Document 4

Dealing With Situations Causing Issues From the Perspective of Investor Protection

Listing Department

Tokyo Stock Exchange

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- At the 26th Council, discussions were held on how to deal with **cases where companies make significant changes in business, such as launching a new business, that raise concerns over listing eligibility (e.g. corporate continuity and profitability)** (See slide 3)

  - To ensure adequate investor protection, **one approach could be to establish rules to promptly conduct an examination based on the initial listing examinations** just as for business transfers from unlisted companies (rules for inappropriate mergers); but the majority opinion was to **make sure that this should not hinder healthy business operations**

- **Given that there have been cases that raise concerns about listing eligibility, it is necessary to establish a system for examining listing eligibility**. Rules should be designed so that they do not hinder regular changes in business
- **I do not object to the idea of bringing in rules for reexamination,** but delisting would limit shareholders' opportunities to liquidate their holdings, **so there should be a phased approach**
- **We should exercise the utmost caution to ensure that this does not place excessive constraints on management decisions regarding M&A, business expansion, or changes in business**
- Issues are usually resolved through special resolutions, but as listed companies have minority shareholders, the question is whether additional measures are also necessary. **To avoid excessive interference in corporate activities or the risk of arbitrariness**, **seeking a solution using the "majority of the minority" principle** may be more viable than regulating through examination
- If the change constitutes a significant change in business, **it may be appropriate to request further disclosure of information to aid investment decisions,** such as new business models, risk information, and plans for engaging with investors.

Ref: Discussions on Significant Changes in Business That Raise Concerns Over Listing Eligibility

Reprint

JPX

- In recent years, there have been cases of companies making significant changes in business after listing that raise concerns over their listing eligibility
  - There are concerns that If the company had been engaged in its post-change business activities from the time of its initial listing, **it would not have met the initial listing requirements, such as corporate continuity and profitability, and effectiveness of corporate governance and the internal management system**

Examples of significant changes in business (Members only)

Individual examples not available for general viewing

Ref: Action Taken by Overseas Exchanges

Reprint

JPX

- Some overseas exchanges have **rules in place that allow them to require shareholder approval and reexamination of listing eligibility** when there is **a significant change in business focus after listing,** as such changes can greatly affect shareholders' investment decisions and raise concerns about losing listing eligibility

Exchange	Outline of Rules
U.S. (NYSE)	• If a company changes its primary business to a business field it was not engaged in or that was immaterial to its operations at the time of its IPO, listing eligibility is reexamined (introduced in July 2024) Note: A substantive review (formal review criteria do not apply) is carried out as to whether the company would have been eligible for listing had it been engaged in the business it is changing to at the time of its initial listing. If deemed not eligible, it will be delisted (NYSE emphasizes that delisting a company's stock under this rule is a rare and exceptional measure) • For third-party allotments aimed at acquiring other companies' stocks or assets, even if shares are not issued at a discount, if they represent 20% or more of the company's pre-issuance voting rights or stock, shareholder approval is required (NASDAQ has similar rules)
Australia (ASX)	• For significant changes in business focus or scale of activities and if ASX deems it necessary, it may require companies to obtain shareholder approval or go through the same application and examination procedures as for a new listing (applies for complete changes to the nature of the business and in cases such as reverse takeovers) Note: ASX examines whether the changed business activities are appropriate for a listed company. If deemed inappropriate, the company will be delisted

Concerns Over Listed Companies Being Used for Unfair Financing

- Apart from significant changes in business that raise concerns about listing eligibility, there have also been situations in which **suspicions have been raised about small-cap listed companies being used for unfair financing**. This follows **corporate changes, such as the acquisition of controlling or managerial rights by a specific shareholder or the launch of a new business.**

Type of company in question:

Small-cap listed companies (mostly companies with market cap of less than JPY 5 billion, underperforming companies unable to secure financing, and companies at risk of failing to meet continued listing criteria)

Typical process:

Corporate changes occur in the order (1) to (3) below, with unfair financing suspected in some cases in (4)

(1) Change in control

- Due to third-party allotments, stock transfers, or buying on the market (including wolf pack activism), **a specific shareholder becomes a controlling/major shareholder (e.g. with holdings of 20% or more)**

(2) Change in management structure

- Management structure changes through, for example, a specific shareholder's **related party being appointed as director**, or an existing director resigning

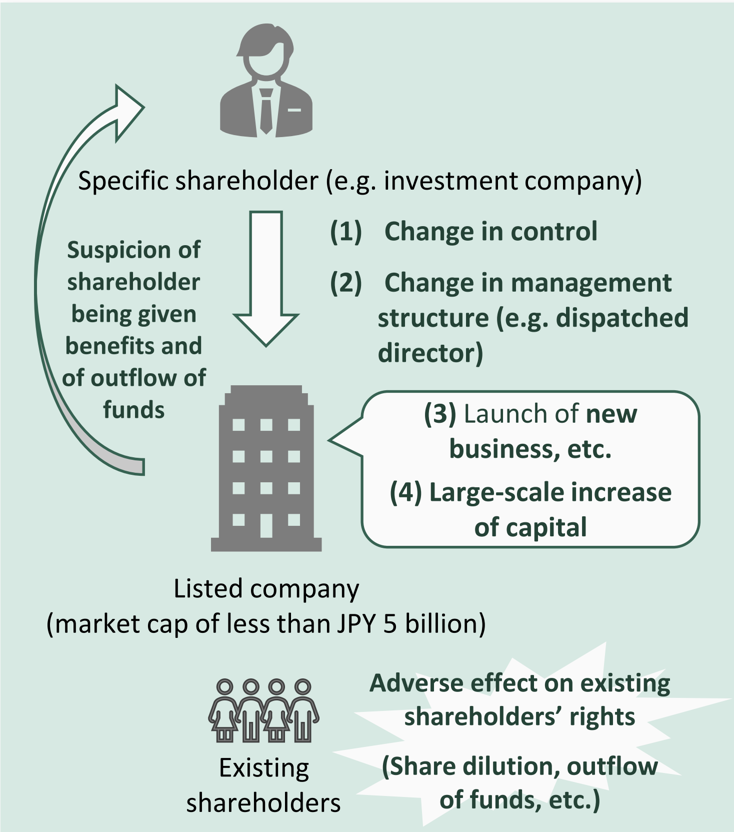
(3) Launch of new businesses, etc.

- **Company announces launch of new business, business acquisition, or signing of service agreement, etc.** with intent to inflate stock prices (in some cases there are concerns about underlying business infrastructure, etc.)

(4) Financing

- To raise funds etc. for a new business, company **conducts third-party allotment** to specific shareholder (raising **suspicion of specific shareholder being given benefits, of outflow of funds, or other unfair financing**)

Process Flow



Actions for Consideration

- Could the establishment of a framework, in which **an examination equivalent to an initial listing examination is promptly conducted when significant corporate changes occur and serious concerns arise about listing eligibility,** serve to **deter or prevent** such cases?

  Note: We will stress, however, that any reexamination must be **limited to when serious concerns arise about listing eligibility,** so as not to hinder corporate operations or shareholder engagement

How Rules Could Work

Significant corporate changes

Significant change in business

✓ Significant change in business nature of the business with the majority of revenue due to launch of new business, etc.

Discussed at last Council

Significant change in management structure and related matters

✓ Significant changes in control or management structure due to or related to a specific shareholder, together with the launch of a new business, etc.

New at this Council

Serious concerns about listing eligibility

✓ When there are serious concerns about corporate continuity or profitability

No serious concerns about listing eligibility
(No further action)

Serious concerns about listing eligibility

✓ When there are serious concerns about soundness of management, and effectiveness of governance and internal management system, etc.

No serious concerns about listing eligibility
(No further action)

Conduct **reexamination based on initial listing examination**

Meets criteria
(Eligible for listing)
⇒ **Continued listing***

Does not meet criteria
(Ineligible for listing)
⇒ **Delisting**

Flag and alert investors to securities under review due to listing eligibility concerns

*** Even after company meets criteria, we are considering asking for status updates and other reports as necessary**