Minutes of the 24th Council of Experts Concerning the Follow-up of Market Restructuring

Date: Thursday, November 13, 2025 3:00 PM - 5:00 PM

Place: Tokyo Stock Exchange 15th Conference Room

Attendees: see member list

Watanabe, Director, Listing Department, TSE:

As the scheduled time has now arrived, I would like to open the 24th Council of Experts Concerning the Follow-up of Market Restructuring.

To begin, regarding today's attendance, members Okina, Kuronuma, Matsumoto, and the observer from the Ministry of Economy, Trade and Industry are joining us online, and member Koike is absent.

With that, we would like to move promptly into the agenda. First, we will explain today's items for discussion.

Ikeda, Senior Manager, Listing Department, TSE:

Thank you once again for your time today.

Using Document 1, I will explain the topics on the agenda.

On the first page, as member Nagami previously suggested, the number of initiatives has been increasing, and it would be helpful to have materials that give an overall picture of how each initiative has progressed and where the current points of focus lie. Therefore, we have added materials summarizing the developments up to now. These are for reference.

The second page is the overview document we always use. Today, among these items, we would like to discuss the direction for updating the collection of good case studies and the compilation of case studies on resolving issues related to "management that is conscious of cost of capital and stock price," the future steps regarding Growth Market reforms, the new topic of the direction of the PRO Market, how to categorize companies and determine approaches for the Standard Market, and finally, to provide an update on recent developments regarding the transitional measures.

There are two additional notes. First, throughout today's materials, we have included at the end of the document set comments from member Koike, who is absent today, so please refer to them as appropriate. Second, with respect to parent-subsidiary listings, discussions are scheduled later this month within the separate study group that is proceeding in parallel. Regarding going private, we hope to review the situation of companies following the July rule amendments at the meeting early next year.

With that, I would appreciate it if we could begin discussions starting with Document 2, the Growth Market reforms. That concludes my explanation.

Watanabe, Director, Listing Department, TSE:

Thank you. Now, without delay, I would like to move on to an explanation of the materials.

First, we will explain "Future Measures in the Growth Market," which is covered in Document 2.

Mogami, Associate, Listing Department, TSE:

I will now explain Document 2, "Future Measures in the Growth Market."

On the first page, we have compiled the progress of initiatives in the Growth Market and the measures planned going forward. Regarding the first point, the revision of the continued listing criteria, the public comment period has just ended, and after organizing the received opinions, we plan to revise the rules in December as scheduled. As for the second point, the request concerning "management that aims for high growth," we issued this request to all companies listed on the Growth Market in September, and we intend to continue following up on their responses to the request. In addition, with respect to the support measures listed as the third point, we plan to move forward with these initiatives, and from page two onward, we present concrete images of each measure.

Page two shows the image of the good case study compilation. In line with each item under "investors' expectations," which we presented to companies in September as part of the request for "management that aims for high growth," we intend to compile examples that have been positively evaluated by investors and provide them as reference materials for companies' internal considerations. We are currently preparing this based on opinions from investors and other stakeholders, and we expect to publish it around December of this year.

On page three, we present an image of improving visibility for investors regarding companies that are proactively engaging in initiatives. Based on the needs expressed by both companies and investors, we plan to launch, around the beginning of next year, a dedicated page listing disclosures of "matters relating to business plans and growth potential" for companies pursuing high growth. Companies will be asked to submit requests for inclusion voluntarily, on the premise that they are taking action in response to September's request for "management that aims for high growth," and the latest disclosures on "business plans and growth potential" from companies that request inclusion will be posted on this dedicated page.

On page four, we note that seminars for companies listed on the Growth Market and dialogue events with institutional investors will be held sequentially going forward. As a first initiative, we held a dialogue event last month exclusively for companies listed on the Growth Market, and for reference, we have included an overview of that event. We have heard comments that reservations filled up quickly and some were unable to participate, so we intend to continue providing such opportunities for dialogue with investors. In addition to such events, we also plan to hold events inviting companies featured in the forthcoming good case study compilation as speakers once the compilation is published.

Returning to page one, as noted in item (4), JPX Research Institute is continuing to study the development of a new index focused on the growth potential of startups, and we intend to continue examining initiatives while exchanging opinions with executives and market participants. That concludes the explanation of Document 2.

Watanabe, Director, Listing Department, TSE:

If there are any comments from member participants, we would be grateful to receive them. How do you see it?

Kumagai, member:

I believe it would be best to proceed generally in line with what has been explained. Looking at the disclosures of companies listed on the Growth Market, we see an increasing number of companies pursuing initiatives with an awareness of achieving a market capitalization of JPY10 billion or more. Some companies are choosing to raise funds, while others can be seen establishing M&A promotion teams.

At earnings briefings as well, investors are asking questions about measures to raise market capitalization, and I presume this is serving as a form of stimulus for the companies themselves. On the other hand, there are also measures that appear to be aimed at short-term increases in stock price, and I believe it is important for the TSE to actively encourage initiatives that lead to the genuine enhancement of corporate value.

Sampei, member:

I think these initiatives are very good. In particular, the seven points on page two carefully summarize areas with the largest gaps between investors and companies, and I believe that showing case studies and other examples, and communicating them in a more understandable way, is extremely important. I have high expectations for this effort. Regarding page three and the "matters relating to business plans and growth potential," I think this initiative is fine as it is, but in Japan, plans tend to be put too far forward, and companies should instead be presenting their business models and strategies. In markets comparable to the Growth Market or the PRO Market in the UK, there is a strong emphasis on how companies convey their business models. Particularly for new startup companies, which often offer business models unlike anything that has existed before, it is extremely important to explain how they differ from existing models and what potential they have. How well companies can refine the way they communicate what kind of value they provide to what potential market is very important.

Nagami, member:

Regarding item (3)-(4) onward on page one, such as the development of new indices and the creation of other benefits for Growth Market listings, these are extremely important from the perspective of how to characterize and differentiate the Growth Market, and it would be greatly appreciated if they could be implemented within a set timeframe.

Okina, member:

I think the TSE's initiatives to support companies on the Growth Market that are aiming for growth are very good. I hope the Exchange will proceed while examining which measures are the most effective. Regarding page three, the point made earlier by member Sampei is extremely important: for startups in the Growth Market, what matters is how they stand out and grow through their business model. Therefore, rather than asking companies to write according to a uniform template, I believe it is necessary to devise a format that makes clear what their business model is and what drives their growth. Since the page will feature companies that apply to be included, I would like it to be clearly indicated that those companies have requested inclusion.

Watanabe, Director, Listing Department, TSE:

Thank you very much. We will now move on to an explanation of Document 3, regarding the future direction of the PRO Market.

Isogai, Manager, New Listings, TSE:

I will explain the future direction of the PRO Market.

First, on page two, in recent years the number of companies listed on the PRO Market (TPM) has been increasing, and among them, more companies are aiming to move from TPM to the general markets. Particularly over the past six months, this movement has become even more pronounced in response to the revisions to the Growth Market. Today, with this situation in mind, I would like to ask for your discussion regarding what the appropriate direction of the PRO Market should be.

From page three onward, we have summarized factual information about the current state of the market, but as our time is limited, I will explain the key slides.

Page five shows the trend in the number of listed companies, and most recently, the number has reached around 150. Especially over the past five years, there has been a large number of new listings, and the growth trajectory has shifted. On the other hand, as shown in the gray area above, although roughly 200 companies have listed to date, only 15 have gone on to list on the general markets, and about 40 have been delisted, meaning that a significant number of companies have exited. This indicates that there is active turnover. As a result, if you look at the pie chart showing the distribution by years since listing, you will see that the PRO Market consists largely of companies that have only recently listed.

Page seven presents the growth performance after listing on TPM. Using the revenue level immediately before listing as 100, we show the growth trajectory thereafter, and although the growth is gradual, you can see that companies are steadily expanding.

On page eight, we present the 15 companies that have gone on to list on the general markets from TPM. Typically, companies take around two years after listing on TPM to step up, but there are many cases where they list on exchanges other than the TSE, and some examples involve relatively small-scale step-ups.

Page 10 shows trends in financing, but both at the time of listing and afterwards, cases of capital raising are limited.

Page 11 summarizes market liquidity. Looking at the number of shareholders on the left side, most companies have fewer than 50 shareholders, and 40% of companies have fewer than five. As a result, as shown on the right side, trading in the market is hardly taking place.

From page 13 onward, we summarize changes in the environment surrounding TPM. These include the easing of the professional-investor qualification requirements on page 13, the establishment of the J-ships system on page 14, and the revision of the private placement system on page 15—all initiatives being advanced by various stakeholders to improve the funding environment prior to listing on the general markets.

Additionally, as shown on page 16, other domestic exchanges are also moving forward with establishing markets for professional investors.

From page 17 onward, we present the results of hearings held with relevant parties. These include listed companies and J-Advisers, and in recent times, we have also begun seeing crossover investors showing interest in investing in TPM, so we have been hearing from such parties as well.

On page 19, we present what kinds of needs exist for TPM. From the corporate side, we often hear needs such as gaining the benefits of improved name recognition and creditworthiness, but as mentioned at the outset, in recent times the need to use TPM as a stepping-stone toward the general markets has also been increasing. From the investor side as well, as shown on page 20, investors positively evaluate the ability to invest in companies that may eventually list on the general markets, and the fact that TPM-listed companies undergo a certain degree of quality control compared with unlisted companies. We are seeing potential investment demand in that respect. On the other hand, at present, TPM is not being actively used as a venue for capital raising or share trading, and few companies are listing with the purpose of fulfilling such needs.

From page 21 onward, we delve further into the actual circumstances of the various stakeholders. On the corporate side, while some companies have listed for the purpose of raising funds from external investors, many others find value in the ability to list while maintaining ownership.

Page 22 presents the situation on the investor side. Institutional investors have expressed that, with no shares available for sale in the market, they do not know whether investment is even possible. As for individuals who qualify as professional investors, participation has not progressed under the current circumstances. In fact, we have received comments that greater dissemination of information about the system, further relaxation of the requirements, or schemes that would actually encourage investors to enter must be considered.

Pages 23 and 24 include comments regarding the need for coordination with J-Advisers and securities companies.

From page 25 onward, we describe future directions. As a general point, we have been told that TPM should also have a clear concept defined and move into a new phase. Specifically, as shown in the lower half of the page, we have received many opinions that TPM could be used as a preparatory stage for companies heading toward listing on the general markets and for their subsequent growth. In this regard, as noted at the bottom of the page, we have also heard views that if TPM were able to facilitate capital raising and share trading somewhat more effectively, companies would be better positioned to achieve significant growth before transitioning to the general markets.

Regarding strengthening the functions of capital raising and share trading, we have received numerous comments, as shown on page 26. To achieve this, it was pointed out that investors will gather only if attractive companies gather first, and therefore it is necessary to encourage companies to take action and make those actions visible to investors.

From page 27 onward, we outline concrete measures. These include increasing the visibility of forward-looking companies, creating points of contact between companies and investors, and providing reference materials for companies as they consider their initiatives. We have also received opinions that similar measures should be implemented not only in the Growth Market but also in TPM, and that efforts should be made on the screening and disclosure fronts to enable smooth listing on the general markets.

As for listing criteria, while we received opinions that they should be actively utilized, as noted in the first point, we also saw opinions from the second point onward that we should approach them cautiously.

Based on all of this, the topics we would like to discuss are as follows. First, on page 30, we state that a possible future direction is to position TPM as a place where companies can grow substantially before listing on the general markets, with an eye toward growth thereafter. To achieve this, one possible idea is to define the concept as “a market where companies gather in order to aim for a listing on a public market and for postlisting growth," and to support such companies together with other stakeholders. In doing so, we believe that the key will be to strengthen the market's fundamental functions—namely, not only improving name recognition and creditworthiness, but also providing opportunities for capital raising and share trading.

Page 31 presents the approach toward that direction. This includes sharing understanding among J-Advisers, and supporting companies that take proactive steps by publicizing key points for their initiatives and assisting them in raising funds and attracting investment from external investors. We also believe that, in order to allow companies to list smoothly on the general markets and subsequently expand their growth, improvements should be considered in areas such as screening and disclosure.

Finally, one point of clarification. In supporting companies that aim to list on the general markets and companies that wish to receive investment from external investors, we anticipate giving the market a certain degree of "coloring." At the same time, there are also companies that may wish to continue growing significantly within TPM, companies transferring from the general markets, or companies that want to accept external shareholders only after reaching the general markets. How such companies should be treated—and to what extent this "coloring" of the market should be applied—is, I believe, an important point for discussion. I would be grateful if we could also receive your views on this matter. That concludes my explanation. Thank you very much.

Watanabe, Director, Listing Department, TSE:

I would now like to ask members for your comments. How do you see it?

Kumagai, member:

Thank you for examining the situation of the PRO Market from various angles and preparing clear materials. In addition to the Prime Market, Standard Market, and Growth Market, which constitute the general markets, we also have the PRO Market, and I feel it is important for the TSE to ensure consistency and continuity in how these markets are positioned and conceptualized. Based on that, I would like to speak about two points: future direction and measures.

First, regarding the direction. I believe that leveraging the characteristics of the current PRO Market—namely that it is a market for professional investors and that it has a more flexible system design than the general markets—it should be positioned as a market that bridges unlisted companies and companies listed on the general markets. This corresponds to the intended direction described on page 30 and the illustrative concept shown in the figure. It has been pointed out that there is a significant barrier between unlisted and listed companies, which can lead to a loss of continuity in management. As companies expand their businesses, they are required to invest in equipment and human resources, as well as develop internal systems and consider capital policies. The investor base will also change significantly, potentially altering expectations and demands placed on companies.

In terms of financing as well, it is said that startups face a "second valley of death" before and after listing. With the coming revision of the continued listing criteria for the Growth Market, there is concern that this valley may deepen further for companies aiming for that market. I believe the framework of the PRO Market is well suited to enabling companies to organize their internal systems, strengthen their investor relations, and raise capital as they prepare for listing on the general markets and for growth thereafter.

Furthermore, in the growth strategy priorities published under the Takaichi administration, there is language stating the aim of "building a startup ecosystem that can compete globally and achieving both sustainable economic growth and the resolution of social issues," indicating that the importance of supporting startups remains high under successive administrations. The PRO Market should be restructured into a market capable of executing these national policy objectives.

The second point concerns measures. Until now, the PRO Market has focused on increasing the number of listed companies and J-Advisers and establishing a certain presence as a market. However, it appears that a clear purpose has not been firmly established. As a result, we see three types of listed companies—those for business succession, those seeking the brand value of being listed, and those aiming to step up to the general markets—as well as companies that combine multiple such characteristics. Very few companies actually conduct capital raising, and liquidity is limited, meaning the market is not fully fulfilling its role as a stock market. Measures are needed to restore its original functions.

I believe that the approach outlined on page 31 is appropriate, but I feel we must shift gears and significantly strengthen our efforts. Based on the hearings, we can observe a certain level of investment appetite among investors. Whether we can increase successful examples of companies stepping up to the general markets and create cases where companies continue to grow after listing will be a key factor going forward. In particular, J-Advisers serve as partners accompanying startups in the capital markets through their role in examining listing eligibility and providing guidance and advice after listing. It is essential that they understand the new direction of the PRO Market and increase listings of startups suited to this direction.

Additionally, in supporting companies aiming to list on the general markets, building networks with companies that have moved from the PRO Market to the general markets and with companies listed on the Growth Market would also be effective. I believe the support framework must be expanded in accordance with the needs of companies listed on the PRO Market.

Nagami, member:

I believe this is the first time we have had a thorough discussion about the PRO Market in this council, so I would like to offer my comments from a zero-base perspective. As was written on one of the pages, I fully agree with the point that the concept of the market should be made clear. My understanding of the overall message of the materials is that the PRO Market could be positioned as a place where growth companies prepare and practice in the stage before listing on the general markets.

At the same time, given the issue of transitional measures, we also understand that a certain number of companies will enter the PRO Market only to be delisted. In that context, I think there is also a possible concept of the PRO Market as a place that provides liquidity for the shares of unlisted companies that do not reach listing. Whether the concept is to provide growth capital or to provide liquidity—or whether both can be provided—is one possible way of thinking, but there is also the notion that "mixing the two is dangerous," and therefore the concept should be defined relatively clearly. Before getting into detailed discussion, I think it would be desirable for the TSE to articulate the concept.

Sampei, member:

For me, among today's agenda items, the PRO Market is the subject of greatest interest and I believe it is an extremely important theme. As described on page 15 of the materials, the Financial Services Agency recently held discussions on revising the exemption thresholds for securities registration requirements for capital raising by unlisted companies and revising the framework for private placements to qualified institutional investors. I also took part in those discussions. If the exemption thresholds for registration are raised, capital can be raised more easily even while unlisted, and the role of the unlisted financing environment begins to overlap with that of TPM. Unless we clarify exactly what TPM is meant to be, it risks fading into obscurity, and therefore I believe the concept must be clarified quickly.

Previously, when we briefly discussed the PRO Market in connection with the Growth Market, its positioning was unclear, but now we see the number of listed companies increasing. I assume that this is, in part, because some companies are listing in response to the government's startup policy push. If that is the case, then it becomes even more necessary to clarify its positioning.

My impression is that, as shown on page 30, it is appropriate to position the PRO Market as a place that connects unlisted companies and the general markets. However, if we look closely at that position, the PRO Market sits between unlisted companies and the general markets without producing a distinct feature of its own. If a clear gap opens between unlisted companies and the general markets, and the PRO Market can fit squarely into that gap, then its purpose would become much clearer. Clarifying the current position is important, but looking ahead, as the continued listing criteria in the Growth Market become stricter, I believe the general markets will shift toward the right side of the illustration. If that happens, the PRO Market could fit neatly into the space that opens up, making its role more understandable. In that context, as mentioned earlier, if there are companies transferring downward from the general markets, that would cause the purpose of the PRO Market to become unclear. I personally believe that such a direction would not be appropriate.

Based on that premise, the question becomes what TPM can actually do. Whether it is the J-Advisers who will take on this role or the venture capital firms who will take on this role is uncertain, but I believe that TPM could serve as a preparation period during which companies receive support in how to present themselves in ways that better attract institutional investors. My impression is that there is a conflict of interest between J-Advisers and venture capital firms, and it may be helpful to clearly illustrate what those conflicts are and then consider what the support structure should look like.

One initiative I found potentially informative was a project conducted last year by the Japan Patent Office, which aimed to refine business models based on intellectual property. Companies that wished to participate volunteered, and teams of consultants and investors worked with them to identify their true strengths and consider how those strengths should be expressed. In some cases, expression alone was insufficient, and the discussions progressed to the point of identifying what kind of business model could be built by making full use of the intellectual property. The companies were very proactive, and I believe strong case examples emerged. Although it would not be possible to provide that level of deep, hands-on support to many companies, even offering such support to a small number would be meaningful. If such examples could then be shared as case studies, I believe it would also help clarify how those providing support should accompany and guide companies.

Matsumoto, member:

I am somewhat opposed to the direction indicated in the materials. There are several reasons, but first, I believe there are limits to how far the exchange can go in providing nurturing or support. Fundamentally, should the exchange be involved with companies in a nurturing capacity, or in a quality-control capacity? Of course, there may be elements of both, but I think there are limits to continuously expanding nurturing and support. Moreover, with the Prime, Standard, and Growth markets already in place, adding the PRO Market on top of that creates what appears to be a massive pyramid. Considering the kind of market structure the TSE should be aiming for, I am not convinced that it is desirable for the Exchange to take on everything at all levels. Instead, it might be more efficient to build the upper layers well and have the rest work their way up. From that perspective also, I think the positioning being proposed has limits and may not be realistic.

On the other hand, when comparing with the United States, although not entirely absent, Japan does not have a well-functioning secondary market for unlisted shares. Various measures are being considered, but at present, the shareholders of unlisted companies rarely change. This situation leads venture capital firms to list companies on the Growth Market at low market capitalizations, which in turn becomes a major factor preventing startups from growing substantially before entering the market. There was this experience in which attempts to introduce the JOBS Act in Japan became complicated and unruly, but nonetheless the circulation of unlisted shares remains an important theme. I do not believe the PRO Market must be devoted exclusively to that purpose, but I do think it could be used for that function.

Currently in Japan, the same investors continue investing from the seed stage through the growth stage and all the way to the IPO, but such a model has limits. I believe Japan should move toward a system more like the United States, where the providers of risk capital change before a company goes public. Rather than thinking of the market as a tool for issuers, we should consider it as a tool for investors. If investors with different intentions—those who want to exit at a certain stage and those who want to invest starting at a certain stage—can use the PRO Market mechanism to buy and sell shares more easily, that would be beneficial. Designing and promoting the PRO Market with this perspective could hold significant meaning. It is not the idea of creating a market per se, but rather of establishing a mechanism for liquidity. If that mechanism enables shareholder turnover, then new shareholders who are looking toward a larger stage will take responsibility for supporting the company. In that case, even without the exchange providing direct nurturing support, the company would in effect be cultivated through market dynamics. I think it would be worthwhile to consider such an approach.

Kanda, member:

Thank you very much. I would also like to share my thoughts. I believe that having a place or a pathway like the PRO Market is an excellent option, and I completely agree with the sentiment that we should find a way to make good use of it. I fully support the idea, shown around page 30, of clarifying the concept of a market where companies aiming to list and grow thereafter can gather, and moving forward on that basis. I do, however, have two comments.

The first point overlaps with what member Sampei mentioned. Since system improvements for a secondary market for unlisted shares are underway, it is necessary to sort out clearly how that differs from the PRO Market—or whether they resemble each other—and then articulate the concept accordingly. For that reason, the explanation on page 30 feels somewhat abstract. Given that there is already a framework such as J-ships, it will be important to provide an explanation that makes clear, for example, "this is how the PRO Market differs from J-ships." In other words, we need a clear delineation of the relationship between discussions about unlisted-share circulation and the PRO Market, so that the TSE can clearly state, "this is the direction in which we will take the PRO Market."

My second point is that, while the ultimate goal of some companies may indeed be listing on the general markets, I believe there are other possible pathways. For example, I have the impression that acquisitions by listed companies—due to portfolio-related considerations—are increasing. In such cases, I think it is entirely possible that a company is acquired by a listed company through M&A, and only after that proceeds toward a listing. There could be a route where, first, institutional investors buy the shares on the PRO Market, then a listed company acquires them, and then the company eventually lists on the general markets. In this sense, not all companies need to have "general market listing" as the automatic next step.

Furthermore, as was mentioned briefly earlier, I also think it is perfectly valid for some companies to adopt a concept of "we deal only with professional investors." Therefore, to repeat the point, I would like the concept of the PRO Market to be made clear. Since we have already heard various opinions from members, I hope that the discussions can be further deepened and that you will consider articulating a concept that can make the PRO Markets system more attractive. That is all from me.

Kuronuma, member:

Thank you for providing such detailed information on the PRO Market. You noted that the number of companies aiming to move from the PRO Market to the general markets is increasing, but there are various patterns, and I think there are also cases where companies choose to list on another market because liquidity does not develop within the PRO Market. I believe the original intent when the PRO Market was established was that venture companies should be invested in not by individual investors, but by professional investors. When considering that original purpose together with the fact that the continued listing criteria for the Growth Market have now become more stringent, I think one desirable pattern is for companies to list first on the PRO Market and then proceed to the general markets. For that to work, it would ideally be an environment where companies can raise capital after listing; however, in reality, capital raising through share issuance after listing on the PRO Market is almost entirely through third-party allotments. Given the current investor base, I think this is unavoidable. Even if the financing is via third-party allotment, as long as capital can be raised, and as long as the company meets the listing criteria of the general markets through the offering and secondary offering conducted at the time of listing there, I believe the PRO Market can fulfill the function of serving as a stepping-stone to the general markets.

Additionally, as several members have pointed out, I believe the relationship with the J-ships framework should be clarified. Both involve activities such as private placements to qualified investors, so it is undeniable that they overlap. On the other hand, according to comments from securities companies, there is an expectation that companies that raise funds through the J-ships framework would then list on the PRO Market, which would allow investors to meet their needs for exits, and subsequently the companies could raise funds again when listing on the general markets. This suggests a positioning in which the J-ships framework is for the primary market and the PRO Market is for the secondary market. However, from that perspective, it has also been pointed out that the screening and disclosure processes of the J-ships framework are entirely separate from those of the PRO Market and that there is no linkage between the two. I feel that there is room for improvement in this regard.

As for concrete measures, as stated on page 27, I find persuasive the point that it is important for the Exchange to make visible those companies that are proactive in stepping up to the general markets or in raising funds from external shareholders. I also find persuasive the suggestion that, as a scheme to facilitate listing on the general markets, the Exchange could take into account the fact that companies already listed on the PRO Market have established certain systems for timely disclosure and information management, and thereby make the screening process for transitioning from the PRO Market to the general markets more efficient.

On the other hand, regarding the idea of establishing continued listing criteria for the PRO Market, I believe that doing so would fundamentally alter the character of the PRO Market, which currently accommodates diverse corporate needs, and therefore, under the present circumstances, I do not believe there is a need to consider such an approach.

Watanabe, Director, Listing Department, TSE:

Thank you very much. We will now move on to an explanation of Document 4 regarding future measures in the Standard Market.

Nakamura, Associate, Listing Department, TSE:

I will explain the future approach for the Standard Market. Based on the comments we received in the previous discussion—that listed companies on the Standard Market are diverse and therefore we should categorize them and consider specific approaches for each category—we have made a preliminary categorization of companies and summarized, in simple form, the overall approaches corresponding to each category. As for concrete measures, we would like to discuss them from the next meeting onward, but in terms of how we proceed, if you have any thoughts on the overall direction or on the individual approaches, we would appreciate hearing your comments.

Page two presents this overall framework, and we have divided companies into four categories based on their response status to the request for "management that is conscious of cost of capital and stock price." At the top, in the red section, are "companies making proactive efforts to enhance corporate value from shareholder/investor perspectives," and we envision these are companies such as those cited as good examples in the disclosure of cost of capital. For these companies, which we believe are already autonomously taking action, we would like to work on improving the environment so that their initiatives are appropriately evaluated by investors.

Next, the second group, shown in pink, consists of "companies who recognize the importance of enhancing corporate value from shareholder/investor perspectives but have issues discussing and putting initiatives into action." We consider this to be companies such as those that disclose information but have a gap in viewpoint relative to investors, as well as companies that are still in the consideration stage.

The third group, shown in light gray below, consists of "companies who lack awareness about enhancing corporate value from shareholder/investor perspectives," even though their business operations themselves may appear to be run in a steady and sound manner, and these are represented by companies that do not disclose cost of capital. For these companies, clear distinctions can be difficult, which is why the materials show a gradient, but we believe the key issue is how to move them upward into the red category.

From that perspective, we intend to update the case study collection related to the cost-of-capital request and promote communication between small- and mid-cap companies and institutional investors. Moreover, because the mindset of management and independent outside directors is extremely important for making initiatives effective, we intend to continue educational efforts aimed at executives and others.

The next page shows the distribution of non-disclosing companies, and we can observe a trend in which non-disclosing companies tend to be concentrated among those with small market capitalization or those with major shareholders such as parent companies or controlling shareholders. For this category of companies, we believe it will also be necessary to consider mechanisms to ensure they have sufficient liquidity and public float levels to enable them to work on enhancing corporate value with appropriate awareness of shareholders and investors.

In addition, at the very bottom in dark gray, there are "companies for whom there are concerns over issues such as protection of minority shareholders," which we believe must be handled strictly. This is not limited to the Standard Market, but includes issues such as parent–subsidiary listings, concerns within family-owned companies, and, more recently, cases where companies significantly change their business content after listing through new businesses or M&A and thereby shift into high-risk areas. We believe responses should not be limited to specific patterns but considered individually depending on the situation.

That concludes my explanation.

Watanabe, Director, Listing Department, TSE:

I would now like to hear comments from member participants. How do you see it?

Kumagai, member:

Regarding the distribution image on page two, there wasn't any particular discrepancy with my own views. However, I would like you to add to the bottom category, "address on a case-by-case basis," those cases in which companies do not understand the significance of being listed—that they raise funds from an unspecified large number of investors—and therefore fail to fulfill their responsibilities. What is important, I believe, is how to motivate and elevate the second group—companies who recognize the importance of enhancing corporate value from shareholder/investor perspectives but have issues discussing and putting initiatives into action—and the third group—companies who lack awareness about enhancing corporate value from shareholder/investor perspectives—into the top red group.

Of course, not all companies in this middle "volume zone" will necessarily move up to the top red category. Even if a company is run in a steady and sound manner, if it cannot fulfill its responsibilities as a listed company, ignores the TSE's engagement, or shows no positive change even with continued support, I believe we must consider categorizing it into the bottom dark gray group. Taking these points into account, and as noted in the future approach, it is essential to promote the securing of liquidity in order to ensure companies remain conscious of the capital markets.

I feel that Japanese companies tend to move in a parallel, uniform manner, for better or worse. Some companies willingly agree to publish their own materials as good examples, and some companies work proactively by using those examples as references. On the other hand, there are companies that may move in a negative direction, thinking that if others are not taking action, then they do not need to act either. I believe that appropriate market development by the TSE, as the market operator, will lead to the securing of ample liquidity and thereby influence the capital-raising efforts of companies aiming for listing in the future. Since the Standard Market is expected to have the largest number of listed companies, I believe that developing it properly is extremely important.

Sampei, member:

What member Kumagai said—that because these companies are listed, they have shareholders who are an unspecified large number of people, and therefore their listing responsibilities are important—is exactly right, and I believe that forms the basis of our discussion. Building on that, the distribution shown on page three is very interesting, and I see the bottom "other" group as the benchmark. The reason is that the disclosure rates change neatly in accordance with market capitalization, and it appears that whether companies have sufficient manpower is simply a factor proportional to their size.

Looking at the layers above, the group labeled "other related company" can generally be regarded as being in the same category as the benchmark, although there is some variation only in the JPY10 billion to JPY25 billion market cap range. Meanwhile, the groups labeled "controlling shareholder" and "parent company (not listed)" fall significantly below the benchmark. These groups clearly demonstrate a tendency to disregard general shareholders and minority shareholders, and their listing responsibilities should be emphasized again, and a clear message should be sent.

The top group, “parent company (listed),” is somewhat distinctive. In particular, in the JPY4 billion to JPY7 billion market cap segment, this group exceeds the benchmark. This reflects the policies of the parent company, and when the parent company is strong and disciplined as a listed entity, there is a high possibility that similar awareness is instilled in the subsidiary. Accordingly, this is a category where messages need to include the idea that the listed parent company also has a responsibility to encourage its listed subsidiaries. As for the benchmark, a small market cap does not mean that a company does not need to respond. For small companies with limited resources, it is important to propose efficient and effective methods, including examples of companies that have been able to respond effectively.

To summarize, I believe three broad types of approaches can be considered.

Kanda, member:

As member Kumagai also mentioned, with respect to the fourth category on page two—“companies for whom there are concerns over issues such as protection of minority shareholders”—the necessary measures are relatively clear, and I believe the TSE can and should take various actions in those cases. On the other hand, what I find problematic, and what we still do not have a good understanding of, is the third category—“companies who lack awareness about enhancing corporate value from shareholder/investor perspectives.” I do not have a firm grasp of how many such companies exist, but for now I assume that companies lacking disclosure with respect to the cost-of-capital request fall into this category.

However, in some recent cases I have seen, there are companies with market capitalizations of less than JPY10 billion—around JPY7 billion—that have received shareholder proposals from shareholders such as activists at their general meetings. These proposals are typically voted down at the meetings, but we do not know what kind of dialogue takes place before and after the vote. Even if the proposals are rejected, are these companies still failing to disclose cost-of-capital information and maintaining a low level of awareness toward efforts to enhance corporate value? Because the situation is unclear, I would appreciate it if you could conduct hearings or otherwise ascertain the actual circumstances. The fact that shareholder proposals were submitted is publicly disclosed, so identifying the companies should be straightforward. If such companies fall into the third category, I believe that is a serious issue.

Uchida, member:

Thank you for the explanation. I do not have any particular discomfort with the categorization or the groupings of companies. I am curious about what the actual proportions of these categories will be. Companies have many stakeholders, and while they must fulfill their responsibilities as listed companies, the priority issues they face will vary depending on their individual circumstances at any given time. Because of this, I believe many companies have specific circumstances, and this categorization may not always result in clean gradations.

As for the approaches shown on the right-hand side, I do not have any concerns, so I would like to see them pursued carefully. It has been noted, based on past developments, that the disclosure rate for the cost-of-capital request is not high among Standard Market companies, but I hope disclosures will gradually increase going forward. For the companies that remain non-disclosing, I would appreciate it if you could analyze whether there are reasonable or unavoidable explanations for their situation. I believe that, as you will explain later, various issues differ from company to company, so I ask that you continue to respond carefully.

Matsumoto, member:

This is a purely technical question, but regarding the graph on page three, the scale is cut at a market capitalization of JPY25 billion. Would there be no observable change if the scale extended further to the right? I am curious whether extending the scale would reveal a larger difference between the lowest "benchmark" group member Sampei mentioned and, for example, the group with unlisted parent companies. In any case, the graph on page three is highly suggestive, and I believe it leads directly to the disclosure status shown on page two. Underlying these results, it appears that the distribution of shareholdings is having an impact.

In the previous meeting, we discussed the need to consider responses according to the distribution of shareholdings for Standard Market companies, but when we speak of distribution, we should consider not only disclosure status but also measures that take into account the shareholding structures that may be causing these issues.

Nakamura, Associate, Listing Department, TSE:

The broader trend does not change, but for example, if we set the threshold at a market capitalization of JPY50 billion, there are only about 90 companies, and the influence of individual companies becomes disproportionately large; therefore, we used the threshold of JPY25 billion.

Okina, member:

Regarding the categorization this time, the distribution image ranging from red to gray is easy to understand, and through the analysis on page three—which places the disclosure rate in response to the cost-of-capital request into a matrix of market capitalization and major shareholder types—I believe the appropriate approaches have begun to come into view. In particular, for companies with parent companies, matters such as the role and positioning of outside directors, as noted, become important, and I believe the TSE must address these issues firmly, including the protection of minority shareholders. At the same time, even for small companies with resource constraints, once they are listed, they carry responsibilities, and I would like to see consideration given to what forms of support can be provided and for initiatives to be undertaken.

Additionally, regarding the "significant changes in business operations after listing," which appears in the dark gray section on page two, I am very concerned from the perspective of investor protection. I would like to see thorough oversight on the listing management side.

Watanabe, member:

Thank you very much. We will now move on to an explanation of Document 5, "Status of Companies Subject to Transitional Measures."

Nakamura, Associate, Listing Department, TSE:

I will explain the status of companies subject to transitional measures. This section is primarily a report, but if there is anything you notice, we would be grateful for your comments.

First, on page two, the number of companies currently not meeting the continued listing criteria stands at 187, and this figure continues to decline from the number presented in the July meeting materials. At the lower-right, we have a chart showing the timing of the end of improvement periods should the companies fail to meet the criteria, and among companies with fiscal years ending in March, we have begun to see some setting voluntary record dates within the improvement period to achieve compliance. As we will show on the next slide, there has also been progress among companies considering market transfers or listings on other domestic exchanges, and we expect the number of companies ultimately delisted from the general markets to decrease.

Next, page three shows the status of Plan B considerations in the event that companies are unable to meet the criteria. As shown in the lower-left graph, among companies listed on the Prime Market and the Growth Market, many are considering transferring to the Standard Market; however, 19 Prime Market companies and 25 Growth Market companies have not disclosed their policies in the event of noncompliance.

With respect to the Standard Market, we are currently seeing progress in movements toward dual listings on other domestic exchanges, and 69 companies have not disclosed any policy. For those companies that have not conducted such examinations, we intend to continue confirming their situations individually and encourage necessary consideration and explanation to investors.

From page four onward, we again present materials previously shared in this council—information intended for shareholder and investor awareness, as well as requests to listed companies—and therefore I will omit a detailed explanation. That concludes my report.

Watanabe, Director, Listing Department, TSE:

If there are any comments, I would be grateful to hear them. How do you see it?

(No particular comments.)

Thank you very much. We will now move on to an explanation of Document 6 regarding updates to the case studies on “management that is conscious of cost of capital and stock price.”

Monden, Senior Manager, Listing Department, TSE:

I will now explain Document 6, which concerns updates to the case studies on management that is conscious of cost of capital and stock price. We plan to publish the updated case study collection in December, and page one summarizes the outline of the update. The most recent update was last November, when we provided, as a set, the gap cases shown on the left side and, on the upper right, the key points for addressing those gaps as well as a collection of cases where companies met investor expectations. These materials have been widely used by companies, and we have also received requests for the inclusion of more recent examples. Therefore, after once again gathering investor feedback, we plan to add around 20 to 30 new cases from both the Prime and Standard markets, and for the 55 companies featured last year, we would also like to highlight any cases that show notable updates.

In addition, this time we will newly add the section shown on the lower right, “Examples of Companies’ Initiatives to Address Issues.” As we introduce on later slides, many companies have expressed that they are facing various challenges. Alongside the initiative examples we presented last year, we have also received requests for case studies focusing specifically on how companies resolved the challenges they encountered in the process of implementing their initiatives. Therefore, we will conduct interviews with companies that overcame such challenges and compile their know-how and experiences into materials. We also plan to invite these companies to participate in seminars and roundtable discussions so that they may share their experiences with other companies.

Page two provides an overview of the “Examples of Companies’ Initiatives to Address Issues.” On the left, we summarize four broad categories of challenges that many companies face. The most common, by far, relates to internal awareness reform and internal dissemination. Companies’ representatives often express concerns that they cannot obtain understanding or support from top management, or that discussions at the management level do not progress. They also cite difficulties in spreading these initiatives across the organization: for example, in business divisions where awareness of the balance sheet is weak, management that is conscious of cost of capital does not permeate throughout the company.

The second challenge concerns the identification of cost of capital and the inability to make full use of that identified cost of capital when making management decisions such as investment judgments or the allocation of management resources.

The third challenge relates to the formulation of medium- to long-term capital policies. Many companies express that they do not know the criteria for decision-making or what investors expect when balancing investment, shareholder returns, and retained earnings. They also note that even if they attempt to consider these matters, the process does not progress because many stakeholders are involved.

The fourth and final challenge concerns disclosure to investors. Companies report difficulties such as not being confident they are meeting investor expectations, or struggling to construct a convincing narrative. With respect to examples of companies that have overcome these challenges, at this stage we have listed only the key points on the right-hand side. In December, we plan to introduce concrete examples from actual companies.

The following slides present factual information mentioned earlier illustrating the large number of comments we have received from companies regarding these challenges. These include the results of the survey for listed companies introduced at the April meeting, as well as the results of surveys conducted for participants in seminars organized by external parties. In these surveys too, many companies pointed to challenges such as internal awareness reform and internal dissemination, cost-of-capital identification and utilization, and the formulation of capital policies. We also saw significant demand for examples from other companies focusing specifically on these themes. Accordingly, these will be central topics in the upcoming case study update.

This concludes the overview of the December case study update. In addition to this, the TSE is advancing support efforts through company seminars, dialogue sessions with investors, and other initiatives, to help companies address the challenges they face. This is an interim report, but if you have any comments, we would be grateful to hear them.

That concludes the explanation.

Watanabe, Director, Listing Department, TSE:

If there are any comments, I would be grateful to hear them. How do you see it?

Sampei, member:

Thank you very much for the compilation. I think it is extremely positive that companies are actually making use of the materials.

Regarding the point on page two about increasing the number of initiative examples and communicating them, I recall that last time there was also a guidance-type chart with ROE on the horizontal axis and P/B ratio on the vertical axis—showing the four quadrants—and it indicated movements such as shifting from the lower left to the lower right, or from the lower right to the upper right, depending on the company's starting position. In that sense, if the examples of companies that overcame challenges could also indicate which quadrant they moved from and to, I think the materials would be even more user-friendly.

Uchida, member:

Thank you. Listening to this also makes me reflect on my own past experiences. In practice, when it comes to internal awareness reform and internal dissemination, the understanding and clear messaging from the top management and executive team is crucial. How things are communicated downward from there depends on each company's particular circumstances, their management-control systems, and the situation in which each company finds itself. As discussed earlier, in the parts of the Standard Market gradient where progress is slow, the challenge often lies in differences in internal awareness. For the exchange, there are limits to what can be done directly in those cases, which I think is understandable.

As was mentioned previously, it may be that, at least for some companies, responsibilities inherent to being a listed company are still not fully shared or understood among members of the investor base, and we have to confront that reality. Against that backdrop, I believe that indirect approaches—such as the soft-touch approach provided through the case study collection—may be more effective than direct interventions.

Going beyond that, there may or may not ultimately be consideration of more structural, "hard" measures, such as changes to continued listing criteria, liquidity ratios, or issues regarding parent–subsidiary listings. But in terms of doing as much as possible within reason, I think presenting and sharing the real-world experiences of companies that have struggled but succeeded would be very valuable.

Also, the expression "issues faced by many companies" gives the impression that the majority of companies are still struggling. If we include the Prime Market, company initiatives have already progressed considerably, and framing it as though most companies are struggling might actually cause companies to become complacent. Therefore, I think it would be better to communicate with the nuance that company initiatives are already progressing.

Watanabe, Director, Listing Department, TSE:

Thank you very much. With that, we will conclude today's meeting.

Thank you again for your participation today, and we look forward to seeing you at the next meeting.

[END]