**Minutes of the 30th Council of Experts Concerning the Follow-up of Market Restructuring**

**Date:** Wednesday, October 14, 2026 3:00 PM - 4:30 PM

**Place:** Tokyo Stock Exchange 15th Conference Room

**Attendees:** see member list

**Watanabe, Director, Listing Department, TSE:**

We would now like to begin the 30th Council of Experts Concerning the Follow-up of Market Restructuring. Today, Mr. Kanda is attending online, and Mr. Kuronuma is absent.

Without further ado, we'd like to get started with the meeting. First, let us explain the agenda.

**Ikeda, Senior Manager, Listing Department, TSE:**

Thank you for gathering. There are two documents today.

Document one outlines the situation in the fourth year and future approaches regarding management that is conscious of cost of capital and stock price. We will review our progress to date and report on our future direction and specific initiatives. We would appreciate a wide range of feedback, including any points to keep in mind as we move forward with initiatives.

Document two provides an overview of the discussions of the Study Group on Developing the Growth Market. We have held the first two sessions so far, and since we have received a variety of feedback, we would like to share it with you. The third meeting of the study group is scheduled for December, and we will continue our discussions. If you have any comments or suggestions, please feel free to share them with us.

Thank you.

**Watanabe, Director, Listing Department, TSE:**

We would now like to begin explaining the documents.

First, we would like to explain the document one, situation in the fourth year and future approaches regarding management that is conscious of cost of capital and stock price.

**Monden, Senior Manager, Listing Department, TSE:**

I will explain document one.

Page two is a summary.

While companies' efforts are making steady progress, the gap in their levels of implementation status is also widening. Going forward, we will support the implementation and continuation of their initiatives based on each company's current status. This is an overview of today's discussion.

I'll explain the details later. We plan to use this slide in our communications with market participants, so we would appreciate your feedback on this content as well.

The first half of this document covers the current situation in the fourth year since the request. First, page four shows company activities over the past year.

While the disclosure rate in the Prime Market has reached 94%, it remains at just 55% in the Standard Market.

Furthermore, while many of the companies that have already disclosed continue to update their disclosures regularly, there are also a significant number that have not updated their disclosures for over a year, indicating disparities even among those that have already disclosed.

Page five takes a slightly different approach, examining disclosure practices based on market capitalization. As shown in the graph on the right, the combined disclosure rate for the Prime Market and the Standard Market is 97%.

Pages six and seven show stock price performance by disclosure status.

In both the Prime Market and the Standard Market, the performance of companies that have already disclosed outperforms that of companies that have yet to disclose or have a disclosure status of under consideration.

In particular, over the past year, among companies that have disclosed, those that updated their disclosures or made their first disclosure within the past year have performed the best, suggesting that differences in their efforts are beginning to be reflected in their stock prices.

Pages eight and nine show the PBR and ROE figures.

PBR and ROE are showing signs of improvement in both markets, while this trend is more pronounced in the Prime Market, and the proportion of companies in the upper-right quadrant, those with a PBR of 1x or higher and an ROE of 8% or higher, is increasing.

When broken down by disclosure status, companies that updated their disclosures or made their first disclosure within the past year have shown the most progress here as well.

Page 10 presents the results of a new international comparison of PBR and ROE.

The chart on the left compares changes in the percentage of companies in the upper-right quadrant (PBR of 1x or higher and ROE of 8% or higher) among major companies in Japan, the United States, and Europe. As you can see, the Japanese market has shown the greatest improvement, with the rate recently reaching 62%, narrowing the gap with Europe and the United States.

On the other hand, looking at the nine quadrants on the right, while Japan's volume zone is in the middle, specifically, PBR of 1x to 2x, ROE of 8% to 15%, in the US and Europe, many companies are concentrated in the quadrant of PBR of 2x and higher and ROE of 15% or higher.

Up until now, progress has been driven by a focus on PBR of 1x (or below), but we believe it is important to present data like this to raise the targets as a whole.

Page 11 and onward cover the status of corporate initiatives and the challenges they face.

A survey conducted by the Japan Investor Relations Association among its member companies revealed that many firms are already implementing initiatives and disclosing information related to the appropriate allocation of management resources. In particular, more than 80% of the responding companies have already taken action regarding the disclosure of targets related to (4) capital allocation and (6) cost of capital and capital profitability.

On the other hand, many companies are still under consideration or have not yet decided on items such as (3) business portfolio and (5) review of cash and other assets.

Page 12 shows the survey results by market capitalization. There is a tendency for smaller companies to be more likely to be considering actions or to have not yet decided on them.

Page 13 discusses the challenges in responding to the revised Corporate Governance Code, focusing on the items that a lot of companies consider to be challenges. Among these, the items highlighted in red, such as enhancing the functions of the board secretariat, developing specific explanations of the growth trajectory and capital allocation, and explaining the rationale for holding cash and deposits, overlap with the points outlined in the April update to the request for management that is conscious of cost of capital and stock price. It appears that many companies are facing challenges in dealing with these issues.

Against this backdrop, page 14 provides a summary of recent feedback from institutional investors regarding the progress of corporates initiatives and the direction they are taking going forward.

First, in general, we once again received many positive comments regarding the changes in corporate mindsets and the progress made in initiatives to date.

One of the other key comments was that improving ROE over the medium to long term requires concrete action by companies, and that investors expect them to make sound management decisions, such as restructuring their business portfolios and divesting non-core assets.

Second is the expectation for disciplined growth investments aimed at transforming the business structure.

Third, in response to changes in Japanese companies, global growth investors, in addition to value investors, are beginning to turn their attention to the Japanese market. It was pointed out that clearly articulating a medium- to long-term vision and growth story is essential for attracting funding from such investors.

Furthermore, the fourth point is the expectation that they will not settle for a PBR of 1x and an ROE of 8% as their goals, but will raise their targets and continue their efforts. Fifth, it has been pointed out that polarization is increasing between companies that are implementing reforms and those that are not. Finally, the sixth point is a comment noting that attention is also being paid to how to encourage companies that have not yet begun initiatives.

Those are the situation of companies and investors' view on it. Based on these, we have summarized our future policies and initiatives in the following slides.

First, page 16 outlines the proposed future approaches.

As disparities in companies' compliance efforts continue to widen, we will seize this opportunity, as companies move forward with discussions on how to address the revisions to the Corporate Governance Code, to provide reference materials tailored to each company's circumstances and to strengthen our outreach efforts.

We have outlined three main approaches.

First, as part of our approach to companies that have already disclosed, we will support them in promoting and refining their ongoing initiatives. While these companies account for 97% of the total market capitalization, there are differences in the quality and progress of their initiatives, and there is still significant room for improvement. Supporting these companies' ongoing efforts and improvements is considered important from the perspective of enhancing the appeal of the Japanese market. As specific measures, we will re-announce examples of investor expectations and best practices, focusing on the points outlined in the request update. In addition, we will continue to utilize the case studies to promote ongoing updates and implement measures such as providing support for these initiatives.

Second, regarding our approach to companies that have yet to disclose, we will step up our efforts to encourage them to take the first step. I'll explain this in more detail in a later slide.

Finally, regarding our approach to investors, we will continue to actively promote the progress and developments in Japanese companies' initiatives to investors both in Japan and overseas. Furthermore, with a view to promoting effective dialogue, we will continue to engage in communication and outreach efforts based on the results of the August corporate survey regarding investor expectations and other topics.

The following slides provide additional details on specific initiatives.

First, page 17 is a collection of case studies aimed at promoting and refining sustainable initiatives.

From the 300 companies named in the investor survey as companies showing progress in their initiatives, we will select case studies that serve as particularly useful references for other companies based on the key points of the request update. We will compile these, along with investor comments, into a case study collection. We plan to release the compiled examples between the end of this year and the beginning of next year, and we intend to publicize them so that companies can utilize them as they consider how to comply with the revised Corporate Governance Code, for which the deadline is the end of July next year.

Page 18 covers efforts to engage companies that have yet to disclose.

We have previously analyzed the situation at companies that have not disclosed, but since some aspects may have changed, we would like to once again use surveys and other methods to gain a better understanding of the current status and perceptions at each company. With that in mind, we have divided the companies that have yet to disclose into two groups and summarized our approach.

The first group consists of companies that understand the need for disclosure but have not yet taken the step to do so due to a lack of resources or expertise. We will provide guidance to help such companies take their first steps. As for the content, we would first like to summarize and present the key points regarding desired initial actions, taking into account the results of the investor survey.

In addition, as examples of gradual improvement, we will conduct interviews with companies that have moved beyond initial-stage disclosures and successfully attracted institutional investors. We will summarize the processes they followed and the challenges they faced, and present this information alongside feedback from investors.

We believe this guide will be helpful not only to companies that have yet to disclose but also to those that have made disclosures but are still in the early stages.

Another type of company is one that deliberately chooses not to disclose. The reasons vary. Some companies are already highly profitable and see no need for disclosure, while others are in a growth investment phase and cannot disclose due to ongoing losses. We will continue to communicate to such companies that the

measures we have outlined, such as clearly articulating their medium- to long-term vision and the path to achieving it, are of great significance and are something investors expect from them. If a company still nevertheless does not make a disclosure, we plan to request an explanation of the reasons for the non-disclosure and the company's future plans, to serve as reference information for investors.

We will also continue to utilize this series of guides and other resources to engage with senior management and employees in charge through seminars and on-site visits to individual companies.

Next, page 19 covers the two surveys whose results were announced in August.

First, we received many positive comments from investors, including remarks that the results of the corporate survey would serve as a useful reference for future dialogue, and in particular, that the result showing 75% of companies find the dialogue meaningful was encouraging to investors. We also received many comments indicating that the decision to publicly disclose the names of institutional investors engaged in meaningful dialogue served as a positive motivator. At the same time, we have received feedback from companies indicating that this is helpful in terms of enhancing their insight and understanding of investors.

Regarding future sessions, we have received numerous requests from both companies and investors to continue those surveys. In addition, expectations for improvement included delving deeper into investor characteristics and verifying the status of dialogues and the frequency of meetings.

We also received many positive comments from companies regarding the institutional investor survey. Companies whose names were mentioned said that this served as motivation for their initiatives. We also received many comments from other companies stating that the Excel file listing specific evaluation comments was particularly helpful, as it clearly showed how competitors in the same industry and companies of similar size were being evaluated. In addition, we received many requests from both companies and investors to continue this investor survey.

Based on this feedback, we plan to refine the questions in both the corporate and investor surveys and continue conducting them next year and beyond.

Page 20 is a reference slide summarizing the main comments we received at the previous follow-up meeting. I'll skip the explanation.

The last page, page 21, covers support for strengthening the functions of the board secretariat.

As noted in the recent survey by the Japan Investor Relations Association, companies have expressed views regarding the enhancement of board secretariat functions, a key focus of the Governance Code revision, such as, "We understand the need for this, but we don't know how to go about enhancing the functions," as well as "It's hard to see what other companies are doing or how they're approaching this from the outside, so it's difficult to visualize."

In light of these comments, the Tokyo Stock Exchange plans to hold a seminar for board secretariats by the end of the year to serve as a reference for companies as they consider this matter. At the seminar, we plan to invite experts and representatives from companies that are implementing cutting-edge initiatives to discuss the role and ideal structure of the board secretariat, key considerations, and examples of best practices.

In addition, we received many requests from secretariat staff expressing a desire to build networks with their peers. With that in mind, we hope to provide opportunities for participants to exchange information and network with one another.

That is all for the explanation of document one.

Today, in particular, we would appreciate your insights regarding the analysis of the current situation in the first half of the document, as well as your opinions on the future direction, specific measures, and implementation plan outlined in the second half.

**Watanabe, Director, Listing Department, TSE:**

Now, we would be happy to receive your comments.

**Kumagai, member:**

I would like to express my sincere gratitude for compiling such excellent materials. In particular, I believe the section on page 10 titled "International Comparison by PBR and ROE Level" is an extremely important resource for broadening the perspective of market participants.

I would like to offer my thoughts on the direction of future discussions and specific initiatives. First, to set the direction for future discussions, we should conduct an in-depth analysis of the factors contributing to the gaps with Europe and the United States, as shown in the international comparison on page 10, and take appropriate measures tailored to each factor. When a problem arises, we use the five-why method. The so-called Toyota method, in which one repeatedly asks why five times to identify the root cause and resolve the problem, is well known. It is essential to conduct a more in-depth analysis to determine whether the gap with Europe and the United States stems from institutional factors related to capital markets or from behavioral patterns rooted in society and culture. Of course, the real-world factors are extremely complex and cannot be clearly broken down into just these two. However, if the former factor is relatively more significant, we should frame the issue in terms of institutional theory and work to establish the necessary institutional frameworks. If the latter factor is more significant, we should implement appropriate measures, such as making requests or raising awareness, to encourage behavioral change.

If institutional factors alone cannot explain the gap with Europe and the United States, then we must also delve deeper into the root causes, such as corporate behavior that tends to follow the crowd by closely monitoring competitors' moves, as well as market practices, and take steps to correct them. Based on this line of thinking, it is essential to effectively combine initiatives that ultimately promote behavioral change with the development of appropriate institutional frameworks.

Next, regarding the specific initiatives described starting on page 16. At Daiwa Institute of Research, we have held discussions with numerous listed companies regarding their compliance with the Corporate Governance Code. As with the survey results from the Japan Investor Relations Association on page 13, the discussion focused on the top five items. Today, I'd like to comment on two of these points.

The first point is enhancing the functions of the board secretariat. I sense that the situation varies from company to company regarding board secretariats, depending on governance structures and other factors, and that the staff responsible for this face significant challenges. As noted on page 21, I believe it would be extremely beneficial to hold seminars that feature case studies from other companies and provide networking opportunities for staff responsible for this. If possible, I would appreciate it if you could consider inviting institutional investors to speak at the event so that they can share with listed companies their expectations regarding the role of the board secretariat.

The second point is governance aimed at enhancing corporate value. Just as establishing a path to growth was newly added to Principle 4.1 of the Corporate Governance Code, I feel there is a tendency to view the

enhancement of corporate value and growth as synonymous. However, what matters most is value creation that yields returns exceeding the cost of capital. We should clearly convey, through case studies and other materials to be developed in the future, that the optimal allocation of capital varies depending on a company's circumstances. I would like you to point out that when there are few investment opportunities offering returns that exceed the cost of capital, it is important for the board of directors to compare and evaluate available capital allocation options, such as shareholder returns, including share buybacks.

In addition to conveying these messages, I believe it would also be useful to gather information on the decision-making processes, both within the board of directors and throughout the organization, at companies that have made difficult management decisions regarding the allocation of management resources and the restructuring of their business portfolios, and to publish these as case studies. For example, as in the Case Studies of Companies' Initiatives Toward Issue Resolution you created previously, one approach would be to outline, to the extent possible, how the board of directors compared and evaluated options such as improving, continuing, selling, or withdrawing from unprofitable businesses, and how it worked to build internal consensus. Some institutional investors have expressed the view that they lack sufficient information to assess the effectiveness of the board of directors' deliberations and oversight functions when exercising their voting rights at shareholders' meetings. It is also expected that disclosure regarding these decision-making processes will become more widespread.

In addition, for the institutional investor survey on companies showing progress in their initiatives, scheduled to be conducted in the next fiscal year and beyond, it is conceivable that specific categories, such as companies that have made progress in reforming their business portfolios and companies whose boards of directors have taken bold management decisions, will be included and let respondents provide not only the names of the companies being evaluated but also the reasons for their evaluations and details of the specific initiatives undertaken.

**Matsumoto, member:**

I'd like to make just two comments.

One point is the 8% ROE. As explicitly stated in the Ito Report, the rate is currently 8%, but given how much interest rates have risen, I believe we should adjust the rate to around 10%.

While the PBR of 1x is fine, when it comes to the 8% ROE, I think it might be time to consider raising the bar and signaling that we're aiming higher.

Another point concerns the board secretariat. Speaking from my experience as an outside director at a US publicly traded company, and as Mr. Kumagai also mentioned, the most important fundamental concept is that the board secretariat exists for the outside directors. In Japan, however, I believe there is a tendency for it to be oriented toward serving the president and CEO.

In that case, I believe there is a possibility that this may not lead to the kind of functional improvements that investors desire, at least when considering the overall governance of the board of directors, as well as the effectiveness of its discussions and the quality of its preparation. When considering the specific structure of the board secretariat, it is important to first reexamine the fundamental concept of why it exists and for whom it operates, and to discuss and clarify these points as necessary. While I believe cross-departmental collaboration is important, I think it's essential to first clearly understand the fundamental purpose of the board secretariat.

**Sampei, member:**

First of all, thank you for compiling this document one. I think it's very well organized and analyzed.

Therefore, I strongly encourage listed companies and investors to read this to learn how much progress has been made over the past four years and what challenges remain. I believe it is crucial to ensure that this is widely disseminated and read by listed companies, pre-IPO companies, and investors with whom the Tokyo Stock Exchange has been in contact.

During the preliminary meeting, I mentioned that in such cases, having a summary would make it easier to grasp the key points. Thank you for including the summary this time.

While the summary covers most of the important points, what I'd particularly like to emphasize is that you should avoid letting the issue of whether or not disclosure is taking place, or the disclosure itself, become too much of a focus in itself. Disclosure serves as a catalyst, and it has been quite effective. The title of the summary is "moving from disclosure to implementation and enhancement," but I think this is similar to the common expression "from formality to practice." Rather than that, I think it's more important to highlight the fact that there are clear differences in performance and market valuation depending on the level of disclosure.

Since publicly traded companies want to earn the market's approval, I think it would be helpful to emphasize that disclosure is a significant shortcut that leads directly to that goal.

Also, while the specific details are listed on the pages following the summary, I think it would make the text easier to read if the page numbers were included in parentheses next to each item in the summary so readers can see which page each item corresponds to.

The key point in the summary is the third item under "2. Current status and challenges." In Japan, a PBR of around 1x and an ROE of around 8% are considered the mainstream range. As Mr. Kumagai just emphasized, I think it might be a good idea to summarize the content of page 10 a bit more clearly. While the typical range in Japan is a PBR of 1x to 2x and an ROE of 8% to 15%, I think it would be better to state more clearly that in the US and Europe, the typical range is a PBR of 2x or higher and an ROE of 15% or higher.

In addition, when providing feedback, as outlined in "(1) Approaching Companies That Have Disclosed" on page 16, I believe it is crucial, for these companies to continue their efforts moving forward, to clearly convey that they are working diligently on disclosure and initiatives, that they are producing results, and that their strong performance is backed by market recognition, in other words, that they are being properly understood and valued by the market, so that they can truly feel the impact and see tangible results.

In that sense, the comments from investors on page 14 include both praise and expressions of hope. If I were asked to fill out this survey, I think I would probably start by writing something positive, and then follow it up with "however" to express my hopes.

If that's the case, I think the evaluation might seem a little less impressive. I think it's very important to highlight the points that investors appreciate by writing them in blue to emphasize just how much they value them, while writing their expectations in a different color to underscore how much positive feedback has been gathered.

**Koike, member:**

Thank you so much for the very clear and easy-to-understand materials. Looking back on our efforts over the past few years, I could truly see that companies' stock performance has improved.

I have a few comments regarding the content of the document. You have included the stock price trends on pages six and seven. As investors, we would be very interested in seeing this broken down and analyzed by individual components.

For example, stock price performance since the disclosure of the cost of capital. This graph shows stock price trends based on the stock price levels in April 2022. However, I am very interested in how performance has fared over the period since the disclosure, including metrics such as ROE, as well as how it varies by company size and industry.

While it is true that the stock prices of companies that have disclosed have performed well, I also feel that the Japanese stock market and corporate earnings have been strong recently, and that this may be providing some support in certain cases. I think a more in-depth analysis might allow us to break down the factors.

In that sense, our Advanced Asset Management Technology Research Department has a team of quantitative analysts and AI specialists conducting this type of factor analysis. If we can work together with you, we'd like to explore that topic in a bit more depth.

Another point of concern is that interest in Japanese stocks is currently very high, and we're receiving a lot of inquiries and requests from overseas investors. Furthermore, against the backdrop of Japan's shift toward becoming a nation focused on asset management, domestic retail investors, who were buying US stocks a few years ago, are now increasingly turning to Japanese stocks. On the other hand, the situation where investors aren't selling even when the market dips slightly continues, and in fact, the range of stocks being invested in has become fairly limited.

In other words, while rising stock prices equate to increased corporate value, this has not yet translated into a broader investing base for us. Therefore, I feel that it's not just a matter of stock prices rising. Rather, it's necessary for the range of investment options and strategies in the market to expand further. Therefore, I feel we should also examine whether there is sufficient liquidity to encourage stock investment and whether the base is expanding.

You also included the survey results. After reviewing the survey results, I think it might be a good idea to make some adjustments and develop a strategy for using them as a communication tool.

For example, there is limited disclosure regarding initiatives related to cash and deposits. The lack of awareness in this area is precisely the result that has been pointed out as a problem in the stock market. Rather than asking about each reason one by one, it's better to delve deeper through a survey. In that sense, I feel that by refining the way the survey is conducted and the questions asked, we'll be able to gain a better overall understanding.

I feel that gathering this kind of information from companies through surveys could potentially serve as a tool for education or communication. Therefore, I believe it is important to refine the survey while taking into account the opinions of institutional investors and others.

**Nagami, member:**

Overall, thank you for the clear explanation. While there were explanations of individual companies' initiatives at the micro level, what struck me, as it did others, was page 10. Based on this material, I would like to offer a few comments in terms of the Tokyo Stock Exchange's direction and vision for market operations. As one example, my initial thought is that the Tokyo Stock Exchange could perhaps be more explicit about the levels and quality it aims to achieve in the medium term, such as raising the proportion of companies on the left

side with a PBR of 1x or higher and an ROE of 8% or higher to levels comparable to those in Europe and the United States.

For that reason, I think a line of reasoning or messaging that states, “We would like to request that publicly traded companies do this,” would be easy for companies to understand. In the past, the PBR-below-1x issue was covered by the media, and I think one reason companies took action, and did so with a sense of urgency, is precisely because the issue was so easy to understand. My first message is that I would like you to take the lead in that kind of communication and in setting the direction for it.

You say that the ratings for the nine quadrants on the slide will naturally improve as well. However, since the improvements over the past few years appear to have been driven primarily by improved capital efficiency, I believe that future improvements will focus more on how each company formulates its growth strategies.

As Mr. Matsumoto mentioned earlier, with the cost of capital on the rise, companies will also need to achieve stronger EPS growth. I believe improvements in capital efficiency, of course, will also contribute. However, what’s more important is companies’ growth strategies, and I believe the next few years will be a crucial phase for outlining how they plan to grow their EPS and cash flow in particular.

In this way, if the market communicates its future macroeconomic direction and ideal state, and translates that into concrete actions to fulfill the expectations placed on individual companies, I believe those companies will take these messages seriously with a sense of urgency. I would appreciate it if you could give this some thought.

**Okina, member:**

Thank you for your explanation. I’d like to make a few points.

For one thing, I think the two-page summary is very easy to understand. Although we use the framework of disclosure, I believe what really matters is providing explanations to stakeholders, such as investors, and ensuring that those explanations are supported by their growth strategies. Therefore, I share Mr. Sampei’s view that it is extremely important to emphasize that we have already moved on to the next phase from the very moment we established the framework for disclosure.

On page 10, the TOPIX 500, the S&P 500, and the European STOXX 600 are referenced. As part of your analysis of the current situation, we would also appreciate it if you could share the specific characteristics of each industry.

As expected, AI-related fields are experiencing tremendous growth right now. I’d like to understand the structure, including the extent to which those factors are influencing it. Also, in fact, a great many people say that this is because Japan has so many industries like this. So, I’d like you to make sure the material clearly explains those elements as well.

As for the initiative, while I generally agree with the overall direction, I think it might be appropriate to introduce some degree of variation. I certainly think it would be meaningful for companies that are truly self-sufficient to use this as a resource, but this is, after all, merely a form of support. On the other hand, I also believe you need to respond appropriately to companies that require focused support and are seeking specific assistance from the Tokyo Stock Exchange.

I believe the ultimate goal is for initiatives to move forward through dialogue as both investors and companies continue to grow. I think the best approach would be to provide clear guidance and resources, including best practices, to help them implement this effectively.

I'd like to make two points regarding some details.

Many companies are interested in the explanation on page 13 regarding the rationale for holding cash and deposits. Companies that are thoughtful about this issue give it careful consideration and issue disclosures accordingly. So, I think that sharing the approaches taken by leading companies as best practices could serve as a useful reference.

Regarding the corporate secretary, and while this is similar to what Mr. Matsumoto said, I think it's important to identify the essential points. I suppose every company has its own areas where it needs to be creative. Therefore, rather than focusing on a single "correct" answer from a formal perspective, I believe you will, moving forward, engage in activities that bring to light the fundamental commonalities regarding what the corporate secretary should prioritize and how it should fulfill its role. I would really like you to give that some thought.

**Uchida, member:**

I, too, believe that the specific initiatives taken by the Tokyo Stock Exchange to date have likely had a significant impact in promoting dialogue between companies and investors and in helping both sides gain a clearer understanding of each other's perspectives.

However, I believe that while some aspects of how investors are perceived and how they behave from a corporate perspective have become widely accepted, there are still others that have yet to be fully understood. Therefore, I hope that, by making use of surveys such as the one conducted in August, we can gain a clearer picture of what investors look like from a company's perspective.

This is our fourth year, and I think it has been relatively easy for companies to take action on matters such as shareholder returns. At the same time, while every company formulates growth strategies based on its own terms and is taking concrete actions, the question remains: How do these efforts translate into tangible results, and how can they organize the process and its outcomes? I think there will be some challenges, but I believe they are entering a stage where the nature of their work will shift somewhat. They'll be reviewing updates to disclosures on such matters while taking into account continuity from the past. I think that ties into the transition from disclosure to implementation mentioned earlier. I hope you'll keep that in mind as you monitor the situation.

When it comes to deposits, I find it a little strange that this item appears on its own. I think this essentially comes down to how they view their current liquidity within the context of their growth strategy and the financial and capital strategies that support it. Although the term "deposits, etc." may technically include items other than deposits, I think some people might be confused by the fact that it focuses solely on deposits.

On the other hand, I believe there are some companies that have held large amounts of deposits without providing any explanation. So, I do understand why this kind of criticism is being raised. However, I believe that it is essential to consider this issue in the framework of their growth strategy and their financial and capital strategies.

Finally, I believe the board secretariat plays a very important role. I believe this will be a great shortcut to improving governance and enhancing the effectiveness of the board of directors, including outside directors. Therefore, I would really like you to reach out to management and highlight the effectiveness and benefits of the secretariat.

I believe that the secretariat's operations are likely staffed by individuals who have the potential to become future company leaders, and I think this contributes to their professional development. With all that in mind, I hope you'll make that point in your presentation.

I think this task is often handled by legal or administrative staff, but I imagine there are various approaches depending on the company. If possible, I think it would be best to establish a dedicated team, regardless of its size, composed of people whose sole responsibility is to focus on governance.

**Koike, member:**

After listening to what the other members had to say, I was wondering: What strategy will we use to move this discussion forward over the next few years?

For example, there is a clear divide between companies whose performance is actually improving and those whose performance is not. If we were to set a single direction for this polarized group, I get the feeling that this gap would be hard to bridge.

As shown in the international comparison on page 10, Japan's valuations are still somewhat low from a global perspective. So, regarding this issue, do you plan to introduce a new system to raise this valuation, or do you intend to work closely with individual companies to encourage them to take voluntary action? What are your thoughts on this?

**Ikeda, Senior Manager, Listing Department, TSE:**

To give you an overall picture, as Monden mentioned at the beginning, and as shown on page five, when it comes to the initial steps, 97% of companies, based on market capitalization, are already actively implementing this.

Therefore, our basic approach is to support companies that are taking on these challenges, and going forward, the outcome will depend increasingly on individual companies. As mentioned earlier, we have now entered a phase where we are having them actually develop growth strategies and engage in dialogue. With that in mind, we plan to focus primarily on providing support by offering resources, such as those we described, that will be useful for their initiatives, so that each company can make the most of them.

At that time, regarding the international comparison on page 10, we would like to consider how to convey the message, specifically, to what extent we should emphasize that it is important to steer the overall company in this direction, as Mr. Nagami also pointed out earlier.

**Sampei, member:**

A few people mentioned earlier the need for further factor analysis of the data. Regarding page 10, Ms. Okina also said she would like to take a close look at it, taking into account the breakdown by industry. I also think it's necessary to make international comparisons by industry here.

For example, if you limit your comparison to just the domestic market, you might end up thinking that your company is struggling simply because it operates in this particular industry. However, if there are companies overseas that are achieving high performance by radically changing their business models, I think we need to

make sure people are aware of them. I think the argument would be more persuasive if there were additional analyses with a finer level of detail to support that suggestion.

**Watanabe, Director, Listing Department, TSE:**

Thank you very much.

Next, we would like to explain the status of the discussions of the Study Group on Developing the Growth Market on document two.

**Isogai, Manager, New Listings, TSE:**

With regard to the Growth Market, we launched a study group in August and have held two meetings so far. Today, I'd like to report on the opinions expressed there and the next steps, so we would appreciate your feedback.

Page two provides an overview of the study group. This has not changed from what we reported at the previous meeting. I will omit the explanation today.

Pages three and following cover the first meeting. We invited leaders with the highest market capitalizations, who are driving the Growth Market, as well as other individuals actively working toward growth and their investors, and held a discussion primarily from the perspective of publicly traded companies.

Please turn to page four. The first point of discussion was what exactly constitutes the high growth expected of companies in the Growth Market.

The first point is a comment from a business leader whose company ranks among the top in market capitalization on the Growth Market. "As a Growth Market-listed company, we are committed to achieving a growth rate befitting that status, specifically, annual growth of at least 20%, and have consistently met that target to date." He also spoke about his ambitious goal of continuing on this path to eventually become a company worth JPY1 trillion or even JPY10 trillion.

In response to that, an investor commented that it is important for management to explain their vision in their own words.

In addition, another investor noted that, for a company in the Growth Market, they place a high priority on whether the stock price has significant room to rise, even if it doesn't double, and that, provided such a company can resolve its liquidity issues, they would be willing to invest in it.

In addition, as noted in points four and five, it was suggested that, in order to pursue such growth, investment in growth should be prioritized over short-term profits or returns, and that it is important to maintain a cycle of fundraising, growth investment, and business expansion. In addition, as noted in points six and seven, some participants suggested that, when discussing such growth strategies between companies and investors, it might be advisable to reach a common understanding regarding realistic growth targets and evaluation metrics.

Page five is about governance. Based on the view that companies in the Growth Market where the founding CEO has a strong presence must give careful consideration to corporate governance, we received a variety of opinions.

For example, as mentioned in the first point, there was a view that when a company faces challenges, there are limits to what management can decide on its own, so it should be equipped with robust advisory and oversight functions.

In addition, as mentioned in the second point, there was a view that what investors value is not formalities, such as the number of outside directors, but whether the system is effective in enhancing corporate value.

I think the third point is particularly important. While a shift to the Prime Market has traditionally served as a catalyst for strengthening corporate governance, some have suggested that, assuming companies will continue to pursue growth on the Growth Market, they should adjust their governance structures in line with their respective stages of growth.

Pages six and seven discuss the measures needed to create an environment conducive to achieving our vision.

Regarding market operations, there were comments suggesting that the market should establish a brand image as a market that values growth and ensure that the market is not merely a stepping stone to the Prime Market, but rather a place where companies aiming for growth can continue to take on new challenges.

Page seven covers support measures. As a general principle, there was a consensus that support should be tailored to factors such as company size and growth stage. Points two and beyond cover the specific details. We received feedback on a range of topics, including talent acquisition, knowledge sharing, matching with investors, the design of systems and incentives at securities firms related to fundraising, and communicating the investor perspective.

Pages eight and onward cover the second meeting. At this event, we invited representatives from unicorn-level companies and venture capitalists to participate in a discussion primarily from the perspective of privately held companies.

See page nine. First, regarding the significance of an IPO, while it goes without saying that an IPO is not an end in itself but rather a means to growth, there were opinions pointing out that it is also a process through which a company becomes a public institution and thus carries the responsibilities of a public company.

In addition, it was pointed out that when considering an IPO, management should not approach it as a given, but rather should carefully evaluate why an IPO is the right choice. Furthermore, regarding the timing of the IPO, some suggested that it should be scheduled for a time when the company's post-listing growth potential can be effectively highlighted, while others emphasized the importance of ensuring that not only the business but also the organizational structure and human resources are in place. On the other hand, there were also opinions that leveraging the benefits of an IPO at an early stage would lead to growth.

The bottom of the page discusses the organizational structure expected of companies going public.

While this also applies to publicly traded companies, there was a view that companies should not appoint directors merely as a formality for the sake of an IPO, but rather appoint directors who can contribute to enhancing corporate value. There was also a suggestion that companies should not use the fact that they have just gone public as an excuse, but rather establish a system that allows them to engage with investors regarding their business model, TAM, and other topics right from the time of the IPO.

Page 10 covers future plans for improving the environment.

As a general direction, given the premise that the Growth Market is inherently a mixed bag, there was a view that the focus should be on increasing the number of companies that achieve significant growth, rather than uniformly raising the overall level of the market. There was also an opinion that what is expected now is not the number of IPOs, but rather how much the stock price can be raised after the company goes public.

From here on, you see specific topics. First, regarding human resources and knowledge, opinions were expressed that, given the limited number of individuals with specialized expertise, efforts should be made to promote the circulation and mobility of such talent, its sharing among multiple companies, and initiatives such as talent development and training sessions.

Page 11 covers access to investors.

Regarding overseas investors, there were opinions that, while it was noted that unicorn-level companies already have some connections with them, more companies should be given access to them, and that this would also help raise the management's perspective. In addition, it was suggested that it is important to create an environment where investments in startups by operating companies are not unduly restricted, and that companies should learn to adopt the perspective of investors in publicly traded stocks from the pre-IPO stage, while also ensuring that investors, in turn, gain an understanding of the business before it goes public.

In addition, we received comments suggesting that we should work to revitalize the unlisted secondary market to allow for flexible timing of IPOs, as well as comments emphasizing that, to achieve this, it is important to establish a system that aligns with actual market needs.

Page 12 covers the listing review process. As noted in points one and two, since few companies have expertise in preparing for an IPO, there were comments requesting that the Tokyo Stock Exchange proactively share its basic approach to screening and past cases so that companies would not need to adopt an unnecessarily conservative approach. In addition, as noted in points three and four, it was pointed out that the review process itself should not be limited to a mere formal check, but should instead prioritize tasks based on risk. Furthermore, as noted in points five and six, we received feedback suggesting that, in order to treat the preparations for going public as a runway for post-listing growth, we should pose questions focused on enhancing corporate value and verify whether the company has the foundations in place to support future growth.

Page 13 covers other matters related to the IPO.

Comments were received regarding the need to provide comparisons with the Standard Market and overseas markets, as well as regarding classes of shares with voting rights, the review conducted by the Japan Securities Dealers Association, and offering prices.

Page 14 is about boosting metabolism.

As noted in the first point, there was a view that when companies find it difficult to grow after going public and opt for delisting or M&A, talent and capital may shift to the next growth areas, potentially leading to a virtuous cycle within the ecosystem. In addition, as noted in points two and three, it was pointed out that, in order to promote such metabolism, it is necessary not only to ensure that the review of continued listing criteria functions effectively but also to change the public perception that once a company goes public, it must remain listed.

Finally, page 15 outlines the next steps.

First, we would like to take some time to organize the various opinions we heard today and use them to draft a preliminary plan for our initiatives, including the overall direction. In that regard, we hope to also clarify what we can do as an exchange and how we can involve the relevant parties.

Based on that, we plan to hold the third session on December 7 and invite participants from the first and second sessions to attend and share their feedback.

We will provide a report on the third session at the next follow-up meeting. Today, if there's anything you've noticed so far, we'd appreciate your feedback.

That is all. Thank you.

**Watanabe, Director, Listing Department, TSE:**

Now, we would be happy to receive your comments.

**Kumagai , member:**

Thank you very much for compiling the materials. I would like to share my thoughts on the outcomes of the study group and specific points of discussion.

First, regarding the deliverables. I understand that starting with the third meeting of the study group, issues and measures will be identified, and the overall situation will be organized. As part of this process, we strongly encourage you to clearly define the challenges and then establish a clear priority order for the measures based on factors such as their impact on the company's growth, urgency, feasibility, and the role the Tokyo Stock Exchange can play.

To date, various organizations have produced reports on startups, and a wide range of effective measures have been proposed. However, in many cases, these measures have been presented in a piecemeal manner, and it appears that priorities based on their expected policy effects, as well as their implementation schedules, have not always been clearly specified. I do not intend to completely deny that there is some merit in promoting a wide range of measures simultaneously. However, it is essential that we strengthen initiatives, such as the Toyota method, which identifies root causes through the five-why approach I mentioned earlier, to pinpoint the fundamental causes hindering the development of the Growth Market and concentrate your resources on high-priority measures.

Turning to specific issues, I would like to address governance in the Growth Market. As noted on page five, given that they may face various challenges, such as business stagnation and changes in the business environment, and considering the future expansion of their business and organization, I believe there is a strong need to establish governance as a foundation for growth.

However, in a comply-or-explain framework such as the Corporate Governance Code, if the underlying intent is not fully understood, there is a risk of resorting to a superficial, check-the-box approach to compliance with the principles. At a time when they need to focus their management resources on their core business, it would be counterproductive if a mere formality were to hinder their growth. I believe it is desirable to design a system that allows for the gradual and seamless integration of necessary governance functions in accordance with the stage of business growth and the size of the organization.

For example, it is worth considering categorizing companies based on their characteristics, such as those with a high percentage of shares held by the founder, research-and-development-oriented companies, companies experiencing rapid expansion through M&A, and companies that initially operate at a loss, and then identifying the typical risks associated with each category, as well as the governance functions that should be prioritized and examples of appropriate measures based on their stage of growth, or even creating a roadmap.

**Nagami , member:**

Overall, I think it's wonderful that stakeholders in the Growth Market are engaging in such in-depth discussions. Similarly, since it is understood that the action items will be finalized in the future, I would like to offer just two comments based on my review of this slide at this time.

First, regarding page 10. While the number of new listings this year is likely to drop significantly compared to previous years, I suspect there are quite a few people who have misunderstood this point. That misconception is the idea that the bar for the screening criteria has been raised. I think there are probably quite a few people who are conscious of some sort of change or adjustment to those criteria.

While that factor may play a role to some extent, what is more fundamental is that the type of IPO the market accepts has been changing with the times and market conditions. I think it might be a good idea to make that point clear.

Around the end of the year or the beginning of the new year, it is important for the exchange to provide a thorough review and explanation of the decline in the number of new listings, offer a clear perspective, clarify the criteria by which it operates the market, and make it clear that it does not view this as a negative development. This is essential for ensuring the public correctly understands that this represents the new era of IPOs. I would appreciate it if you could give this some thought. This is the first point.

Another point is the TOPIX reform described at the bottom of page seven. I think this is a very powerful story. This has become quite a hot topic among unlisted companies and those listed on the Growth Market.

I believe that companies in the Growth Market, in particular, can take advantage of the fact that they can be included in this index while remaining in the Growth Market, even without moving to the Prime Market. I would really like you to highlight these benefits in concrete terms. I think it would send a positive message to clarify what specific requirements exist and what level of performance is generally needed to be eligible for inclusion in the TOPIX. I believe it is important for the Tokyo Stock Exchange to issue a clear message to newly listed companies, and I think it would also serve as an incentive for further growth among existing listed companies, so I hope you will consider this.

**Sampei , member:**

Thank you for facilitating two rounds of discussion of the study group. I believe the comments you've collected contain many very important points that we should listen to carefully. With that in mind, regarding the actions the exchange can take, as outlined in the section on future steps, I would like to make two points based on the potential discussion topics.

Among the many comments regarding what can be done on the exchange, the one that stands out to me in particular is the second item from the top on page 11. In Japan, it's common to attribute the lack of investment capital, for example, in startups, to domestic issues, such as the absence of investors or people with the ability to identify promising opportunities. In some cases, public-private funds may be established, but considering that they are investment funds, the global markets are interconnected. So, if we can effectively promote ourselves and get the message across that there's an interesting company like this here, money will come in even from overseas. However, when I'm really on the fence about whether to invest, I often find that the explanations I hear during meetings are boring or fail to resonate with me. In that case, we won't be able to secure those funds.

At the very bottom of page nine, the bullet points list business model, TAM, and long-term equity story. It's extremely important to be able to express these points with enough conviction to truly persuade the other person, but that's what's missing. This is an issue that affects both privately held companies and companies listed on the Growth Market. I think exchanges could provide a little more support in this area by offering guidance on what the key points are and how to articulate a solid strategy.

Take the word "strategy," for example. In Japan, it almost always refers to a plan. That's not the case. Investors want to hear about the real strategy. It would be good if you could provide effective support in that area.

One more thing, and this may be similar to what Mr. Kumagai mentioned earlier, but I have long argued that, given the unique nature of the Growth Market, we need a separate CG code specifically for it.

When I think about what kind of system we can build, I feel that the comply-or-explain approach isn't quite the right foundation after all. For example, I believe that the CG code for all markets generally applies to any market. Regarding that, as Mr. Kumagai mentioned earlier in terms of specific scenarios, I believe it would be very meaningful to clarify interpretations and concrete measures that take into account the unique circumstances of the Growth Market, and to organize and provide guidance on how to interpret the rules in the context of the Growth Market.

**Koike , member:**

Thank you for the materials. I felt that if we really take the time to listen to the perspectives of those who are about to go public or have already gone public, it will be easier to get a clear picture of what it's like.

I have two points I'd like to comment on. The first point concerns the clarification of the ideal corporate profile expected in the Growth Market, as outlined among the potential discussion topics on the last page. There are many things in this document that really convince me. However, if we consider that the ideal profile of a company in the Growth Market has not yet been clearly defined, I feel we may need to take another look at the companies that have gone public in recent years, examining what kind of companies they are, how they've grown, and what kind of performance they've delivered.

If we were to introduce a new corporate profile, or a definition of what constitutes the Growth Market, there might then be IPO companies that don't fit that description. In that case, what should you do about that company? I felt it would be a good idea to go over it one more time to some extent.

Another point, as Mr. Nagami pointed out, is that, since several companies listed on the Growth Market will be included in the TOPIX going forward, I believe there will be significant value in remaining on the Growth Market. The most essential requirement for the Growth Market is for such companies to remain on the Growth Market rather than move to the Prime Market, and to grow to JPY500 billion, JPY600 billion, or JPY1 trillion.

To achieve this, I believe we need to do something like branding of the Growth Market. While it is important to require companies to comply with systems and regulations in order to improve corporate governance, that said, from an outside perspective, I believe there are still many companies that naturally want to move from the Growth Market to the Prime Market.

However, I believe it is necessary to encourage companies that qualify for the TOPIX to remain in the Growth Market, acting as so-called hero stocks, and to actively take corporate actions that maximize the benefits of being in the Growth Market. Furthermore, to establish a brand image that conveys how favorable this

environment is for companies planning to go public in the future, I believe it is essential to properly build that brand.

I believe that as companies are added to the TOPIX in the future, institutional investors will gradually begin participating in this market, and I think an increase in such companies would be most beneficial for the Growth Market. So, I hope you will actively pursue such initiatives.

**Okina , member:**

Thank you for your explanation. The comments made by the study group were also very helpful.

I also believe that, when it comes to the Growth Market, the question of how to enhance its competitiveness on a global scale is extremely important. As Mr. Sampei mentioned earlier regarding page 11, I believe it is also important to consider how we can make this a market that is attractive to global investors, including how to attract foreign investors.

I also believe that the Tokyo Stock Exchange is making efforts to encourage Asian startups to go public. I would also like to hear about those initiatives and what kinds of challenges you are facing.

Also, I believe there was talk in the past about Japanese companies listing on NASDAQ. Are there still any such movements? Taking all of that into account, I believe that how we approach, as a whole, the IPOs of Japanese companies, the listings of foreign companies in Japan, and our relationships with foreign investors is a very important issue.

The Hong Kong market has been picking up recently, and I think this is likely due in part to its relationship with China. I believe it is extremely important to examine Japan's Growth Market from a global perspective, while also considering its current standing on the global stage and the initiatives being undertaken by each exchange. I would appreciate it if you could explain this to me again.

**Matsumoto , member:**

This may be a somewhat controversial way of putting it, but I believe that what the government, society, and the market truly want is not so much to create a market for listed small and medium-sized enterprises, but rather a market that can effectively foster star companies capable of succeeding on the global stage, much like the NASDAQ. When I think about it that way, two things come to mind.

For one thing, I think metabolism is very important. I'm not saying that going public and then simply trying to achieve moderate growth across the entire company is completely incompatible with building a star company. However, it is increasingly common worldwide to see star companies emerge as a result of a certain degree of turnover and the reallocation of human and capital resources. So, I think we should boost its metabolism even more.

In short, while there are some doubts as to whether it is appropriate for the Tokyo Stock Exchange to take the lead on this issue, I think there should be more discussion on the fundamental question of whether it is better for companies to maintain a moderate level of growth, just barely meeting the criteria, after their IPO, or to foster robust renewal and build large corporations.

Another potential topic mentioned is promoting secondary trading in private companies. When I think about the differences between the world, particularly the United States, and Japan, I believe there are various reasons for this.

One possible reason is that, in the United States, since the passage of the JOBS Act, the transfer of unlisted shares has become more common, and institutional investors have begun to exert influence even at the unlisted stage. Within this context, companies are challenged to determine what kind of talent they should recruit, what perspective they need to adopt, and how to set goals, and it is through this process that they eventually go public and continue to grow. I think this is quite limited in Japan.

As for whether this is really a problem for the Tokyo Stock Exchange, I think it might actually be something the Financial Services Agency should be addressing. However, aside from various issues related to securities trading, systems such as Carta in the US have been developed to handle standardized information and manage cap tables. I believe this is likely not just a legal issue, but a theme that applies to the various industries involved in the capital markets as a whole. I think there should be more discussion about this approach, creating such mechanisms to enable secondary trading of unlisted shares, introducing institutional investor oversight at an early stage, encouraging companies to go public on a large scale, and promoting renewal, as well as about how to continuously foster the growth of star companies.

Regarding the various opinions presented in the materials, there were quite a few comments from everyone noting that there were many positive aspects. On the contrary, when I looked at this, I got the impression that the opinions were quite scattered and inconsistent. It seems to me that the goals of the Growth Market are somewhat unclear.

I think there used to be a clear perception that listing on the First Section of the Tokyo Stock Exchange was a stepping stone to success, but it seems to me that this has become more diverse in many ways. Reading these opinions, I got the impression that the Tokyo Stock Exchange should perhaps take the lead in furthering the discussion on the significance of the Growth Market.

**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]