Minutes of the 22nd Council of Experts Concerning the Follow-up of Market Restructuring

Date: Wednesday, July 9, 2025 11:00 AM - 12:30 PM

Place: Tokyo Stock Exchange 15th Conference Room

Attendees: See member list

Watanabe, Director, Listing Department, TSE:

We are pleased to open the 22nd Council of Experts Concerning the Follow-up of Market Restructuring.

First, regarding today's attendance, Mr. Kuronuma is participating online and Mr. Koike is absent.

We will now explain today's agenda.

Ikeda, Senior Manager, Listing Department, TSE:

Thank you again for joining us today.

During my explanation, please refer to the future initiatives in Document 1. Today's agenda includes light blue Documents 2-6.

First, Document 2 is about "Management That is Conscious of Cost of Capital and Stock Price." With the shareholder meeting season over, we will be gathering updates on corporate disclosures and feedback from institutional investors. In this context, we would appreciate your comments on our future support initiatives.

Document 3 is about IR. The Code of Corporate Conduct regarding the mandatory IR system will come into effect on July 22. We have compiled investor feedback to encourage companies to go beyond the development of systems and conduct more effective IR activities. We would appreciate your comments on this document as well.

In addition, as noted below, the rules for going private, which are also underway, will also go into effect on July 22.

Document 4 is about the Growth Market. We have received a lot of support for the review of the Growth Market, including the continued listing criteria, to make the Growth Market a market where "growth" is truly gathered. We hope to actively promote support for companies seeking high growth and provide them with benefits of staying in the Growth Market.

On the other hand, some companies, especially in IPO scenes, have voiced concerns. So, in the future, we hope to actively send out the message that listing small and growing large is welcome, and we also hope to debate ideas about standards. We would appreciate your comments on this as well.

Document 5 is about the Standard Market. With the market changes caused by the transitional measures and the recent move to change the market to the Standard Market following the review of the Growth Market, we believe it is necessary to discuss the direction of the Standard Market in the future. We have prepared only a few brief slides today to talk about the major directions. We would appreciate your feedback.

Document 6 is about transitional measures. This document focuses on updating data. We will need to follow up carefully as the deadline approaches, and we would appreciate it if you could point out any issues you have noticed.

In addition, please refer to the comments from Mr. Koike, who is absent today, at the end of the set of materials as appropriate.

Watanabe, Director, Listing Department, TSE:

Thank you very much. As I explained, there is a wide range of topics on today's agenda, so you do not necessarily need to give your opinion on all of them. We would appreciate your comments on the agenda items on which you have comments.

We would now like to begin to explain the materials.

First, we would like to explain the future measures of management that is conscious of cost of capital and stock price in Document 2.

Sakata, Senior Manager, Listing Department, TSE:

I would like to explain our future initiatives regarding management, that is cost of cost of capital and stock price in Document 2.

On pages two and three, we summarized recent feedback from foreign and domestic institutional investors with whom we have exchanged opinions. First, overall, we have received positive feedback on changes at companies. The following comments were made: "Management's understanding of the cost of capital is improving, and I sense a change in corporate awareness," and "Many companies are placing greater emphasis on dialogue with investors, and the quality of investor relations and dialogue is steadily improving." Investors who had expected such corporate change and excitement to last only a year or so also commented that they felt sustained change was taking place.

On the other hand, there is a view that it will take more time for the efforts to be effective. Companies are beginning to disclose various initiatives, such as capital allocation policies and efforts to improve the efficiency of their balance sheets. The question now, however, is whether the plan will be put into action. Some commented that it is necessary to confirm not only the disclosure of initiatives but also whether they actually lead to improvements in return on capital, such as ROE and ROIC.

Page three presents feedback on issues and suggestions for the future. The first two points relate to the content of initiatives. While there is a growing understanding of the cost of capital, many companies have yet to make drastic management decisions, such as withdrawing from unprofitable businesses, and some have expressed a desire for continued encouragement. In addition, some expressed that, although share buybacks are increasing, ad hoc shareholder return measures without a plan are becoming meaningless, so they would like to see companies raise awareness to consider the balance sheet they are aiming for and their cash allocation policy as a set and then continue to invest in their core businesses to increase corporate value as necessary.

The third point, about companies that do not engage in IR and dialogue, will be explained later in a separate document. We have also received comments for the future, as in the last two points. Some suggested focusing more on companies that have improved, since it has been two years since the request was made and it is now possible to compare the pre- and post-request status of individual companies. Some also commented that now that gap case studies and good case studies are widely recognized, it is a good time to further improve the initiatives.

Based on this feedback, the current status and future directions are summarized on page four. In the two years since the request, the disclosure rate in the Prime Market has exceeded 90% and, as noted in the earlier feedback, these corporate changes have been evaluated positively. Meanwhile, domestic and foreign institutional investors are trying to determine whether such changes will actually lead to improved return on capital. We believe that we are moving into a phase where it is not a question of whether disclosure is being made, but whether drastic measures are being implemented, and if there is a discrepancy in perspective, the improvement of such measures is important. Therefore, we would first like to promote support for companies by updating the gap and good case studies that are actually widely used by listed companies.

The measures are described on page five. Specifically, for the gap case studies on the left side of the page, we will gather institutional investors' opinions on whether there are any points that should be added in light of the recent situation. Regarding the key points and case studies based on investors' perspectives on the right side, we would like to establish a new part that introduces companies' experiences, such as what process should be used to examine the initiatives before disclosing them and how they overcame challenges in the process. And as for the case studies, we would like to expand our collection of the latest case studies while also being conscious of including companies of various sizes.

Disclosures are now being provided due to the current general meeting season. We will continue to communicate with institutional investors and corporations, first to update case studies, but also to consider additional measures.

The following pages six and seven summarize, as reference data, changes in market valuation (stock price) due to disclosure status and other factors. Naturally, we do not believe that the stock price will rise simply because of the disclosure or update. However, as a general trend, the stock prices of the companies featured in the case studies have remained strong even after the publication of the case studies. In addition, companies that have improved and updated their efforts after initial disclosure are more highly regarded by the market than companies that disclosed for the first time. Furthermore, more than two years after the request, the companies under consideration are now rated by the market as if they had not disclosed the information. Since these data provide such suggestions, we would like to introduce them in future updates of the key points and case studies as a reference for companies.

In addition, we received comments from institutional investors that they would like to see pre- and post-request comparisons for each individual company. We would also like to deepen our analysis and show how PBR, ROE, and other indicators have improved as a result of companies' efforts.

Watanabe, Director, Listing Department, TSE:

Now, we would be happy to receive your comments.

Kumagai, member:

Daiwa Institute of Research frequently exchanges views with institutional investors on overall TSE reform. The feedback from institutional investors on pages two and three of Document 2 is what we hear during our discussions, and I feel that each of these points is very important.

In particular, I have the impression that many investors are looking forward to the M&A promotion and business portfolio review, as stated in the third point from the bottom on page two. In addition, the third point from the bottom on page three mentions executive compensation linked to stock prices, etc. We have recently heard more and more about institutional investors focusing on stock compensation for employees. Based on this feedback, I hope that you will proceed with the specific measures on page five.

Relating to the content on page five, we often hear managers say that the stock price is not increasing even though business performance is improving, or that the stock price is undervalued compared to what they think it should be. However, frankly speaking, I get the impression from what they say that they have not given much thought to market valuations such as P/E ratios and other multiple valuation methods, although they have thought deeply about how to improve their business performance.

As already discussed in the "cases where companies are not aligned with investor's perspectives" and "key points and case studies considering the investor's point of view," I suggest that you interview institutional investors about their approach to market valuation, such as multiple valuation methods, and how they calculate their target stock prices. Of course, different investors will have different ideas, but I think this will also help companies to understand the stock market.

We also see companies setting PER and other parameters as KPIs. It may be possible to interview companies that have overcome the barriers about their review process, etc., so that other companies can relive the experiences. There is concern that if they are working hard but not achieving results, they will be less willing to continue with reforms. Companies struggling with stock prices fall exactly into Group 2 on page four. I feel there is a strong need for continued support.

Sampei, member:

I think the feedback from institutional investors in Document 2 is well organized and the comments are generally constructive and reasonable. One of the comments at the bottom of page two states, "It is necessary not only to disclose efforts..., but also to confirm that ROE and ROIC are actually improving." I think this confirmation will be especially necessary. In addition, the second point on page three encourages companies to think about the "balance sheet they are aiming for" with respect to shareholder returns, and also to "continue to invest in their core businesses." This is a sign that expectations on the part of investors have moved one step ahead. I think we are moving from the stage of simply wanting companies to return profits to shareholders to the idea that they should invest more in growth where they should, with an eye to how companies balance shareholder returns.

The second point from the bottom on page three is a comment about how individual companies have changed since the request was made, and I think this area will be important for future monitoring. The matrix analysis of capital returns and market valuation is presented in the "key points considering investors' perspectives" document of the gap and good case studies that you published and updated in February and November of last year. For example, when looking at how individual companies have changed in those four quadrants, it is important to be able to see how the companies that were in which positions have changed. I think it is important to verify and visualize whether the company's efforts have improved its financial indicators and, as a result, whether the market's evaluation (growth expectations) has also changed. As Mr. Kumagai mentioned earlier, showing examples of how a company's efforts have led to results will lead to a sense of accomplishment for the company that has actually been able to do so. Also, companies that are working on initiatives will be able to understand their current position and what they need to do.

As I said at the 15th council, it is especially important to closely monitor return on capital. In terms of growth potential, while the company's policy for initiatives is important, I think it is also necessary to monitor whether the company is receiving evaluation from the market. On page five, the policy for future updates is written in text, and this time stock price data and other information are also available. It would be effective to visualize this kind of capital profitability, growth, and market valuation data as well.

Okina, member:

In the feedback from institutional investors on page three, there is a comment that "Drastic management decisions, such as withdrawing from unprofitable businesses using ROIC, have not been made, so please to encourage them to implement drastic measures." I believe that the key points and case studies will be updated in the future based on this feedback and other factors. Fundamental reforms or withdrawal from unprofitable businesses may negatively impact earnings in the short term. Still, it is important that the message be conveyed to management that investors are evaluating the company, and I believe this will encourage management to implement drastic measures. Therefore, I think it is important to provide good examples of firm implementation of drastic reforms as disclosed. I think it is important for management to understand that even if it works negatively for a time, a firm message will be sent to the market that the company is aiming to improve medium- to long-term return on capital. So, I would very much like to see such cases taken up and drastic efforts encouraged.

Matsumoto, member:

At this time, I understand that the good case studies list the names of companies, while the gap case studies list contents or stories, not the names, and the group of companies that are taking various actions are shown as a group number. I think this has been a good thing so far. However, although I do not think it is a good idea to publish the names of companies that are not good, we could consider publishing the names of companies that are in the top category of progress, for example, instead of only publishing the names of good companies. That way, the names of companies that are not supposed to have disclosed their initiatives will not be published, and investors can use that kind of information when they do an engagement. I think the current form has been fine so far, but it would be nice to be able to bring forward evaluation and information provision in the future.

Kuronuma, member:

I think it is important that institutional investors have brought up an issue whether companies can take actual actions regarding "management that is conscious of the cost of capital and stock price." We must consider whether we can use case studies of companies that have implemented actions to encourage others to do so. As a typical example, it would be difficult to proceed with a review of the business portfolio. I think it is an important question whether or not simply introducing case studies of other companies will get companies to work on it.

Also, I am surprised at the response that considerations are limited to staff, and no progress is being made at the board level, which I found in the summary of the results of the survey for listed companies that was attached as a reference on the last page. This makes it doubtful that the initiatives will be implemented. Regarding the support of the exchanges indicated in the survey, I think it is important to have the opportunity to explain to the management. For companies that are not making progress in consideration at the director level, I think it is important for the TSE to encourage the very management to be more effective in encouraging them to implement initiatives.

Kanda, member:

I would say almost the same thing as what Mr. Sampei said, that there is a trade-off between return on capital and growth potential. Many companies have high ROE but P/B ratios below 1x and are not valued by the market. I think it would be good to disseminate information that would convey this.

Also, somewhat related to this, while I think it is very good that the TSE compiled the feedback from institutional investors this time, I think it would be good to have a forum where institutional investors and companies can get together to have a discussion. I only know of one such event that is big. It would be worthwhile to consider setting up an opportunity for everyone to discuss, gather and exchange information on a regular basis with about 10 or 20 companies at a time.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

We will now move on to the explanation of investors' views on IR system and IR activities in Document 3.

Yokoyama, Manager, Listing Department, TSE:

I would like to explain "investors' views on IR systems and activities" in Document 3. Here are some of the documents that will be released in late July. If you have any suggestions, we would appreciate your feedback.

A summary of this document is on page two.

With regard to IR systems and activities, it is important not only to establish a minimum system but also to conduct effective IR activities. For this reason, we intend to provide investor feedback and reference case studies so that listed companies can consider how IR activities should be conducted. At the end of the document, "investors' expectations of themselves" regarding the IR system and individual interviews are also included.

Page four is investors' expectations regarding IR systems and IR activities.

As mentioned at the beginning, it introduces the expectation that management and IR departments will communicate medium- to long-term management strategies and visions for the future in their own words, and that they will recognize feedback from investors as a management issue and link it to the improvement of corporate value.

Subsequent pages contain expected improvements and well-received initiatives.

Page six is regarding the IR system. The left-hand side shows cases where the IR representatives are concurrently in charge of administration and cannot devote resources to individual interviews, and cases where management does not hold briefings or individual meetings.

Investors have told us that, first of all, as shown in the second item from the top on the right side, effective IR activities will not work well unless sufficient resources are allocated (although not necessarily required by the rules), such as the establishment of a specialized department. As noted around the middle, the report also introduces comments expressing the expectation that the IR department should be under the direct control of the CEO and that the IR department should be close to management to facilitate cooperation with each other.

At the bottom of the page, we also introduce a comment that it is expected to establish a system where feedback from investors obtained through dialogue is regularly reported to and discussed by the Board of Directors and can be utilized in management.

The following pages provide examples of actual evaluations by investors.

These cases are not disclosed as of today. After obtaining permission from the listed companies, we plan to officially disclose this in late July. We would appreciate any comments on the content of each case study.

The report introduces examples such as ●●, which is working to improve its system while increasing the number of specialist personnel and utilizing external resources, and ●●, which is working to successfully coordinate the management team and the IR department.

Page nine is about the IR briefings. On the left side are examples of financial results briefings held only in person and not distributed online, as well as cases where the question-and-answer session is not disclosed in the briefing script.

The second item from the top on the right-hand side indicates that the briefing is an important opportunity to build a medium- to long-term relationship of trust with investors, and that efforts should be made to enable a wide range of investors to attend the meeting. The bottom part of the page shows the comments from investors, such as the expectation for fair information on the Q&A sessions.

Page 10 is about individual meetings. As in the first and second cases on the left, we present cases of refusing individual meetings by extremely delaying replies to requests, as well as cases of uniformly not agreeing to individual meetings from the standpoint of fairness.

Investors have also told us that some management communities share the know-how of avoiding dialogue with investors, as shown on the top of the right-hand side. While more and more companies are willing to conduct meetings, a very noticeable number of companies are refusing to conduct meetings without reasonable reasons.

The third from the top also introduces comments such as the expectation that management will take the lead in building a relationship of trust with investors and be willing to meet with them.

The third case study on the left cites an instance in which an outside director is unable to receive an individual meeting due to his or her busy schedule. We have introduced comments from investors such as the expectation that outside directors who represent the position of minority shareholders will actively respond to requests for a meeting regarding the governance structure.

The following pages contain examples of actual evaluations by investors, which are also not disclosed as of today.

Examples of cases where the president provides full explanations in his own words, as at ●●, and cases where face-to-face meetings are actively conducted, as at ●●.

Page 13, conversely, summarizes expectations on the part of investors. On the investor side, there are also issues such as not asking any questions at all during the Q&A session of the briefing or only asking questions about short-term indicators or asking routine questions during small meetings. We hope to continue to work not only on the corporate side but also on the investor side to ensure two-way communication.

That concludes my explanation of Document 3.

Watanabe, Director, Listing Department, TSE:

Now, we would be happy to receive your comments.

Kumagai, member:

It is a very easy-to-understand document, and I hope that this will be available to listed companies.

With regard to investor relations systems from page six onward, some corporate disclosures mention the number and content of dialogues with investors, but lack any description of feedback to the board of directors or the results based on such dialogues. We often hear from companies that they have done a series of tasks but have not prepared disclosure documents. This kind of disclosure is very effective for accelerating and brushing up initiatives while obtaining feedback from investors through dialogue. I think we should once again make the "disclosure of the status of dialogue implementation" known to the public.

Sampei, member:

I think the investor feedback presented in the document is very accurate. I think "We do not want flashy materials" on page four and "putting IR to good use in their management" are very important points, and I think you have picked up the voice of investors very well.

The materials are very neatly organized, although the specific disclosure materials for each company will be released only after approval is obtained. The highlights of points of interest and the investor evaluation points at the top are also very easy to read and organized in a concise manner.

Of particular interest to me was page 25, where investors comment on the reflections and the attitude that should be taken from investors' perspectives, which I think is very important. For example, as shown in the first balloon, "the sell-side analysts ask all of the questions, and buy-side analysts ask none" is unique to Japan and not so common in other countries.

I think there are many other customs in Japan that can hardly be called good practices, such as the fact that even the order of questions asked by sell-side analysts is sometimes determined by tacit agreement. There is also a tradition of the buy-side accompanying the sell-side for meetings, and the investment management firm I worked for in the past forbade any of this.

This means that it has become so customary that if we do not prohibit it, people will be tempted to accompany, and it is quite difficult to know how to improve it. However, I think it is also important to remind people that this is a key area for improvement on the Japanese buyside.

I think the investor pointed out in the balloon below that is also absolutely correct. I think that investors who ask only questions that can be answered by the IR staff at small group meetings, even though the CEO and outside directors are present, do not realize that their questions are not appropriate.

I think the theme of this area could be expanded a bit more. Next time you are interviewing investors, I think they make many specific points if you ask more clearly, "Have you ever been in a small meeting and felt uncomfortable with other investors' questions, etc.?" I think it would be a good idea to publish such information in a document, so that investors who see it can be more self-aware.

Matsumoto, member:

I think the material is well organized. However, it seems to me that the material places slightly more emphasis on return than on risk when it comes to "managers communicating medium- to long-term management strategies and visions for the future in their own words."

On the other hand, risk is also very important for investors. In recent cases, for example, investors seem to be suffering more from problems caused by poor governance than from errors in management strategy.

With regard to governance, communication with outside directors is vital. The case studies also point out the need for outside directors to be open to dialogue. In light of the importance of investors communicating with outside directors, who should serve as agents for general shareholders in terms of risk, this point needs to be emphasized more.

Uchida, member:

I think the material is very clear and informative. On the other hand, I believe that these materials will not be seen at all by companies that are not yet motivated or interested in making contact with investors. How to improve that area is an issue.

I think it is also important to convey the viewpoint that contact and dialogue with investors is not only an obligation but also how it can be useful for management. I believe that those companies that are actively engaged in IR activities are proceeding with it because it is beneficial to their management.

Even though meetings are held with investors, investors have varying degrees of understanding. I think that going to a meeting once may not be helpful. There may also be times when they hear things that they don't want to hear because of differences in views.

However, this does not mean that they should dismiss dialogue as meaningless or that investors do not understand, but rather that they should have a perspective on how to digest and understand what they learn through ongoing dialogue, and how to apply it to management.

I believe that there are many examples of how they are increasing opportunities to discuss such situations at board meetings, or how they are successfully using investor feedback to promote internal reforms. I think those are also important points for the case study.

Okina, member:

I feel that there is a difference in the perception of the relationship between IR and fair disclosure among managers. I think it is necessary to make known the problem of providing information sessions and materials only to face-to-face participants, for example, by clearly explaining the relationship between those and eliminating the refusal of individual meetings for that reason.

Watanabe, Director, Listing Department, TSE:

Thank you very much. Next, we would like to explain our future actions in the Growth Market in Document 4 and the future direction of the Standard Market in Document 5.

Monden, Senior Manager, Listing Department, TSE:

First, let me explain the Growth Market in Document 4.

On page one, we summarize the voices of those involved and our future measures.

First, the direction of the reform, to make the Growth Market "a market where companies aiming for high growth come together," was supported by many concerned parties, including companies.

In addition, listed companies and companies preparing to go public have begun to positively review their growth strategies in light of the new standard of JPY10 billion in five years, and positive changes have already begun to take place.

On the other hand, some are concerned about the impact of the revised standards. For example, some have reported difficulty in finding lead underwriter securities company for their IPO, others say that even in 2030 the run-up period is too short, and still others are concerned about market conditions as of 2030.

In light of these circumstances, the following actions will be taken to facilitate the reform in the future. First, we have already communicated with major securities companies that we have not raised the initial listing criteria this time and that it is possible to continue to be listed for high growth even with less than JPY10 billion, and that TSE welcomes this, but we will again send information to startups and related parties.

In addition, while maintaining the effectiveness and speed of the review, we would like to establish transitional measures in applying the standards to ensure that companies striving for high growth do not lose growth opportunities.

In addition, we received feedback from managers who are willing to take a proactive approach that it would be helpful to provide information on the benefits of listing in the Growth Market and reference materials for considering growth strategies, in order to encourage them to take action. We will continue to promote such measures in parallel.

Subsequent pages are about specific measures. Page two contains information that will be disseminated to startups seeking an IPO and other interested parties.

First, again, the initial listing criteria have not changed this time, and it is possible to list even with less than JPY10 billion on the assumption that the company aims for high growth after listing, and the TSE welcomes startups that take on such challenges.

In addition, the system is designed to allow for continued aggressive challenges; if the amount does not reach JPY10 billion, the company can move to the Standard Market.

Naturally, each underwriter securities company has its own policies, and we do not seek a uniform response. However, some securities companies are actually willing to support companies that aim to grow, even if they are small. We will continue to communicate with all parties involved so that the ecosystem as a whole can provide firm support to companies that are ready to take on the challenge.

The TSE will make this stance known to all parties concerned, including the fact that the TSE will support such companies.

Page three is a specific proposal to review the continued listing criteria.

First, the current standard of "JPY4 billion after 10 years" has just started to be applied after the transitional measures ended in March of this year, and must continue to be met in the future.

In addition, we will encourage companies with market capitalization of less than JPY10 billion to disclose their growth strategies with an eye to reaching JPY10 billion in the future, and to implement such initiatives even before 2030.

The new standard will then, in principle, be applied from 2030. For companies that have not yet reached JPY10 billion at that point, we will ask them to indicate the period and plan, if any additional time is required, and we will allow them to list until the end of that plan.

In such a case, the schedule will be treated as an "improvement period" for one year from 2030 and a "period of suspension of application of delisting criteria" for the exceptionally permitted period thereafter.

In addition, companies listed for less than five years as of 2030 will be required to submit a plan as of 2030 if they qualify for the exception. As a result, as of 2030, there will only be companies in the market with more than JPY10 billion and companies with less than JPY10 billion but with a clear plan for when they will reach JPY10 billion.

The issue is whether to set a uniform deadline for the plan. For example, if a company sets a deadline of 2035, it may be considered to be okay up to that point, and even companies that originally had no problem with a shorter period may end up setting a plan up to that date. Since each company's situation is different and it is difficult to draw a uniform line, we assume that each company will consider the required time frame and indicate it to investors.

However, although there is no uniform deadline, under the transitional measures at the time of the market restructuring, if the plan was longer than three years, investors did not appreciate it, and the stock price dropped, which in turn made it difficult for the plan to meet the standard. So, by presenting such a situation, we would like to ask companies to be fully aware of the perspective of investors and shareholders and seek to set a time frame within a reasonable range. In addition, we will make every effort to ensure that the transitional measures will not be dragged out by not allowing any extension of the period after 2030.

We plan to publish the outline in September and proceed with the revision of the regulations regarding this standard review.

Page four is about the application for transfer to the Standard Market. At our last meeting, we had stated that when moving from the Growth Market to the Standard Market, the amount of profit would not be formally required, taking into consideration the company's performance as a listed company.

At that time, based on the criteria of a market capitalization of JPY4 billion after 10 years, we had stated that "in the case of a market capitalization of JPY4 billion or more." However, you indicated at the last meeting that we should clear the application of the continued listing criteria. However, the continued listing criteria also include a requirement for a market capitalization of JPY1 billion for tradable shares, and if the ratio of tradable shares is 25%, the market capitalization is JPY4 billion. The same treatment is also assumed for the transfer from the Prime Market to the Standard Market, where there is not necessarily any logic in requiring a market capitalization of JPY4 billion. Therefore, we removed the restriction of market capitalization of JPY4 billion or more. This treatment will not wait until 2030 but will begin to apply as soon as the regulations are revised.

Page five is about support and benefit creation for companies listed on the Growth Market. We would like to proceed with this in the future with renewed input from management. Based on feedback to date, here is a summary of what we expect at this time.

First, regarding the encouragement of "management that strives for high growth," which was one of our previous measures, we will ask listed companies to review and analyze their past growth status in disclosing growth potential and brush up their growth strategies based on this analysis.

In this regard, we have received many requests from managers to compile a collection of key points for initiatives and good case studies as with "management that is conscious of cost of capital and stock price." We will compile this information in the fall after gathering feedback from investors and others.

Based on such materials for consideration, we will conduct seminars and other educational activities for listed companies and companies preparing to go public, as well as provide support for visualization of companies that are actively engaged in such activities and for the creation of contacts with institutional investors.

As for the index, from October 2026, companies listed on the Growth Market will also be included in TOPIX if they have a floating market capitalization above a certain level. In addition, JPX Research Institute will consider a new index focusing on the growth potential of emerging companies.

Page six is for your reference. We would like to interview the parties concerned again and compile the key points and examples of their efforts in the future. We have listed here some images of possible cases at this time.

I will spare you the detailed explanation. Just like companies listed on the Growth Market, we would like to focus on companies that are boldly working to achieve high growth.

Pages seven and eight are feedback we have received from management and others.

First, regarding the current issues, many of them said that, especially for companies with market capitalization of less than or around JPY10 billion, bold growth investments and fundraising are not well received and are difficult to execute, as the investors are mainly individuals.

In addition, many of them said that they were struggling because they did not know how to approach institutional investors effectively, given their lack of contacts with them.

In light of this current situation, we have included on page eight a description of the expected support. There were calls for the provision of the collection of key points and case studies and seminars I mentioned earlier, as well as for the promotion of the use of preferred shares and a new index focusing on growth companies as a benefit of listings on the Growth Market.

We will continue to review and implement initiatives for corporate support while receiving feedback from management and others.

Document 5 is about the Standard Market. Even as we continue to characterize the Growth Market, there is growing interest in the Standard Market, which we have summarized in this document.

First, as mentioned in the second point, the Standard Market is for companies with basic standards as listed companies. Although many companies have parent companies or controlling shareholders, we will continue to demand that they fulfill their basic responsibilities as listed companies, such as protecting minority shareholders since they are listed companies.

We would also like to encourage efforts to improve corporate value by facing the market and investors and promoting management and investor relations activities with an awareness of the cost of capital and stock price.

In the Standard Market, there are cases where companies have been actively engaged in IR activities and have been highly evaluated by investors. Overall, however, about half of the companies have not yet disclosed their "management that is conscious of cost of capital and stock price," and even those that have disclosed this information often have a gap with the investor perspective. In addition, there is more room for improvement than in the Prime Market, including the status of IR activities, and we will continue to monitor the situation and encourage initiatives.

The third point is our viewpoint that we want to make the Standard Market a positive choice as a listing destination for companies. We would like to make this market the market of choice for companies that are trying to achieve stable growth while meeting the needs of society, even if they are not managed with a focus on global investors as in the Prime Market or managed for high growth as in the Growth Market. In addition to encouraging the implementation of initiatives, we will communicate this direction to companies and other interested parties.

We would appreciate any comments you may have on the direction of the Standard Market.

Watanabe, Director, Listing Department, TSE:

If you have any comments or questions, we would like to hear from you.

Kumagai, member:

First, regarding Document 4, following the announcement of the Growth Market reform proposal, various moves have been made by companies listed on the Growth Market and companies preparing for IPOs, and I expect the market as a whole to be revitalized. I believe it is vital that the TSE clearly announces its intentions so that these developments can continue and so that Growth Market reforms can be meaningful.

I think it is good to "inform startups aiming for IPOs and market shareholders" on page two. As stated in the document, I believe it is important to point out that IPOs on the Standard Market are an option as well as on the Growth Market. I have heard that some companies preparing for IPO have the mindset that an IPO should be on the Growth Market. However, it is essential to create a situation where companies can choose the market and aim to increase their corporate value according to the concept. It should be possible for some companies to be listed on the Growth Market after listing on the Standard Market. In fact, if such a thing happens, I would say that the Growth Market has become more attractive.

Next, regarding the revision of continued listing criteria (draft) on page three, I agree with the contents of the document. The focus will be on whether or not to delimit the grace period, but I believe that it is preferable not to set a grace period and to let the market principles decide. As noted in the document, during the transitional period at the time of the market restructuring, the stock prices of companies that issued a plan with a too long period tended to decline, and some companies withdrew their plans. We should inform the relevant companies in the Growth Market of this history.

Next, on page four, "Application for Transfer to Standard Market," we received negative comments from institutional investors in response to the previous reform proposal. From the perspective of strengthening the market's metabolic function and ensuring that resources are allocated efficiently, I believe that the momentum for market reform has been perceived as a setback. As a permanent measure, it is assumed that not only the Growth Market to the Standard Market, but also the Prime Market to the Standard Market will be treated in the same way, so the balance appears to be in place. However, it may be necessary to consider measures that are not permanent, but rather time limited.

Next, regarding Document 5, I basically agree with the direction described in the document, but I would like to make one comment.

If the continued listing criteria for the Growth Market becomes "JPY10 billion after five years," we can expect more companies to move from the Growth Market to the Standard Market, and we may also see an increase in IPOs in the Standard Market. Of the 3 TSE markets, the Standard Market will have the largest number of listed companies.

As has been said, this means that the Standard Market will become the central market in both name and reality, and we should consider the best ways to increase corporate value by further stimulating metabolism. Given the characteristics of many companies with parent companies and controlling shareholders, a major focus will be to consider the allocation of management resources from the perspective of value creation through group management, in addition to measures to protect minority shares.

Furthermore, it is important to be willing to discuss not only this, but also to put all measures on the table, including revisions to the listing rules, including listing criteria. I feel that there is a strong need for a strategic approach based on the actions of the listed companies and the reaction of the market.

Nagami, member:

I would like to make a few comments, mainly about Document 4.

First, regarding page three, I think this slide is very important. I will comment on this first, especially since I believe this is a slide that will be cut out and shared on social networking sites.

I believe the TSE has also received comments from various stakeholders that "JPY10 billion after five years" may be too tight. My first comment is that I think it is important to maintain this "JPY10 billion after five years" as a major direction, and I hope you will continue that stance.

Second, I have received various comments, but I believe that there are quite a few people who are unaware of the current standard of "JPY4 billion after 10 years" and that this information is not well known as an issue at the preliminary stage. When someone talks based on the assumption that the "JPY10 billion after five years" standard suddenly appeared, when I tell them that there was originally a "JPY4 billion after 10 years" standard, they often say, "I didn't know that." I hope you would make it known that the criterion of delisting if the market capitalization is too low was originally in place.

The third point concerns the grace period. I remember that when this council started, the initial agenda was to decide on transitional measures, as the deadline for transitional measures for market transfer had not yet been set. Although it is a different issue, I am not comfortable with the idea of setting another transitional measure that has no expiration date. I believe that there should be a certain amount of tension, as some managers may think it is okay to set up long-term plans.

Next, regarding page eight, I believe that providing benefits and support to companies is very important and will help characterize how we characterize the Growth Market. It may not be something that can be done by TSE alone. I think it is very important that you work with the relevant government agencies and present a set of concrete changes and benefits at an early stage. I believe the challenge is that the Growth Market has very few institutional investors. Measures to increase the number of investors in the Growth Market could include the development of indices or other measures to attract investors to the Growth Market. I believe there is also a new program to create investors called the Emerging Managers Program that METI has as a system. I hope that you will work with the relevant authorities to increase the number of investors in Growth Market-listed companies or growth indices.

As for the index, since this is the Growth Market, I believe it is essential to create an index for companies with high growth potential, not profitability. It would be very encouraging for growing companies to have an index that highlights growing companies that are boldly growing even in the red. I believe that the essence of this is that as the corporate value and market capitalization of such companies increases, the potential for equity financing also increases. When developing the index, we would like you to focus on growth potential.

I think it would be highly desirable for you to present the benefits as concretely and as quickly as possible. This way, I think the issuers will understand the Exchange's commitment to reform the Growth Market, even if it involves a certain amount of pain.

As an additional point, it is not known where the change occurred with regard to the significant decrease in the number of new companies listed in the first half of this year, whether it was a decrease in the number of companies in the application period for listing, a decrease in the rate of passage due to more stringent screening by securities firms, or a decrease in the rate of passage due to more stringent screening by the exchanges. Positively thinking, the current trend may mean that more and more companies are drawing up stories of staying unlisted and growing while remaining unlisted. Negatively thinking, the background may be that the hurdles to listing have been raised. I do not wish to search for culprits, but I think it is important to analyze what is happening in the operation of the exchanges and what trends have led to the decrease in the number of newly listed companies, both qualitatively and quantitatively, in order to improve the resolution of the situation.

I do not mean to imply that I think the decrease in the number of newly listed companies is a bad thing, but rather that it is important to understand the trend.

Ikeda, Senior Manager, Listing Department, TSE:

The number of IPOs in the first half of the year was 25 on the TSE and 28 if regional exchanges are included, a decrease of more than a dozen companies from the previous period, which was also covered by the media. A review of the factors contributing to the decrease shows that it is not a result of a failure to pass the examination by exchange but rather a result of a decrease in the number of listing applications themselves, and the achievement rate itself remains the same. So, why have there been fewer applications for listing? There is a two- to three-month examination and financing period from the listing application to the listing, so companies listed in the first half of the year have been applying for listing for about that long. At that point in time, the overall Growth Market was in a period of considerable decline, although it is firm now. So, we analyzed internally that there were fewer applications for listing due to that effect.

The revision of the continued listing criteria will have any impact in the future? For example, it is possible that the number of IPOs will decrease as companies positively reevaluate that they can better utilize the market by going public after they have grown a little larger. But we are not obsessed with numbers per se, and that in itself is a positive thing. It is important that we continue to work with brokerage firms to support companies. We would like to move forward in the direction of firmly launching "good IPOs," without being swayed by short-term increases or decreases in the number of IPOs.

Sampei, member:

When I read on page two of Document 4, "companies can transfer to the Standard Market (and can rebuild their growth strategy after the transfer and relist on the Growth Market)," it sounds as if the transition to the Standard Market is a drop to the minor leagues.

There seems to be a contradiction with what we have been stressing when we made the classification of the three markets, that the three markets are parallel and only differ in concept. Regarding the grace period on page three, it says, "TSE does not set a deadline for the plan." As Mr. Nagami mentioned, given that we initially discussed the deadline for transitional measures as an important agenda item at this council, I think we should set a deadline. In fact, the material indicates that it is very bad practice to submit plans for more than three years, and I think one rationale for a maximum grace period of three years is expressed here.

At the same time, it would be very troubling if a major market crash or other event coincided with this deadline. It would be very complicated if companies that have worked hard, but with the market crash, their stock price has dropped, and they have not achieved their goal apply individually. To prepare for such a case, I think it would be a good idea for the TSE to establish a so-called MAC (Material Adverse Change) clause, whereby the TSE itself would postpone the mechanical application of the expiration date in the event of a market crash. I think it would be good to indicate that TSE will take good care of them, while at the same time asking them to proceed with the reforms that need to be done within the time frame.

Especially in a company that is listed on the Growth Market, where the employees expect the company's future growth and assume that they will benefit from the company's growth by holding stock rather than a cash salary, if the employees quit as the deadline approaches in a deteriorating market environment, I think it will be very difficult to achieve the company's growth. I think it is a good idea to keep foreseeability clear in various ways, while management should be well prepared, but TSE should also take into account changes in the external environment that are force majeure.

Regarding "management that strives for high growth" on page five, I think "high growth" is very vague. Before making guidance, I would urge you to interview investors or otherwise align your views so that companies can understand how much "high growth" they expect in the Growth Market. I think this is very important, because otherwise, what a company thought was high growth may turn out to be a disappointment to investors.

As Mr. Nagami mentioned earlier, it is important to focus on growth potential with regard to the growth potential-focused index. Once the index is created, I believe it will be a showcase to institutional investors. Investors think that since these companies are being selected in this way, they should do more research on the company themselves. I would very much like to see the development of an index focused on growth potential.

I think that the "carefully disclose information on the reasons for the losses, and on future growth potential and risk" on page six is, in essence, to clearly indicate the stage of growth. I think that as well as clearly stating the stage of growth, companies should convey what kind of growth is being contemplated, as the words TAM, SAM, and SOM that are used by investors.

Relatedly, on page seven, it says, "they struggle to grasp the nuances of how to do this well since investor types change after going public," and "we are unsure whether we should quietly focus on improving performance or actively engage in investor relations (IR) and are constantly pondering the most effective approach." This precisely indicates the difference in growth stages. I think it is important to know how they envision the pre-IPO and post-IPO growth stages and how clearly, they can say so, so that the way they communicate will be clear.

Regarding page eight, currently listed companies in the Growth Market are only required to comply or express their basic principles in the Corporate Governance Code. The document says, "that allows concentrated authority for executives through preferred shares," which I think is a good idea. However, at that time, the company must explain to investors by properly disclosing the reasons. In that sense, when we consider the reform of the Growth Market, I believe there are various characteristics unique to the Growth Market. It is too broad to say that only the basic principles of the Corporate Governance Code need to be complied with.

So, I think it would be good to write it differently for the Growth Market, like this is how the corporate governance code for the Growth Market is written. It would be good to prepare a corporate governance code for the Growth Market by the end of March 2030 that does not need to contain a lot of details but clarifies the distinctive features. I think it would be very effective to prepare a corporate governance code that would make it clear that this market is such and such is required, and that this market is different from other markets.

In Document 5, it says that the Standard Market is "a market for companies that aim for stable growth," which I think is a new definition that did not exist before. Interpreting this from an investor's perspective, I think it can be interpreted as a market that is based on the concept of emphasizing shareholder returns. If so, it is totally different from the original concept and must be explained anew. On the other hand, if we clearly state that this is a market that emphasizes shareholder return, it becomes very clear what we need to do in this market, and we can very easily separate the Prime, Growth, and Standard Markets.

However, this would be in contradiction to what is written on page two of Document 4: "IPOs on the Standard Market are an option." If a company thinks about whether it dares to do an IPO now, when it will mainly be returning profits to shareholders and growth will be minimal, this is a contradiction, and we need to sort it out.

Matsumoto, member:

I have one opinion about the Growth and Standard Markets, respectively.

First, on page seven of Document 4, there is a comment that "M&A is gaining attention as a method for growth, but there is lack of experience, leaving companies uncertain about how to leverage it and what aspects to consider." Looking at the overall Growth Market today, realistically speaking, it is difficult to solve the problem without M&A taking place. M&A is considered a very important corporate activity to solve problems.

On the other hand, this is exactly what the TSE can support, since these voices have been raised as statements from management. I think it would be very effective to work with securities firms and auditing firms to present a prototype of what kind of M&A would be possible in a given case, including what kind of impairment and other factors would be involved, including the legal and accounting aspects as well as the growth story, and I would appreciate your consideration.

Regarding Document 5, I believe that the TSE's Standard Market has a lot of room for growth. When I look at the names of the companies, I understand that although there are many very important companies that support our country's economy and industry, there are many different circumstances for each of them. One of the most important aspects is the protection of minority shareholders. Because of the various circumstances, it is important to make sure that minority shareholder protection is addressed, rather than taking the same direction as the Prime Market, and to make sure that the risk to investors is reduced. This would be the best way to maintain the corporate activities of a group of companies in the Standard Market. I am sure we will be discussing the direction of the Standard Market, but I would like to see those perspectives mentioned in the discussion.

Kuronuma, member:

With regard to the Growth Market, I initially felt that it was quite drastic with respect to the "JPY10 billion after five years" standard. However, I now believe that this is an appropriate measure for the reform of the Growth Market, which is to have institutional investors invest in the market.

I agree with the establishment of transitional measures. I understand that there is a difference of opinion as to whether or not there should be a time limit on the grace period. When the market classification was reviewed, there was no advance notice of an increase in the continues listing criteria for the Growth Market. Therefore, I believe that the point of not setting a deadline for the grace period is unavoidable.

I also agree with the point about changing the criteria for moving to the Standard Market.

Regarding TSE's stance on IPOs on the Growth Market, I understand that the TSE will not revise its initial listing criteria and that it will encourage challenges by ensuring a path to the Standard Market. But I wasn't sure about the part about providing the benefits of staying in the Growth Market. It was not clear to me whether this was about the benefits of having companies that have a market capitalization of JPY10 billion or more still continue to grow in the Growth Market, or whether it was about companies in the process of reaching JPY10 billion. If it is the former, I can understand, but if it is the latter, I felt that the benefits offered here are not very useful, as they are not measures to encourage growth.

Regarding the future direction of the Standard Market, the Standard Market will include a variety of companies in the future. Rather than taking the stance of not characterizing the market, it is only natural that we will continue to promote "awareness of management that is conscious of cost of capital and stock price, and enhance IR activities," as we have done in the past, and I would like to see this done well.

In the Standard Market, it states that a high percentage of companies are owned by business corporations, etc., and many of them have parent companies or controlling shareholders. However, this is not a characteristic of the listing criteria, and there are companies like this in markets other than the Standard Market. We believe that this should be viewed as a general governance issue for companies with high crossholding ratios or companies with parent companies or controlling shareholders, and that we should consider addressing this issue as a common problem for all markets.

Kanda, member:

As for the Growth Market, I think it is a very good policy not to change the criteria for new listings, as emphasized in the document, and I think it would be a good idea to make this well known. Relatedly, when launching a startup and considering an IPO and future growth, an IPO is an exit opportunity for the capital provider and a redemption opportunity for the workers who hold stock options. But there is no single answer to the question of whether to redeem and then continue to work for further growth. I think this is ultimately a business model issue, but it would be nice to see a little more visibility into the actions of those involved in this area.

From the outside looking in, it appears that some companies are wondering what it means to pursue growth when everyone involved is gone. Of course, as long as the company is listed, it should aim for growth, but I would like to see the actual situation clarified, such as whether there are many parties involved who are looking to exit or redeem their shares.

The same is true for the Standard Market. On page three, you indicate that a high percentage of the companies are owned by business corporations and that many of them have parent companies or controlling shareholders. What kind of business entities are they, specifically, are they part of a corporate group or are they completely unrelated business entities? As for companies with a parent company or controlling shareholder, are they so-called independent management types or do they dispatch directors, etc.? As such, I would like to have more detailed data so that we can discuss the issue based on the actual situation.

Uchida, member:

I hope you will consider the clear merits and advantages of daring to choose the Growth Market while committing to high growth in the Growth Market. This may mean that governance-related issues, such as the concentration of authority in the hands of management, are looser than in other markets, which is also related to investor protection. We should consider the advantages of choosing the Growth Market as an incentive based on investor tolerance. It might be conceivable to require the same level of governance as the Standard Market when it reaches a certain size, but this does not seem to be clear at present. I believe that clarifying this will naturally clarify the differences in market positioning.

Okina, member:

In reviewing the continued listing criteria, I think it is unavoidable to establish transitional measures. However, I think we need to be careful not to set a deadline for the grace period so as not to undermine the momentum for reform. As several members mentioned, this council started out by determining the deadline for the transitional measures regarding the continued listing criteria, and I think this is important.

In addition, although we will not change the listing criteria, I think another important issue is whether the entire ecosystem, including VCs, will change as we try to change the situation where many IPOs are done on a small scale and where the IPO goal is still the same. I think it is necessary for the TSE to closely monitor not only the continued listing criteria of the Growth Market, but also how the entire ecosystem is changing.

I think M&A will probably become a major option for many Growth Market listed companies. I hope that both investors and the TSE will follow up to ensure that M&As lead to further growth after carefully considering what business model is best for the company.

Regarding the future direction of the Standard Market, I think "companies that aim for stable growth in response to social needs" is one way to think about it, and I think it is true as a major concept. However, as Mr. Sampei mentioned, I am not sure if that means an emphasis on shareholder returns. The term "social needs" also seems to have a benefit corporation nuance, with an emphasis on SDGs perspectives. Benefit corporations in the US are rather not required to pay dividends.

So, I think we need to give it more consideration.

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

I would like to comment on measures for the Growth Market.

We appreciate the recent revision of the continued listing criteria as a clear indication that listing on the Growth Market is not a goal but a gateway to further growth.

We believe it is important to firmly share this positioning of the Growth market as a place to promote further growth not only among startups and the TSE, but also among all parties concerned, including securities companies, VC firms, and the government, and to make it a common point of view.

In addition, the materials presented today introduce, for example, the difficulties in finding lead underwriter securities companies for preparing for listing, and the stance that TSE welcomes companies with less than JPY10 billion as long as they are aiming for high growth.

With this in mind, I believe that it is important for the TSE, securities companies, VC firms, and other related parties to appropriately fulfill their respective roles from a common perspective so that startups aiming for high growth and those involved in IPOs will not feel overly anxious or hesitant about IPOs after the revision of continued listing criteria, and will be able to proceed with efforts toward further growth.

Also, earlier in your comments, you mentioned benefits and support. The Ministry of Economy, Trade and Industry is also taking measures to support the growth of startups. We intend to closely communicate with startups, the Financial Services Agency, securities firms, VC firms, etc., and will carefully consider appropriate support measures under the new market environment and ecosystem.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

Next, we would like to explain the status of companies to which transitional measures are applied in Document 6.

Nakamura, Associate, Listing Department, TSE:

I will explain the situation of companies to which transitional measures are applied in Document 6. This is mainly a report, but we would appreciate any comments or suggestions you may have.

First, as noted on page two, there are currently 208 companies that do not meet the continued listing criteria.

As of the end of last year, the number of companies to which transitional measures were applied was 247, so the number continues to decline.

The number of non-compliant companies for each criterion is listed in the lower left-hand corner. Compliance with the standards is progressing, particularly with regard to the ratio of tradable shares in the Standard Market.

The lower right-hand corner is the graph that shows the end of the improvement period if the standard is still not met. There are 72 companies with a final deadline of March 2026, and if they fail to meet the criteria, they will be delisted six months later.

As the final deadline approaches, we assume that the number of companies that will ultimately be delisted from the general market will decrease as more companies are considering changing markets or listing on other exchanges. This will be explained in later slides.

On page three, we show changes from the end of last year for companies applying transitional measures. Although some companies have been excluded from the application of transitional measures due to market reclassification or delisting, many companies have complied with the criteria and have been excluded from the application of transitional measures.

Page four, as the delisting deadline approaches, many companies are considering second plans, such as changing markets, listing on other exchanges, or going private through acquisitions, in case they fail to meet the criteria.

Currently, some companies, especially those with the end of March as the end of their fiscal year, are actually entering the remaining one-year improvement period. In this context, we are conducting individual interviews with companies that have not yet conducted such studies. We hope to continue to encourage the necessary considerations.

From page four onward, we have again included the contents of the notice to shareholders and investors and the request to listed companies that we had presented at the previous meetings. I will spare you the detailed explanation.

Watanabe, Director, Listing Department, TSE:

If you have any comments or questions, we would like to hear from you.

Sampei, member:

Thank you for compiling the material. Thank you especially for adding page three.

The transitional deadline is by no means intended to force them out of the market, but rather to encourage them to work toward compliance with the standards. So, it is good to see 68 companies that met the criteria.

I think it would be helpful for the newly unachieved companies and others if we could pick up the voices and realities of how these 68 companies have been working on their efforts.

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]