Minutes of the 29th Council of Experts Concerning the Follow-up of Market Restructuring

Date: Thursday, August 6, 2026 11:00 AM - 12:20 PM

Place: Tokyo Stock Exchange 15th Conference Room

Attendees: see member list

Watanabe, Director, Listing Department, TSE:

We will now begin the 29th Council of Experts Concerning the Follow-up of Market Restructuring.

Today, Mr. Kanda will join us online about 30 minutes late, and the Ministry of Economy, Trade and Industry, participating as an observer, will join us about 30 minutes late. Mr. Koike is absent.

Now, we would like to move on to the agenda. First, let us explain about the agenda.

Ikeda, Senior Manager, Listing Department, TSE:

Thank you for gathering.

There are five documents today.

Document one presents the results of the corporate survey on expectations of and requests to investors. We received responses from approximately 700 companies, and we would like to present the results of our analysis of those responses from various perspectives. We would appreciate your broad range of feedback, including areas we should explore further and ways to utilize the survey results.

Document two, on the other hand, presents the results of the survey of institutional investors on companies demonstrating productive progress. We would like to present the evaluations of approximately 300 companies provided by about 70 investors, and we would appreciate your feedback on them.

Document three is about the Growth Market. Going forward, we plan to hold roundtable discussions with representatives from publicly traded companies, unlisted startups, and investors to further the discussion. We will report on the details of the discussion at a later date. Today, we'd like to introduce the members and the agenda.

Document four takes a slightly different approach. Given that there have been cases of unfair financing involving small-scale publicly traded companies, we would like you to discuss our response strategy in conjunction with the significant changes to business operations that we discussed previously.

Document five provides an updated overview of our future initiatives. We won't go into detail today.

A comment from Mr. Koike, who is absent today, addressed to the entire agenda has been included at the end of the set of materials. Please refer to it as needed.

Watanabe, Director, Listing Department, TSE:

Now, I would like to explain the documents.

First, I will explain the results of the corporate survey on expectations of and requests to investors in document one, as well as the results of the survey of institutional investors on companies demonstrating productive progress in document two.

Monden, Senior Manager, Listing Department, TSE:

I will now explain document one, "Results of Corporate Survey on Expectations of and Requests to Investors."

Page three provides an overview of the survey. This time, we asked the 13 questions at the bottom of the page.

Page four shows responses. We received responses from a total of 682 companies. Regarding market segments, while most responses came from companies listed on the Prime Market, a certain number of responses were also received from companies listed on the Standard Market and the Growth Market. In addition, we received responses from a wide range of companies, from those with a market capitalization of JPY1 trillion or more to those with a market capitalization of less than JPY10 billion. We are also showing the distribution using the four-quadrant diagram with PBR and ROE.

Pages six and seven contain a summary of the survey results. There are five main points.

First, investor interest and engagement are driving corporate initiatives. Companies are increasingly implementing initiatives related to matters of interest to investors, such as the direction and goals of business and growth strategies, efforts to improve profitability, and shareholder returns.

In addition, 75% of all companies rate dialogue with investors as productive, and many companies recognize the value of such dialogue.

The second point is, “What are the key elements of a productive dialogue?” The points most frequently cited in the responses were that dialogues helped respondents recognize their company’s challenges and gaps in understanding; enabled them to engage in substantive discussions focused in a medium- to long-term manner; and, as a result, led to improvements in disclosure and initiatives, as well as the building of trust.

The third point, on the other hand, is the challenges in unproductive dialogues. The points most frequently cited were that the dialogue took place without a sufficient understanding of the company or the industry, that it focused exclusively on short-term issues such as performance and shareholder returns, and that it remained one-sided and perfunctory.

The fourth point, on page seven, is trends by investor type.

First, long-only institutional investors (active management) are highly regarded from a wide range of perspectives, including the insights they provide, their constructive discussions, and the outcomes of their dialogue.

While many find dialogue with passive institutional investors to be productive, they cite, although this is partly inevitable due to the large number of investment targets, a lack of understanding of the company or industry and decisions based on standardized voting criteria as reasons why some dialogues feel unproductive.

While some view dialogues with hedge funds as productive, more find them unproductive. Hedge funds employ a variety of investment styles, ranging from long-short to event-driven. That is not to say that such short-term trading is inherently wrong. However, many respondents cited issues with dialogues with hedge funds, particularly that it remains focused solely on the short term and consist of one-sided questions and communication.

As for so-called activist investors, although there have recently been some voices that view their activities negatively, the results of this survey show that opinions are evenly split between those who consider dialogues with them productive and those who do not.

A certain number of activist investors are cited specifically as productive. It is confirmed that a certain number of companies view dialogue with activist investors not merely as negative, but as productive.

The fifth and final point is the expectations and requests that companies have for investors.

We received many comments calling for dialogue from a medium- to long-term perspective; requests for investors to provide insights and perspectives unique to their role; requests to deepen their understanding of the company's business and industry; and, conversely, requests for greater information disclosure to help the company better understand investors.

That concludes the summary of the results of this survey.

As I explained in detail during the preliminary briefing, I will simply outline the main points of the analysis today.

Page 10 covers aspects of interest to investors.

Page 11 outlines the initiatives that companies have implemented based on dialogue.

Page 12 presents the results of a cross-analysis conducted to determine the extent to which such investor interest is linked to actual corporate initiatives.

Page 13 shows the level of satisfaction with dialogue. These are the results of a five-point scale survey asking respondents whether they feel, overall, that dialogue have been productive.

Page 14 is a slide that was added based on the comments we received during the preliminary briefing. This is a breakdown of the satisfaction ratings shown earlier, grouped by market capitalization. As a result, across each market segment, we observed a general trend indicating that, as market capitalization increases, more companies tend to feel they are engaging in productive dialogue.

Page 15 presents the results of a multiple-choice survey asking participants why they felt the dialogue was productive in cases where they did so.

Page 16 presents a cross-analysis of satisfaction with dialogue and reasons respondents found dialogue productive. In particular, this analysis was conducted to further explore the relationship between which elements of dialogue lead to increased satisfaction.

On page 17 and following, we have compiled the open-ended responses describing specific instances of dialogue that respondents found productive. Among the most common comments, on page 17, we highlight feedback stating that companies gained insights into their own challenges and areas for improvement; on page 18, comments indicating that dialogue with investors who took a medium- to long-term perspective led to a deeper understanding of their strategies; and on page 19, feedback noting that through dialogue, companies were able to grasp investor expectations, which in turn led to improvements in their subsequent initiatives and strengthened relationships with investors.

Page 20 summarizes the responses to questions regarding the approaches and strategies companies adopt to foster such productive dialogue.

The main points mentioned included striving to make dialogue as interactive as possible, enhancing information disclosure to help investors better understand the company, and making a conscious effort to respond sincerely even when faced with critical feedback from investors.

Page 21, on the other hand, presents the results of a multiple-choice survey asking respondents to explain why they felt a particular dialogue was unproductive.

Furthermore, on page 22, as we did earlier, we conducted a cross-analysis of satisfaction with dialogue and reasons respondents felt it was unproductive. We conducted this analysis, too, to gain a deeper understanding of which factors are contributing to a decline in satisfaction with dialogue.

Starting on page 23, we have compiled the most frequently mentioned specific examples of dialogue that respondents felt were unproductive. Some respondents cited communication challenges, such as dialogue remaining superficial due to insufficient analysis and understanding of their own company and industry, or dialogue being one-sided and perfunctory, lacking interactivity.

Page 24 highlights comments suggesting that investors' questions and concerns were limited to short-term topics such as near-term performance and shareholder returns, as well as remarks indicating that a lack of transparency regarding investor-side information—such as evaluation criteria and status of their holdings of the company's stock—resulted in unproductive dialogue.

Page 25 presents the results of a survey asking about the company's challenges and concerns regarding how to achieve such productive dialogue, in conjunction with the question above. Many respondents cited the following as key challenges: expanding information disclosure, strengthening communication, improving transparency from investors, and strengthening IR frameworks.

Page 26 shows the responses of a question asking institutional investors, broken down by investor type, whether they found dialogue productive or not.

On pages 27 and 28, we conducted a cross-analysis to gain a deeper understanding of the reasons why institutional investors perceived dialogue as productive or not by investor type. Specifically, page 27 presents a cross-analysis of the reasons respondents felt dialogue was productive by investor type, while page 28 presents a cross-analysis of the reasons respondents felt dialogue was unproductive by investor type.

On pages 29 and 30, we have summarized the results of our survey asking for the specific names of institutional investors with whom they felt they had productive dialogue. Here, we present the institutional investors mentioned, dividing them into three groups based on the number of companies that named them: 10 or more, three to nine, and one to two. In addition to domestic institutional investors, the names of many overseas investors and so-called activist investors were also mentioned.

Starting on page 31, the report outlines expectations and requests for institutional investors. We've summarized the key points from the open-ended responses on this slide.

Page 32 and onward contain specific comments from companies. In particular, there were many comments regarding dialogue from a medium- to long-term perspective, with requests that discussions and evaluations cover not only short-term business performance and shareholder returns but also medium- to long-term strategies.

Page 33 highlights requests from companies asking investors to share insights and comparative perspectives unique to them, as well as requests for candid feedback—including negative comments.

The comments featured on page 34 reflect a desire for investors to deepen their understanding of the company's business and industry. There were comments requesting that investors thoroughly review disclosed information before meetings, and there were also requests that discussions take into account the company’s business environment and industry characteristics.

Page 35 covers responses regarding information disclosure the investors' side. As companies continue to make various strides in disclosing information, there have been calls for investors to also work on improving information disclosure. Specifically, there were comments suggesting that providing information on investors’ evaluation criteria, the basis for their investment decisions, the purpose of the meeting, and their holdings of the company’s stock would lead to more productive dialogue.

Page 36 is about two-way dialogue and communication. There were comments expressing a desire for the sessions not to end with one-sided questioning, but rather to include time for the company to provide explanations, share opinions, and ask questions. There were also comments expressing a desire for candid suggestions during dialogues with the company’s own management.

Page 37 lists other expectations and requests.

Page 38 contains the final question, regarding the initiatives expected of the exchange. This is also an open-ended question, and we’ve summarized the key points here.

The specific comments begin on page 39. Overall, the results showed trends similar to those seen in previous corporate surveys. In particular, there were many requests to continue and expand the collection of case studies and to hold seminars on a regular basis.

On page 40, we highlight requests for assistance in creating opportunities to connect with investors and facilitating matchmaking, as well as requests for support in building horizontal connections with representatives from other companies.

Page 41 covers support for disclosure practices and dialogue. There are calls for more specific guidelines and for support aimed at reducing the administrative burden.

The comments featured on page 42 call for efforts to engage with investors in order to promote effective dialogue. We also received feedback requesting that this survey be continued.

The comments featured on page 43 call for progress in creating the necessary environment—including the establishment of mechanisms and systems—to facilitate productive dialogue with investors.

The above are the results of the survey. We believe it is important not to simply compile the results of this survey and call it a day, but to make full use of them.

With that in mind, we have summarized our future initiatives on page 45.

First, we will distribute the results to institutional investors. We will distribute the expectations of and requests for institutional investors revealed in the results of this survey to various institutional investor organizations and will also share this information during meetings and seminars with institutional investors.

Furthermore, with a view to ensuring that these results are widely utilized, we intend to provide response data—excluding open-ended comments—in a format that does not identify individual companies, and so that external parties can analyze it, such as in the form of an Excel file.

In addition, we will provide feedback to listed companies based on the results of the survey of institutional investors shown in document two.

With regard to collaboration with relevant agencies, we will work together with government officials from the Financial Services Agency; the Ministry of Economy, Trade and Industry; and other agencies to engage with investors and companies. In addition, with regard to support for companies, the Tokyo Stock Exchange will not act alone but will collaborate with its partners to which it provides IR support and consulting services.

Regarding the final point—support measures at the Tokyo Stock Exchange—we have gained various insights from the results of this corporate survey. Therefore, from the perspective of communicating messages to investors, we hope to continue conducting the survey in the next fiscal year and beyond.

In addition, based on the results of the institutional investor survey, we will compile a new collection of case studies starting this fall. We will also continue to provide other support measures for listed companies.

That is all for the explanation of document one.

Next, I will explain the results of the survey of institutional investors (document two).

The first two pages provide a summary of the survey results. This time, we received responses from 74 investors (43 institutional investors). They evaluated the progress of initiatives of a total of 300 companies.

The names of the institutional investors that contributed to this survey are listed below. On this occasion, some investors—particularly those based overseas—chose not to respond because their internal policies made it difficult for them to mention their portfolio companies in the survey. Even under those circumstances, I believe we were able to receive responses from a relatively large number of investors.

Page three provides an overview of this survey. We asked three major questions.

In the first question, we asked which companies are showing progress in management that is conscious of cost of capital and stock price, and what factors are used to evaluate them. In the second question, we asked about areas where further improvement is expected from Japanese companies, as well as what is expected of the exchange and other stakeholders to enhance the market's appeal. In the third question, we asked for a message directed at companies that have not yet started disclosure—specifically, what actions and disclosures they expect from such companies as a first step.

The following slides present the results of the survey.

The first question asks about companies that are showing progress in their initiatives.

Page five is the summary. As shown on the left, we have compiled the data into three categories: companies listed on the Prime Market with a market capitalization of JPY100 billion or more, companies listed on the Prime Market with a market capitalization of less than JPY100 billion, and companies listed on the Standard Market.

On the right, we have categorized the main feedback from investors into five broad categories.

The first category consists of examples where companies have clarified their capital allocation policies and implemented specific allocation strategies, including measures to optimize asset utilization.

The second category includes examples of companies that are promoting fundamental portfolio reforms—such as withdrawing from low-profit businesses—or prioritizing the allocation of management resources to high-growth sectors.

The third category—though fairly conventional—includes cases where companies have set specific goals and proposed improvement measures with a focus on the cost of capital and capital efficiency, as well as cases where they utilize ROIC and WACC on a business unit basis.

The fourth category consists of cases where bold business portfolio reforms and capital policies were implemented under the strong leadership of top management and the board of directors, as well as cases where effectiveness and transparency were ensured through the oversight functions of the board of directors and outside directors, and through dialogue with investors.

The fifth and final category consists of examples where information disclosure and investor relations have improved, as well as cases where initiatives have been refined through dialogue with investors.

We have compiled a list of specific evaluation comments for each company, as shown in the attached document. As of today, we will not disclose this information to the public; instead, we intend to release comments from all companies when the final version is published.

The following slides list the companies that were highly evaluated for their progress.

Starting on page six, you'll find a list of companies listed on the Prime Market with a market capitalization of at least JPY100 billion that have been evaluated for their progress.

Please skip to page 10. Page 10 lists companies listed on the Prime Market with a market capitalization of less than JPY100 billion that have been highly evaluated for their progress, and page 11 lists companies listed on the Standard Market that have been highly evaluated for their progress.

Starting on page 13 is the second question: areas where they expect Japanese companies to make further improvements.

This time, no new themes emerged; instead, we heard many comments regarding previous requests and updates, as well as points that had been emphasized in the revisions to the Governance Code, reaffirming their importance.

Specifically, as shown on this slide, there were calls for more substantive and sophisticated management that is conscious of cost of capital and stock price, as well as for the clarification of medium- to long-term management policies and visions.

Page 14 highlights the expectations regarding the appropriate allocation of management resources and the optimization and efficient use of assets.

Page 15 highlights the expectations for a more open dialogue with investors, enhanced disclosure, strengthened governance, and improved effectiveness of the board of directors.

We hope to present these insights as reference material for corporates.

Starting on page 17, the section discusses expectations for exchanges and other stakeholders.

A wide range of opinions were expressed. First, regarding the deepening of market reforms and the enhancement of listing frameworks, there were comments such as the one second from the top—calling for consideration of an approach for companies with small market capitalizations—and the one in the middle—expressing expectations for initiatives aimed at improving the quality of outside directors.

In addition, on page 18, there were many comments calling for the exchange to continue providing support to listed companies, as well as calls for improving the financial literacy of all market participants and for educational outreach activities.

We will use these comments as input for considering future measures.

Page 20 addresses the third question: What actions are expected as a first step from companies that have not yet started disclosure?

We’ve summarized the most common comments into two main categories.

The first point is an analysis of the current situation. There were calls for companies to analyze their current situation—including their cost of capital, profitability, and market valuation—and for management to identify the specific challenges they currently face.

Furthermore, regarding these challenges, while companies are not necessarily expected to have specific improvement goals or a perfect action plan from the outset, many respondents emphasized that the first crucial step is for companies to demonstrate a response policy outlining their commitment to addressing these issues and a commitment from top management to drive these improvements.

In other words, if such efforts are made, they will lead to improvements in those efforts through subsequent dialogue and feedback.

In addition, although not included in the document, we have received responses regarding actual examples of companies that are gradually working toward disclosure and improvement, and we will utilize this information in our future summary.

The above are the results of the survey. We've summarized our future initiatives on the last slide.

First, we will provide feedback to companies and investors by publishing a list of companies demonstrating productive progress in their initiatives on the JPX website and notifying them via Target.

In addition, based on the feedback we received from investors this time, we will once again conduct surveys and other forms of outreach to ask companies that have yet to disclose what kind of support would enable them to begin their initiatives or encourage them to do so.

Based on these findings, we will compile and publish examples of disclosures from companies that have taken the first step, as well as simpler guidelines. In addition, we will continue to provide other forms of support, such as in-home visits, which we are currently offering.

The final point concerns future measures.

In April, we updated our requests, and in July, we revised the Governance Code; going forward, companies will respond to them. We at the follow-up council would like to continue monitoring companies’ responses and feedback from investors, while simultaneously exploring measures to substantially implement and enhance management that is conscious of cost of capital and stock price.

We also hope to continue conducting this survey on companies demonstrating productive progress in their initiatives in the next fiscal year and beyond.

That concludes the explanation of document two.

Watanabe, Director, Listing Department, TSE:

Now, we would be happy to receive your comments.

Kumagai, member:

First, regarding document one, thank you very much for compiling such a thought-provoking document. This document organizes the things I've seen, heard, and felt up to now into data and includes firsthand accounts from companies, so I believe it is a very productive resource. I hope you will steadily move forward with the future initiatives outlined on page 45.

On top of that, I would like to offer three suggestions on how to apply the findings of this survey moving forward. First, regarding the direction of further investigations and the response. Regarding satisfaction with investor dialogue, as shown on pages 13 and 14, 75% of the responding companies feel that they are engaging in productive dialogue; however, satisfaction tends to be lower among companies with lower ROE and PBR. In addition, satisfaction levels are low for companies in the Standard and Growth markets, and when broken down by market capitalization, satisfaction tends to decrease as market capitalization decreases.

For example, why not dig deeper—such as by investigating the reasons for low satisfaction levels or identifying the company's challenges among companies with low ROE and PBR—and try listing the bottlenecks? I believe the progress made by those companies will serve as KPIs for continuing these efforts in the next fiscal year and beyond. Upon closer examination, there may be cases where a disconnect exists between companies focused on growth investments and investors who expect a thorough review of the balance sheet. I think it would be best to carefully investigate this matter, including whether such gaps are a factor contributing to lower satisfaction levels.

Second, regarding how the Tokyo Stock Exchange communicates information about this document. It is important to convey the message that investors with a medium- to long-term perspective should seek to understand companies' perspectives while further refining their dialogue with them, thereby working together to enhance corporate value even further.

At the same time, you should also mention the role that short-term investors play in the market. As shown on page 26, compared to long-only institutional investors and passive institutional investors, a larger proportion of respondents described hedge funds as "unproductive." While you should encourage improvement regarding behaviors such as one-sided statements and insufficient analysis and understanding of the company, there is a risk that they might be quick to dismiss the actions of investors with a short-term perspective—such as hedge funds—as inappropriate.

The companies' comments on page 24 demonstrate an understanding of hedge funds. While this survey is based on the premise that it is a questionnaire regarding dialogue, it is essential to convey appropriate messages so that companies do not form a one-sided perception of short-term investors, who can provide market liquidity.

On the other hand, it is essential to raise awareness about cases suspected of constituting abusive activism, such as those pointed out in the Liberal Democratic Party's Proposals for Governance Reform to Sustain Corporate Value Growth. We need to pay close attention to investors—as mentioned in the final bullet point on page 43 regarding the creation of an environment conducive to effective dialogue—who "hinder companies' efforts to enhance corporate value."

Third is the coordination between this survey and the Stewardship Code. The content described under "disclose information from the Investors' side" in the section on Expectations and Requests for Institutional Investors on page 35 includes the statements set forth in Principle 4 of the Stewardship Code. It might be worth considering giving these points a clearer role, for example, when the Stewardship Code is updated.

In addition, under Expectations of the Exchange on page 41, it states, "We would like you to provide guidelines for disclosure and dialogue." If you were to respond to such calls, one possible course of action—in collaboration with the Financial Services Agency—would be to develop interpretation guidelines and guidance for the Stewardship Code, as well as to update the Guidelines for Dialogue Between Investors and Companies, which are annexed to the Stewardship Code.

Next, thank you very much for summarizing the results of the institutional investor survey regarding companies demonstrating productive progress in their initiatives, as presented in document two. Many of the comments were concise yet hit the key points; for the companies mentioned, this provides confirmation that their initiatives are being evaluated by investors, which is expected to encourage them to take further action. I also believe that even for companies that were not mentioned, this will serve as a basis for considering future actions by comparing them with their own initiatives.

In addition, the report provides very detailed comments on the steps companies that have not yet taken the first step toward disclosure on page 20 are encouraged to take. I believe that publishing examples of corporate disclosures and a simple guide, as described in the Future Initiatives section on page 22, is an appropriate approach. I would like you to ensure that this message reaches not only the IR department staff at companies that have yet to disclose information regarding management that is conscious of cost of capital and stock price, but also the board of directors and senior management.

Finally, I believe you should collect a wide range of examples where there is room for improvement, just as you did in this survey. Wouldn't it be beneficial to present the collected results—while keeping the company names confidential—along with investors' comments, and to provide individual feedback to the companies in question regarding the comments they received?

While examples of gaps between investor perspectives and corporate views have already been published, I believe that building on these examples to create initiatives that prompt companies to gain concrete insights will yield significant results. As noted on page 34 of document one, there was a suggestion that "we would like you to present not only examples of improvements but also examples of challenges," so I would appreciate it if you could give this some consideration.

As a final note—though this may be a bit of a tangent—I will be giving a keynote speech for individual investors at the Nikkei/Tokyo Stock Exchange IR Fair to be held on August 28. There, as time permits, I would like to touch on the initiatives discussed at the Tokyo Stock Exchange's follow-up meetings and other related matters, as well as documents one and two.

Sampei, member:

Thank you for compiling documents one and two. I would like to express my gratitude for gathering such valuable information from both companies and institutional investors and conducting such thorough and comprehensive analysis. I find the content to be extremely insightful.

Furthermore, with regard to future initiatives, I believe it would be best to implement feedback to listed companies described on page 45 of document one and practical support regarding disclosure to be made as a first step on page 22 of document two in an integrated manner, based on the four-quadrant framework.

What are companies in each of the four quadrants saying? Conversely, where in the four quadrants do the companies that investors value fall, and what do they say in the corporate survey? I think combining these elements will result in higher resolution.

The results of the institutional investor survey list many companies that are recognized to be making progress on their initiatives. Looking at how companies have moved across the four quadrants over the past five years, we can see—as expected—that companies that have moved from the lower-left or lower-right quadrants to the upper-right quadrant tend to be rated more highly. I think this is a very good thing, as it serves as evidence that such changes are highly valued by investors, thereby providing an incentive for companies.

The same point was also highlighted in the Case Studies of Companies' Initiatives Toward Issue Resolution, published by the Tokyo Stock Exchange on December 26 of last year. Since we were able to gather more results from initiatives toward issues resolution this time, I believe presenting them as an overall trend will provide even stronger evidence.

I believe the key here is to clearly emphasize and communicate the significance and benefits of such initiatives for companies—namely, that the market recognizes them as contributing to corporate value.

I think it's important to clearly communicate the benefits—that companies will be evaluated not only when they deliver solid results, but also simply for taking action, even if results haven't yet materialized—rather than giving the impression that no matter how hard a company tries, it's constantly faced with one demand after another.

In that context, I've recently been saying that "there are vistas that business leaders have yet to see." In terms of the four-quadrant diagram, there are still many companies in the lower-left quadrant. For those corporate managers, even when meeting with investors, they may be on the receiving end of various complaints and grievances, or find that the conversation doesn't go smoothly. However, at companies in the upper right, the landscape looks completely different—for example, investors support growth-oriented investments, and shareholder returns aren't considered particularly important.

I believe it is important to convey to companies in the lower-left or lower-right quadrants that the view—which cannot be seen until they reach the upper-right quadrant—is already being experienced by companies that have reached that quadrant.

In connection with Principle 4.1 of the revised Corporate Governance Code, it has been reported that investors have expressed the view that understanding the current situation is crucial as a first step for companies. I believe this is consistent with the preamble to the Corporate Governance Code, which states that companies must allocate management resources appropriately—including through growth investments and reviews of their business portfolios—while taking into account their own growth phase.

Furthermore, this is consistent with the Guidance for Growth Investment issued by the Ministry of Economy, Trade and Industry, which uses a four-quadrant framework to guide companies in identifying pathways to improve their economic profit based on their current position. The Tokyo Stock Exchange's recent information-gathering effort demonstrates that the market highly values such initiatives not merely as a concept but as a fact, and that companies themselves are beginning to recognize this through their direct dialogue with investors on the ground—and I believe this is extremely important.

I understand that the Tokyo Stock Exchange will ultimately provide feedback or some kind of summary. I think it is important to clearly highlight the cases where dialogue is truly effective, as evidenced by these results.

On the other hand, I think it would be helpful to use this as a learning opportunity to determine whether companies are placing unrealistic expectations on investors—for example, by identifying which specific aspects constitute such expectations based on investors' type and investment styles. On the other hand, I think there are some investor views that, while the investor may express them, are off the mark—in that the vast majority of institutional investors in the market do not share that view. If you can organize those as well, I think they'll be able to have conversations with a higher success rate for both sides.

Finally, I talked a lot about the four-quadrant framework this time. However, this four-quadrant framework is a bit too simplified for the sake of clarity, and I believe that companies that barely exceed the threshold for the upper-right quadrant (8% ROE and one-time PBR) do not fit the image investors have of companies in that quadrant. So, even if a company is barely in the upper-right quadrant, it might not actually see the new view I mentioned earlier.

In the Ministry of Economy, Trade and Industry's Guidance for Growth Investment, ROE and PBR are broken down into even finer categories to create a four-by-four grid with 16 quadrants, which is used for comparisons with other countries. If we take a closer look—for example, by focusing on specific metrics like a PBR of at least two—I think we'll see an entirely different picture.

Another category of investors is long-only institutional investors, and I wondered if companies understand this term. I think you're referring to "long-only," but I thought that using the term "long" might be interpreted as meaning "long-term."

Nagami, member:

Thank you for compiling the documents. Both documents one and two are excellent and thought-provoking, and I would greatly appreciate it if you could ensure that all listed companies and relevant parties are made aware of them.

I also found page 14 of document one—which was added based on the preliminary explanation (level of satisfaction with dialogue by market capitalization)—to be particularly insightful, so I will focus my comments primarily on this page. As outlined on page 14, the challenge is to determine how to address the fact that companies with low market capitalization are not engaging in productive dialogue and have lower satisfaction levels, and how to boost the market as a whole.

To put it in a bit more detail, I think the real challenge for companies with a low market capitalization is that they likely haven't accumulated much experience with successfully engaging investors through truly productive dialogue or convincing them to purchase large quantities of stock.

Naturally, IR activities and management activities themselves should be carried out broadly and comprehensively. However, whether it's one company or two, what's important is how to truly engage investors and get them to buy shares; getting that first company to buy shares will serve as a success story. The survey results on page 14 are based on evaluation in a relatively qualitative manner. I believe that such successful experiences are the most important strategy for increasing productive dialogue, and I think you should really focus on that.

For that reason, I believe that exploring how to provide guidance and support is a very important and productive activity for the exchange. If I were to offer one suggestion, regarding the section titled Disclosure Items Expected as a First Step on page 20 of document two—which I think is excellent—I believe it could be simplified a bit further and clearly communicated to companies as a practical guide.

Since there are quite a few financial implications and comments, I think it might be good to include a statement along the lines of, “What’s more important is your commitment to your growth strategy as a turning point.” It is important to ensure that everyone is fully aware of these matters and acts accordingly.

Here's another idea: I think it's often the case that investors won't buy shares after just one meeting. If there were case studies showing how repeated disclosures and communication led to significant shareholdings—or how engagement was achieved even without significant shareholdings—it would be helpful to gain a realistic understanding of what kinds of initiatives actually lead to engagement.

I think it would be fine to keep the names of investors and companies confidential, so if you could conduct actual interviews and present a few case studies—whether from several companies or a few specific examples—I believe this would serve as an important and meaningful guide, particularly for executives and IR officers at companies with low market capitalization. I would appreciate it if you could give this some thought.

Uchida, member:

Thank you for your explanation. In both documents one and two, the inclusion of specific company names this time—even though the purpose was certainly not to rank them—gave the documents a much more realistic feel, and I feel this marked a significant step forward in our efforts. As you provide this feedback to companies, we hope you will observe their reactions and make even better use of this information.

The content of the comments wasn't particularly unexpected, and I felt that the survey captured a diverse range of voices that accurately reflected the actual situation. As explained earlier, I hope you will incorporate this into your future initiatives.

Regarding document one, the keywords “two-way dialogue” came up in the comments from the corporate side. I think it’s important to figure out how to lay the groundwork for this dialogue. As was briefly mentioned earlier, companies with large market capitalizations tend to attract a lot of attention, and I suspect that many of them are expanding their investor relations staff.

As for investor meetings, I believe that companies which conduct IR activities on a regular basis—for example, in conjunction with quarterly earnings releases—and in a multi-layered manner likely have a systematic understanding of how to perceive the investor base and their investment styles, and that this leads to higher satisfaction levels.

On the other hand, if such systems are lacking, I believe that, due to resource constraints on the investor side and limitations in coverage, in-depth preliminary analysis may not be possible. While market capitalization may not be the only factor, I believe it would be a beneficial support by the exchange to continue exploring measures that provide a clearer understanding of this segment of investors.

As for actual questions, at the end of meetings with investors, there are often exchanges like, “Do you have any questions?” However, due to time constraints, a single-sentence exchange rarely leads to a productive dialogue. I believe it is necessary to continue providing this kind of support to people at various levels on an ongoing basis.

Also, it’s often unclear whether the person with whom corporate managers are meeting has recently bought or sold the company’s stock. I’m sure there are certainly times when it’s okay to ask, but some people will answer and others won’t, and I think there are also situations where the atmosphere makes it feel like you shouldn’t ask. While it’s not just a matter of whether a purchase or sale took place—the reasons and underlying rationale are also important—I would like you to consider how to expand the foundation for dialogue that can foster that level of understanding.

I believe that simply engaging in dialogue with companies through this feedback is of great significance, so I would like you to move forward with it. Thank you very much.

Kuronuma, member:

First, this was the first time you conducted a survey on the requests that listed companies have for investors. While I believe the majority of the responses were multiple-choice, the large number of responses allows us to identify trends in the requests made by listed companies through your analysis. I, too, found it to be a very interesting and valuable resource. In particular, I believe that anecdotes about dialogues between listed companies and institutional investors that the companies felt were not productive—and the reasons why they felt that way—are valuable insights.

Looking ahead, I believe that feedback to institutional investors is, of course, important. However, on this occasion, we have also obtained information on investors, dialogue with which listed companies felt to be unproductive. Are you considering providing feedback on the survey results from individual companies to each institutional investor—that is, communicating this information to them in some individualized manner? I'm not in a position to judge whether that's a good idea or not, but I'd like to hear the Tokyo Stock Exchange's thoughts on the matter.

I would also like to comment on document two. Am I correct in understanding that the purpose of this survey is, first and foremost, to encourage companies that have not shown progress in their initiatives to take action? If we assume that understanding is in place, I believe it will be necessary to provide feedback—including individualized feedback based on survey results—to companies that have not made progress on their initiatives or have not yet taken steps toward disclosure, in a way that clearly conveys that they are being encouraged to take action. I would like to hear your thoughts on that point as well.

Monden, Senior Manager, Listing Department, TSE:

Regarding the first point—feedback to investors—there is significant overlap between the investors whose names were mentioned in the "productive dialogue" section of document one and those who participated in the survey in document two. In addition, many of them are investors with whom we regularly exchange views. We will provide direct feedback to those investors based on the survey results in documents one and two.

On the other hand, regarding the investors whose names were mentioned in connection with "unproductive dialogue," we do not plan to provide individual feedback (partly because the questions were asked on the condition that the comments remain confidential). We will use this as a reference for future discussions at the exchange.

The objective of the survey for institutional investors is twofold: first, to create a virtuous cycle by encouraging companies that are making progress on their initiatives to advance their efforts even further through external feedback; and second, to provide a reference for companies that have not yet shown progress. From this perspective, we would like to share the results of this survey with all companies, including both companies that have shown progress and those that have not.

Furthermore, we do not intend to provide individual feedback to companies that have yet to disclose. However, moving forward, we plan to provide such companies with case studies and more specific, easy-to-follow guides, while continuing to offer the individualized support that the Listed Companies Support Group currently provides to individual companies.

Okina, member:

Thank you for your explanation. Although this echoes what others have said, I believe both document one and document two contain extremely valuable data. In particular, this survey regarding expectations of investors was our first such effort, and I found it encouraging that 75% of companies viewed the dialogue as productive.

However, a cross-analysis reveals that, for example, while investors have high expectations for medium- to long-term strategies, the implementation rate among companies remains at only 50%. While measures such as shareholder returns will inevitably see their implementation rates rise more quickly, I believe there are aspects of these kinds of initiatives that must be evaluated from a medium- to long-term perspective. I felt it was necessary to examine this over time to see how companies respond to investor expectations.

Furthermore, on page 21 and elsewhere, the reasons cited for perceiving the dialogue as unproductive included the fact that the dialogue took place without sufficient analysis or understanding of the company, that the discussion remained limited to formal questions and did not lead to constructive dialogue, and that the discussion was skewed toward short-term performance and shareholder returns. I believe these points warrant serious consideration. I think it's important for you to provide investors with thorough feedback on these matters.

On the other hand, what I find challenging is that while companies view dialogue with active, long-only institutional investors as extremely productive, the overwhelming majority of Japanese investors are passive and follow index-based strategies, which means they cannot allocate resources to individual companies. I feel that one challenge is how to raise the overall level of these passive investors.

In any case, I hope that these results will be thoroughly communicated to investors and that improvements will be made to move things in a more positive direction.

Regarding document two, as Mr. Sampei mentioned earlier, I feel that what is written on page five, for example, clearly illustrates that investors have expectations aligned with the revisions to the Corporate Governance Code and the Guidance for Growth Investment. I think it’s valuable overall that such consistent materials are being released at this time.

I think there are a great many companies with low ROE and PBR that feel it’s difficult to be judged solely on those numbers when compared to companies with large market capitalizations and high PBRs and ROEs. Industry characteristics vary considerably from company to company, and I think that makes it difficult in some industries. Even so, I think it’s important to communicate—with the relevant group of companies in mind—that there is a strong demand for this kind of action.

I believe there are also several examples of companies in this report that are transitioning from the lower-left to the upper-right quadrant. I, too, believe that it is important to provide clear examples of such companies to guide those in the lower-left quadrant in particular.

It states that, in terms of expectations for the exchange, you should explore ways to improve the quality of outside directors. In short, institutional investors also believe that whether the board of directors is functioning properly will become increasingly important going forward.

The Ministry of Economy, Trade and Industry has released a great deal of material to date as well. Taking into account the various discussions at the Tokyo Stock Exchange, I believe there are steps we can take to improve quality—such as starting by releasing a video that highlights the importance of the role of outside directors and encouraging as many people as possible to watch it. I believe this is also very important, so I wanted to add a few words about it.

Matsumoto, member:

These are very insightful materials, and thank you for compiling them. I believe it is very significant that approximately 75% of the companies that responded to the survey rated their dialogue with institutional investors as generally productive. I think it’s important to make sure that all relevant parties take a close look at these and that they become widely known.

There's just one thing that's been on my mind. I felt that we might need to take a closer look at the perspective of minority shareholders. Every company has management, shareholders, and dialogue. However, when it comes to a publicly traded company, the only major difference is that there are general minority shareholders, such as individual investors, and I believe it is necessary to give serious consideration to protecting their interests.

This survey is excellent, but I believe that, fundamentally, all such surveys are conducted between the IR departments of individual companies and institutional investors. I'm just a little concerned that the perspective of smaller, general minority shareholders might be overlooked.

For example, even recently, changes are being made to shareholders’ right to submit proposals at annual general meetings. I believe that change would strip small shareholders, such as individual shareholders, of their right to make proposals. There aren’t much information or data available regarding whether the exchanges or the government have actually verified the views of the people who are having their rights taken away.

On page 14 of document one, which Mr. Nagami mentioned earlier, it states that smaller companies are less likely to engage in productive dialogue. Conversely, since institutional investors are not very involved in smaller companies, such as those in the Growth Market, I believe that individual shareholders are the only ones who can provide an outside perspective. I think it's very important to understand how those people think. So, while this survey itself is excellent, since the companies are publicly traded, maybe you should conduct a more thorough investigation—perhaps through additional interviews—regarding minority shareholders.

In that regard, as Ms. Okina just mentioned, I believe outside directors are also extremely important. I believe that outside directors are the most important body, particularly from the perspective of protecting minority shareholders. I think we need to take another careful look at how we can support outside directors and ensure they fully understand what is expected of them.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

Next, we would like to explain the study group on the development of the Growth Market, as outlined in document three.

Isogai, Manager, New Listings, TSE:

As we indicated at the follow-up meeting last June, we plan to hold a discussion session in the future that will bring together members of the startup community.

At this time, the dates and participants for the first two sessions have been finalized, and we plan to continue holding these events on an ongoing basis. We do not plan to have a fixed list of participants; instead, we intend to invite people flexibly based on the theme.

As for the content, we plan to first have everyone share their vision of what Growth Market listed companies should be like from a theoretical perspective. Then, drawing on the results of the recent survey, we will discuss the challenges involved in achieving that vision and the necessary conditions for its realization.

I also believe it is important for other startups and stakeholders to have a clear understanding of the content of that discussion. Therefore, as with the follow-up meetings, we plan to publish the minutes in a format that clearly reflects each participant's remarks.

Page two outlines the first session. On August 21, we plan to hold a discussion focusing primarily on listed companies.

Corporate participants included TRIAL Holdings, Inc.; MTG Co., Ltd.; and Astroscale Holdings Inc., which are top-ranking companies in terms of market capitalization in the Growth Market; CanBas Co., Ltd. and f-code Inc., which are companies with market capitalizations exceeding JPY10 billion that are focused on growth; and SAKURA Internet Inc., which, although currently listed on the Prime Market, is an example of a company that started small upon listing and has since grown significantly.

We have invited companies from a wide range of industries—from retail and information and communications technology to deep tech fields such as space and biotechnology—and we hope to hear about the challenges they face from their respective perspectives.

On the investor side, we will invite not only small and medium-sized institutional investors but also large institutional investors.

The theme is as shown in the lower half of the page. We will ask representatives from these companies to discuss how they have worked toward high growth on the Growth Market, and how they have communicated this to investors. We expect investors to share their expectations for companies listed on the Growth Market.

We would also like to hear their views on the challenges involved in achieving this, as well as the measures they expect the Tokyo Stock Exchange and other market participants to take to create a supportive environment.

Page three outlines the second session. On September 16, we will hold a discussion focusing primarily on unlisted companies.

On the corporate side, we are inviting unicorns or companies of a comparable size; and on the investor side, we are inviting institutional investors—including those who invest after a company goes public—as well as venture capitalists.

The theme is broadly the same as that of the first session. As topics unique to unlisted companies, we hope to discuss, in particular, how an IPO should be positioned within a growth strategy and what conditions need to be in place both during the IPO process and prior to it.

We hope to provide an update on the discussions held at the study group during our next follow-up meeting or subsequent sessions. If you have any comments or concerns at this point, please let us know.

That is all.

Watanabe, Director, Listing Department, TSE:

We would like to receive any comments you may have.

Sampei, member:

Thank you for putting this together. You're already prepared for two sessions, and judging by the group members, I expect you'll have some lively discussions.

On top of that, the keywords "choosing a market" is the theme for the first and second sessions. Of course, I think it's a good idea to hear about the approach to market selection. However, each market segment has its own distinct concept, and these markets coexist side by side.

At present, there may be an unspoken assumption that as companies grow, their goal is to move from the Growth Market to the Prime Market. However, rather than that, I would like to see this clearly included on the agenda for discussion: how we can make the Growth Market an attractive market—one where companies want to remain, similar to the NASDAQ in the US—and what key factors contribute to creating that appeal. I think this ties into what we've been discussing—the need to shape the market in such a way that companies will want to remain in the Growth Market—so I really want you to discuss this.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

Next, we would like to explain the response to problematic cases from the perspective of investor protection, as outlined in document four.

Yamawaki, Senior Manager, Listing Department, TSE:

I will now explain document four, "Dealing With Situations Causing Issues From the Perspective of Investor Protection."

Specifically, please look at page two.

A little while ago, at the meeting held in February of this year, we discussed how to handle cases in which a company significantly changes its business operations after going public, thereby raising concerns about its eligibility for listing.

Specifically, the case study we introduced last time is reprinted on page three.

In cases such as these, it is necessary to take appropriate action from the perspective of investor protection. On the other hand, during the previous discussion, many participants expressed the view that if a system were established to assess listing eligibility in cases of significant business changes—such as the example of an overseas exchange cited on page four—careful consideration should be given to the system's design to ensure it does not hinder normal business expansion or restructuring aimed at enhancing corporate value.

Please turn to page five.

In this slide, we present a case that raises concerns about a listed company being exploited for unfair financing—a separate issue from changes in business activities following the IPO.

We've outlined the typical process here. Specifically, there have been cases in which certain individuals target relatively small companies experiencing poor business performance, become shareholders, and then—by appointing directors and other means—alter the management structure. Under the guise of launching new businesses or similar initiatives, they engage in unfair financial practices aimed at providing benefits to specific shareholders or funneling funds back to them.

From the perspective of investor protection, we believe an important issue is how exchanges can deter and prevent cases that could lead to such unfair financing practices.

The future action plan on page six outlines how the exchange will respond to such incidents.

Here, we refer to the significant changes in the company's business operations—as introduced earlier—together with the significant changes in the management structure that raise concerns about unfair financing practices, collectively as "significant corporate changes." I believe we should establish a system to promptly re-evaluate listing eligibility whenever such changes occur.

If the company fails to meet the requirements of the re-examination, it will be delisted. In addition, we plan to publicly flag such stocks as having concerns regarding their eligibility for listing and issue alerts even during the review process, thereby creating an environment that effectively makes it difficult to engage in unfair financing and other such practices. Through these measures, we believe we can work to deter and prevent, before they occur, any significant changes in a company's business conditions that might raise concerns about its eligibility for listing in the first place.

Furthermore, as many of you pointed out at the previous meeting, we believe it is also important not to hinder normal engagement practices—such as a company's sound business expansion or transformation, or the dispatch of directors by institutional investors for the purpose of management reform.

Therefore, as indicated in "how rules could work," we do not intend to subject all cases involving significant changes in a company's business profile to review; rather, we plan to limit the review to those cases—such as the specific examples presented in the materials—where there are serious concerns regarding the company's eligibility for listing.

Furthermore, we hope that when the system is revised, we can clearly state that it applies only to these specific cases, so that conscientious companies do not have to worry unduly.

If you have any comments or observations regarding this policy, we would appreciate hearing from you.

With regard to the actual revisions to the system, we plan to review the feedback we received from everyone today and aim to implement the changes around this fall.

Watanabe, Director, Listing Department, TSE:

Now, we would be happy to receive your comments.

Kumagai, member:

Thank you for your explanation. I agree that cases where serious concerns regarding listing eligibility arise—whether due to significant changes in business operations, a change in controlling ownership, or major changes to the management structure—should also be subject to the system for re-evaluating listing eligibility.

Establishing a system to reaffirm eligibility for listing has certain merits from the perspective of investor protection. It is also believed to be effective in preventing serious concerns from arising in the first place.

At the same time, as the business environment changes rapidly, M&A, business restructuring, expansion into new businesses, and the overhaul of management structures are all critical management decisions aimed at enhancing corporate value. Furthermore, from the perspective of implementing management that is conscious of cost of capital and stock price, fundamental reforms—such as a review of the business portfolio—are required. Therefore, I believe it is necessary to carefully design the system—for example, by enhancing predictability for businesses—to ensure that it does not stifle corporate growth strategies or management reforms.

In addition, when significant changes are made to a company's business operations or management structure, it is considered effective to provide investors with more detailed explanations regarding the background and objectives of such changes, as well as the nature and risks of the new business.

While it is necessary to address problematic cases appropriately, excessive regulation could undermine corporate innovation and market vitality. I hope that you will establish appropriate rules and operational procedures while giving due consideration to the balance between investor protection and sound corporate business practices.

I believe it is important to make it clear to companies that this system is not intended to interfere with management decisions or to regulate business restructuring itself, but rather to prevent companies from effectively circumventing the listing review process due to significant changes in their business conditions after going public.

Matsumoto, member:

While I fully support the issues raised and the objectives, I have some concerns about how to ensure their effectiveness.

First, even now, with so many publicly listed companies, I believe that self-regulatory organizations conduct delisting reviews as part of quality control. However, my understanding is that there aren't many cases where companies are delisted. Under such circumstances, it is questionable whether a decision to ultimately delist a company could be made when a case like this arises. I recognize that, even under the current system, the decision to delist a company is extremely difficult.

You may view this as a different category from the conventional ones. However, it is likely that those who engage in such behavior do so knowingly and will come up with arguments claiming that there are no legal issues.

Conversely, if the company cannot be delisted and remains listed as a result, I believe there is a problem in that investors cannot be protected even if unfair financing takes place during that period.

On the other hand, regarding re-examinations, it has long been the practice that when a small listed company acquires a large unlisted company, the transaction is deemed an inappropriate merger and the company enters the continued listing review period. However, my understanding is that, in most cases, the company ultimately passes the review. In that case, it is possible that retail investors might come to expect or assume that even if the company enters the review process, it does not necessarily mean it will ultimately be delisted.

In any case, while the issues raised and the objectives are very good, I'm very concerned about whether this will be effective.

For this reason, I believe it might be more effective—rather than, for example, conducting a re-examination of listing eligibility—to thoroughly alert the market, such as by prominently displaying warnings, so that market participants can make decisions after giving the matter due consideration. I think you should give that some careful thought.

Sampei, member:

To put it simply, I agree that you should focus on prevention, as illustrated in the flowchart on page six.

Generally speaking, I understand that this is a matter of protecting minority shareholders, and of course, it does not hinder shareholder engagement. As Mr. Matsumoto also pointed out, from a legal perspective, there may be cases where it is difficult to make a clear determination when asked whether something is black or white. However, I believe that, in order to maintain the integrity of the market, the Tokyo Stock Exchange needs to clearly define the criteria for ensuring there are no issues—particularly in terms of fairness and transparency—with regard to the protection of minority shareholders.

It is difficult for an exchange to judge the merits of a company's management structure or business operations. Therefore, I believe it would be helpful if it were made clear that judgments should be based not on superficial changes—such as alterations to business operations or management structures—but rather on whether the substance of these changes significantly harms the interests of minority shareholders, whether sufficient information is being disclosed, and whether there is a discrepancy between explanations and actual actions.

I also think it's very important to indicate, as shown in the lower-right corner, that you conduct these reviews. To those acting in bad faith, delisting may not bother them in the least; they may simply believe that as long as they achieve their goals, that is all that matters. In that sense, I think it's important that such wrongdoing be brought to light.

Furthermore, even if a party passes the screening process initially, there is a possibility that they will gradually begin carrying out their intended actions afterward, and the problem will only come to light later. For that reason, I believe the system described with the asterisk (*) in the lower-right corner—"even after company meets criteria"—is extremely important.

However, I think simply asking for a status report is a bit too lax. I'm not sure exactly what is included in "other reports." If you make it clear in advance that you will not merely require reports but will also investigate, as necessary, whether the actual situation matches the reports, I believe this will convey that you will take strict action.

Kuronuma, member:

Given that cases raising concerns about unfair financing have recently emerged, it has been proposed that authorities be able to initiate a review of a company's eligibility for listing when there are significant changes to both its business operations and management structure. I felt that, in cases like the latter, it might be even more difficult to distinguish between problematic and non-problematic situations than it is when there has been a change in business operations.

With regard to significant changes in business operations, even if such changes are reviewed after they have been implemented, the changes themselves cannot be reversed; therefore, from the perspective of investor protection, there are ultimately limitations to this approach.

On the other hand, since significant changes to the management structure are likely to be followed by actions such as unfair financing or the launch of new businesses, I believe that reviewing a company's eligibility for listing at the stage when such changes are made would serve to protect investors. However, since that point occurs well before any unfair financing or similar practices take place, I find it difficult to distinguish between cases that are problematic and those that are not.

On the other hand, as explained earlier, even if it is difficult to actually implement a system for delisting, the mere establishment of such a system could serve as a deterrent: companies that engage in inappropriate conduct would be subject to a review of their eligibility for listing, and the resulting damage to their reputation could help curb such problematic behavior to a certain extent.

I think the actual design and implementation of the system will be difficult. Are you primarily trying to address problematic cases through a re-examination of listing eligibility, or are you trying to prevent problematic behavior before it occurs by creating a deterrent effect? I suspect the goal is likely both, but I think the factors to consider in the design and operation of the system will vary depending on where the emphasis is placed.

That point is also a question. I would like to ask that the system be designed with care.

Yamawaki, Senior Manager, Listing Department, TSE:

As you pointed out, we believe the purpose of the system is, in a sense, both of those things. However, we believe the most important thing is for exchanges to ensure that everyone is fully aware of the existence of this re-examination system, so that we can exercise oversight and take preventive measures well in advance—before any significant changes to business operations occur or before specific shareholders join a listed company.

That said, if the system is perceived as one that isn't actually enforced, its deterrent effect will not function effectively. Therefore, with practical implementation in mind, we would like to clearly present a clear picture of the target companies.

As you pointed out, it is quite difficult to determine exactly what kinds of changes to the management structure and other aspects should be anticipated, but we believe there are some typical patterns. We believe we will make our decisions based on actual circumstances, such as the financial performance of companies undergoing changes and the characteristics of the investors coming on board.

Nagami, member:

I, too, agree with the purpose and the issues identified. In addition, as other members have mentioned, I would appreciate it if you could clarify the specific operational guidelines before the system goes into effect.

When viewed from a long-term historical perspective, I believe that significant changes in a company's business operations are a common occurrence in corporate activities. Even when reading the comments in the reference materials for document two listing the evaluated companies, I believe there are likely some companies that have sold their original or core businesses, resulting in significant changes to their business operations.

Of course, I also understand the type of companies the exchange has in mind as its target. However, unless you establish clear definitions and operational guidelines, I believe this system will be on a knife's edge in terms of whether it will actually work. Therefore, I would greatly appreciate it if you could establish an operational framework that allows for effective screening.

Okina, member:

I, too, support establishing such a system, in line with the proposed approach outlined on page six. I believe it is extremely important to ensure that the criteria used to make determinations regarding cases where there are serious concerns about eligibility for listing—as well as to conduct reviews equivalent to those for new listings—are clear and transparent from both a procedural and substantive standpoint.

Earlier, there was also a comment that the perspective of protecting minority shareholders is important. I believe it is particularly important to issue such warnings when there are changes in the shareholder structure that significantly affect minority shareholders. Therefore, I would like you to design the system effectively.

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]