Minutes of the 26th Council of Experts Concerning the Follow-up of Market Restructuring

Date: Wednesday, February 18, 2026 14:00 PM - 16:00 PM

Place: Tokyo Stock Exchange 15th Conference Room

Attendees: see member list

Watanabe, Director, Listing Department, TSE:

We would now like to commence the 26th Council of Experts Concerning the Follow-up of Market Restructuring.

Ms. Okina and Mr. Nagami are attending online today.

We will now move on to the agenda. First, let us explain about the agenda.

Ikeda, Senior Manager, Listing Department, TSE:

Thank you for gathering. We have six documents for you today.

In Document 1, we have summarized our future efforts based on the previous comments we received regarding "Management That Is Conscious of Cost of Capital and Stock Price" and "Growth Market Reform." We would appreciate your comments if you have any suggestions.

In Document 2, we have included specific proposed measures that we have considered based on your previous comments regarding future approaches in the Standard Market, and we would be very grateful for your various comments.

Document 3 is about the future direction of the TOKYO PRO Market (TPM). We would like to provide specific direction on this as well and would appreciate your input.

Document 4 is an updated version of the usual one-pager. This is reference information and will not be explained.

In Documents 5 and 6, we present to the members of this follow-up meeting the status of the discussions on parent-subsidiary listings and going private in the study group meetings that are being held in parallel, as they are closely related to this meeting. If you have any comments on this, we would appreciate your comments.

Watanabe, Director, Listing Department, TSE:

Now, we would like to explain the documents.

First, we would like to explain our future initiatives for management that is conscious of cost of capital and stock price and for Growth Market reform in Document 1.

Monden, Senior Manager, Listing Department, TSE:

I will explain the Document 1.

H1 is about management that is conscious of cost of capital and stock price.

Pages three and four summarize the previous discussion. On page three, you will find your comments on the overall policy and approaching companies that have made disclosures. Details will be omitted.

On page four, you will find your comments on engagement with executives, measures to enhance effectiveness of dialogue, and approaching companies that have yet to disclose.

Based on these discussions, we have summarized proposed future initiatives on page five.

There are four major points. First, (1) nearly three years have passed since the request was made, and disclosure has progressed in many companies, especially in the Prime Market, and awareness of the cost of capital and capital efficiency has gradually increased. Under these circumstances, as the next phase of reform, we intend to place greater emphasis on accelerating investment in growth areas in the future.

In conjunction with the revision of the Governance Code, which is currently under consideration, we would like to support the efforts of companies by providing materials for consideration, such as investors' expectations regarding the effective use of management resources.

(2) is the continuation of support for initiatives conducted by companies. First, in order to better highlight companies that are making progress, we are considering conducting an investor survey regarding such companies and the content of their evaluations.

We envision a survey in which investors are asked to evaluate the initiatives they expect to see and select a few companies that have shown progress based on the evaluation items.

In order to ensure that not only large companies are selected in the survey, it is also envisioned that the survey will be broken down by market segment, size, and industry, and the companies that are selected by many investors will be published.

Since the number of companies that can be highlighted in the case studies is limited, we will aim to create a system to highlight more companies and motivate them through the survey.

Additionally, based on the survey results and investor interviews, we plan to update the case studies separately from the survey.

Regarding the outreach to management, of which we received many comments at the last meeting, the TSE continues to hold seminars where the TSE President speaks to the management of listed companies. In the last two years, we have held about 50 such events nationwide, attended by more than 900 executives.

The effectiveness of such events can be seen in the fact that some companies have made new disclosures after participating in the seminar. We will continue to reach out to management through seminars and other means using the case studies published last year.

(3) is to encourage both companies and investors to share each other's perspectives in order to promote constructive dialogue.

As mentioned in the first point, we will collect corporate opinions such as cases where dialogue has been effective in leading to progress in initiatives, as well as requests and expectations of investors, through a survey of companies. We intend to use the results to encourage the promotion of constructive dialogue between companies and investors.

In addition, as mentioned in the second point, we would like to conduct interviews with domestic and foreign institutional investors in order to connect companies' and investors' perspectives, and introduce the criteria for investment decisions by institutional investors and their expectations of the companies in which they invest.

Finally, (4) is an approach for the remaining 10% of Prime Market-listed companies that have not disclosed.

We do not mandate disclosure of management that is conscious of cost of capital and stock price. However, as many of you commented last time, we would like to request disclosure to investors on the reasons for not disclosing the information and future policies, from the viewpoint that it is useful to have the company disclose its thoughts.

That's all I have to say about management that is conscious of cost of capital and stock price.

Next, I will discuss the Growth Market Reform.

We have summarized the previous feedback we received on page seven. You commented on the encouragement to take action to achieve high growth and the benefits and support measures of listing on the Growth Market.

Based on those, we have summarized three proposed future initiatives on page eight.

(1) is a follow-up on previous encouragement to take action for high growth.

In conjunction with the periodic updating of each company's growth potential disclosure, we remind companies individually of the expectations of investors and the content of the requests related to actions to achieve management that strives for high growth published last September and ask them once again to consider initiatives in light of these expectations. This is an effort we have already begun.

The second point is the follow-up we will be doing in the future. Progress in actions will be monitored through the number of companies listed on the Growth Market special page launched this month as a KPI. Then, around this summer, we hope to follow up by gathering information on the status of corporate initiatives and disclosures, as well as investors' evaluations of those initiatives and disclosures.

(2), in order to further encourage companies trying to achieve high growth in the Growth Market in the future, we will once again conduct surveys and hearings for management on issues and needs faced by companies.

We have been gathering feedback through surveys and hearings. However, as we continue to review the standards and take initiatives, more and more companies are taking positive approaches, so we would like to grasp the voices of such companies with a high level of resolution and link them to our subsequent considerations.

(3) is support for companies that are making active efforts. We plan to hold seminars for companies listed in the Growth Market, dialogue events with investors, promote the new index starting in March, and update the case studies in the fall.

Finally, page nine shows the status after the special page was opened.

The special page lists the growth potential and other disclosures of companies that are taking actions based on requests in September 2025 and wish to be featured on the page.

At the start of the website, 94 companies had applied. Applications are accepted at any time and will be monitored on an ongoing basis.

The number of accesses during the first 10 days after the opening was about 5,600, which was not a bad start; we will promote the site so that more investors can take advantage of it.

This is the end of the explanation of the main part of Document 1. We have attached an overview of the JPX Start-Up Acceleration 100 Index, which will be available from March. Let me briefly introduce it.

See page two. The Index aims to encourage a virtuous cycle of investment and growth in startup companies. The index consists of 100 stocks selected from a population of companies listed on the Growth Market and companies that have changed markets within a certain period of time, based on their sales and market capitalization growth rates.

On page five we have compiled data on the growth potential of the constituent stocks. Looking at the sales growth rates of the JPX Start-Up Acceleration 100 Index, we can see that companies that have achieved higher growth rates are concentrated here than in the Prime and Growth Markets as a whole.

Page six shows the distribution of the market capitalization of the constituent stocks. Compared to the Growth Market as a whole and the existing Growth Market 250 Index, many companies with large market capitalizations are included here.

Page seven shows the distribution of industries. A lot of companies in the information/communications and service industries are included here, and a certain number of deep-tech companies, such as biotech ventures and space-related companies, are also selected.

We intend to promote this index in conjunction with the Growth Market Reform so that investors and companies will be more aware of it.

That is all for the explanation of Document 1.

Watanabe, Director, Listing Department, TSE:

We would like to receive any comments you may have.

Kumagai, member:

Thank you very much for summarizing the discussion so far in the form of future initiatives.

Basically, I would like you to proceed in the direction you have described. Daiwa Institute of Research has had increasing opportunities to discuss with listed companies the effective use of management resources for investment and other purposes, which is a hot topic in connection with the revision of the Corporate Governance Code. I believe that the provision of reference materials including information on investors' expectations on page five will provide material support for the listed company's efforts.

This may be a bit too much detailed, but I would like to briefly share with you some of the issues that often come up in discussions with listed companies.

In discussions with listed companies, the main issues to be discussed include the concept of minimum cash and cash equivalents to be held, disclosure of the approach to the balance sheet to be aimed for, disclosure of human capital investment, communication methods when steering away from a focus on returns to investment and points that investors are concerned about when positioning M&A as a growth investment.

If possible, I would like you to conduct hearings on points that companies are concerned about, and provide good examples based on the concerns and opinions of both investors and companies.

Okina, member:

I agree with you about the larger direction. I would like to make a few comments.

I agree with the first point of (2) on page five, about doing a survey for investors. If this is to visualize companies that are making positive efforts, at the same time, it would be good to visualize investors who are striving for better dialogue in the survey for companies in (3).

As investors voiced their opinions at the last meeting, recent messages from the TSE tend to introduce the viewpoints of investors and seem to be somewhat biased in direction. Since there are likely to be many issues on the investor side as well, it might be a good idea to also conduct a survey about investors from the company's point of view to encourage improvements in both directions.

Regarding the promotion of management that is conscious of cost of capital and stock price, while I would like to see TSE promote this, I would like TSE to emphasize that it is only providing companies with materials to consider in order to promote this.

I believe that one essence of the Corporate Governance Code is to be a principle and to be substantive, and that it could be burdensome for companies to respond to the TSE survey. Therefore, I would like you to keep in mind your stance of encouraging management to be conscious of the cost of capital and stock price, and to work to increase corporate value in real terms.

I would like to make two comments about the Growth Market. I think it is very important to listen to opinions on issues regarding the creation of listing benefits for the Growth Market, as described in (2) on page eight. However, in order to not only improve the attractiveness of the Growth Market through TSE's efforts, but also to make it a place for continuous supply of funds, I think there are many issues that need to be addressed, such as attracting investors with a long-term perspective and creating an ecosystem of venture capitalists. I would like you to sort out what the FSA should do, what the TSE can do, and what the TSE should work on together with the FSA.

Finally, I just heard that the Growth Market special page has received 5,600 hits, which is a very good start. I hope you will continue to follow this access closely.

Sampei, member:

I think the overall direction is good.

On top of that, I have two questions. First, on page five, (1) Acceleration of investment in growth areas, it says, "we will provide reference materials including information on investors' expectations." What do you envision?

Monden, Senior Manager, Listing Department, TSE:

The call for verification for the allocation of management resources is also on the agenda in the discussion of the revision of the Corporate Governance Code.

It is possible that the principles of the Governance Code alone may not give a clear picture of what exactly the company is actually looking for. From this perspective, as Mr. Kumagai commented earlier, we would like to provide companies with materials to facilitate their deliberations, such as providing a summary of investors' expectations regarding points that companies are concerned about.

Sampei, member:

Thank you very much. Understood.

The other point I would like to make is about the expression in the first item under (3) on page five, "we will encourage both companies and investors to encourage in more constructive dialogue." I think the Japanese word constructive gives a somewhat friendly impression.

However, when the English word constructive is used among investors, it includes a somewhat stern and strained nuance of working to solve problems and produce results. Therefore, I am wondering how this is being communicated. If the message is conveyed correctly, there is no problem, but it may be a good idea to add what is expected of you.

Third, as Ms. Okina mentioned earlier, is the number of accesses to the Growth Market's special page, 5,600 in 10 days, more than for other TSE actions?

Ikeda, Senior Manager, Listing Department, TSE:

I think this is relatively many. That is about as many as the number of access to the materials for this follow-up council, which is relatively many.

Sampei, member:

If so, I think it would have been a pretty good start. I hope you will continue to monitor this.

Kuronuma, member:

I also agree with the TSE's proposed approach. I would like to comment on one point.

Page five, (4) says "request explanations from companies that have not disclosed," which means that you will ask for disclosure of the reasons and future policies, but it is a request, not a mandate, right? I understand that this is a request, since the disclosure of "management that is conscious of cost of capital and stock price" is itself a request in the first place.

However, I think it is possible to simply request that they work on it, but to enforce or rule on disclosure as a means of doing so.

While it is not a good idea to force companies that are not working on it to disclose that they are not doing anything, it could be a way to force companies that are not doing it to disclose why. I felt a little disappointed that that approach was not chosen here, although I understand that it was in order not to deviate from the framework of the requests so far.

Uchida, member:

Thank you for your explanation. I have no particular objection to the overall direction of initiatives and agree with it.

I think it is a good idea to conduct a survey and publicize the top companies as mentioned on page five as an incentive for companies to take a positive approach. There are many things like a contest, so I hope you will clarify the purpose of the survey and proceed with it so that it does not become just a ranking list.

The voices of investors can be found in various documents, but while information on the issuer side is publicly available, it is often difficult to see the demographics of the investors who responded to the survey, including their attributes, size, and names.

As we move forward with IR, etc., we will gradually see this, but in the beginning, it is like going out into the wide-open ocean. Considering the lack of progress in the Standard Market, it is possible that there are still certain fault lines, if not mistrust.

Therefore, I think that if you can make investors' faces visible and deepen the resolution in various future efforts, mutual understanding will be further enhanced, dialogue will be activated, and this may lead to an increase in overall liquidity.

What exactly to do may be a difficult question, but I think it would be very important to make it easy for the issuer to see investors in each individual measure.

Nagami, member:

I am also generally comfortable with the contents. On top of this, I believe that the survey and hearings in (2) on page eight are important. I would like to ask; will the survey be sent to all listed companies in the Growth Market?

Regarding hearings, I would like to have hearings with various companies in terms of market capitalization size and number of years since listing, as I believe this will provide us with a more multifaceted opinion.

Monden, Senior Manager, Listing Department, TSE:

The survey is intended to cover all listed companies in the Growth Market. On top of that, we will conduct interviews individually with selected companies from among those that responded to the survey, selecting those we would like to explore in more depth. As you commented, we will keep in mind that we would like to hear from as wide a range of industries and sizes of companies as possible.

Nagami, member:

Understood. I would like you to thoroughly inform and remind companies of the survey. I feel that many companies in the Growth Market are relatively easy to forget to respond.

Koike, member:

First, thank you for your explanation and compilation of materials. I agree with the individual initiatives. As an institutional investor, I am very aware that corporate management is certainly becoming more aware of cost of capital and stock price through corporate disclosure content and engagement.

On the other hand, the Japanese stock market as a whole is up, but I am wondering whether this is due to, for example, the elimination of PBR of less than one or individual initiatives. I feel this needs to be verified.

The next stage of management that is conscious of cost of capital and stock price is required. A more in-depth discussion of the cost of capital is needed. Since simply being aware of the cost of capital does not increase corporate value or stock price, it is important to verify and share practices, such as what corporate actions have resulted in increased corporate value as a result of being conscious of the cost of capital.

We are currently working on a project called CEO Engagement. I personally conduct engagement conversations with the CEOs of the portfolio companies and disclose them on our website.

In this context, we invited several companies in the Growth and Prime Markets that are struggling to raise their stock prices, which we had worked with at a seminar for small- and medium-sized companies with the TSE last April, to participate in a roundtable discussion. We will be uploading this to our website soon and will update you again. In speaking with Prime Market-listed companies whose market capitalization is never high and companies struggling with P/B ratio issues, I was surprised and impressed by the very widespread awareness of cost of capital and stock price. I think all companies are thinking about this quite a bit, but they are also understandably worried about their stock prices not rising.

This one-and-a-half to two-hour roundtable discussion was an opportunity for us to reflect on what we, as institutional investors, may not have done yet, and what we need to work on a little more.

The discussion so far has been about asking listed companies to respond in various ways. But of course, if a company improves its disclosure, its stock price may rise, and if institutional investors can participate, it may do even better. If we request investors what they can do, we can truly create a win-win relationship to boost this market.

So far, the discussion has proceeded from the perspective of institutional investors looking down on companies a bit. I realized that in the future, it is really necessary to stimulate discussion among institutional investors about specific measures and ideas, and how they can participate.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

Next, we would like to explain our future approaches in the Standard Market in Document 2.

Yamawaki, Manager, Listing Department, TSE:

I will explain the Document 2: Future Approaches in the Standard Market.

Page two describes the previous discussion and future course of action.

The policy is described at the bottom of the page. The concept of the Standard Market is to be a market in which large numbers of unspecified investors participate. As a listed market, we believe it is necessary to focus our efforts on investor protection.

Therefore, as the first arrowhead, we will strictly deal with problematic corporate action from the perspective of investor protection.

We also hope to create an environment in which listed companies can more widely and firmly recognize the need to work on corporate value from the perspective of shareholders and investors.

In addition, as explained in Document 1, we will continue to highlight and support companies that are actively working to enhance corporate value.

The specific issues are discussed on page three and beyond. First point is corporate actions causing issues from the perspective of investor protection.

The first is on page four, significant changes in business that raise concerns over listing eligibility.

In recent years, there have been cases where companies have made significant changes to their business after listing that raise concerns about their eligibility for listing.

Shown in the case studies are specific examples where there are concerns that the new business activities, if initially presented, would not meet the requirements of the initial listing examination, such as continuity and profitability of the company and effectiveness of governance. There are concerns about leaving such issues in place from the standpoint of investor protection.

Page five shows actions for consideration.

The first premise is that it is important to protect investors in cases where listing eligibility concerns arise. On the other hand, making business changes after listing in order to improve corporate value is itself a natural corporate action, and we believe that we need to be very careful not to impose excessive regulations that would inhibit such efforts.

On top of this, the current system ensures that existing shareholders have the opportunity to approve significant changes in business, for example, by requiring a special resolution under the Companies Act.

On the other hand, some overseas exchanges have established a new listing eligibility examination system in addition to the above.

In issues where there are concerns about listing eligibility, this may harm not only existing shareholders who have given their approval, but also new incoming investors. So, as shown at the bottom, we envision that we will consider additional measures to protect investors in the future, while taking sufficient care not to over-regulate.

On page six, for your reference, are examples of foreign exchanges I mentioned earlier. The NYSE in the US and the Australian Stock Exchange have systems in place that allow companies to be re-examined for listing eligibility if there has been a material change in the nature of their business.

Page seven discusses the second point, the issue of tradable share ratio criteria.

TSE has criteria regarding the ratio of tradable shares, not only for the Standard Market, but there have been some cases in the recent past that have become problematic.

Specifically, those are cases in which listed companies on the Standard Market, in which the parent company, etc., holds nearly 70% of the voting rights, issued unlisted classified shares with the same number of voting rights while acquiring and canceling the listed shares from the parent company in order to meet the ratio criteria.

This is a very technical method implemented to increase the ratio of tradable shares of listed stock without reducing the parent company's ownership of voting rights.

On the other hand, as shown on page eight, the tradable share ratio criteria are positioned as a governance standard in the first place, and is intended to ensure that a certain percentage of voting rights are held by shareholders other than stable shareholders.

This case is a departure from the intent of the criteria. In the future, we would like to revise the method of calculating the ratio of tradable shares from the method of calculating the ratio of listed shares held by other than stable shareholders to the method of calculating the ratio of voting rights held by other than stable shareholders out of the total number of voting rights including classified shares.

In addition, as shown on page nine, we will respond to other problematic corporate actions as they become apparent, in addition to the two issues discussed in this document.

Page 10 and beyond are about creating an environment that encourages recognition of the need to work on improving corporate value.

At a previous meeting, you indicated that it is important to ensure liquidity and tradability so that investors can come in.

We provide the facts again on page 11 and beyond. Currently, in terms of liquidity, many stocks in the Standard Market have smaller tradable share market capitalization and trading value than those in the Prime Market.

Also, regarding the tradability on page 12, as shown on the left side, many companies in this market have parent companies or controlling shareholders, and as shown on the right side, many stocks have a lower ratio of tradable shares compared to the Prime Market.

On page 13, we reiterate the relationship between such liquidity and tradability and the disclosure rate of the management that is conscious of cost of capital and stock price.

Companies with smaller liquidity tend to have lower disclosure rates, mainly due to the difficulty of attracting institutional investors.

Even for companies with the same level of liquidity, companies with lower tradability have lower disclosure rates, suggesting that their structure makes it more difficult for investors' voices to be heard.

Based on these facts, we provide actions for consideration on page 14.

As you have seen, it is important to ensure liquidity and tradability as a foundation for improving corporate value with an eye to investors, and one possible measure would be to raise these criteria.

On the other hand, the Standard Market is the base market segment of the three market segments, and raising the listing criteria would raise the hurdle for listing on the TSE market as a whole, so a cautious response is necessary.

As noted, the current criteria are also considerably higher than they were prior to the 2022 market restructuring.

Thus, while it is practically difficult to raise the listing standards immediately, it is necessary to ensure that companies are aware of their responsibilities as listed companies. So, first of all, we would like to consider awareness-raising and mechanisms to raise awareness of liquidity and tradability in the future.

For your reference, we have included a list of listing criteria and a comparison with the criteria of foreign exchanges on page 15 and beyond. I will spare you the details.

The issues related to owner/family-led companies are discussed on page 18 and beyond.

One of the types of companies with low liquidity and tradability is the so-called owner-run companies, and we would like to promote necessary efforts in this area as well.

Page 19 shows the number of owner-run companies.

Currently, as shown in the table on the left, half of the Standard Market-listed companies are so-called owner-run or family-run companies. As shown on the right, there are more companies where the owner is the controlling shareholder than in the Prime Market.

Page 20 is what long-term investors, both domestic and international, have to say about owner-run companies.

To begin with, as shown in the upper part of the box, it has been pointed out that the owner-run form of business is not in itself a bad thing, but has its strengths.

First, the performance of owner-run companies is not necessarily worse than that of other companies. Second, it has been pointed out that, since the owners own a certain number of shares, they have the power to promote the company, and in some cases, they have correctly understood the investors' viewpoint and have significantly increased the value of the company.

On the other hand, as shown in the lower part of the page, many of the owner-run companies are still not very conscious of such issues. As the first item, it is pointed out that the emphasis is on family survival and that challenges that lead to growth are unlikely to occur, and as the last item, it is pointed out that many owner-run companies are still not open to dialogue.

See page 21. As a governance issue, cases are seen where friends of the owner and others have been appointed as outside directors who are supposed to supervise the management team, raising concerns about their effectiveness.

Others argue that there are cases where the relationship between the listed company and the founding family is opaque to begin with. For example, while the actual status of personal and capital relationships with the founder and whether the founder is involved in the management of the company is important information for investors, there is no system that requires disclosure of such information.

Page 22 is for your reference regarding the points at which the viewpoints of owner-run companies and investors tend to diverge, and we will not go into detail.

Page 23 shows the current disclosure system for your reference.

In addition to requiring disclosure of transactions with related parties in annual securities reports, governance reports also require disclosure of policies for protecting minority shareholders when conducting transactions.

On the other hand, as noted in the notes, what is required is mainly disclosure of business relationships, and no other disclosure is required regarding relationships with listed companies or management involvement.

Page 24, also for your reference, shows the status of independent directors' appointments.

Progress is also being made among companies with controlling shareholders in the Standard Market, with 70% of companies promoting the appointment of at least one-third of their outside directors as independent directors and the establishment of special committees.

Page 25 is about actions for consideration.

First, some have stated that in some cases the relationship between the owner/founder and the listed company is opaque, so we believe it is important to ask for disclosure of the relationship and management involvement, which will lead to dialogue and consideration of the way things should be done.

In addition, as shown in the second item, we are currently considering requiring disclosure of the percentage of approval or disapproval of minority shareholders on proposals for the election of directors in the study groups on quasi-controlled listed companies.

It is assumed that listed companies with major shareholders holding 40% or more of the voting rights will be targeted. These major shareholders include owners and other individual shareholders. We hope to promote such measures in the listing system with respect to owner-run companies. Details of the discussion will be presented later.

Finally, page 26 and beyond are about visibility and support for companies that are actively working to enhance corporate value.

Page 27 shows actions for consideration.

First of all, as you can see in the first and second items, we are beginning to see companies actively working in the Standard Market, and we will promote the visibility of these companies as shown in Document 1.

As in the third item, we also believe it is important to increase the number of companies that are actively working to enhance the corporate value.

For listed companies, as per the first arrowhead, we have been compiling case studies and holding dialogue meetings with institutional investors to date to support their consideration and implementation. As you pointed out at the last meeting, with the possibility of more companies IPO-ing on the Standard Market in the future, we believe it is also important to make efforts toward IPO companies, like the second arrowhead.

Specifically, skip to page 31, we are in the process of taking actions regarding listing examinations, etc.

For example, with regard to management that is conscious of the cost of capital and stock price, we confirm the policy for post-listing initiatives during the interview with the president at the time of listing examination, and we also confirm with independent directors their assessment of management's awareness and readiness for such initiatives.

At the end of last year, we reiterated and made clear our intention to ask these questions. Through these efforts, we hope to encourage companies to smoothly engage in this immediately after their IPO.

Watanabe, Director, Listing Department, TSE:

Now, we would be happy to receive your comments.

Kumagai, member:

Thank you very much for your comprehensive and clear documentation. I would like to make four points.

First, with regard to (1) corporate action causing issues from the perspective of investor protection, one option is to develop a regulatory regime that allows for re-examination of listing eligibility, as in the examples of the US and Australia on page six. A certain deterrent effect can be expected against actions that raise doubts about listing eligibility as a result of a major change to a business that is completely unrelated to the existing business.

On the other hand, as noted on page five, great care should be taken to avoid excessive restrictions on management decisions regarding mergers and acquisitions, business expansion, and business changes. It is natural for companies to change their business operations in response to changes in the economic environment, and even in the management that is conscious of cost of capital and stock price, it is expected to take drastic measures such as reviewing the business portfolio.

In considering measures to protect investors, the scope of disclosure may be expanded. I understand that timely disclosure is already required for the start of new businesses and other cases to a certain extent under the current rules. If a substantial change in the nature of the business is involved, further disclosure of information that would contribute to investment decisions, such as the new business model, risks, and plans for dialogue with investors, may be requested.

While the problem should be dealt with strictly, excessive regulation could undermine the vitality of the market. It is necessary to strike a balance and engage in appropriate rule making and operation.

The second point is (1) of developing the environment to foster awareness of the importance of working on corporate value. In the action for consideration on page 14, it is stated that "raising of listing criteria for liquidity and tradability is a matter for future consideration," but I feel it is a bit premature to position this as an issue for future consideration at this point in time. It may be perceived by market participants as a postponement of measures. I think it is not too late to conclude after proceeding with the discussion on "awareness-building education and initiatives that encourage companies to pay attention to liquidity and tradability." I believe that it would be worth considering the establishment of a package of measures that would include the concretization of awareness-raising measures, the implementation of various measures with a set evaluation deadline, and if there is no improvement in the situation, consideration of raising the listing criteria.

It is also important to discuss the contribution to "promoting metabolism and innovation in industry and society" and "increasing productivity through the exchange of production factors with other companies and through mergers and acquisitions," which were included in the Summary of Discussions on Measures to Improve the Effectiveness of the Market Restructuring released in January 2023, which was introduced at the last meeting. Companies in the Standard Market are also paying very close attention to discussions regarding raising listing criteria and other issues. I believe it is essential to demonstrate to global market participants that we are serious about reform by maintaining our stance of exploring all possibilities at this time.

The third point is (2) of developing the environment to foster awareness of the importance of working on corporate value. As noted in actions for consideration on page 25, it is conceivable to require disclosure regarding the founding family's involvement in the management of the company. Given the concerns about the effectiveness of independent directors voiced by investors, information regarding the evaluation of the independence of independent directors, including their relationship with the founding families, could also be a point of contention.

The "requiring companies to disclose their responses to take minority shareholder approval rates and opposing votes into account" covers companies with major shareholders who hold 40% or more of their voting rights, but I suggest that related relatives and asset management companies be considered for inclusion in the scope of major shareholders. Furthermore, since it has been pointed out that these companies have little awareness of their shareholders and investors, a mechanism to confirm their intention to engage in dialogue with investors could be considered. I hope we could find a way to bridge the gap between the investor's perspective and theirs.

Finally, my fourth point is about dealing with companies that do not disclose their management that is conscious of cost of capital and stock price. If the Prime Market is going to require disclosure of the reasons for not disclosing and future policies, I suggest that the Standard Market consider a similar approach. Since the disclosure ratio in the Standard Market is only about 50%, more detailed questions and proposed answers could be provided to more accurately grasp the situation within companies, such as whether they are willing to disclose, the progress of their efforts, and the reasons why progress has been stagnant.

It is a natural task for a publicly listed company to work to improve its corporate value over the medium to long term, to increase its stock price, and to gain the confidence of an unspecified number of people. As part of efforts to promote them, I believe it is worthwhile to encourage disclosure of the reasons for not disclosing and future policies.

Sampei, member:

Thank you for your compilation and explanation. I would like to ask two questions and make three comments.

The first point is regarding the response of foreign exchanges on page six. I believe there was a time in the US when the issue of so-called backdoor listing, in which a foreign company acquires a US listed company and continues to list on the US market as the surviving US company, was considered a problem.

I believe that was long before the NYSE has introduced this system in 2024. I do not understand the relationship between those. Can you tell me if the introduction of the regulation by the NYSE was against such backdoor listings or not?

Yamawaki, Manager, Listing Department, TSE:

We recognize that the system introduced in July 2024 is not a regulation that is concerned with backdoor listings, such as acquisitions of listed companies, but rather with changes in a company's business itself, where the nature of the business would change.

The NYSE has not established clear criteria for what companies are eligible. However, I believe that when the system was revised, it was explained that they had in mind, for example, the recent case of conversion to a bitcoin treasury company.

Sampei, member:

As other members have pointed out, it is not a bad thing for a company to make a major business change. The first example that comes to mind as an example of a business that has undergone a major transformation is NOKIA in Finland. It has changed from a pulp and paper business to a telecommunications company, which is a completely different business. That is not a bad thing, and I believe that such a drastic change would be possible.

However, there could be a process to re-examine the eligibility for listing at that time. The re-examination is not to stop such a business change itself, but only to check if it is appropriate. So I thought it would be good to have such a system.

Are there any other problematic cases from the perspective of investor protection on page nine? I am very surprised by the examples on page seven. Could there be other similar cases? For example, if you issue unlisted classified shares with voting rights and secure a total of two-thirds of shares, including other common shares, you could easily go private by squeezing out the minority shareholders. If that is possible, unlisted classified shares with voting rights would be very troublesome and should not be used easily.

Yamawaki, Manager, Listing Department, TSE:

I don't think there has ever been such a case. TSE listing rules restrict classified shares, etc., which have many voting rights, in order to protect minority shareholders. However, there is no special restriction on the issuance of classified shares with the same number of voting rights, provided that the procedures under the Companies Act are properly followed. Note: Regulations exist for third-party allotment of shares with substantial dilution of voting rights, not limited to classified shares.

Sampei, member:

I think we may need to be wary of such cases in some cases.

My first comment is about the middle section on page 14. It says that the Standard Market is the base market segment among the three market segments. The base sounds like the lowest in a hierarchical relationship, and I am a little doubtful that the logic that for this reason, careful consideration is needed is appropriate. Given the concept of market segmentation that accepts diverse companies, as discussed at the previous meeting, I think we can summarize that the three market segments are parallel and only the concept is different.

What the comparison with foreign countries on pages 16 and 17 highlights is the difference in the true purpose of a listing. Overseas, I think it is naturally understood that the purpose of listing is to raise funds for growth

and business expansion, and since stocks are currency, it is naturally understood that the more dynamic the stock is, the better. Such things are understood without having to regulate it too strictly.

In contrast, it is often said that the purpose of listing in Japan is to enjoy the benefits of name recognition and social credibility. If the only purpose of listing is to obtain such benefits, there is no need to increase liquidity. In fact, it may be more convenient for the company to keep its shares illiquid and not be held by nagging institutional investors.

I think we need to do something about this state of misaligned consciousness. For example, companies could be asked to swear an oath that they aim for growth, business expansion, and high market evaluation by going public, and that they are conscious of liquidity and tradability in order to achieve this goal.

If they have sworn to it, they may want to write it into their articles of incorporation to make it clear to the market. I think it would be difficult to enforce that, but you could suggest that such a thing could be considered.

If market participants were to look closely at such responses by companies, their shareholders might point out to companies that do not swear an oath that they don't do so. It may be necessary to put pressure on them to write it in the articles of incorporation if they have taken an oath. The inclusion in the articles of incorporation itself does not interfere with the business.

Finally, in all markets, statements to the effect that capital majority rule takes precedence over minority shareholder protection are made in various situations, primarily by the corporate side. I believe this is very problematic. This seems to be based on the idea that minority shareholders are subordinated in terms of the amount invested and that the one who invests the greater amount has more decision-making power, which I believe is incorrect.

I think it is very important that, in order to move things forward in a realistic manner, the resolution is decided by majority vote but does not ignore the opinions of minority shareholders. They invest and own shares, even if relatively small amounts. So if they question the validity of the economic benefit they receive, or claim it is unfavorable, I don't think we are allowed to ignore their opinion.

I think these things need to be clarified. Otherwise, when we try to introduce such measures and regulations to protect shareholders, there will be an immediate outcry that it is too much. When I hear opinions voiced on the grounds of capital majority rule at that time, I think that people may not understand the significance of essential minority shareholder protection. I think we may need to sort this out once somewhere.

Okina, member:

Thank you very much. I would like to make two comments. One is about significant changes in the business after listing. The change in the business is very important for a growing company, so companies should, as you all say, challenge it.

On the other hand, I feel that a series of drastic changes in the business that raise concerns about listing eligibility, as described on page four, is a very serious problem from the perspective of investor protection and market credibility.

In most of these cases, not only will there be a major change in the nature of the business, but the management and outside directors will also be replaced. However, as some other members mentioned, the introduction of a discretionary re-examination system has risks and could be suspected of arbitrariness, and such a change in the business itself could affect the stock price and let growing companies shrink.

It is very important to consider how to ensure investor protection and market credibility while providing measures with transparent requirements that are free from arbitrariness.

I think it would be possible to examine the eligibility for listing anew. I would like you to consider various combinations, such as, for example, if necessary, allowing a self-regulatory corporation to take the lead in review, or enhancing information disclosure, so that the challenge of changing the business and ensuring investor protection and market credibility are compatible with each other.

The second point concerns owner-run companies. As for the opacity of the relationship between the owner-run company and the founding family, etc., I think it would be a good idea to require disclosure as described on page 25. But if we were to require disclosure, I am sure that the board of directors would discuss such matters.

Perhaps in these companies, transactions with the founding families are not reported or discussed at board meetings. As pointed out, I think it is very important from the perspective of ensuring not only the number but also the quality of independent directors, especially in these companies.

I think it is also important to begin efforts such as producing booklets and holding seminars for independent directors of owner-run companies and family-run companies so that they can serve with an understanding of what perspectives they should monitor for the benefit of minority shareholders and general shareholders.

Matsumoto, member:

I have two comments. The first is about the owner-run companies, etc. that were just mentioned. In the US, I don't think there are many owner-run listed companies, but there are a certain number of so-called controlled entities, listed companies with owner companies, which may be much more common than in Japan. The criteria for liquidity and tradability introduced are also more lenient than in Japan, or rather, I think the percentages are smaller.

The reason why they are able to do this is because fiduciary duty is thoroughly enforced in the US, which overlaps with what Ms. Okina mentioned. The idea of the Revlon Rule, that the board must consider the interests of all shareholders, whether internal or external, including minority shareholders as well as major shareholders, is quite thoroughly instilled into the board, whether they are internal or external directors.

So, even if there are shareholders like owners, or liquidity and tradability are worse than in Japan, companies are still structured as listed companies in such a way.

The material compiled by the TSE seems to lack that perspective, and I believe Ms. Okina has just pointed this out. Fiduciary duty in the US is not for management to consider minority shareholders, but for the board, especially the outside directors, to think carefully about the shareholders as a whole, including minority shareholders, and take action.

This is not just a TSE issue, as it involves legal issues, and I do not think it can be introduced immediately in Japan. But I think it would be good if the TSE started to produce such flavors a little more strongly. It will take time to create such a system well, so I think it is a good idea to make the message stronger.

My second point is the corporate actions that are problematic from the perspective of investor protection, in particular the examples in (1). If the company is not a publicly traded company, a special resolution would solve all problems. A company changes its articles of incorporation and does new business.

The only difference is that in the case of publicly traded companies, there are general shareholders with very small voting rights because they are publicly traded. Based on that, if the issue is whether there is a need to do anything additional beyond the special resolution, I think a majority-of-minority kind of idea is probably suitable.

I believe that there are various risks involved in applying restraint in the form of an examination, such as undermining corporate activities and independent corporate judgment, or being perceived as arbitrary. Rather, I believe that one important avenue to consider is to try to resolve the issue in a majority-of-minority kind of way.

Kanda, member:

I would like to offer two or three impressions.

This partially overlaps with what other members have already said; as far as the examples for members only on page four is concerned, I think it would be a good idea to add a listing eligibility review to the structure so that it can be used for significant changes in business that may raise listing eligibility concerns in 1-(1).

Certainly, it is understandable that using this too broadly would raise concerns about disrupting normal business changes. But I think that can be avoided by working out how to create the system.

In any case, without a system, we cannot take the necessary actions. Therefore, I think it would be good for you to consider establishing a mechanism of examination of eligibility for listing.

Regarding 1-(2) the issue of the tradable share ratio criteria, I too could not believe that there are companies that do this kind of thing. Naturally, I think it is appropriate to change the rule so that it is based on the number of voting rights, and I agree with the rule change in this direction.

The other point is about 2-(2), owner-run companies. It is possible that I am not understanding the relationship between 2-(1) and 2-(2) correctly, but it is a fact that there is a significant number of owner-run companies in the Standard Market, and that in itself is not a bad thing.

Therefore, I think we should first proceed with the method on page 25, and if that is not sufficient, we can continue the discussion here, based on the discussions in the study group on quasi-controlled listed companies, etc.

The distribution of liquidity and tradability disclosure in 2-(1) includes owner-run companies, right? I would like to know if these problems exist in companies other than owner-run companies.

I think there is a correlation that liquidity and tradability are lower for owner-run companies. If this is the case even in other companies, I think the question arises as to whether some action needs to be taken. We don't know that at present, and I don't think we need to take any immediate steps, but I would appreciate it if you would consider such perspectives as well.

Koike, member:

Thank you very much. I have no objection to the direction of including a reexamination system for (1) significant changes in business that raise concerns about eligibility for listing. On the other hand, if the

company is delisted through the reexamination, the shareholders' redemption opportunity will be considerably restricted, so it would be good to include some steps or phases.

In addition, companies suffering from low P/B ratios in the Japanese stock market often have businesses with no room for growth, so they need to seek growth by changing their businesses or switching business policies.

If the system is made too strict, there is a concern that it will inhibit flexibility and actions that steer the company toward growth, making it very difficult to find the right balance.

Also, about the state of the Standard Market, as Mr. Sampei mentioned at the last meeting, I think segmentation is very important because the Standard Market is a market where a diverse range of companies are listed. I think it is essential that you do a good job of segmentation according to diversity and take a segment-specific instruction and approach.

I think the group companies are one of those segmentations. On the other hand, it is undeniable that in the long history of the securities and stock market in Japan, family businesses and owners have grown their businesses. So, I think it will take a lot of time to change this culture.

I believe that we can make a difference by focusing firmly on family-run companies as one of the segments, rather than lumping them together as the Standard Market, and by taking the time to work on an approach that will change mindsets and awareness.

Kuronuma, member:

I would like to comment on each of these issues.

First, I think it is important to establish a system of re-examination for (1) corporate action causing issues, significant changes in business that raise concerns about eligibility for listing.

Regarding the content of the re-examination, I think it is appropriate to refer to the US example and take the viewpoint of whether the company would have been eligible for listing if it had been engaged in the changed business from the beginning.

I also agree with the direction of the response to the case of issuing unlisted classified shares with the same number of voting rights in order to comply with the criteria for the tradable share ratio in (2). In the first place, given the purpose of the current share ratio criteria as a governance criterion, I think it should be based on voting rights.

I was concerned that this would not be in time for this case, but you mean that the criteria themselves will continue to be applied, and the revised calculation will be applied from the next fiscal year. I hope you will proceed in that direction.

The perspective of ensuring liquidity and tradability is somewhat questionable for me. There is a correlation, but not a causal relationship, between low tradability and the rate of disclosure of management that is conscious of cost of capital and stock price.

Not specific measures to make companies aware of this are mentioned, but even if they are aware of tradability, it does not necessarily mean that they will work to improve corporate value. It may be more effective, then, to directly request them to work on improving corporate value in a different way.

On the other hand, requiring family-run and owner-run companies to make certain disclosures will have an indirect effect in the sense that it will make them more aware of the interests of their general shareholders. However, since this is not a direct effect, I believe that this is not enough, as Mr. Kanda said.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

Next, I would like to explain the future direction of the TOKYO PRO Market in Document 3.

Isogai, Manager, New Listings, TSE:

At this meeting, we hope to consider the future direction of the TOKYO PRO Market.

See page two. Recently, the ecosystem in the pre-IPO part of the market has been changing in response to the review of the Growth Market and other factors.

As a result, there is a growing need to utilize the TOKYO PRO Market, which lies between the unlisted and the public markets. In particular, as shown in the third arrowhead in the middle of the page and below, we are also seeing needs for fundraising, replacing shareholders, and finding M&A partners.

Against this background, we believe that TSE should operate the TOKYO PRO Market as a place that broadly accepts diverse utilization needs between unlisted and the public markets.

If there is a mix of companies with different needs, it is difficult to understand what each of them has in mind when they come to the TOKYO PRO Market. We would like to have each company disclose its purpose for listing on the TOKYO PRO Market, why it is listing on the TOKYO PRO Market, and how it wishes to utilize this listing, so that each company can realize its individual needs with the support of all concerned.

Since this is based on the idea of accepting diverse needs, we hope that the market will be used in a variety of ways, and not just for targeting a public market. However, the TSE would like to provide support to listed companies, especially those that intend to use this as a takeoff fan for a public market.

Page three describes the efforts of the government and related agencies related to unlisted stocks.

As shown in the lower right corner of the page, the unlisted secondary market is not yet functioning in Japan. Therefore, we hope that the TOKYO PRO Market will also be used as a secondary market before a public market.

Pages four to five detail the measures. As noted on page four, we expect all TOKYO PRO Market-listed companies to disclose their listing objectives at the time of initial listing and to periodically evaluate and disclose the status of their realization after listing.

Page five shows measures to support listed companies. We are presenting this as a proposal at this time and will continue to consider what can be done on an ongoing basis.

Watanabe, Director, Listing Department, TSE:

Now, we would be happy to receive your comments.

Kumagai, member:

Thank you for your explanation. I would like to make one point. The proposed future direction on page two states that the TSE will broadly accept various needs, which may make unclear the concept of "a market where companies seeking to be listed on a public market and subsequently grow gather," which was previously proposed by the TSE. Companies seeking only the brand of listing may also be able to list, and as a result, the quality of new listings may not change.

It is appropriate to require disclosure of the purpose of the listing at the time of the initial listing, as well as evaluation and disclosure of the status of realization after listing. However, I think it would be a good idea to consider clearly stating the concept of "a market where companies that aim to be listed on a public market and subsequently grow gather" at the stage of screening for eligibility to be listed.

Sampei, member:

Thank you very much for compiling the documents. In particular, I think the disclosure on page four about the purpose of the listing, why the company is listing and how it wants to take advantage of the market, and the follow-up is a very good mechanism for visibility.

One point, according to page 12 of the document, sales of TPM-listed companies have been rising steadily, increasing 2.06 times on a median basis in the seventh year. We had a similar diagram when we previously discussed the Growth Market (Document 3 of the 15th Counsil). According to that, the market capitalization growth rate of Growth Market-listed companies in the sixth to ninth year of listing is 1.13 times on a median basis. I understand that sales growth rates are different from market capitalization growth rates and cannot make an apples-to-apples comparison. But please tell us how TSE feels about this difference, such as whether TPM-listed companies are hungrier for growth.

Isogai, Manager, New Listings, TSE:

As you say, sales and market capitalization are different, and there are a relatively large number of companies that voluntarily choose to delist in TPM, so I think there may be a survivor bias. On the other hand, it is certainly true that there are companies that have listed on TPM with the intention of growing while taking full advantage of the benefits of listing and are actually moving forward with business and other activities to achieve growth.

Sampei, member:

Differences in timing of measurement may also be the cause. I asked because I was shocked to see that the growth market is 2.06 times for TPM, compared to 1.13 times for the Growth Market.

I feel that more and more companies are considering listing on TPM instead of the Growth Market. If so, I am also concerned that the Growth Market has problem. We need to compare the situation of both TPM and the Growth Market and see if the measures we have been discussing are working in the right direction, such as

companies with what kind of awareness have come to TPM and the impact of the revision of continued listing criteria in the Growth Market.

Matsumoto, member:

The difference in growth rates may be due to the fact that in the Growth Market, companies are trying hard to increase their sales when they go public.

Ikeda, Senior Manager, Listing Department, TSE:

This may be due in part to the fact that TPM-listed companies are smaller in size to begin with, so the ratios tend to be higher.

Nagami, member:

Regarding what you just said, I don't think it is apples to apples to simply compare sales and market capitalization. Many hedge funds buy large-cap value stocks and short emerging growth stocks without looking at the details of stocks. Therefore, there are many Growth Market-listed companies that have strong earnings but declining multiples, so it is better to look at the same indicators.

I feel no feeling of strangeness in the overall document. If you are going to say more strongly that TPM is a preliminary market for listing on the general market (and I think you should say it more strongly), then with regard to the point at the bottom of page five about "streamlining the listing examination for public markets," I think that branding the TPM as a market that can be used as a preliminary examination for listing on public markets may increase the number of companies that are willing to list on the TPM. We hope you will consider that branding. On the contrary, I believe that the number of companies listed here will not increase and this will not be a meaningful market unless you put that many measures in place. So I hope that you will come up with bold measures. Incidentally, I believe there is a lot of good in this from the perspective of market operations on the Exchange. I think it would be easier to prevent companies from listing on a public market and immediately revising downward after listing, if the main examination for listing on a public market is based on the company's performance after listing on the TPM. In that sense, this is a good story in terms of improving the quality of the Growth Market.

Another point is that there may naturally be companies that have delisted from a public market due to the end of transitional measures, etc., but are now seeking to list on a public market again. I believe the market should be open to such companies; I would like to ask TSE's opinion on this matter. If you are going to accept such companies, I think it is important to have a message or branding to that effect.

The first point is about a company going up from an unlisted company, and the second point is about a company that once delisted and is aiming for a public market again. Although the flow is different, they are both companies aiming for a public market. I believe that branding as a preliminary market for listing on a public market is important.

Isogai, Manager, New Listings, TSE:

The TSE is of course willing to accept companies that have come to the TOKYO PRO Market once under transitional measures, etc., and then wish to return to a public market. I think that the intention to go to a public market in the future could be written in the disclosure of the purpose of listing.

Kanda, member:

I am sorry to be so impressionistic in my comments, but I would like to say this. As a premise, as shown in the diagram on page three, Japan is currently developing a system to increase the supply of funds from the securities market even to unlisted companies. In this context, it is, of course, a very good thing to make the TOKYO PRO Market function as a launching pad for the public markets, but it should not be limited to that purpose alone.

That is to say, nowadays, in startups, the exit is not limited to an IPO, but M&A is also rapidly increasing. The number of already listed companies buying startups as investments in growth areas is also increasing rapidly.

In that sense, I think it is fine for the TOKYO PRO Market to be used in a variety of ways, as shown on page two. For companies that want to use the market as a place to prepare for a public market, I would like you to ask them to clarify this through information disclosure, etc. as described on page four, and provide support as described on page five, and I would also like you to facilitate the listing on a public market as described at the bottom of the page. But on the other hand, I think it is good for some companies to be listed on the TOKYO PRO Market in order to get other companies to M&A them. I agree with the policy stated on page two that the market should be broadly inclusive of diverse needs.

Matsumoto, member:

I agree with Mr. Kanda's opinion. This is a place where various needs can be realized. Especially in Japan, where there are various challenges in the distribution of unlisted shares, I believe that TPM could be one way to solve them. So I think it is a good idea to assume that such usage is also possible.

Koike, member:

I agree with the larger story, but there are a few things I have yet to digest.

In the context of this TPM, how do the exchanges view institutional investors, given the challenges that it is difficult for institutional investors to participate in the Growth Market? Also, in the first place, by PRO of the TOKYO PRO Market, do you mean institutional investors like us?

Although we have had many discussions internally, we honestly feel that we cannot enter here with the current framework any more than we can enter the Growth Market. As a provider of growth capital, the utilization of these markets is a major challenge, so we must certainly contribute in some way. However, I can tell you now that it is difficult for us to participate within the current framework.

So, it somehow doesn't add up and I have not yet fully digested this point. What are your thoughts on the expectations of institutional investors?

Isogai, Manager, New Listings, TSE:

As you mentioned, it is difficult for you to enter the Growth Market and even more difficult to enter the TOKYO PRO Market.

On the other hand, crossover investors, while not yet numerous, have actually recently begun to take an interest in this TOKYO PRO Market.

Although the fund is now allowed to incorporate unlisted stocks up to 15% of the fund, unlisted companies are not audited and the status of their internal control systems is not known. In contrast, stocks of TOKYO PRO Market firms relatively give a sense of security. I believe that there is a gradual movement that a stock is included in crossover funds because the company is similar to a private company, although it is a publicly traded company.

All in all, this is a movement that has only just begun. However, we would like to make efforts to encourage crossover investors to enter the market through creating contacts with listed companies.

I believe the concept of professional investors here includes institutional investors as well as high net worth individuals. We will need to consider what we can do, but we hope to make efforts to bring such people in as part of the measures described on page five.

Koike, member:

Thank you very much. We are also working on crossover investments. However, there is also the issue of how far fiduciary duty can be guaranteed in the current lack of liquidity and redemption possibilities for secondaries in the market. If you could take this into consideration, we would be more proactive in our efforts. Please.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

Next, in Documents 5 and 6, we would like to explain the status of discussions by the study group to review minority shareholder protection and other framework of quasi-controlled listed companies.

Nakamura, Associate, Listing Department, TSE:

I would like to explain the status of discussions by the study group to review minority shareholder protection and other framework of quasi-controlled listed companies.

First, I would like to discuss the revision of listing rules regarding minority shareholder protection in Document 5.

There are two points of contention. The first point is requiring companies to disclose their responses to take minority shareholder approval rates and opposing votes into account.

Pages three and four are the status of the discussion at the study group, so I will skip the explanation. Page five is a specific proposal for review.

First, let me give you the background and purpose of this review. Investors have raised numerous concerns regarding the fact that the management of listed subsidiaries does not fully recognize the need to meet the expectations of minority shareholders and enhance corporate value as an independent listed company.

In particular, in a corporation with a controlling shareholder, such shareholder effectively has the authority to appoint directors. Even if the resolution is passed, if concerns are expressed by minority shareholders in the form of a significant number of negative votes, the company is required to take into account their concerns and proceed with the necessary actions.

In light of this, as stated in the lead sentence, we are considering requiring listed companies with minority shareholders to require the ratio of minority shareholders' approval or disapproval of proposals for the election of directors for companies with controlling shareholders, in order to require listed companies with minority shareholders to give appropriate consideration to the concerns of minority shareholders.

Specific details of the review are provided in the document. For listed companies with major shareholders holding 40% or more of the voting rights, we are considering requesting disclosure of the ratio of minority shareholders' votes for and against proposals for the election of directors at the general meeting of shareholders and, if it is deemed that more than 50% of the votes were cast against the proposals, what actions the board of directors will take to understand and grasp the reasons and causes for the minority shareholders' opposition.

From page 10 onward is the second point, revision of the independence criteria.

Along with management awareness, investors continue to call for greater effectiveness and independence of the independent directors who oversee management.

Taking this into consideration, the gray area on page 13 contains concrete proposals for review.

Recently, the number of companies with major shareholders less than the parent company has been increasing. Even major shareholders who are less than the parent company have a certain degree of influence through the exercise of voting rights, etc., and there are concerns about conflicts of interest. In light of this, we are adding to the category of persons who are not considered to be independent in red a new category of persons who are currently or have been in recent years the executive person of a major shareholder of a listed company and the executive person of a company of which the listed company is a major shareholder.

In addition to the category in red where independence is not recognized, the TSE has established a disclosure required category where independence is not denied but the relevant status must be disclosed. We expect to add policy-holding relationships to this section and request disclosure of the relevant status.

Finally, page 18 is the schedule for the revision.

We plan to move on to the rule revision process, including the publication of the system outline, in the spring. In consideration of the impact on the election of directors of listed companies, it is assumed that the revised regulations will be applied gradually beginning with the annual shareholders' meeting for the fiscal year ending December 31, 2026, after a six-month period of dissemination after the revision.

That's all I have to say about Document 5. Next, I will explain the protection of minority shareholders in MBOs and other going-private situations in Document 6.

Page two is a recap of the overall review of the Code of Corporate Conduct conducted last July. We have included in the Code acts such as making a company a wholly-owned subsidiary by a related company that holds 20% or more of the voting rights, because there is a similar concern about conflicts of interest. In addition, we reviewed the nature of the opinions to be obtained from the special committee and expanded the disclosures related to the stock value calculations.

Page three is about the recent situation.

The number of MBOs and conversions to wholly owned subsidiaries by controlling shareholders and others disclosed last year totaled 65, the highest level in recent years.

Page four and beyond discusses the situation after the revision.

First, on page four is the status of special committees. In all cases, opinions are obtained from a special committee composed mainly of outside directors in accordance with the listing rules.

In the past, there have been cases where the target company, while endorsing the tender offer, did not recommend the application and remained neutral due to price concerns. Based on the fact that the fairness of the price has also become a determining factor when expressing an opinion in the recent review, the target companies had made a set of recommendations to support or accept the tender offer based on the fairness opinion of special committees, except for a case in which a counteroffer was made at a higher price after the opinion was expressed.

The recent review also clarified the perspectives that should be considered and disclosed when forming opinions from the perspective of ensuring the effectiveness and transparency of the special committee. We reiterate each of these perspectives on page five.

As shown on page six, some examples of disclosures based on the review have emerged. I will spare you the details.

Page seven is about the enhancement of disclosure of share value calculation assumptions.

The disclosure of the assumptions underlying the financial projections and calculation methodologies has been expanded. Specifically, we are requesting new disclosures regarding the underlined portions.

Page eight provides actual examples of disclosure. The disclosure of share value calculations has also been enhanced. I will spare you the details.

Page nine is the status of implementation of fairness ensuring measures. Although there are cases where the majority-of-minority condition is set in cases where the initial acquirer's ownership is low, there are no cases where the condition is set in cases where the acquirer's ownership is high, such as when a controlling shareholder makes a company a wholly-owned subsidiary.

Active market checks have been implemented in some MBO cases, but there has been no significant change from before the revision.

On pages 10 and 11, for your reference, we show the distribution of takeover premiums in the deals after the Code review and the feedback we have received from investors. I will skip the explanation.

Finally, page 12 is future initiatives.

While there has been some progress in the content of opinion letters and disclosures regarding equity value calculations as a result of last July's review, investors have called for further promotion of measures to ensure fairness, such as the establishment of majority-of-minority conditions.

We are not revisiting the rules again right now. From the viewpoint of making the previous review effective, we would first like to promote awareness of the independent directors who are members of the special committee by, for example, informing them of investors' opinions regarding the implementation of such measures.

This is the end of the explanation of the materials.

Watanabe, Director, Listing Department, TSE:

With respect to the protection of minority shareholders, we are reviewing the listing system, including the disclosure of the percentage of approval or disapproval of minority shareholders. We will follow up on the status of going private after last year's review and continue our efforts to inform independent directors.

We would like to receive any comments you may have.

Matsumoto, member:

Recently, the Ministry of Economy, Trade and Industry (METI) has reopened its Fair Acquisition Study Group and has issued a policy stating that it is not necessarily a good idea to propose a high takeover price. A quick reading of this makes it appear, at least to investors, that this is the opposite side of the Leblon Rule, a retreat in the opposite direction of investors' calls for aggressive market checks as you have described.

What is METI's position on this point?

Ministry of Economy, Trade and Industry:

Thank you for pointing this out.

Since the Industrial Organization Section is in charge of this study group, it is difficult for me to explain it to you at this time. We will discuss this matter with the section in charge in light of your comments and would be happy to explain it to you again.

Matsumoto, member:

Thank you very much. This part seems to be quite different from the direction taken by the past Fair M&A Guidelines, Takeover Behavior Guidelines, this follow-up meeting, and the Study Group on Minority Shareholder Protection, etc.

It is fine for different opinions to emerge, but this was all too sudden and different from what has been going on. For example, it would be good to have a forum for careful discussion among the parties concerned, such as a talk between those in charge of the TSE and METI, or an explanation by the Industrial Organization Division of METI at this meeting.

Kanda, member:

I would like to explain a little about this point, as I am the chairperson of the Fair Acquisition Study Group of the Industrial Organization Division.

I think the way it was reported gave the impression that it was as Mr. Matsumoto said. It all started when the Guidelines for Corporate Takeovers formulated by the Industrial Organization Division in 2023, based on the discussions of the study group, were interpreted to mean that acquisition price is everything and that a high acquisition price proposal cannot be refused, and we received suggestions from various quarters that this is not necessarily the case.

The purpose of this is not to change the guidelines themselves, but to reorganize the purpose and interpretation of those parts of the guidelines that have been misunderstood.

In February and March, we will get a wide range of opinions, including from activists and others, and based on those opinions, we plan to present our thinking on whether it is really a misunderstanding, what is a misunderstanding, and how the guidelines should be read, in the form of, for example, Q&A, although we do not know what form this will take.

Therefore, I think that the concern that Mr. Matsumoto mentioned is probably unnecessary. However, if necessary, we would like you to consider providing an opportunity for the Industrial Organization Division to explain it to us.

Matsumoto, member:

Thank you for your explanation. I think it is likely that at least people in the US perceive it as the exact opposite of the so-called Revlon rule. I think you should think about this carefully and communicate.

Ministry of Economy, Trade and Industry:

Thank you very much. I will inform the section in charge.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

With that, we would like to conclude this meeting.

Thank you very much. We are looking forward to having a valuable discussion next time.

[END]