Minutes of the 27th Council of Experts Concerning the Follow-up of Market Restructuring

Date: Tuesday, April 7, 2026 11:00 AM - 13:00 PM

Place: Tokyo Stock Exchange 15th Conference Room

Attendees: see member list

Watanabe, Director, Listing Department, TSE:

We will now commence the 27th Council of Experts Concerning the Follow-up of Market Restructuring. Mr. Kanda is participating online today. We would now like to move to the agenda. First, let us explain about the agenda.

Ikeda, Senior Manager, Listing Department, TSE:

Thank you for gathering. We have four documents for you today. Document 1 describes initiatives for the fourth year of management that is conscious of cost of capital and stock price. Three years have passed since we issued our request, and many companies are now making progress. In this context, we have summarized in this document our future initiatives, such as making known the key points for companies to further promote effective efforts while gaining the support of investors with medium- to long-term perspectives, and approaching companies that has not yet made disclosure. We hope that you will discuss this issue today.

Document 2 shows the status of companies subject to transitional measures. We would like to report on the latest situation of companies whose fiscal year ends in March, as the improvement period ended at the end of last month.

Document 3 is about the request for disclosure of the purpose of listing on TOKYO PRO Market. In order to facilitate the realization of diverse needs for TOKYO PRO Market, TSE intends to ask listed companies to disclose the purpose of their listing, and list them and make them known to the public.

We would appreciate your comments on Documents 2 and 3.

Document 4 is the one-pager that we always use to update the overall picture of our efforts. This is for reference only and will not be explained.

That is all.

Watanabe, Director, Listing Department, TSE:

We would now like to move on to the explanation of the documents. First, we would like to explain the initiatives for the fourth year of management that is conscious of cost of capital and stock price in Document 1.

Monden, Senior Manager, Listing Department, TSE:

I will explain the Document 1. The first half of the document provides status of disclosures and updates.

Page three describes the most recent status of disclosures.

In the three years since the request, the percentage of companies in the Prime Market that have made disclosures has progressed to 93%, and 71% of companies have updated their disclosures, indicating that many companies are making progress in their efforts to be aware of their stock price and cost of capital. We are now entering a phase where the focus will be more on the effectiveness of their efforts.

On the other hand, the percentage of companies that have made disclosures in the Standard Market is 51%. In addition to improving effectiveness, it is also necessary to consider approaches to those companies that has not disclosed, which is about half of the total. This is the overall view.

Next, on page four, we update the distribution of PBR and ROE. In both of these areas, improvements have been seen in recent years.

See international comparison on page five. On the other hand, the international comparison of the distribution of ROE over the last 20 years on the left and the mapping of PBR and ROE on the right show that the gap between the Japanese market and other countries remains large.

Next, page six is an international comparison from a different angle. This is an international comparison using the mapping of PBR and ROE that Mr. Sampei created earlier.

See Japan in the upper left corner. While there are a large number of "value" and "income" companies in the lower left and right areas, the number of "growth" companies in the upper right and "aggressive growth" companies in the upper left are particularly small compared to other countries.

From the perspective of revitalizing the Japanese market and Japanese companies, in addition to awareness of capital efficiency, another important theme is how to increase the number of companies with growth potential.

One of the challenges in this context is the gap in understanding between companies and investors regarding the allocation of management resources, as shown on the page seven.

Over the past several years, many companies have taken steps to enhance shareholder returns and take other relatively easy initiatives. On the other hand, many companies have yet to make sufficient progress in efforts to review their business portfolios, allocation of management resources, and optimal balance sheets, which many investors consider important issues.

There is also a gap in understanding between companies and investors regarding the level of equity capital and cash on hand.

We are sharing the questionnaire on page eight again. Many companies cited awareness-raising and penetration within the Company as issues. Many companies are also struggling to figure out how to formulate a medium- to long-term capital policy.

See page nine. In the revision of the Corporate Governance Code, which is currently under consideration, one of the key points, as in the second point, is that verification and explanation of growth investments and other information are required to realize appropriate allocation of management resources.

Such optimal allocation of management resources is also clearly indicated in the purpose of the request made by the TSE in March 2023 for "management that is conscious of cost of capital and stock price," which you see on page 10.

Over the past three years, significant progress has been made with respect to the first point, management that is conscious of cost of capital and return on capital. On the other hand, in future phases, more concrete actions to realize appropriate allocation of management resources, such as investment in growth and review of the business portfolio to achieve sustainable growth as described in the second point, will be important.

See page 11. Against this backdrop, the collection of case studies we published last December highlighted examples of specific studies and easy-to-understand disclosures for the optimal allocation of management resources.

For example, THK, shown on this slide, has stated in its president's own words that it aims to achieve a ROE of over 10%, and has presented its growth strategy for achieving this goal in an easy-to-understand manner. In addition, it also provides specifics on balance sheet management policies and capital allocation policies. This approach has been praised by investors as compelling.

Page 12 is a case study of RYODEN. The Company's Board of Directors thoroughly discusses where issues lie in its initiatives, and investors are made aware of these issues.

The report also identifies issues in the business portfolio strategy, as shown on the right side, including specific measures for investment in growth toward portfolio transformation and the type of business portfolio to be achieved as a result of such investment. In response to this, voices have been heard that the path for growth and the vision that the Company is aiming for are clearly presented, which increases the level of trust in its efforts.

Such cases as a whole are not yet numerous. We will continue to introduce these examples to other companies.

Page 13 has a slightly different perspective and is about Prime-listed companies that have yet to disclose.

The number of companies that have yet to disclose is 121, or 8% of the total.

Many of these companies have relatively high P/B ratios and ROEs or have moved from the Growth Market to the Prime Market and have high growth expectations even if their current profitability is not good.

On the right side of page 13, we have included some typical comments from companies that have not made disclosures. "We do not feel the need for disclosure because we operate a single and highly profitable business." "We are not yet at the stage where we are conscious of capital costs and profitability because of our upfront investment-type business model and continued losses." "We do not disclose numerical targets because the business environment is volatile." Thus, there are relatively many cases where a company dares to make a decision not to disclose based on its current situation.

On the other hand, page 14 shows the status of companies listed on the Standard Market that have yet to disclose. These companies number 780, or 50% of the total.

Some of these companies may include those that, as we have discussed in previous meetings, have been identified as not being sufficiently conscious of their general shareholders. On the other hand, some of the companies we have talked with through seminars and other opportunities have been considering such initiatives, but have been slow to make disclosure due to a lack of know-how and resources, or a lack of progress in raising awareness within the Company. Some companies also said that they were hesitant to make

disclosure because they were not sure if initiatives they were considering were in line with investors' viewpoints.

These are the updates, and the slides that follow will discuss future actions in light of these current conditions and issues.

As we have shown, there is a growing gap between companies that have made efforts over the past three years and those that have not. In the future, we believe it is necessary to take a different approach to such a situation.

First, page 16 describes the approaches to be taken to companies that are advancing initiatives.

Again, over the past three years, we have made some progress in penetrating management that is conscious of the cost of capital and other factors. In order to further progress efforts, it is important to encourage companies to deepen dialogue with investors, especially with medium- to long-term investors, while promoting efforts for optimal allocation of management resources, such as investment for growth and review of business portfolios.

In order to encourage such a move, we would like to summarize the points that investors with a medium- to long-term perspective place importance on again by the end of April and make them known to companies.

The four specific points are listed in the middle: clearly presenting medium- and long-term management policies and the use of capital, inspecting assets from the perspective of value creation, and discussing and supervising these issues at the Board of Directors' level.

These points overlap with some of the content we have shown in our collection of points and examples, and we understand that some companies may say that they already have a good understanding of these points. However, many corporate staff members have said that clear messages from the TSE provide an opportunity for them to promote their own initiatives, such as using them as a springboard to encourage management within their own companies. From the perspective of encouraging such companies, we would like to reiterate this message.

These are not intended to be disclosure requirements per se, but only to indicate effective approaches that companies can take to gain support from investors in the medium- to long-term perspective.

As a result of these efforts, return on capital will improve. In addition, as investors become convinced of the growth path, the result is a shift in investor interest from a short-term perspective, e.g., expectations for shareholder returns, to a longer-term perspective, e.g., expectations for successful growth investments. In other words, we believe this will have the effect of shifting the perspective of investors interested in the Company to a more medium- to long-term perspective.

In addition, as specific policies and initiatives are enhanced, the quality of dialogue with investors based on these policies and initiatives will improve.

For example, we may be able to point out more substantive issues and give feedback. Even if there are calls for shareholder returns from a short-term perspective, companies can use disclosure as a basis for constructive communication. This is a great benefit to companies. We hope that companies will understand this point and engage in proactive and independent-minded disclosure, rather than disclosure for disclosure's sake.

In addition, we will not only encourage companies to make efforts, but also, as we indicated in our previous presentation, we would like to collect feedback from companies on their expectations for investors through questionnaires and other means, and disseminate this information to investors as well.

On page 17, we summarized our approach to companies that have yet to disclose. In this, we divided the target into two categories.

First, companies that dare not to disclose, which are commonly found in the Prime Market, should be encouraged to describe the reasons for not disclosing and future policies regarding the Company as reference information for investors, rather than forcing them to disclose, to gain investors' understanding. We are considering this approach.

The second target is companies that are often in the Standard Market and are considering but have not yet taken the disclosure step. As we introduced in last year's case studies of problem solving, we do not ask these companies to aim for perfect disclosure from the start, but to take the first step of presenting to investors the strategies and goals they are considering at this time. The companies are then asked to actively engage in dialogue with investors on the basis of their disclosures, while incorporating the feedback they receive and brushing up their disclosures. We would like to promote this approach with case studies.

We would also like to provide support to such companies by holding seminars, visiting individual companies, and expanding the collection of case studies.

The above is the big picture. In the following slides, we will introduce draft points that we would like to make known to the companies that are aiming for further progress.

Page 20 shows the background and purpose.

The third and fourth points describe the positioning of this document. This document summarizes the key points for companies that are promoting initiatives that we believe will be effective in gaining the support of investors with a medium- to long-term perspective. This does not necessarily require companies to take a uniform approach, but is expected to be used when considering updating their initiatives and disclosures based on their own circumstances.

On page 21, we have summarized the key points for taking actions and the expected effects, which I mentioned earlier. Each point is then explained on page 22 and thereafter.

These have been explained in advance, but some sections have been updated, so I will give a brief overview.

First, page 22 discusses point one, medium- to long-term management policy.

Companies have told us that it would be easier for them to consider the management policy if we could point out where there are discrepancies between their perspective and that of the investors. Therefore, we first described the comments and thoughts of investors, and then summarized the actions companies are expected to take. This is also true for the slides that follow.

In point one, investors have pointed out that it is difficult to evaluate individual measures even if they are presented, unless medium- to long-term strategies, goals, and the business portfolio they are aiming for are clearly presented. It is also pointed out that if the priorities of management resources and the thinking of top management are not communicated, this can be a reason to hesitate to make medium- to long-term investments.

In light of these comments, expected initiatives include the following: After analyzing current issues, medium- and long-term management policies are organized. It is clearly demonstrated what strengths and advantages will be used to create value and why this is possible. In addition, how management resources will be allocated and what kind of business portfolio will be achieved will be clearly presented, along with goals and recognition of issues.

It is also important for top management to communicate such details in their own words to increase investor confidence.

Next, page 23 is point two, regarding the use of capital.

Some companies have told us that investors expect shareholder returns from a short-term perspective. However, what investors with a medium- to long-term perspective first focus on is not short-term returns, but rather disciplined investment in growth to enhance the Company's future earning power.

On the other hand, what is expected is only growth investments that lead to improved earning power. Some say that it is better to invest in human capital, such as wage increases, which is part of investment for growth, and in returns to shareholders, rather than to make unnecessary investments that have little to do with management policies just because there are surpluses.

Therefore, the order of consideration is important with regard to the expected initiatives regarding the allocation of capital. First, companies should consider growth investments to strengthen the sources of value creation over the medium to long term. If there is a surplus, the Company is expected to consider shareholder returns in a flexible manner, taking into consideration the appropriate level of cash reserves.

In addition, from the perspective of enhancing the quality of dialogue with investors, it is expected to present to investors in an easy-to-understand manner its policy on capital allocation, i.e., how it will allocate capital in light of future cash flows and other factors.

Page 24 is point three, the inspection of assets held by the Company.

First, when investors look at the balance sheet, they focus on whether the Company has the assets it should have to create corporate value and whether it has unnecessary assets. For example, it is pointed out that if the level of cash and deposits, policy holdings, etc. are not sufficiently verified, the evaluation cannot be made. Some say that not only the level of cash and cash equivalents but also the reduction of working capital is important.

Furthermore, from a valuation perspective, the importance of not only assets on the balance sheet, but also intangible assets such as human capital and intellectual property that do not appear on the balance sheet, is also pointed out.

In this context, the expected approach is to continuously check for excess cash and deposits and other assets to ensure that the assets held are in optimum condition for future value creation, and to improve them in order to ensure the realization of the vision. At the same time, it is expected that the Company will continue to verify and invest in intangible assets that do not show up on the balance sheet from the perspective of whether the necessary assets are being formed, maintained, and strengthened.

It is also expected to present to investors in an easy-to-understand manner its approach and policies for such inspections and improvements.

Finally, page 25 is point four. From the perspective of ensuring effectiveness and governance, it is expected that the Board of Directors will take the lead in ongoing verification and discussion of the points I have mentioned.

From the perspective of ensuring effectiveness, not only internal directors are expected to take the lead, but outside directors are also expected to be actively involved, for example, by engaging in dialogue with investors as necessary and reflecting their awareness of issues from the perspective of shareholders and investors in the discussions of the Board of Directors.

Another important aspect is to strengthen the functions of the Board of Directors' secretariat. The secretariat is expected not only to ensure the smooth operation of the Board meetings, but also to promote appropriate agenda setting based on mid- to long-term management policies and changes in the business environment, including the current international situation. In addition, the secretariat is expected to provide an environment that enables substantive discussions, including the provision of appropriate information to outside directors.

From the perspective of gaining investors' trust, the Board of Directors is expected to present the status of Board discussions and oversight to investors in an easy-to-understand manner. Based on such disclosures, the Company is expected to actively engage in dialogue with investors, gather feedback, and continuously brush up on the information it has disclosed.

These are the explanations of the points. Page 26 includes links to the key points and case studies we have published so far.

Pages 27 and 28 are slides added after the preliminary explanation. In order to give you a more concrete picture of each point, we have re-summarized case studies related to the key points from the collection of case studies we have published so far.

Here is just an overview, but the links on page 26 will take you to the actual disclosures of each company. We hope that companies will refer to such cases for further consideration.

That is the document that explains the points we wish to present. We will update it in light of the comments we will receive today and then release it to the companies by the end of April.

Currently, many companies, especially those with a March fiscal year end, are considering updating their initiatives and disclosures. We hope that this document will be used as a reference in this process.

This is the end of the explanation of the document. Today, we would appreciate your comments on how we should proceed and the content of the message we are sending as we enter our fourth year.

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 compiling the document. First, I would like to offer my thoughts on the entire document, and then comment on future approaches from page 15 onward of Document 1.

I am sure that the TSE, listed companies, and institutional investors have all worked very hard over the past three years. As a result, the disclosure ratio has improved, as well as PBR and ROE. In addition, since the start of initiatives toward "management that is conscious of cost of capital and stock price," the stock price has significantly risen to a higher level, and from discussions with global market participants, we can sense that the reforms have produced extremely significant results.

As shown in the left chart on page five of Document 1, Japan's position remains low in international comparisons, but compared to the past 20 years, the most recent values are at an unprecedentedly high level. The environment is now ripe for catching up with overseas markets. I believe that the time is approaching for us to issue a clear message that we will stand shoulder to shoulder with foreign markets in maintaining momentum for future reforms. From the perspective of market environment improvement, it seems to me that it would be a good idea to conduct a thorough investigation of the systems and practices of overseas markets, clarify the differences between the two sides, overseas and Japan, and summarize what has been accomplished at this point and what needs to be done in the future.

I believe that the efforts of countries that are above the diagonal trend line in the right chart on page five and higher than Japan will be subject to catch-up. One of the important perspectives to be considered is how the promotion of market renewal and the spread of the significance of listing, which is a frequent topic of discussion at this conference, has been achieved in overseas markets. Obligations of fiduciary responsibility, such as those in the US, mentioned at the last meeting, may be one of the important perspectives. Of course, it is not necessary to incorporate everything, but it is necessary to select, choose, and adjust according to the Japanese situation.

Next, regarding future approaches, on page 16, "Approach companies that are advancing initiatives," thank you very much for reflecting the opinions expressed at the preliminary meeting. The contents of the key points for taking action (draft) are very good and I hope that they will be disseminated to a wide range of companies.

Next, regarding "Approach companies that have yet to disclose" on page 17, it is a very important effort to get target two, companies that have yet to disclose, to take the first step toward disclosure. While it is of course a good idea to promote actions by holding seminars and visiting individual companies, it is essential to closely follow up on the disclosure rate and take additional effective measures according to the situation.

Finally, I will discuss the specifics of the key points for taking action (draft) on page 18 and beyond. The phrase "The 'initiatives expected to be undertaken' that are presented in this document are not intended to call for uniform responses from all companies," which is the fourth point on page 20, could be perceived by some companies as a possibility that they may not be required to take measures. In order to clarify the expectation of proactive engagement, I would suggest, for example, the following modification. "The 'initiatives expected to be undertaken' introduced in this document are not intended to call for uniform responses, but rather are measures that should be considered and devised on a proactive basis according to each company's situation."

In addition, the intended readers for this document are IR personnel, staff of the corporate planning department, and other practitioners in the field. However, there is a lot of content that contributes to management decisions, and I would like to see this delivered to management and the Board of Directors. I would appreciate it if you could clearly state in the background and purpose section on page 20 that readers for this document include management and the Board of Directors, or include a statement on the cover of the document that clearly indicates that it is intended for management and the Board of Directors.

Nagami, member:

Thank you for compiling the entire document. It is wonderful to see a clear improvement in PBR.

I think the message of the document is, in essence, that companies should be aware of ROE, and that capital efficiency, appropriate asset allocation, and capital allocation are important as prerequisites for this. On the other hand, I think there are two approaches.

For one thing, I think it is important for the TSE to keep communicating to the market that an ROE of less than 10% is not good, because, as shown on page five, the ROE is lower than in other countries.

Second, I think it is important to have companies realize that the cost of capital is going up because the risk-free rate is going up now.

Specifically, we begin with a shared recognition of the current situation that the cost of capital is also rising. Following this, I think it is important to lob that it is good for boards of listed companies to discuss the cost of capital, more specifically WACC, at least once a year.

Second, ROE must exceed the cost of capital, so I think it is important to recognize the cost of capital and then talk about whether ROE exceeds it and by how much. I also think it is important for the TSE to guide companies on how to discuss specific issues, such as factual awareness and examples of improvements.

So, what is the required number of percentages? Of course the higher it is, the better, but as I mentioned as the first point, I think it is a set with this that it is not good that ROE has not reached 10%. However, there is also a group of companies that are "aggressive growth," as shown on page six. So, I don't want to denigrate a company whose ROE is below that in the short term, but I think it is necessary for that company to explain it.

"If the Company also explains that it is now making upfront investments and taking measures to increase the long-term cash flow growth rate, then we see no problem with ROE being lower than the cost of capital in the short term." As such, if the document guides the explanation with specific logic, I think it would be easier for listed companies to understand and improve the overall level. So, I hope you will consider this.

Sampei, member:

Thank you very much for compiling the document. Last week, the FSA had its third discussion on the revision of the governance code, and I would like to comment based on it.

Before that, first, pages 13 and 14 show the situation of companies that have yet to disclose. I think it was very good that you interviewed companies and picked up their voices.

The second one of remarks from Prime-listed companies has especially attracted my notice. I think there is a huge gap in understanding when companies say that they are not disclosing now because they are losing money due to their upfront-investment business model. I believe that companies that are in a period of upfront investment, which is the target of the so-called "aggressive growth" investment style, do not consider a loss to be a bad thing, but rather that they are strategically in the red. Such companies are the very ones that need to explain such ideas to investors.

I also think that companies should explain this to investors and then properly explain that if the upfront investment is successful, it will pay off in a few years and generate a profit.

There is also a discussion of the deficit in the fifth point on page 14. I think the deficit here is for a slightly different reason. If such deficits persist, companies need to clarify what the priorities of their efforts are and explain how they perceive them.

Perhaps they are thinking that it is so impossible to achieve 8% ROE or 1x PBR right now that they can't explain that you can reach those things, so you won't. There is another major gap in understanding here. I think it is important to disclose how they recognize the current situation and how they are trying to improve it, rather than suddenly aiming for 8% ROE or 1x PBR. So, I think it is also important to disclose the current situation and the measures for improvement.

I think the important points in this meeting are pages 16, 21, and 23. In relation to the revision of the CG Code that I mentioned earlier, I think it would be easier for readers to understand that what the TSE is talking about is the same as what the interpretive guideline of Governance Code, if the wording is as consistent as possible when similar content is described.

For example, Principle 4.1 of the CG Code talks about so-called capital allocation. One of the phrases is "taking into account its growth stage." In the document "The Revised Corporate Governance Code (Draft)," it also states, "When allocating business resources, ... taking into account profitability and the cost of capital, as well as other factors, such as the growth stage and opportunity costs." I am very pleased to see the term "growth stage."

The diagram on page six, which you introduced earlier, also expresses the different stages of corporate growth. What is required for each growth stage, and which investors will be interested? It is very important to make a plan based on a proper understanding of the growth stage of each company. So, I hope you can include this phrase somewhere.

If this phrase is to be included, it could be one or two on pages 16 and 21. I think that these one and two are expressed very well in a concise manner, so if something extra added, it would become two lines and not cool.

If not added on pages 16 and 21, as this is related to capital allocation, it might be better after "When considering capital allocation" in initiatives expected to be undertaken on page 23. If you add here the phrase "taking into account the Company's the return on capital and cost of capital, as well as growth stage," as stated in the CG Code, the affinity or connection with the CG Code would be very clear.

This time, the principles in the CG Code will be limited and explained in the interpretive guideline. If the TSE provided a guide, I think it would be easier for companies to understand when considering specific approaches based on the Code.

Furthermore, a report soon to be issued by the Value Creation Management Subcommittee of the Industrial Structure Council of the Ministry of Economy, Trade and Industry (METI) should describe how different growth stages change what the priorities are. This "taking into account the growth stage" part is connected to that as well.

It will be easier to determine what each company thinks of it actions based on their own situation when more specific examples are available from the various documents. I think this is such an important part which serves as a connection, and I hope you will consider it.

Koike, member:

Thank you very much for compiling the document. I feel from the document that the results of the various discussions over the past several years are actually showing up in the stock market, which is very, very significant. I think the first stage is probably over.

There was an interesting discussion within our company about the situation of Prime-listed companies that have yet to disclose on page 13, which Mr. Sampei commented earlier on.

For example, some companies believe that because they operate a single business and maintain high profitability, the need for disclosure is not high. Our managers and engagement personnel have voiced a question if we have to accept it if these companies have explained well.

On the other hand, because they operate a single business and maintain high profitability, if the signs of a slowdown in a single business are not readily apparent, we cannot be accountable under fiduciary duty. So, we should engage with these companies as well. Among institutional investors, various opinions about companies have emerged, and I felt again that awareness is growing.

If this is the second stage, I feel that the first stage up to this point may be polarizing, with companies that have been able to disclose and those that have not, and companies that understand the need for disclosure and those that do not.

While we have been able to encourage companies that have disclosed and understand it need to improve their actions, I think it is undeniable that we have not been able to reach companies that have not.

In that sense, I think we are now at the stage where we should seriously consider once again how to enable these companies that have not disclosed, and how to make them disclose.

For example, with the current situation where the top 300 Prime-listed companies account for 70% to 80% of the total market capitalization, I believe that there will be challenges in the future: the investment targets for foreign investors will be limited, and the strategies of active institutional investors will be relatively limited.

In order to deepen the depth of the stock market, I believe that it will be necessary for the stock market, capital market, and so-called asset management nation to firmly encourage companies that have yet to disclose to make improvements.

I believe that the key points for taking action one through four from page 18 onward are exactly aligned with the framework for companies to promote effective initiatives, and we need to make sure that this is promoted.

However, there may still be relatively many companies that do not understand these points. So, efforts will probably be needed in the second stage to deliver these points a little more plainly to companies and to get them to work on them, not just understand them. I feel that if it works, it would add more depth to the Japanese stock market.

Kanda, member:

I think the document is very well produced. I think the future approaches on page 16 and beyond are also very good. I also think that some of the points you make about having more discussion at Board meetings from a governance perspective are consistent with the direction of current discussions on strengthening the functions of the Board of Directors, including the discussion on the governance code.

On top of that, I would then like to make three comments. I hope you will forgive me if I am duplicating some of what I have said so far.

The first point is that, as described in today's document, there is a trade-off between return on capital and growth potential when reviewing a business portfolio. I feel that a surprisingly large number of companies do not understand this.

Of course, there are companies with high ROE but low P/B ratios. Even though it has been said, there is a trade-off between the two. That is a very basic perspective when a company operating multiple business portfolios is considering a review or recombination of its business portfolio. This is the first point.

Second, related to what Mr. Nagami mentioned earlier, it has been pointed out that Japanese companies have a tendency to underestimate their cost of capital when calculating it. There are many causes for this. To begin

with, it is often stated in disclosure materials and other documents that Japanese companies calculate their cost of capital based on CAPM.

It has been pointed out that the cost of capital calculated on the basis of a simple CAPM would be undervalued in the case of Japanese companies. I think it would be good for TSE to provide more information on this so that companies can refer to it in making their decisions.

Third, regarding investment for growth, cash on hand was mentioned earlier. I do believe that cash and policy holdings are significant. However, as I mentioned before, in terms of macro statistics, other assets are overwhelmingly larger than cash and cash equivalents and policy-holding stocks. I am not sure what the other assets are, but on the balance sheet, I believe these are tangible assets from unprofitable divisions.

So, in discussing growth investments and other things that are being proposed here today at the Board meeting, companies need to do a reorganization of assets that are a large part of the balance sheet of unprofitable divisions, sorry, which may not be a good expression, of existing businesses. I think this is a major challenge. This of course depends on the Company, but I feel that companies should definitely have that perspective.

That's all from me. Thank you very much.

Kuronuma, member:

You have compiled a variety of materials and presented a draft of key points that you will show to companies. First of all, regarding the gap in understanding between companies and investors, I believe that the data presented today clearly shows that there is a gap regarding the review of business portfolios and allocation of management resources, as well as a gap between expectations and recognition of the current situation.

Thank you also for looking into the situation of companies that have yet to disclose. Regarding the comments from Prime-listed companies that have yet to disclose, another member is correct that the reasons cited are rather those for which disclosure is requested. But on the other hand, there are some companies for which disclosure is not considered highly necessary. I think a better approach would be to require companies that do not disclose to disclose the reasons for not doing so.

As for the situation of Standard-listed companies that have yet to disclose, I believe that the disclosure is not being made because actual measures have not been taken.

One question I have is whether the outside directors of these companies are informed that their companies are classified as companies that have yet to disclose. If that is communicated, outside directors will want to have it disclosed, and I believe that such encouragement will be stronger. One measure that has been suggested is to visit individual companies, but visiting individual companies is a hard work. So, I think it would be good to have a mechanism in place to ensure that this information is well communicated to outside directors before then.

Thank you also for your detailed compilation of the key points for companies aiming for further progress (draft). As for the four points that you indicate, as other members said, of course, it is important how this is disseminated.

Your idea is to indicate the comments of institutional investors and the expected initiatives based on them. As was mentioned, I think that when it gets to this point, companies know exactly what to do, but may have difficulty to take action. I also think they may have difficulty to understand. So, I think it would be important for TSE to take the approach of explaining and encouraging actions in as much detail as possible.

Uchida, member:

Thank you for the explanation and the document.

As you all say, I think we are getting great results and benefits. However, I think the data suggests that while ROE has risen considerably, there is still room for growth in international comparisons.

In this context, regarding the shareholders' equity ratio, it is my understanding that Japanese companies have traditionally been very conservative in their financial management. Many companies view liquidity risk as the most significant risk and manage their finances accordingly. On the other hand, if the level of leverage is transparent, it may be perceived as an idea to increase ROE through leverage. I hope you will proceed in a way that conveys that this is not the purpose of this project, but rather that they need to improve the ROA of their core business in the first place.

Also, as a side note, I think it is better to use the term "shareholders' equity" rather than the term "equity capital." As an issuer, we have sometimes avoided using the term "equity capital" internally.

Liquidity on hand and equity ratios are relevant to the financial leverage. It may appear that a company simply holds huge amounts of cash and cash equivalents, but it is advisable to discuss this in conjunction with the financial management story.

With regard to point four, the discussion at the Board of Directors' level, the secretariat of the Board of Directors has been the focus of much attention recently, and I believe it plays a very important role in terms of effectiveness. I don't think the TSE can work directly on this. How are structures of companies? How do they incorporate what they learn from their dialogue with investors into Board discussions, beyond just the IR section? Outside of formal Board meetings, there are limits to what an outside director can do on his or her own, and it is difficult in reality to utilize resources, etc. Therefore, I believe that the secretariat plays a significant role in facilitating a smooth relationship with executive departments and improving effectiveness. I think it would be good to focus on this area as we work on ways to develop the movement in the future.

Okina, member:

As many members have pointed out, various data are improving and we are beginning to see the results of the past four years. Of course, further challenges have been identified, and as Mr. Koike mentioned, I too feel that we are approaching the second stage.

The points you have raised are very important and I would like to agree with them. I would like to make a few comments.

You have just explained that the second point on page 10 is a major challenge for the future. Although many companies are changing their management to be more conscious of cost of capital and return on capital, your point that the second point is not fully realized is very clear. I think the points you have made are excellent as a reference for dialogue on these matters. I feel that it would be good to get the message out that this is very important in getting investors with a medium- to long-term perspective.

Regarding the point on page 20 that the intent is not to call for a uniform response, as Mr. Kumagai mentioned, I think you could supplement it with words such as "based on each company's own situation." However, I think it is a pretty important message that we are not calling for a uniform response.

This is because through the planned revision of the Corporate Governance Code, the supplemental principles in the Code will be changed into the interpretive guideline. I believe that this, along with the importance of growth, sends the message that each company should not use this as a manual or take a uniform approach, but that it is important for each company to think carefully about the various ways of doing things based on its own situation.

Since the TSE is also the Code-setting entity, I feel it is quite important that this document not be taken as an enactment of the interpretive guideline of interpretive guideline. In this sense, I feel that it would be an important message to say that we are not asking for a uniform response, but it should be based on the situation of each company.

The second comment from institutional investors with a medium- to long-term perspective on page 23 states that growth investments that lead to improved earning power in the future are important, and that "If growth investments are only tangentially related to the Company's medium- to long-term management policy, it would be preferable to allocate such capital to investments in human capital." Many investors with a medium- to long-term perspective place a high priority on human capital investment, and in the results of a survey asking what they think is important in the medium to long term, investment in human capital is at the top of the list. So, I felt this may not be a representative opinion. I hope you will consider how it is described.

Regarding page 24, this is not a request for revision: I think it is important that a company be able to explain in the dialogue whether it has excessive cash and deposits, and that it has an appropriate level of cash and deposits. I think it might be good to get that message across here as well.

Of course, the same is true for assets other than cash and deposits. I believe it would be important to be able to explain that cash and deposits are at an appropriate level through careful explanation, rather than disclosure.

Finally, as Mr. Kuronuma mentioned earlier, outside directors represent shareholders and other stakeholders on the Board of Directors. If these disclosures are not made, they need to be aware of that and discuss that at the Board meetings from an investor's perspective. I think it is important for them to consider such things.

Matsumoto, member:

I think the document is very excellent. In my opinion, it is a better document than any investment bank or consulting firm's materials. Thank you so much. Let me make two comments and one question.

One is that the content of this document is really great and who do we communicate this content to? I think it would be good to have it read not only by the administrative side, as Mr. Kumagai just mentioned management and boards, but even more broadly than that, by investors and a wide range of capital market participants through the media. I hope that you will think about the title, how to present it, and how to disseminate it so that it will be read as widely and thoroughly as possible, including by government officials.

Another comment has to do with who to tell. The comments from institutional investors with a medium- to long-term perspective in the document have many very good comments. I felt that the human capital section on page 23 that Ms. Okina just mentioned may be a little off the mark, but overall, very good comments. I don't think all investors are saying this, so it would be good for investors to read this as well. Maybe this is not the TSE's job, but while so many issuers are making and updating various disclosures, of course there are similar issues on the institutional side, and there are considerable differences. I hope to see more improvement in that area in the future.

Finally, I have a question. While the content is very good, there is no mention of protecting minority shareholders. Since this document is about management that is conscious of cost of capital and stock price, it is certainly not a central theme. But, for example, Mr. Kuronuma and Ms. Okina mentioned that they would like outside directors to read it. Depending on the shareholder composition, there may be situations where outside directors are not interested in such matters in the first place. Alternatively, even if the management is conscious of the cost of capital and stock price, if it ultimately takes actions that do not consider the interests of minority shareholders, it is conceivable that the finishing touch will be missing or that everything will be ruined.

In addition, with various other things going on at the same time, such as the revision of the Corporate Governance Code, I think it is important for the TSE to address the protection of minority shareholders' interests. This may not be the main stream of management that is conscious of cost of capital and stock price, but I question whether it is OK that there is no reference to it at all, and comment that there could be some consideration about it. Also, let me ask the question, will that be handled separately?

Monden, Senior Manager, Listing Department, TSE:

As we have reported, we have had a separate discussion on minority shareholder protection. However, as you point out, I think it is naturally relevant in terms of goals such as improving corporate value over the medium to long term.

In light of your comments, we would like to consider tying in, for example, as a reference material, recent efforts to protect minority shareholders, as well as introducing the various materials that we have provided so far.

Kumagai, member:

Regarding page 20, "are not intended to call for uniform response from all companies," I think there could be a various methods, although this is not a strong opinion. Various methods are possible, e.g., not putting in red the parts written in red, writing in small letters in the annotations, etc. There may not be a consensus at this meeting at this time, but it would not be good if this part is left to itself. However, I will leave the final decision to the secretariat.

Sampei, member:

I think it might be good if the TSE could sort out the discussion about the cost of capital that Mr. Nagami and Mr. Kanda mentioned earlier.

Earlier, Mr. Nagami stated that the cost of capital is rising because the risk-free rate is rising. I am also sometimes consulted by companies on how much to revise. In the first place, a roughly 8% cost of equity did not reflect a very low risk-free rate. If it reflects the abnormally low risk-free rate, it would not be 8%, but the market wants about 8%. So, while it is true that the risk-free rate is gradually increasing, its sensitivity is currently not very high. I think we will have to think more about this situation as the risk-free rate continues to rise.

In addition, some companies that pay very careful attention to their cost of capital and make a great effort are falling into a strange direction. While the core business is quite volatile, some companies diversifying their

businesses in an attempt to lower the beta. But diversification is not in line with the direction of reorganizing the business portfolio in the first place, and it is also discounted when it comes to conglomerates.

Investors with portfolio management do not want to own too many companies with low beta. There is also the contradiction that it is difficult to get a positive alpha (excess return) in a rising market because the beta of the portfolio will fall. Therefore, we sometimes see the phenomenon of too much reliance on a detailed and strict CAPM, which leads to a strange state of the Company. I think it might be a good idea to consider something separately to bring that to their attention.

It might be a good idea to interview a wide range of investors and ask them what they think about this phenomenon. It would be good to avoid gradually leaning in strange directions.

Watanabe, Director, Listing Department, TSE:

Thank you very much. Next, we will provide an explanation of the status of companies subject to transitional measures in Document 2 and the request for disclosure of the purpose of listing on TOKYO PRO Market in Document 3.

Nakamura, Manager, Listing Department, TSE:

I would like to report on Document 2, "status of companies subject to transitional measures."

First, please see page two. Last month, the improvement period for companies with fiscal years ending in March ended.

Conformity status will be determined at the end of the fiscal year for the Growth Market capitalization criteria. There is one company that did not meet the criteria and was decided to delist.

For other criteria, such as market capitalization of tradable shares, compliance with the criteria cannot be determined without knowing the shareholder composition at the end of the fiscal year. Therefore, 21 companies (1 on the Prime Market and 20 on the Standard Market) are temporarily placed under supervision.

When we reported previously, there were a few more companies that will reach the end of their improvement period in March 2026. The number of companies that eventually became securities under supervision decreased from the number of companies that initially entered the improvement period, as there were moves within the improvement period to establish arbitrary standard dates and meet the standards, and companies in the Prime and Growth Markets changed their markets to the Standard Market.

These companies will be checked to see if they meet the criteria based on documents submitted by the listed companies between the middle of this month and the middle of June. If the criteria are met, the designation as securities under supervision will be lifted and the Company will continue to be listed. If the criteria are not met, the Company will be delisted.

Pages three and four contain a list of companies designated as securities to be delisted or securities under supervision.

One company on the Prime Market, which has been designated as a security under supervision, is currently under examination for market change to the Standard Market, and will continue to be listed on the Standard Market if it meets the examination. There are many companies listed on the Standard Market that have

disclosed that they expect to comply with the standard or have overlapping listings on other exchanges in Japan, as noted in the remarks section. Therefore, the number of companies that will not be listed anywhere and go completely private is expected to be quite limited.

However, it is expected that some companies will actually be delisted in the future. So, as shown on page five, we will continue to work with securities companies and others to ensure that information is thoroughly disseminated to shareholders and investors.

What I have described so far are the trends of companies whose fiscal year ends in March. On the other hand, as shown on page six, other companies with other fiscal year ends will gradually reach the end of their improvement periods.

There is a total of 64 companies that will reach the end of their improvement period after April. The number of companies by the end of the improvement period is listed at the bottom right. The next peak is expected to be the fiscal year ending December.

Isogai, Manager, New Listings, TSE:

I would like to explain about Document 3, "Request for disclosure of listing objectives for the TOKYO PRO Market."

As you can see on the cover page, last April 3, we asked all Pro Market-listed companies to disclose the purpose of their listing.

This is the actual implementation of the measures discussed at the last meeting in February, and there are no particular changes from the previous meeting. If you have any suggestions, we would appreciate your feedback.

The purpose is described on page two.

As you discussed at the last meeting, recently we have seen a variety of utilization needs in the PRO Market, which is located between the unlisted and the public markets, and TSE intends to operate this market as a market that widely accepts such needs.

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. Therefore, we would like to ask each company to disclose the purpose of its listing, i.e., why it is listing on the PRO Market and how it wants to utilize the market, so that each company can realize its individual needs with the support of all parties involved.

Page three is the specific request. We ask companies to consider and disclose their listing objectives at the time of initial listing, and to periodically evaluate and disclose the status of their realization after listing.

Prior to the release of this document, we asked each J-Adviser company to support each company. It is assumed that companies that are ready will be asked to disclose their information in turn.

Then, as shown on page four, we expect to post the list of disclosed companies on the JPX website from July onward.

The TSE intends to follow up on the actual disclosures made by each company and (conversely) on the status of companies that have yet to disclose.

Page five provides examples of support measures for listed companies. Based on the disclosure of the purpose of listing, for example, a seminar will be held to familiarize companies that have as their listing purpose the use of the listing as an aid to the public market with the key points for consideration. We also create a point of contact with crossover investors for companies that list fundraising as their listing objective. We will continue to consider and promote these initiatives while listening to the voices of listed companies.

That is all. Thank you.

Watanabe, Director, Listing Department, TSE:

We would like to receive any comments on Documents 2 and 3.

Sampei, member:

Thank you for your explanation. Regarding Document 3, I think this is a good summary, but I would like to make one comment.

This time, I think it is becoming clear that the PRO Market has a meaning as a "preparatory market" to be connected to the general market. Of course, some companies may not envision such a use, but as a whole, the description is quite conscious of the connection to the general market.

On top of that, there is a point that I would like you to consider in the first item of the specific measures you explained on page five, "Describe the key points for consideration when preparing for a public market listing and subsequent growth."

At the PRO Market stage, the number of shareholders is small, and these are face-to-face shareholders and professional investors. However, when the Company moves to the public market, the shareholders become unspecified and faceless. While there are desirable aspects of a smooth transition in and of itself, we need to get people to make a significant change in their mindset there.

This is especially true in terms of preparation for the general market. The introduction of an unspecified number of faceless shareholders increases the separation of ownership and management, making the protection of ordinary shareholders very important.

The weight of accountability required of companies should also increase. I urge you to keep this in mind so that the smooth transition does not cause these points to be forgotten.

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]