspective of what I have just said, I think it would be a good idea to encourage all listed companies to once again promote management oriented toward high growth. The contents of this are described on page three.

Currently, all Growth Market listed companies are already required to disclose their business model and growth strategy as shown on the bottom left of the page as "Matters Relating to Business Plan and Growth Potential." However, as shown on the next page—page four—we have received feedback from investors that our growth targets and measures are not specific enough, that our perception of our target market and competitive advantage is not in line with theirs, and that we do not adequately review progress of companies after listing.

In this context, as shown in the lower right corner of page three, we will ask companies to analyze, using specific indicators, whether it has been able to grow solidly from the time of its listing to the present, from the perspective of whether its business model is functioning as well as originally envisioned. In addition, they are requested to check for any discrepancies in assumptions about the size of the target market and the company's competitive advantage. We would then like to ask them to update their current growth targets and policies based on this.

I don't think all companies can handle these things, of course. However, we would like to provide whatever support we can to companies that are actively pursuing high growth and trying to meet investors' expectations. To this end, we would like to provide various types of support, for example, a list of companies that conducting these measures.

Today, we would very much like to hear your opinions on these specifics and how to disseminate information.

Page five is about measures to generate IPOs that will lead to growth after listing.

In order to realize this goal, we believe it is important for management aiming for an IPO to be aware of the responsibilities involved in becoming a public company, and to carefully consider the objectives of the IPO. However, while there are not many managers who have experience and knowledge about post-listing, we believe that the role of related parties who provide support, including us at the Exchange, is also important.

However, the Exchange is only directly involved with companies seeking an IPO in the last few months of preparation for listing. Therefore, we believe that the entire industry needs to work together to produce good IPOs that will lead to growth after listing, especially in cooperation with the lead managing brokerage firms that have been involved for many years before that.

From this perspective, we are planning to promote awareness and sharing of issues and strategies with high-level people at securities firms. We hope to report on the contents of these activities at these follow-up meetings as well as disseminate information. If you have any suggestions, we would appreciate your comments.

Even if each company is working to achieve high growth, it may be difficult to do so without the input of institutional investors' perspectives. Page six discusses how to secure it.

In this regard, as we have discussed in the past, we will continue to promote understanding of institutional investors' viewpoints and create points of contact with them, and at a minimum, we will ensure that the size of the company is large enough to be an investment target for institutional investors based on numerical standards.

Specific details are currently being discussed and we hope to present them at the next meeting. On page seven, we provide our opinion on the size institutional investors investing in small- and mid-cap growth stocks need and on page eight, we summarize the current market capitalization distribution. If you have any suggestions at this time, we would appreciate your comments.

We hope to eventually put these three measures together as a package. That is all.

Watanabe, Director, Listing Department, TSE:

Now, we would be happy to receive your comments.

Kumagai, member:

As the Growth Market is expected to produce startups that will drive the future growth of the Japanese economy, what the TSE should do is to improve the environment and create a framework. It is important to create an environment and structure that allows valuable risk money, which is invested due to an expectation of a growth, to flow into companies that are aiming for growth, rather than into companies that are not aiming for growth or have stopped growing. One way to do this would be to effect market renewal, to foster a healthy sense of tension toward companies, and to provide investors with clear information about companies that are looking to grow.

In order to clearly present information to investors, I agree with the content of the "request for management that strives for high growth" that encourages a review of the past situation, including analysis and evaluation, and inspection and consideration of the future direction of the company.

However, I would like to see companies take this seriously by clearly indicating that it is a tool for fostering a relationship of trust with investors, which is a very important element in investment, and not just a way to indicate growth strategies and other directions. Looking at the results of the interviews with institutional investors as shown in the document, it seems to me that three things are lacking: one, specific information disclosure; two, credibility for continued information disclosure; and three, efforts for improvement. In particular, the very strong word "dishonest" was brought out by institutional investors in terms of confidence in the continued disclosure of information, and this must be a serious concern. This leads to damage to investor confidence in companies. When I speak with institutional investors, they often point out that growing distrust of a company can be a factor that increases the cost of capital. When requesting companies to promote such management, I believe that we should clearly state what is expected of them, while also indicating the results of interviews with institutional investors.

Regarding "Raising Awareness of High Post-IPO Growth Expectations" on page five, I hope that you will take a collaborative approach with the parties involved in supporting IPOs from the early stages. I believe that finding ways to respond to the fact that there are players with different interests, as observed in your previous interviews with stakeholders, is a key point. In addition to working with each other, TSE is expected to take the initiative and provide direction when there is a difference of opinion.

I believe that the "Measures to Incorporate the Perspective of Institutional Investors" on page six is very important in order to effect the market metabolism I mentioned earlier and to create a healthy sense of tension toward companies. The reason for the market's favorable impression of "Management that is Conscious of Cost of Capital and Stock Price" in the Prime and Standard Markets is not only that companies have shown their commitment, but also that pressure has been exerted on companies due to the tightening of voting standards for institutional investors.

In this sense, it is extremely important to ensure the eyes of institutional investors. According to the opinions of institutional investors in the document, the consensus is that the minimum size for investment is a market capitalization of JPY10 billion or more, and that the period for measuring market capitalization is about five years. From the institutional investor's perspective, they are looking for companies that have high growth potential and are listed at a certain size, while they are looking for companies that are listed at a smaller size to grow that much faster. Consideration should be given to raising the criteria for maintaining listing in line with the viewpoints of such institutional investors. In order to ensure corporate predictability, the increase in the listing maintenance criteria will also require a preparation period and transitional measures.

Finally, the dissemination of information on Growth Market reforms should be designed to raise companies' awareness and commitment to profit and market capitalization, with a set of growth and metabolism promotion to ensure a thick and continuous inflow of risk money. This is something that should be considered after all the details have been decided, though. In a market with an unspecified number of investors, such a response would protect a company in an emergency.

However, we believe that it is necessary to communicate that the TSE expects the increase in profit or market capitalization to be backed by financing and investment and the resulting growth, rather than a raise based on a one-time response, while utilizing the review in the "Request for Management that Strives for High Growth."

Nagami, member:

I agree with the enhanced disclosure of "Matters Relating to Business Plans and Growth Potential." I also feel that these materials, which are disclosed at least once a year, serve as a good communication tool with investors, and that their better understanding ultimately leads to investment. It would also be a good

opportunity for companies to plan or brush up on their strategies at least once a year. In this regard, I think it is a good means to summarize in this presentation material what we are working on again as well.

The other point is a comment and a question to the TSE. I too believe that page six is important. As has been discussed several times in the past, I believe it is very important to continue the momentum of the restructuring by the TSE. From this perspective, and although it may seem to trap you in your wording, the document states that "measures to incorporate the perspective of institutional investors" will be discussed "in future meetings." With this, we do not know when this will be discussed. On the other hand, many stakeholders have high expectations and interest in Growth Market reforms. Therefore, I think it is very important to have a draft proposal at the "next" meeting, not "in future meetings," from the perspective of not losing the current momentum, and I would very much appreciate it. I would like to know what TSE's position is at this time.

As a member of the committee, I would like to express my opinion on the numerical criteria. As we have said in previous meetings, metabolism is important, so instead of raising the criteria for initial listing as an entrance, I think it would be better to have the hurdle for maintaining listing from the current "JPY4 billion or more after 10 years of listing" to a period of five years and a level of JPY5 billion or JPY10 billion.

Ikeda, Senior Manager, Listing Department, TSE:

Regarding the consideration of numerical standards to ensure the viewpoints of institutional investors, as you mentioned, we are planning to present a rough draft at the "next" meeting, although the material states "in future meetings" as you mentioned. We will show you the package, along with the specifics of measures one on page three and two on page five based on today's discussion.

Matsumoto, member:

I would like to make two points. The first point is that it is clear that scale is important. For a company to be eligible for investment by institutional investors, it must first have a size of JPY10 billion or more. So, I think the most obvious and important measure would be to set several stages of the listing maintenance criteria.

In that case, if there is only one test after five years of listing, people will get lazy. Therefore, I think we need to devise a way to check the status of goal achievement year by year, like a mid-term test, and ask for explanations if they have not been achieved.

I would like to make one more point, which is not mentioned in the document, but I have a concern about the Growth Market. Recently, there have been calls that perhaps the requirements for the right to make shareholder proposals should be raised. This is like a chicken-and-egg debate, but the problem with the Growth Market is that there are no institutional investors watching, so there are no checks and balances. In some cases, we have seen well-considered shareholder proposals made by individual investors and other entities that meet the requirements for the right to make shareholder proposals to smaller Growth Market companies, while institutional investors do not participate. Such engagement by individual investors and others fills the gap where institutional investors are not participating. So, given the current state of the Growth Market, I am opposed to raising the criteria for the right of shareholder proposals and believe that it needs to be kept in mind.

Sampei, member:

I would like to comment on three points.

The first is my impression; I thought the chart on page two was very interesting. At first glance, this seems healthy. The first three to five years after listing are crucial, but some companies grow beyond that point. At the same time, however, the chart on page eight shows that only about 10% of the companies have a market capitalization of JPY25 billion or more, indicating that they are still small in size even with such growth. It was mentioned earlier that a market capitalization of JPY10 billion or more is required for institutional investors to enter, but it seems to me that essentially more is needed, and the issue of scale is very significant.

The second point is the disclosure of "Matters Relating to Business Plans and Growth Potential" on page three. In the UK, there is a section called Strategic Report in the statutory disclosure documents that correspond to a financial report, which includes a section called Business Model. This is not mandatory on AIM, the so-called emerging market in the UK. However, when I participated in a previous project to discuss business model disclosures, it was discussed that an AIM company would follow the guidelines as a model case to try out the disclosure. The less well-known a start-up company is, or the more it is trying to develop a new business model, the less likely it is that investors will understand its business model unless it is carefully explained. So, we have found that such careful disclosure is very well received by investors.

In light of this, I think it is important to review and inspect the disclosure of "Matters Relating to Business Plans and Growth Potential." It may be a burden for the TSE, but in addition to the points of disclosure, if there are examples that are well received by investors, it would be good to highlight them as good examples.

The third point is about pages five to six. I believe it is very important to keep the loop of all parties involved in a company seeking an IPO going well.

Looking back on my experience abroad, I believe that there was a decent connection between venture funds (VFs) and institutional investors abroad. From the stage when the IPO has not yet been decided, there are opportunities for VFs and institutional investors to exchange views and attend briefings. There, investors can learn more about the company going for an IPO and about VF's expectations for the company, which facilitates investment by investors in the listed market when the company goes public.

I think it will be important to build such a foundation in Japan as well. The key to this process is to share the business model with VFs and investors in the listed market. However, there are differences in the stage at which an IPO should be made depending on the industry. For example, for a technology company, the VF supports R&D investment in the early stage, and then once the IP is created, the company is ready to sell it. Therefore, an IPO at this time will allow the company to grow because it is at a stage where it can increase sales. If investors can see that the business model is a continuous one, it will be easier for them to invest, and this will be a win-win situation for both investors and management.

As far as I know, this kind of foundation has never existed in Japan before. I am not sure if it is the brokerage firm that does the preparation. If an institutional investor invests in a company it knew before the IPO, rather than taking a chance and investing in a company it first learned about at the time of the IPO, it has already built a relationship of trust and will be able to support the company even if the company does not perform well for a while.

I think it is important to have criteria for maintaining listing, but I would like to ask you to think about creating such a foundation for seamless baton passing at the IPO stage.

Okina, member:

I think we need to take a two-tiered approach.

As Mr. Sampei just emphasized, the business models of companies listed on the Growth Market are truly diverse. Therefore, I think it is a good approach for companies that strives for high growth to compete with each other with as much freedom as possible, rather than imposing uniform mandates on disclosures and other matters. At that time, I would like to see your commitment regarding market capitalization. As mentioned in the document, I hope that the TSE will provide a list of companies that take measures and introduce good examples, as it has conducted in the context of initiatives related to the management that is conscious of cost of capital in the past, to incentivize and support companies that are aiming for high growth.

On the other hand, for the very large number of companies that have not been able to grow, we are forced to adopt a horizontal, uniform approach. I think we need to think carefully about how we should set the criteria for maintaining the listing.

I believe it is appropriate to use these two approaches to further grow a growing company.

Uchida, member:

Regarding the disclosure of "Matters Relating to Business Plans and Growth Potential," I think the investor feedback on page four indicates that there is a gap between the current content and investors' expectations. So, I think it is very important to work with companies and help them meet investors' expectations.

On the other hand, looking at various documents, it seems that depending on the size, for example, if the market capitalization is less than JPY10 billion, no institutional investors are interested in the company, i.e., no one will look at the disclosure even if the company updates it. While the Growth Market itself is difficult for institutional investors to invest in, venture capitalists exit after listing, and it is also difficult to see what the super individual investors mentioned earlier are doing. So, I am a little unsure if the baton of investors and risk money is being passed successfully. I wondered if this market is a place for companies of that size to attract investors and grow, and whether there might be a structural gap. Therefore, I think it would be necessary to think about what could be done to fill the gap and, in addition, to consider exit criteria.

Kanda, member:

I would like to offer my thoughts on page three, etc. What is meant by "growth" here will of course vary from company to company and industry to industry. Personally, I believe that is whether a company's business model is valued in the securities market and, as a result, its stock price will grow. I believe that its components include, in recent terms, intangible assets. I think they should state whether they are doing anything to ensure that such a business model is valued by investors. It is good that you inspect the "Matters Relating to Business Plans and Growth Potential," but I hope that you will proceed with such ideas in mind.

We have reiterated that when it comes to cost of capital, we are not only targeting companies with a P/B ratio below 1x. Nevertheless, we are having companies formulate and implement an improvement plan based on the fact that "P/B ratio below 1x" may not be valued by investors. I think the theme of this time is similar to that. As for the Growth Market, of course, it is not a simple matter as there are not many institutional investors. However, as a general rule, if the market capitalization is less than JPY10 billion, investors will not appreciate the company, so the logic should be that the company should develop, disclose, and implement an improvement plan to have its business model evaluated in the securities market.

Matsumoto, member:

Let me add to what I said earlier about the importance of scale. I believe that one route would be to encourage consolidation by raising the listing maintenance standards in a stair-step fashion. In the document compiled in the early days of this council ("Summary of Discussions on Measures to Improve the Effectiveness of the Market Restructuring"), I believe it was stated that, as Japanese listed companies in general lack scale in terms of human resources, commercial products, and capital, it is important to build scale and increase efficiency through the exchange and consolidation of production factors. The same is true in the Growth Market. I don't think it is a good idea to say, "let's do that from the beginning." However, it is one possible outcome of raising the criteria for maintaining a company's listing that consolidation will occur and that human resources, products, and capital will solidify. If that happens, I think that building a JPY10 billion or JPY20 billion company may not be such a difficult task.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

We have received feedback from all members. The Ministry of Economy, Trade and Industry, which is participating as an observer, would like to make a statement.

Kawahara, Director, Industrial Finance Division, Ministry of Economy, Trade and Industry:

I am 100 percent sympathetic to the importance of the Growth Market, as has been stated by the members. On top of that, I will briefly offer my opinion.

Under the Five-Year Plan for Startup Development, which began in 2022, the Ministry of Economy, Trade and Industry has been reforming the taxation system, including the stock option tax system, and supporting investment by public-private funds so that startups can continue to grow after their initial listing.

Under these circumstances, it is necessary for the company to view the listing not as an exit but as a gateway to further heights, as a way to raise further funds, and as Mr. Matsumoto mentioned, as a way to accelerate growth through M&A. To this end, we recognize that the revision of the criteria for maintaining listing, which you discussed today, is an important measure that is essential for the reform of the Growth Market.

The government will continue to consider support measures, including those for post-listing startups, such as strengthening the supply of funds through public-private funds and expanding support for development and other activities in the deep-tech field. We hope that this meeting will also provide direction on how the criteria for maintaining listing should be implemented, so that the reform of the Growth Market will be further advanced.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

Next, I would like to explain the situation of companies to which the transitional measures apply.

Isogai, Manager, Listing Department, TSE:

This is mainly a report, but if you have any suggestions, we would be glad to hear from you.

First, as shown on page two, the number of companies subject to transitional measures is approximately 270 at the latest. Immediately after the market segmentation review, as of July 2022, there were 492 firms, and at the end of 2023, there were 345 firms, so the number is gradually decreasing.

Page three shows our policy for future actions in light of this situation, as well as a more detailed description of the current situation. First of all, as the end of the transitional measures and the actual delisting are gradually approaching, we intend to make our shareholders and investors more aware and alert than ever before.

Next, as shown in the data below, there have been various movements among companies subject to the transitional measures.

For example, many companies have made steady progress in their efforts to comply with the standards and have actually done so. In addition, while it may be difficult to comply with the standards, some companies have been seen to consider and implement market change or multiple listing on other domestic exchanges as a next best practice in consideration of existing shareholders. In addition, some companies have taken this opportunity to go private through M&A with other companies or MBO.

Some companies are considering such measures under the radar, and we expect this trend to accelerate in the future. However, in interviews conducted last summer, about 40% of the companies had not yet considered the next best thing to do in case they fail to comply with the standards.

We would like to encourage such companies to consider and implement necessary measures after thoroughly informing them of what other companies are considering.

Page four again shows the schedule after the end of the transitional measures. We would like to repeatedly remind companies subject to the transitional measures that if improvements are not made in a little more than one year, they will indeed be delisted. We will also make sure to communicate this information to our shareholders and investors.

That is all.

Watanabe, Director, Listing Department, TSE:

We would be happy to receive your comments or questions on the above report if you have any.

Matsumoto, member:

What we see on page four is an obvious fact that was decided a couple of years ago. Even so, I fear that there may be a lot of social resistance if the stock is placed under supervision. Naturally, I am sure you have already thought about this, but if I may be so bold as to say so, I think it is very important for the TSE to publicize and inform the media that this has been decided a long time ago.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

Finally, we will explain the next meeting.

Ikeda, Senior Manager, Listing Department, TSE:

At our next meeting, we hope to discuss basically the rest of today's discussion, but we will consult with you about the details again.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

With that, we will conclude today's meeting.

Thank you very much again today. We look forward to working with you again next time.

[END]