Minutes of the 23rd Council of Experts Concerning the Follow-up of Market Restructuring

Date: Tuesday, September 2, 2025 2:00 PM - 4:00 PM

Place: Tokyo Stock Exchange 15th Conference Room

Attendees: see member list

Watanabe, Director, Listing Department, TSE:

We are pleased to open the 23rd Council of Experts Concerning the Follow-up of Market Restructuring.

Mr. Kanda and Mr. Nagami are attending online today.

We will now explain today's agenda.

Ikeda, Senior Manager, Listing Department, TSE:

Thank you for your joining us today.

Document 1 is the familiar one-pager with general overview of our initiatives. I will skip the explanation. During the preliminary briefing, we received a comment that while the number of measures is increasing, it would be useful for investors if we had more information on how the overall situation is progressing and where we are currently focusing our efforts. We would like to prepare such materials in the future.

Document 2 is about "Management That is Conscious of Cost of Capital and Stock Price." We would appreciate your feedback on our assessment of progress to date and future directions.

Document 3 is about "Future Measures in the Growth Market." Here is a summary of the measures we have taken after exchanging views with many listed companies and market participants since the last meeting. We hope to present these measures later this month, along with public comments on the revised continued listing criteria. We would appreciate your comments on these measures.

Document 4 is "Future Approach Toward the Standard Market." We would appreciate your opinion after reviewing the facts. The approach at the time of the preliminary explanation was quite vague and has been revised to be more specific. We would appreciate your feedback.

Document 5 is "Status of Mandatory English Disclosure in the Prime Market." This is a status report. Please let us know if you have any concerns.

Watanabe, Director, Listing Department, TSE:

We would now like to begin to explain the materials.

First, we would like to explain the current and 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 about status update and future initiatives regarding action to implement management that is conscious of cost of capital and stock price in Document 2.

I will first discuss the situation in the third year since the request. First, page three is the status of recent disclosures. From this year's tally, “disclosed” does not include “under consideration”. In the Prime Market, the majority of companies update their disclosures, with 91% of companies having already disclosed and 63% having updated their disclosures as of the end of July 2025.

On the other hand, in the Standard Market, 48% of companies had already disclosed as of the end of July 2025. Trends in recent months have shown some progress, with less than 10% of all companies making initial disclosures and 16% of all companies making updates, but about half of all companies still do not disclose their information.

Page four shows changes in the distribution of PBR and ROE. Compared to July 2022, the percentage of companies with P/B ratios below 1x decreased by 6% in the Prime Market and by 5% in the Standard Market as of July 2025. The percentage of companies with ROE below 8% decreased by 4% in both the Prime and Standard Markets. Little by little, we are seeing an improvement in ROE as well as PBR. Of course, this will not improve overnight, so we believe it is important to promote measures with continuity.

Page five is an analysis of changes by individual company. The figure on the left shows the change in PBR and ROE for Prime Market listed companies over the three years before and after the request. Both PBR and ROE have changed for the better by several percentage points, with companies in the upper right quadrant (PBR over 1x and ROE over 8%) increasing by 6%. On the other hand, as shown in the distribution chart on the right, many companies are concentrated around 8% ROE and 1x P/B ratio, and we believe it is important that these companies have a higher perspective.

Page six shows the results of a similar analysis for the Standard Market. In the last three years, as in the Prime Market, there has been a slight improvement, but many companies are concentrated in the lower PBR and ROE compared to the Prime Market.

Naturally, it takes time for drastic efforts to show results. The market as a whole, from a macro perspective, is gradually improving. A more microscopic look at the changes in the companies listed in the case studies as good examples is included on page seven. More significantly than in the market as a whole, we see that many companies have improved their ROE as well as their PBR.

The main initiatives of the companies listed in the case studies are listed on the right. I believe that companies that are taking such drastic measures that are in line with investors' perspectives are gradually producing results, including in terms of indicators. In future updates of the key points and case studies, we would like to link the efforts of individual companies and changes in indicators to them.

The next two pages, pages eight and nine, are the most recent feedback from institutional investors, and additions to what was presented at the last meeting are noted in red. We continue to receive a lot of positive feedback on the positive changes that companies are making, such as “management is considering investors more when making management decisions and disclosing information.”

On the other hand, as noted in the lower section, we have also received suggestions that they should raise their awareness: "There are still companies that feel secure as long as their ROE exceeds 8% and their PBR exceeds 1x," and "Companies must not stop as just slightly improving their PBR and ROE; They should aim higher and higher."

Page nine presents comments on individual issues. Some investors have said that some disclosed plans are now in the implementation phase and that updating disclosures will become more important in the future. Others have said that although some companies are making new growth investments and setting medium- to long-term goals, there is a discrepancy with investors' perspectives and that there are areas that can be improved.

From page 10, the topic changes to efforts to clearly indicate on the list of disclosed companies that wish to be contacted more actively by institutional investors. As shown on page 11, a little more than six months have passed since we started this initiative, so we conducted a survey of 310 companies that applied that they wish to have more active contact to measure its effectiveness.

The results of the responses to the question about the effect of indication on the list of disclosing companies are shown on page 12. 25% of all companies responded that "contacts from institutional investors increased after the publication" and 6% of all companies "felt the effects of the publication," but there are not many cases in which the listing on the list of disclosed companies alone leads to meetings. However, on the other hand, we have heard from institutional investors that they are using the list for a variety of purposes, and here are some of their comments. An institutional investor who actually met with several companies using the list commented, "We decide which companies to survey based on their growth potential, so we do not meet with a company because it is on the list, but it is important that the company disclose its growth potential." Even if they have not yet met with companies, we have confirmed that the publication is being used for a variety of purposes, such as a screening criterion or as a reference for stock picks. Therefore, we would like to continue this effort.

Page 13 describes the measures that companies seeking more active contacts from institutional investors expect TSE to take in the future. We received comments such as, "We would like to see more opportunities for dialogue with institutional investors," "We would like to see continued expansion of good practices and gap cases," and "We would like to see more items on the list of disclosed companies."

Based on the above, we have summarized our future actions on page 14 and beyond. Page 15 describes the current status and future direction.

As we enter the third year since the request, we are seeing a difference in the response of listed companies. The Prime Market has become dominated by companies updating their disclosures, and many companies are in the process of implementing these initiatives. We hope to provide practical content to encourage the efforts of companies in this phase.

As for the Standard Market, we recognize that the issue is that more than two years after the request, about half of the companies still have not made disclosures, as we have set a separate agenda.

In addition, some institutional investors say that many companies are of the mindset that they would feel at ease if their ROE is 8% and P/B ratio is above 1x. We believe it is necessary to clearly present a message to encourage companies to raise their awareness so that their efforts to improve do not come to a halt.

In terms of promoting communication with institutional investors, we not only provide opportunities for dialogue, but also provide support to deepen understanding of institutional investors, such as what criteria they use for screening and what kind of IR they expect from a listed company. We are already providing such support, and hope to continue to do so on an ongoing basis.

From page 16 are specific measures. First, we plan to release a finalized version of updated key points and case studies by early December. We hope to expand the latest case studies received from institutional investors and to reflect the latest feedback from investors in our gap cases. In addition, we will add "before and after" images of companies that have made improvements, including in terms of indicators such as those analyzed in this data, as well as elements of the "review process," which will be useful for companies that are in the process of making such improvements.

Finally, page 17 is about promoting communication with institutional investors. We are considering improving the list of disclosed companies. Until now, the main information has been whether or not disclosure was made, but we would like to add the content of disclosure to the list and make it more visible so that each company's efforts can be more easily communicated to investors.

We will also continue to focus on opportunities to promote dialogue and understanding with institutional investors, as there is a high demand from companies for dialogue and study sessions, as I mentioned earlier.

That concludes my explanation of Document 2.

Watanabe, Director, Listing Department, TSE:

Now, we would be happy to receive your comments.

Kumagai, member:

Thank you for your explanation. Thank you very much for your careful compilation of the materials so that we can see what has been accomplished so far. In talking with listed companies, Daiwa Institute of Research (DIR) is also experiencing firsthand the changing attitudes of management. We are gradually seeing the results of their efforts in numerical terms, such as the distribution of PBR and ROE, and we are realizing the progress of our reforms.

Basically, I hope you will continue to work in the direction described on page 15. I would appreciate it if you could include the changes in market valuation and return on capital for the companies listed in the case studies on page seven when you update the key points and case studies. Since numerous companies have concerns about future initiatives and stock prices, it would be useful to demonstrate that promoting initiatives similar to the key points and case studies would be effective.

DIR also presents good examples as reference materials when meeting with companies, and we have found that this greatly deepens understanding on the part of the companies. In many cases, when the company has a relationship with a company listed in case studies, it often leads to action to actually ask about the process of reform. I again feel that the addition of the "review process" element on page 16 is in line with the needs of companies.

Finally, raising companies' perspectives will be one of the most important themes going forward. When looking at corporate disclosure documents, we often see the phrase "P/B ratio is over 1x." This is, of course, one criterion, but investors expect further improvement.

In addition to the measures that the TSE takes to issue messages to raise awareness, I suggest that the TSE consider promoting motivational measures to raise ROE, PBR, etc. For example, the introduction of stock-based compensation for executives is on the rise, but one possible measure would be for the TSE to take the lead in promoting the introduction of stock-based compensation for employees.

The "Big-boned Policy 2025," released in June of this year, states that "the increase in corporate value will create a flow of funds that will increase wages and financial income and assets." Increases in equity compensation due to increased corporate value would also be consistent with this concept. In addition to implementing growth strategies by raising funds in the stock market, it is, so to speak, a privilege of publicly listed companies to attract outstanding executives and employees through measures to improve their compensation by using equity compensation.

When we speak with corporate employees in charge, we are sometimes asked how long the reforms will continue, and we surmise that the burden is that much heavier on the field. In light of these and other factors, we believe it is essential to take motivational measures in addition to messages aimed at raising awareness.

Okina, member:

Thank you for your explanation. I would like to make two points.

I am sure this will be discussed later. I feel that the Standard Market is still an issue. I see a major problem in the lack of progress in disclosure, and 59% of all companies have a P/B ratio below 1x, and as the distribution chart shows, ROE is also low. In addition, the Standard Market has many companies with small market capitalizations and a large number of companies overall, which may make it difficult for investors to focus on individual companies. I believe that both approaches are necessary: one is to encourage growth and value creation, and the other is to promote renewal while maintaining firm discipline and encouraging mergers and acquisitions.

Second, I think the 4-quadrant analysis on pages five to seven (analysis of changes in PBR and ROE indicators) is very useful. It would be an opportunity for companies to see where they stand and recognize which investors would be interested. For example, if the company is closer to the upper right quadrant, I think investors will be more interested in listening to a story of further growth. I believe that companies in the lower left quadrant will receive various suggestions from activists if they do not proceed with structural reforms on their own. I also believe that companies in the lower right quadrant will also be required to work toward growth. TSE has initially promoted measures to raise awareness of PBR and cost of capital, etc., but I think that an approach such as this analysis of positioning the company by PBR and ROE and raising awareness of what institutional investors would be interested in based on this would be very beneficial.

Sampei, member:

Thank you for compiling the materials and reflecting the points raised in the preliminary briefing. I would like to make three.

The first is related to Document 1. Looking at the TSE website, etc., there are descriptions of the benefits of listing, but there is no clear description of the significance of listing or the responsibilities of listing. The listing guidebooks are available for each market segment, but the significance of listing in the overview section of the listing system is exactly the same for both the Prime and Standard Markets, and only the benefits are described while saying "significance." I think this inevitably leads companies to the wrong idea. Essentially, the purpose and responsibilities of the listing should also be clearly stated. I believe that it is necessary to reconfirm whether they are actually fulfilling the responsibilities in accordance with the characteristics of each market. These are the points regarding the whole related to Document 1.

Secondly, regarding the Document 2, I feel that the analysis on pages five to seven is very important, as Ms. Okina mentioned. The future direction is described on pages 15 to 16, and I hope that you will make use of the information on pages five to seven, especially when showing the before and after images. For example, a company trying to move from the lower left to the lower right quadrant in the figure on page five (trying to improve ROE) would know what to do and be able to verify its efforts. The difficulty for companies is about what they need to do to move from the lower right to the upper right quadrant, i.e., to gain market valuation, which can be a difficult part to grasp. It is often difficult to gain market recognition based on financial results alone, and I believe that it is very important to know what message to convey in such cases. It would be helpful for companies to analyze these points and show, for example, what the differences are between the companies shown in the comparison on pages five and seven.

Third, on page 15, it says, “in accordance with company and investor needs, also improving the list of companies that have disclosed information.” It is good that you do this, but I think we need to be careful not to overburden the TSE too much. For example, when I hear companies say—as shown on page 13—that they would like to see more items listed in the list of disclosed companies, or when I hear institutional investors say that it would be good if they could compare the initiatives of different companies side by side, I wonder if they have motivation. If you are an institutional investor, you would benefit from creating your own list before such a list is published. I think it is a waste of time and effort for TSE to expend effort on people who have no motivation. Rather, I would like you to show motivated companies a before-and-after picture, saying, “You can do better if you work a little harder on this.” For those who want to use the opportunity to be interviewed to say whatever they want to say, I don't think you need to respond to every request.

Uchida, member:

Thank you for putting this together. I am sure that the market participants are well aware of the serious efforts that the TSE has been making all along. The documents give the impression that the mountain is moving slowly but significantly and steadily.

As for the Standard Market, I think it is probably an issue that disclosure is not going very well, as will be discussed later. But I am also wondering what kind of movement we might see as disclosure gradually progresses and exceeds 50%. I hope that we watch it closely.

One point was made about the importance of updating disclosures in the future. As I mentioned briefly at the previous meeting, I believe that we have made some progress in addressing the relatively easy-to-reach themes of financial strategies and shareholder return policies first. While the implementation of the growth strategy will take some time, I believe that after two to three years, the question for the future will be how the update, including its progress, will be carried out. I think there are companies that formulate growth strategies and medium-term management plans, and then repeatedly summarize the results of these plans. In many cases, it is difficult for companies to systematically summarize and disclose what actions they have actually taken and what results they have achieved. However, I believe that it is desirable to appropriately encourage companies to do such work while disclosing what they have been able to do and what they have not been able to do, so that the information can be presented in a form that also contributes to dialogue with investors. To this end, I think it is important to have them think about the content and quality of the updates, while also referring to actual cases, etc.

Of course, not all of companies' efforts are necessarily successful. Therefore, I believe that it would be beneficial to companies if we could get honest feedback on the results of challenges and position this as a mechanism that links it to the next improvement and leads to growth. I think it would be good if you could communicate to companies what the updates are, how they are done, and how they are viewed by investors.

Koike, member:

I am very grateful for the very clear and multifaceted analysis in the materials. Market reform is a long road ahead, and I think this is a good start. As for disclosure, 91% of companies in the Prime Market have already disclosed and 63% have followed up. How to sustain the cycle of follow-up and updates in the future, and how to improve the effectiveness and quality, are major issues. I think it is important for TSE to absorb the evaluations from investors and send out messages as success stories, such as the quality of disclosure. We ourselves, as institutional investors, are reminded of the need to make such investments. We will discuss the Standard Market later, so I will skip it here. I would just like to give you a brief update on the status of our most recent engagement.

Briefly, there are two stages in the engagement process, regarding engagement after corporate management has begun to be aware of the cost of capital and stock price. One, a request comes in from a company to hold a meeting. If the company is an investment target as a result of the meeting, we will engage with the company on how we can increase its corporate value, for example, in terms of governance, corporate strategy, ESG, etc., and then set milestones as agreed by both companies. We will then engage with the company toward this milestone. Recently, the number of new meeting requests and set-ups is 140 companies. Perhaps those are requests from mid-sized or smaller companies. In the past year or two, the market capitalization of these 140 companies has been nearly unchanged. A closer look reveals that only about 20% of them have increased in market capitalization, but overall market capitalization has decreased.

Merely holding meetings is never enough to raise the stock price. On the other hand, there are 220 companies that have set milestones. The stock prices of about 60% to 70% of those companies have risen, and overall, JPY1.4 trillion has become JPY2.1 trillion. Asking them to set milestones means that we continue to discuss what improvements our company believes will increase the value of the company and what we as investors expect from them. I believe that the stock price of a company that understands these things will be positively valued overall. Conversely, it can be said that we invest in people who understand such things. I believe that it will be necessary to increase the number of companies that can set such milestones in the future. In this sense, I believe that as an institutional investor, it is very necessary for us to have opportunities to let each company know again what we are thinking. By conducting such sessions with TSE for the Growth Market and small cap companies, we were able to understand what we ourselves had not noticed and what companies were struggling with, which led us to take the next action. I believe that it is desirable to promote such communication and active involvement in the market as an institutional investor in a wide range of areas.

Kuronuma, member:

You explained the status of your efforts to date and presented your future plans. I agree with you. The companies are in the process of considering how to implement plans for management that is conscious of cost of capital and stock price, and I think it is important that you disclose this. In addition, some consequences of your survey of companies that wish to be contacted are unavoidable. The fact that a request for contact does not necessarily lead to a meeting is unavoidable, in part because of the limited number of stocks in which institutional investors invest. As a corresponding measure, I think it would be a good idea to do an easy-to-read list of disclosed companies, even if it is a small step. It also says that we need to educate companies that have achieved 8% ROE and 1x P/B ratio to make them raise their perspectives, and I think that is true. However, the meaning of this perspective is somewhat confusing. Of course, it would be important not to set a target of, say, 9% ROE and 1.1x P/B ratio, but to encourage continuous updates so that efforts do not stop after the target is achieved. If that is what you mean, then of course we would like you to do the enlightening.

Matsumoto, member:

I think we are making very good progress. The second of the future directions on page 15 states that there needs to be awareness-raising to encourage companies to aim higher, and I think that is exactly right. As I recall, the most important turning point of this council was the discussion in two meetings held in January 2023. In this, it was discussed that it is important to support Japan's economic growth or to improve productivity, and that one of the things the TSE can do to achieve this is to request “management that is conscious of the cost of capital and stock price.” Thus, first there was the cause, and then there was the specific measure of requesting efforts to improve the stock price. Because of these two things, it probably resonated with corporate executives in a positive way and was socially acceptable. I also believe that the reason why many companies are of the mindset that they can rest easy as long as their ROE exceeds 8% and P/B ratio 1x is because this cause is overlooked and only the means are being looked at. Once again, we need to talk firmly and reconfirm for what purpose they should manage their business with cost of capital and stock price in mind, and if there is a need to reiterate and update this information to companies and society, we need to discuss it at this council. Since we are progressing in a good way, I think it might be time to do something like that to continue this even more firmly.

Sampei, member:

I have a point I would like to add to the comments made by two members on page 15 about raising companies' perspectives. Some corporate managers who have exceeded the minimum standard of 8% ROE and have also fulfilled their responsibility to avoid a P/B ratio of less than 1x may have lost sight of what the incentive should be from that point forward. Very importantly, the investors who are flocking to companies in the lower left of the four quadrants, for example, are value investors, and value investors are looking for some reform or change in the balance sheet. Of course, if a company says it is going to invest in growth without producing results at that point, they will say that growth investments should be put on the back burner and shareholder returns and asset sales should be prioritized. The shareholder base of companies in the upper right-hand corner is different from this, and value investors do not follow companies to the higher right with higher valuation. Or activists also do not follow them to the upper right corner.

Shareholders who flock to the companies in the upper right are investors looking at growth stocks. They are excited about the future and are very interested in what kind of business model companies are going to do in the future, and if they are convinced, they say that investment is important and encourage growth investment. Thus, depending on where you are, the shareholders that are interested in you will vary. For many managers, it should be highly desirable to aim for the upper right corner, because investors who are attracted to companies in the upper right corner and see growth stocks will give a company a boost when it tries to do what it wants to do in the future. There is a difference: if you go right up, you will be able to do that, while if you don't get there, you will be told to prioritize shareholder return over investment in growth because the future vision is unreliable. That is why I think we need to tell people that they should aim for different areas.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

Next, we would like to explain our future actions in the Growth Market in Document 3.

Monden, Senior Manager, Listing Department, TSE:

Please refer to Document 3 for an explanation of future measures in the Growth Market.

Please see page one. Since the last meeting, we have continuously exchanged views with many startup managers and market participants.

In communicating the purpose and overall picture of our efforts to make the Growth Market's character more distinctive, we have received many comments in support of the direction of such reforms. Increasingly, management has expressed a willingness to accept our reform positively, including the review of standards.

Under such circumstances, we have received many requests and expectations for the TSE, which are summarized in the middle three points.

The first is that it would be good to have a concrete image of the “high growth” expected in the Growth Market and what kind of efforts are required, as well as an indication of what should be done.

Second, some CEOs, especially those who have grown to a certain degree in the Growth Market, expressed concern that while others think it is natural for them to go to the Prime Market, they themselves want to stay in the Growth Market and aim for growth. Some people have asked for TSE's thoughts on how such market selection should be made.

Third, as with the promotion of “management that is conscious of cost of capital and stock price,” some expected support for companies, such as provision of key points and good practices, holding seminars, and assistance in creating contacts with institutional investors.

We would like to proceed with this reform while responding to the voices of these managers, and we would like to hear your opinions today on how we should respond to them. In late September, we will begin public comments on the revised standards, and at the same time, we would like to encourage companies to “manage for high growth.” We would appreciate your comments on those details.

Page two presents the firsthand voices of managers I mentioned earlier, of which I will skip the explanation.

Additional comments are listed on page three. Some expressed the hope that TSE would offer the benefits of listing on the Growth Market, and others asked that TSE encourage investors to invest from a medium- to long-term perspective. Investors may have a different view, but we present this information as an opinion from management.

From here, I will discuss specific responses. The first is the “ideal Growth Market-listed company.”

See page five. Since it is difficult to define “high growth” in a uniform percentage, for example, we would like to provide a summary of “investors' expectations for growth companies” based on the discussions we had with investors.

The table below shows the draft. First, on the left side, we have indicated the comments and concerns that we hear from managers, which show a gap with investors' expectations. Then, on the right side, we summarize the investor expectations. In all, seven examples are presented.

Specific details are provided on the next and subsequent slides. The details have been discussed in the preliminary briefing, so I will briefly introduce them today.

The first is from managers who are concerned that although sales and profits are steadily increasing, the stock price is not growing along with them as expected. For investors, a growth rate as high as that of large companies is not enough. In addition, investors look to the future, not the past, so they would like to see the company communicate a vision and strategy that anticipates high future growth. We also need to emphasize that it is not enough to exceed JPY10 billion.

The second is management's belief that a capital increase cannot be undertaken because investors will view it as dilution and the share price will fall. Investors, on the other hand, will support a capital increase if it increases the value per share. Investors expect the company to present a compelling equity story and gain investor support while aggressively raising risk money to invest in growth.

The third is management's belief that investors demand shareholder returns and will not invest in the company unless it increases its dividend. What investors look for in a company depends on the stage of the company. For companies in the growth stage, where the business model has not yet been established, investors are looking to invest in growth in order to increase the size of the pie rather than dividends.

The fourth is the concern of managers who are reluctant to invest in growth in order to secure immediate profits, because investors will not appreciate the company if it is in the red. Investors will buy securities even if a company is in the red if they expect high future growth. They would like companies listed on the Growth Market to clearly present their vision for future growth and to proceed with investment in growth without excessive fear of losses.

In the fifth example, although the company is not growing as originally envisioned and has stagnated, management does not want to revise its growth strategy and wants to continue to do its best to extend the existing strategy. From the investors' point of view, they would like the company to first fully analyze the lack of growth, and if the current business model is not working, they would like the company to restructure its strategy, including inorganic growth strategies such as M&A.

However, I think it is necessary to add that blind M&A is not recommended.

Sixth, managers say that since there are few institutional investors in the Growth Market, there is no point in disclosing because they will not see it even if they make an effort to disclose. Investors said, in the small-scale phase, it is advisable to target individual investors first, and after adding liquidity, gradually bring in institutional investors. Companies need to set targets that match their position and to take an effective approach accordingly.

Seventh, managers believe that investors dislike downward revisions, so managers become conservative, trying to avoid issuing earnings forecasts and the like as much as possible. For investors, long-term growth projections are essential, especially when evaluating growth companies. Even if it is not in the form of earnings forecasts, companies should gain the trust of investors by clearly presenting long-term growth targets and KPIs, and by continuously disclosing progress and improvement measures in good times and bad.

The above is a summary of investor expectations for growth companies. We would like to demonstrate this in our future outreach to companies.

The second part is about the concept of Growth Market selection. For companies wondering about market selection, page 14 summarizes the TSE's thinking.

Specifically, first, as we have repeatedly stated, the three market segments are independent, and the basic principle is for companies to choose the market that is appropriate for them.

There was a trend that companies in the Mothers market aim for the first section as early as possible. In the Growth Market, however, companies are welcome to stay in the market and aim for further growth, even if they have grown in size. From next October, even Growth Market-listed companies will be able to join TOPIX if they have liquidity.

We also envision a move by companies in the Prime and Standard Markets to the Growth Market in order to achieve higher growth.

In addition, we would like companies that aim for high growth while raising risk money to make better use of the Growth Market, so we will promote the development of the environment from this perspective. In addition, we will provide support to companies that are making efforts and offer the benefits of being listed on the stock exchange.

This is TSE's approach for the market selection, and we will reiterate this to companies and market participants.

The third part, on page 16, describes efforts to support companies listed on the Growth Market.

First, in late September, we will begin public comment on the criteria review. In addition, for all listed companies in the Growth Market, we will present a finalized version of the investor expectations we mentioned earlier as a way to encourage them to “manage for high growth.” Along with this, we will ask companies to update their growth strategies based on such expectations.

A draft of the specific request was presented in April and is included on page 17. We would like to see companies analyze and evaluate their growth to date, brush up their growth strategy and goals based on this analysis, and continuously present these details to investors when disclosing “matters relating to business plans and growth potential.”

Please return to page 16. In addition to these efforts, we will provide support by offering good practices, compiling a list of companies that are actively involved, holding seminars specifically for growth companies, and providing opportunities for small meetings.

We will continue to exchange opinions with management and market participants, and will continue to consider other initiatives.

Lastly, we would like to proceed with the handling of the transitional measures associated with the review of the standards as discussed in the previous discussion. I will skip the explanation.

That's all I have to say about Document 3.

Watanabe, Director, Listing Department, TSE:

Now, we would be happy to receive your comments.

Kumagai, member:

I would like to make three major points. First, I think the material on the image of companies expected in the Growth Market from page five onward is a very useful document because it summarizes well the opinions expressed at the follow-up meetings and the thinking of investors. I hope that you will take into account the opinions expressed at this meeting and others, and try to reach the Growth Market managers directly.

The second point is about the Growth Market selection concept on page 14. You could clarify what is required in the Growth Market, and if a company is not in line with this, you may consult with the company and push it to move to another market. While many companies were considering appropriate markets at the time of the 2022 market restructuring, in some cases the stage of growth has changed over time. I also assume that many companies chose the Growth Market without any particular reason, as indicated by the comments of market participants in Document 4. In any case, I believe it is extremely important for companies to be listed in an appropriate market and to address governance and other issues.

Regarding the third point, (4) exception on page 18, I believe it is very important to require companies to set a minimum required time period. Under the transitional measures at the time of market restructuring, companies were required to consult with the TSE in advance before publishing their plans for transitional measures. Again, I believe that this should take the form of prior consultation, and that the length of the grace period and the plan should be looked at in advance and the reasonableness of the plan should be sought.

Nagami, member:

My comments are also germane to the later discussion of the Standard Market. First of all, as a basic premise, a little more than three years have passed since the market segmentation change, and I believe that we are now in a phase where the characteristics of each market should be more distinctive. In this context, the Growth Market is designed to accelerate the growth of listed companies, so I think it is very important to change the specific benefits as described on page three at an early stage. I believe this is paramount to highlighting the Growth Market.

Regarding the expected corporate image you describe in your material, I believe that there are many excellent managers in the Growth Market, regardless of its size, and many of them naturally understand this. That is why I believe it is important how the market supports them to grow and realize their goals even if they have to break through this. I believe the primary focus should be on hammering out these benefits as concretely and as quickly as possible.

Sampei, member:

Seven corporate images expected in the Growth Market are listed, and I think this is a very clear document that reflects the characteristics of the Growth Market and eliminates certain misconceptions. The market selection concept is described based on that, as explained on page 14. I think it might be a good idea to come up with some sort of catchphrase that is more concise and clearer in this context. It is often assumed that a company should strike a balance between growth and something. Rather, I think it would be very clear that this market is for accelerated growth by showing that investment in growth takes priority over shareholder returns and investment in growth takes priority over short-term performance. If it is acceleration of growth when using internal funds, the priority would be to do what I just mentioned, and if it is acceleration of growth using external funds, the priority would be to increase capital. Instead of meekly growing, they need to show that they see some business opportunity now, and that they intend to accelerate their growth in order to win it quickly and make it solid once they are listed on the stock exchange. As such, I think it would be good to clarify that the balance required is different from that in other markets.

We can read about how you work against such things on page 17. The Ministry of Economy, Trade and Industry (METI) published the Guidance for Collaborative Value Creation in 2017, which was updated in 2022. This Guidance for Collaborative Value Creation is a careful summary of how to say things better when communicating with the market and investors, using common language and key words. However, the

Guidance for Collaborative Value Creation was not created for the Growth Market, but rather a relatively balanced variety of things. So, I think it might support communication with the market if TSE and METI discuss and organize the parts that are particularly prioritized in the Growth Market and the parts that are not important or prioritized in the Growth Market.

Kanda, member:

I would like to make one general comment and one specific point.

As a general comment, I think that the first of the requests from management on page one, "to show what high growth means," is not something that the TSE should do, but something that each company should consider on its own. However, "high growth = investor expectations" on page five is a very correct answer, and I think it is good to organize it by giving seven specific items, and I agree.

On a specific point, the fifth of the seven items is a difficult question. I don't think it is realistic to expect all companies in Growth Markets to succeed in achieving high growth, and experience shows that there is no such market anywhere. So, I think it is good that you specifically mention the option of leaving voluntarily if it does not work out. Of course, I believe that managers want to do their best without exiting because they have shareholders, and I think that in itself is a very good thing.

However, I still think there should be an option to exit the market by selling the business to another company in response to M&A, and conduct another business. So, I think the fifth item could also indicate the message that an exit could be an option.

Koike, member:

Thank you for presenting a clear image of a company in the Growth Market. It is my general impression that once the Prime Market has been established and a concrete picture of the Growth Market has been created, the Standard Market will get the image of "other market."

I would like to make a few comments on the document. First of all, I am in agreement with the "disclosures and IR that take into consideration the gradual incorporation of institutional investors" on page 11. After October 2026, companies with a certain level of liquidity will be included in TOPIX, which is expected to bring in many index players. Inevitably, such companies will have to communicate with institutional investors, so we are very grateful that you are creating awareness and mindset now.

On the other hand, the statement on page nine, "executives should proceed with growth investments without excessive concern about short-term losses or declines in profits," is correct, and although the Growth Market is intended for that purpose, logical explanations and dialogue are needed regarding the vision of mid- to long-term profit growth after short-term deficits. It is also difficult to attract investment with enthusiasm and hope alone, unless companies have solid capital market literacy and financial literacy as the backbone of their claim. I hope that you will make efforts to increase such literacy in the future.

At the same time, I would like companies to increase their literacy, and at the same time, I would like them to take responsibility as a publicly listed company, as Mr. Sampei mentioned. You should not only make an appeal of merits, but also seek companies' conduct and high dignity as a background to tolerate losses, make investments, and pursue profitable growth; otherwise you may undermine the confidence of the market as a whole. I would like to see this point strengthened, and I feel it is necessary to firmly instill such a spirit not only in existing listed companies, but also in companies that will be listed in the future.

Third, I think that entering the Growth and Standard Markets and going to the Prime Market is like a royal road for Japanese listed companies. While it would be ideal to stay in the Growth Market, I wonder if in some sense it might be a branding issue in the Growth Market that is not happening in reality. The system has demanded many things so far, but without the fact that more and more companies will stay, it will end up being just an ideal or a call to action. This is not so much an institutional issue as an image and branding issue, which will require stronger promotion. I naturally agree that a company stays in the Growth Market, and I think it would be very good to differentiate the Growth Market from the Prime Market with such characteristics. But on the other hand, if going to the Prime Market remains the high road even after working so hard, then I think our branding is not working well.

Kuronuma, member:

Regarding the image of a company expected in the Growth Market, I think the expectations of investors are well summarized and the document is very well written. Although there are some comments today, I believe the details are generally correct and it is important for you to show this attitude.

I believe that the concept of Growth Market selection will be presented as TSE's approach. This is consistent with previous discussions and our current thinking regarding the review of market segmentation, and I hope that you will continue this approach.

Let me ask one question. It states that both of these will be presented to the companies, but I was wondering how they will be presented. Earlier, Mr. Kumagai mentioned that regarding the former, he would like to see it reach management directly. Will those be publicized, or will those be handed over to management directly? I think you should choose the best one considering its effectiveness. Please let us know what you currently think.

Monden, Senior Manager, Listing Department, TSE:

Regarding the first point, investor expectations, we will brush up on them based on the feedback we received from you today and will present them in the form of a notice to all listed companies in late September, along with the request for updated disclosure and growth strategies on page 17. In addition, there will be many opportunities for seminars and exchanges of opinions for the management of the Growth Market in the future, and we would like to directly inform the management of this issue, along with the second point, the concept of market selection. We would also like to make the same information known to companies seeking to list their shares and other interested parties.

Okina, member:

Thank you for your explanation. I also think it is very good to organize the “executives' mindset that is not aligned with investors' expectations.” I would very much like to see it presented in this direction.

On page 11, it says “There are few institutional investors in the Growth Market,” and I think that is indeed one aspect. Please tell us how many institutional investors you interviewed this time.

Monden, Senior Manager, Listing Department, TSE:

The status of the hearing is described on page one. While we have exchanged views with investors on a wide range of projects, we have exchanged views with about 70 companies regarding the Growth Market. Regarding listed companies, we exchanged opinions with over 100 people, mainly startup managers.

Okina, member:

Thank you very much. I don't know how many of the 70 investors are actively engaged, but I would guess there are at least this many. The TSE also has a role to play in nurturing actively engaging investors in the Growth Market. I believe that for the Growth Market to develop, it is important for companies to grow as well as for such investors to grow. As Mr. Koike mentioned earlier, I think we may see some new investors coming back if some companies enter the TOPIX.

Regarding market selection, I believe it is important to characterize the Growth Market. I believe this market will become even more attractive if companies characterized by taking on challenges, taking risks, and accelerating growth continue to stay in the Growth Market.

Regarding support for listed companies in the Growth Market, I recently met with several presidents of companies that went public this year. They had a very distinctive business model and a clear vision for the future, and they were not the kind of CEOs who would ask the question “what is high growth?” as Mr. Kanda had pointed out. Because of the diversity of companies in the Growth Market, I think it would be very useful information for other company managers as well as a selection criterion for investors if they could see what kind of managers the market has and what kind of perspective the companies have in case studies. I believe it is very important to visualize well the good examples from the investor's point of view.

Uchida, member:

I feel that almost everything we are looking for in this document for companies listed on the Growth Market is also applicable to companies listed on the Standard and Prime Markets.

I think aiming for higher growth is a good cause in the Standard and Prime Markets as well. Inevitably, it seems natural to position the Growth Market where companies start small and grow to a certain size with a sense of speed.

If you say “it should remain in the Growth Market and fully take on that challenge” as on page 14, it gives the impression that companies cannot challenge themselves if they go to the Standard or Prime Market. I think this might create an atmosphere in the Standard Market where companies could feel relieved if they achieved an ROE of 8% and a P/B ratio of 1x.

However, I believe that the discussion to date is required in the course of the discussion accompanying the revision of the continued listing criteria for the issues at hand, and I am not opposed to that. But there is a need to better clarify the system and framework of benefits, burdens, and restrictions of listing on each market. Also, in terms of branding, there is a risk in saying that staying in the Growth Market instead of going to the Standard Market will be branding, and there is a risk of losing control of the situation if it does not materialize.

This relates to our next discussion of the Standard Market. Given that some investors are calling for mandatory English disclosure in the Standard Market as well, I believe that further sorting out the obligations and benefits is necessary.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

Next, we would like to explain our future approaches in the Standard Market in Document 4.

Yamawaki, Manager, Listing Department, TSE:

I will explain future approaches in the Standard Market in Document 4.

Page two summarizes the previous discussion. In light of the growing interest in the future of the remaining Standard Market amidst the ongoing reform of the Prime and Growth Markets, we discussed the major directions of the market.

Before discussing the direction and measures to be taken, as the fourth item in the dotted line box indicates, there was a comment that "TSE must examine this in greater detail." As for the sixth item, we also received a comment, like, "It is important to discuss all options that TSE could take, including revisions to the listing criteria." Today, we would like to reiterate the current state of the Standard Market and ask for your input on our future approach.

On page three and beyond are facts about the current situation.

Page four is about IPOs on the Standard Market. The number of IPOs per year is about 10 to 20, which is less than the Growth Market. Also, as arrowed, the median market capitalization at the time of the IPO is about JPY8 billion.

Page five is about the elapsed time since listing and the industry of the already listed companies.

As mentioned earlier, due in part to the small number of IPOs, the Standard Market is dominated by companies that have been listed for several decades, as can be seen from the distribution of elapsed time on the left-hand side.

In addition, as shown in the distribution of industries on the right, companies in a variety of industries are listed without bias.

Page six reiterates the distribution of P/B ratio and ROE, which is also presented in Document 2. We recognize the need to continue to promote management that is conscious of the cost of capital and stock price in the Standard Market as well.

On the other hand, page seven is the status of disclosure of management that is conscious of cost of capital and stock price. As also shown in Document 2, the disclosure rate for the Standard Market is about 50%, which shows a delay in consideration and response compared to the Prime Market.

Relatedly, a more detailed status of efforts in response to the request is provided on page eight.

The graph on the left shows the actions that companies have taken so far in response to the request. The rate of companies with understanding of cost of capital and capital profitability has now proceeded to a majority in the Standard Market.

On the other hand, as shown below, only about 20% of companies analyze such content at Board meetings or review their management strategies based on such content.

As an indication of this situation, KPIs set forth by companies in this market in their mid-term management plans are mainly P&L indicators such as sales and profit, and companies using ROE and ROIC as KPIs are more limited than in the Prime Market.

On page nine, we reiterate that while overall improvement is still expected, at the same time, some companies, such as those listed in the case studies, are taking proactive steps to significantly improve their corporate value.

Page 10 has a slightly different perspective: liquidity. First, regarding the distribution of market capitalization, the median market capitalization of the Standard Market is around JPY8 billion.

In addition to the small size, turnover of trading value tends to be lower than in other markets. As a result, this market has a median daily average trading value of JPY16 million, and many companies are not easily targeted for investment or engagement by institutional investors due to liquidity issues.

On page 11, we include data on shareholder composition as a contributing factor to the low turnover.

As shown in the graph on the left, more companies with parent companies, controlling shareholders such as owner-presidents and founding families, or other affiliated companies with 20% to 40% ownership are listed on the Standard Market than on other markets. The simple total of these companies is about 600, and about one-third of the Standard Market has these large shareholders.

In other companies, there are also many policy holdings by business corporations, etc., and the distribution of the ratio of tradable shares on the right side also shows a more fixed tendency than in the Prime Market.

On page 12, we present the appointment of outside directors from a governance perspective. The appointment of independent outside directors is also making progress in the Standard Market, with 85% of companies appointing at least two independent outside directors and 59% appointing at least one-third of independent outside directors, according to the most recent post-AGM data.

From page 13 onward, you will find comments on the Standard Market from institutional investors, trust banks that support companies, IPO-related parties, and others.

Page 14 is about IPOs on the Standard Market.

As shown in the first and second points of the dotted line enclosure, some companies have begun to consider whether the Standard or Growth Market is better, taking advantage of the revision of the continued listing criteria on the Growth Market, etc.

On the other hand, as mentioned in the third point, some companies are concerned that if they choose the Standard Market, their company will be perceived as unattractive. Therefore, there is an opinion that the attractiveness of listing on the Standard Market should be reiterated, as well as the matters expected after listing.

As mentioned in the fourth and fifth points, we have also heard opinions that the Standard Market should be careful not to become a receptacle for other markets or a new listing goal destination.

Next, page 15 is about already listed companies.

Overall, as mentioned in the first point, in the Standard Market, there is a belated but gradual recognition of the need to work on improving corporate value in the changing environment, such as a decrease in policy shareholdings and an increase in acquisitions without consent.

On the other hand, as in the second point, some respondents said that there is still a lack of tension in cases where large shareholders hold the majority of shares as stable shareholders, or in companies that have little liquidity and are not easily noticed by shareholders.

In addition, as mentioned in the third and subsequent points, some have suggested that the fact that continued listing criteria and other regulations are less stringent than in other markets is one reason for the lack of a sense of urgency.

Page 16 provides opinions on management that is conscious of the cost of capital and stock price mentioned earlier.

As the data suggests, companies in the Standard Market are still limited to analyzing the current situation, such as understanding the cost of capital, and it is said that the discussion has not extended to specific initiatives such as improving return on capital. As the third point, we have also heard voices saying that the challenge is how to draw a growth story where the size of the market itself is niche and limited.

Finally, page 17 provides opinions on minority shareholder protection and governance.

We have received comments that many companies with controlling or dominant shareholders still do not adequately manage their businesses with consideration for minority shareholders. Specifically, as per the second point, for example, some owner companies are unwilling to raise its stock price for the sake of inheritance. Some pointed out that there is a conflict of interest between the shares and the expected increase in corporate value.

In such situations, independent outside directors are expected to exercise their supervisory function, but as shown in the third and subsequent points, there are some concerns about the effectiveness of this function.

In addition, we have also received comments that the TSE should consider whether the independence criteria are appropriate as a minimum standard, as described in the last item. Specifically, some have suggested that stricter requirements may be necessary with respect to independence from major shareholders other than the parent company.

Finally, page 19 is items for your discussion: future approaches.

The Standard Market is the base market in the three market segments. We believe this is a necessary and important market as a market infrastructure in terms of accommodating a diverse range of listed companies.

On the other hand, as the reform of the Prime and Growth Markets progresses, the Standard Market is increasingly perceived negatively as neither Prime nor Growth, and the question is how to improve its attractiveness as a market.

From this perspective, as described in the first of the lower rows, we would like to hear your opinions on how we can support and increase the number of companies that are positively working to improve their corporate value, as the companies in the case studies mentioned earlier.

Second, we are using arrowheads to illustrate how we can approach the issue of companies that need to better fulfill their basic responsibilities as a publicly traded company. I suppose there is the idea that different approaches should be taken for different layers of companies. We would appreciate your opinion.

Watanabe, Director, Listing Department, TSE:

Now, we would like to receive your comments.

Kumagai, member:

I have the impression that you have examined various data following our previous discussion and have gradually gained a clearer picture of the state of the Standard Market. At the same time, the distribution of market capitalization reveals a diverse range of companies and the difficulty of dealing with them.

The possible avenues for future approaches are as you have described on page 19. All of these are important issues. In my recent visits to listed companies, I have often been asked about the continued listing criteria, and I have the impression that since the review of the criteria in the Growth Market, companies in the Standard Market are also paying attention to the future of the discussion.

I also believe that special attention should be paid to liquidity and distribution on pages 10 and 11. I assume that market participants' comments that few companies are aware of the capital markets are due to the fact that it is difficult to apply appropriate pressure on them for reasons of liquidity and distribution. We have also seen comments that “we don't want to raise the stock price because the inheritance tax is tied to the stock price of the listed shares,” and this needs to be dealt with firmly.

On the other hand, we also see companies that are seriously struggling to increase their corporate value. Some companies believe they need to transform their business portfolios but are struggling with the allocation of human capital and stakeholder relations. While some of this information can be gleaned from data, it is also vital to interview companies in the Standard Market directly to ascertain their concerns and obstacles to increasing corporate value.

After considering each of these approaches, as many members have pointed out, it would be a good idea to clearly present the corporate image that the TSE and investors expect, and advantages and disadvantages of each market. This is also related to the Growth Market selection concept mentioned earlier. In some cases, the market selection seems to be made without a clear reason. Since many companies have been listed for a long time, I believe that if you scrutinize the situation once again and present it as TSE's official opinion, we can expect to see a boost in reform-oriented companies and a revitalization of the market.

It is also essential to ensure that IPO on the Standard Market does not become a “listing goal,” as was mentioned by market participants on page 14. We should ensure that valuable risk money flows into companies that truly aspire to growth. It is necessary to clearly indicate the growth required after listing and the responsibilities as a listed company, and to eliminate listing for the purpose of “listing goals” as much as possible.

Finally, although the methodology may differ from the future approaches described on page 19, I suggest expanding the scope of the survey to other countries. It would be very helpful for our country to understand the market position, concept, and general situation of listed companies in exchanges with a similar market structure, and to find out what measures they are taking to address the issues that have arisen—and if they are managing the market well, what factors are contributing to their success. I hope you will consider this.

Kanda, member:

The difficulty with the Standard Market is that companies listed here are less distinctive than those in the Prime and Growth Markets. However, since these companies are also listed companies, I think it would be better to say that as a listed company, we seek what investors expect from these companies.

Given the reality of the Standard Market you have reported, I am wondering if it is necessary to take an approach to typify listed companies. Criteria for categorization can be various, including company size and shareholder composition. Taking the shareholder composition as an example, listed companies with controlling shareholders, etc. account for about 600 companies, or about one-third of the Standard Market. The reality of these companies is very different from that of listed companies without controlling shareholders, etc. and the specific prescriptive approach will be different.

I think the approach at the bottom of page 19 is also fine. However, in the case of a listed company with a controlling shareholder, the independent outside director is expected to be independent from the controlling shareholder and act on behalf of the minority shareholders.

As such, prescriptions differ depending on the type of company, so it is a good idea to come up with a specific approach after making a typology.

Nagami, member:

This is connected to my earlier comment on the Growth Market: I believe that this is not a discussion about the individual optimization of the Standard Market alone, but rather the overall picture of how TSE should distinguish the three market segments and what role they should play. I believe that it is important to continually grasp and design the whole picture while finally landing on a discussion about this Standard Market.

The group of companies in the Standard Market is very diverse, including companies moving from other markets, companies newly listed in the Standard Market, and companies that have been listed in the Standard Market for many years, as shown in the data. I think we have to respond rather in a catch-all manner here.

In this case, we believe that the minimum that should be protected is minority shareholders. If there is one thing that should be particularly effective in achieving minority shareholder protection, one is the role of independent outside directors who make up the Board, and the other is to ensure liquidity. I am willing to focus on these points and implement a review of the standards if necessary.

I think the discussion would be about how this market differs from the Prime Market if we were to make everything stricter. As I said at the beginning, I think it would be better to have a thorough discussion on the positioning of the market and what companies should fulfill at a minimum so that the three market segments can be highlighted, leading to the final action.

Sampei, member:

I share the same direction of thinking with several members. To begin with, I don't think the current situation is “a base market in the three market segments” as stated at the beginning of page 19. Facts show that less than half of the companies have achieved the requested disclosure, 60% of the companies have a P/B ratio of below 1x, and 60% have a ROE of less than 8%, which is a difficult situation. As if there were no problem as long as they were in black, companies have little awareness of their balance sheet, cost of capital, and capital allocation, and they do not actively engage in investor relations. Under such circumstances, I question whether these companies are allowed to be listed on the stock exchange.

There seem to be a lot of moral hazards, and one of the factors may be that in some cases liquidity is daringly low to prevent institutional investors from entering the market. It is also very dangerous to leave these escapes unattended.

For TSE, as a market operator, it is necessary to have listed companies fulfill their listing responsibilities in order to protect general shareholders and investors. For example, the typology mentioned by Mr. Kanda might call for measures and improvements for groups that are not fully fulfilling their listing responsibilities. First of all, it should be discussed that there is a responsibility of listing before market selection, and if the company cannot fulfill this responsibility, going private becomes an option, and that there are strict steps to go private.

I also feel that even if the concept of the Standard Market is launched, various problems are likely to be left untouched, and there is a danger that companies will continue to "try their best but still can't do it." We should not discuss the merits of choosing the Standard Market at such a stage, and I think it is irresponsible for the TSE to show an attitude such as "we welcome new listings on the Standard Market as well." I think we should first solve the problems we have now, because it will not work to simply give a catchphrase and feature each of the three markets.

Matsumoto, member:

As other members have pointed out, the Standard Market has a very diverse range of issuers, but since it is a publicly traded market, of course standards and criteria are necessary. As has been pointed out many times, minority shareholder protection is the last resort and minimum obligation. The liquidity and distribution problem is more than a problem in and of itself; it is a major problem because low liquidity and skewed distribution results in less checks and balances to improve minority shareholder protection and other problems.

Therefore, I believe that TSE needs to control quality by firmly reviewing the continued listing criteria or its operation, focusing on the protection of minority shareholders and improvement of liquidity and distribution, in the end. This is a very weighty issue, but I believe that the time has come to finally address these issues.

Okina, member:

I am of the same opinion in the same direction as other members. First, I think it is a major issue that only about 50% of companies are disclosing information regarding management that is conscious of cost of capital and stock price. The term "listing responsibility" has been mentioned many times. As long as a company is listed on the TSE, it is important to respond to the TSE's request to make full disclosure to investors, and it is important for us to request that they do so.

In addition, with about one-third of the companies owned by controlling shareholders or parent companies, it is important to improve the governance and transparency of such companies, including the appointment of independent outside directors, and to increase the liquidity of such companies, which is also the flipside of the entry of institutional investors.

In addition, there are individual companies that are aiming for growth that are listed as good examples, and we should make them visible. As it stands, companies in this market could be labeled as those that have given up on the Growth and Prime Markets. Only after such measures are taken will the Standard Market be able to be called an attractive market that differs from the Growth and Prime Markets—i.e. a market where medium-sized companies that support the Japanese economy gather.

Koike, member:

The number of listed companies in the Standard Market is about 1,600, not much different from the Prime Market. There is no doubt that this market has an impact in terms of the number of listed companies, so careful discussion is needed.

Although the definition of standards has been defined once in the market reform, we believe that it may need to be redefined or reaffirmed. In addition to redefining the term, a clear message should be sent out that a problem is apparent. However, not all companies are negative, and some small- and medium-sized fund managers say that recently listed standard companies have met strict listing criteria, are open to dialogue with investors, and may well be good investment targets. It would be a waste to bury excellent companies among 1,600 companies, and if they move to the Prime Market, the positioning of the Standard Market will become even more negative.

From this perspective, it is necessary to recognize the challenges faced by companies in the Standard Market amidst the market reform, but also to come up with a plan to encourage improvement over the medium to long term. I think it is necessary to have a process to hold them accountable as a listed company by making an appeal that this is a medium- to long-term plan, which is to grasp the actual situation by typifying it as Mr. Kanda mentioned, encourage medium- to long-term changes toward improvement, and consider including some kind of penalty (such as letting them leave the market) if the situation does not improve.

Kuronuma, member:

It is a very difficult problem. I will state what I thought as I listened to opinions of other members.

It was surprising to learn that there are currently about 10 companies per year that make IPO on the Standard Market. These companies meet the current listing standards, and when asked if the market is not unique as a Standard Market, it is separated from other markets in terms of standards.

Since TSE considers the Standard Market to be the base market, I think we should consider what is required as a minimum for the base market. In doing so, it is important to consider the typology and measures to be taken because of the diversity of the companies that are actually listed. In the process, perhaps there will be an option to revise the continued listing criteria in the future and encourage some companies to exit the market. However, it also has to do with TSE policy, so I think this is a story to be discussed based on that as well.

Minority shareholder protection is also being considered by other study groups, and the discussion there is toward enhancing disclosure, as there are advantages to parent-subsidiary listings. Beyond that, I think one of the issues could be whether to go into substantive requirements. I am not opposed to establishing new standards for the Standard Market based on the current situation, but I think it is a difficult issue because it is not a matter of just making improvements there. Usually, the argument is made that even with a parent-subsidiary listing, the subsidiary benefits from the parent company's supervisory function. However, I felt that careful discussion was necessary since this is not always the case in some aspects of the Standard Market.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

Next, we would like to explain the situation of the Prime Market after the mandatory English disclosure in Document 5.

Nakamura, Associate, Listing Department, TSE:

I would like to explain the "Status of Mandatory English Disclosure in the Prime Market" on Document 5. This document mainly consists of reports, but we would appreciate any comments or suggestions you may have.

See page two. It has been a little while since we last covered this, so I will give you overview of the system again. From April this year, simultaneous disclosure in English has been mandatory for financial statements and timely disclosure information, while an effort requirement has been established for other documents.

Although a grace period of up to one year was set aside for companies that need time to develop their systems, more than 90% of companies have already started to comply with the mandate.

Pages three onward is the post-mandatory status. First, with respect to financial information, most companies, with the exception of those that have been granted a deferral of application, have fulfilled their obligations by disclosing their earnings reports in English. About half of the companies disclose IR presentation materials in addition to earnings reports.

Regarding the scope of English translations of earnings reports, a little more than half of the companies translate their reports into English in full, while companies that disclose partial/summary information often disclose summary information and financial statements.

Please see page four. As for timely disclosure information, 76% of companies disclose the full text, which is a significant progress compared to two years ago when we started to consider making it mandatory. As a background, it seems that full English disclosure of timely disclosure information is being progressively made, even though the requirement states that a partial/summary is allowed, because unlike earnings reports, it is difficult to separate the contents of timely disclosure information.

In addition, 95% of all disclosed materials were disclosed at the same time without any problems, which had initially been a concern.

Page five shows the status of other documents. While some progress has been made, the increase in the disclosure rate of other documents has been slower than that of financial results and timely disclosure information.

Page six onward is feedback from international investors. About 90% of investors positively evaluated the improvement. Many have said that the disadvantage has been eliminated to some extent by the mandatory English-language disclosure.

On page seven are the results of a survey on matters where further progress is expected. Regarding financial results and timely disclosure information, we have heard many requests for English translations of IR materials as supplements to earnings reports, and for full text English translations that are not limited to partial/summary translations.

In addition, since foreign investors are not aware of market classifications such as whether the company they are investing in is in the Prime or Standard Market, some have voiced expectations for further expansion of English-language disclosure to non-Prime Markets that are not subject to the mandate, as well as further expansion of documents subject to the mandate, including annual securities reports.

On page eight, you will find feedback from actual international investors. I will not provide a detailed explanation.

Page nine is the policy for future efforts. As we have seen, Prime Market listed companies are steadily taking action in light of the mandate. First, we intend to actively communicate these developments to foreign investors.

In addition, the Exchange will continue to support listed companies by introducing good practices that can be used as a reference for further initiatives, taking into account the expectations of foreign investors.

As noted with an asterisk (*), the system has just been changed and we will consider expanding the number of eligible companies and eligible documents based on future developments.

That is all.

Watanabe, Director, Listing Department, TSE:

We would like to receive any comments you may have.

Kumagai, member:

As a basic direction, I hope that you will proceed with the future initiatives on page nine. In doing so, it is essential that you carefully respond to the comments of foreign investors on page eight. For example, the TSE could effectively utilize the latest technology, such as AI translation, which is evolving every year, and incorporate it into TSE regulations and practices, with provisos, to expand the number of eligible companies and eligible documents. In fact, I have the impression that technological progress in AI is extremely rapid and has developed more remarkably than when we previously discussed it at this conference.

In any case, the role of the TSE in reducing the burden on companies and at the same time fulfilling the needs of investors is extremely important. We appreciate your continued consideration of this matter.

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]