

## **Minutes of IPO Liaison Meeting**

Date and Time: April 8, 2025 (Tuesday), from 6:00 p.m. to 7:30 p.m.

Venue: TSE, 15th Floor, Conference Room

Attendees: see list of members

### **Ao, Senior Executive Officer:**

We will now begin today's meeting.

I am Ao of TSE. Thank you very much for your cooperation. Thank you very much for joining us today, despite the busy time at the beginning of the fiscal year.

Mr. Ikeda will explain the purpose of today's meeting and how we will proceed.

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

Please see page four of the document.

As you are aware, the TSE is considering measures to produce startups that achieve high growth from the Growth Market. We considered three measures as one package.

As for after listing, we plan to encourage listed companies to analyze their growth status from the time of listing to the present and update their growth strategies, etc., while utilizing the framework for disclosure of matters related to their business plans and growth potential, as described in item II. In addition, as stated in III, we are considering revising the continued listing criteria of market capitalization of JPY4 billion or more after 10 years of listing to JPY10 billion or more after five years of listing. This is based on the viewpoint of encouraging early growth to a size that can be invested in by institutional investors, as well as promoting mergers and acquisitions among companies and the next start-up by entrepreneurs. Regarding III, we have recently published our comments and the current version of the document in response to media reports.

In addition to the above, we would like to work with all of you gathered here today on the item I, pre-listing, to promote efforts to create good IPOs that will lead to high growth after listing. There are limits to what exchanges alone can do, so we would like to see the underwriters who provide support to companies cooperate with us and work together as an industry to address this issue.

Therefore, today, we would like to have a frank exchange of opinions on current IPO issues and possible responses from your perspective before we move forward with our efforts in the future. As examples, the gray area on page two of the document shows possible perspectives. Of course, we would like to receive opinions from a wide range of perspectives, not limited to those.

We would be happy to share your comments on the material of the Council of Experts Concerning the Follow-up of Market Restructuring scheduled to be held on the 22nd of this month.

The remaining pages of the document are for reference only, so we would like to omit the explanation and begin the exchange of views. If anyone wishes to speak, please raise your hand.

**Brokerage firm:**

First, I believe it would be a good idea to determine a time frame. Of the short, medium, and long term, should we talk about the long-term span and then the medium and short term, or can we talk without regard to the time frame?

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

I believe that you have come prepared with your opinions. We will sort it out later, so please talk freely.

**Brokerage firm:**

Because brokerage firms have so many different stakeholders, it is difficult to say out loud the various things we are thinking. In addition, it would be good to have a common awareness of issues that we have seen and heard a lot about, and that many people seem to feel the same way about. I would like to express my opinion with those points in mind.

First, while there is nothing wrong with small-cap listings, there seems to be a common perception that the problems with small-cap listings are greater than before and that more and more people are feeling something wrong with the intention of some small-cap listings. There seems to be an awareness of the problem that human resources are taken up there, that it is costly, that investors' funds are dispersed, and that it is difficult to see how the market as a whole is improving as a result. In any case, I think it is better to be clearly aware of what the problem is and what we are trying to achieve.

Naturally, it is expected that some will point out the disadvantages of making the change. I believe that some of those who seem to view IPOs, including small-cap listings, as an exit opportunity will say that the bar will be raised, which will reduce their willingness to invest and strangle the supply of risk money. We must have a common understanding of what Japan as a whole should aim for while understanding such disadvantages, and we must come up with fundamental measures to achieve this. So, I hope you will have a discussion about it.

I also think that the more people have been involved in IPOs for a long time and watched them closely, the more they feel that the disadvantages and problems in small-cap listings are greater than in the past, and that is why these topics are coming up. There could be many ways to address the issue. There are three ways to change the listing criteria: one, technically changing the listing criteria; two, creating the need to aim for larger companies or changing the atmosphere in the world, such as the view on small-cap listing companies; or three, securities companies changing their own criteria. While it is not easy to change, we need to respond with a combination of messages and minimal structure. First of all, I would like to confirm whether the TSE and everyone here have such a perception as well, and I hope we can share a same perspective.

On top of that, I think some would argue that one disadvantage of not changing the bar for the Standard Market is that some companies might move from the Growth Market to the Standard Market without clear

intention. I think there is also the issue of how the screening process should be handled as a responsibility of the party that gives approval to the listing. In other words, I think there is an essential idea that we need to be more aware of the value of the company and its market position in the future and to pay closer attention to its future growth, rather than the certainty of its current performance. It is not enough to just look at the current performance of the company, but we must also look properly at what the company will become in the future.

I also think that there will be some arguments as to whether JPY10 billion is really enough. Essentially, institutional investors want higher levels. I think it would be good to discuss at this time whether to raise it once to a certain degree and then raise it again later or whether this is sufficient. If we want to create as many companies as possible that are well funded and can win even among similar services, so-called unicorns, for example, then we should raise the standards even higher. On the other hand, even so, there are disadvantages to having the existing ecosystem challenged. I think we need to clearly recognize that and still talk about the benefits of this.

As such, I think we should first look at the foundation of the discussion, what we are trying to achieve and how far we are trying to go.

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

Thank you very much. First, I would like to add what direction we are taking in our discussion.

First, we are taking the approach of reviewing the continued listing criteria. We understand that some of you may suggest that we should raise the criteria for new listings, but we have decided not to change that. The background is that there are a limited number of companies that have grown larger after going public with billions of yen. There is also the belief that it is not in the overall best interest to cast a damper on the environment where startups should take on challenges. Our view is that if a company goes public, we want the company to aim for high growth after the IPO, and we want the company achieve the IPO with that goal. We are not dismissing all small-cap IPOs as a formality.

On top of that, I would be very interested to hear any opinions you may have today on how the listing examination process should be for the Growth Market from the perspective of how we can create a strong growth IPO. I believe that there is a possibility that we will place more emphasis on the disclosure of matters related to business plans and growth potential, which we are currently reviewing. For example, I believe that not only we but also securities companies should properly look at whether the market capitalization of the company under review is likely to reach JPY10 billion in five years and whether the company will eventually violate the continued listing criteria even if it is listed. But, of course, it is not enough to just meet that standard. We would like to see companies aiming for an IPO be a little more aware of whether or not they have a business plan for higher growth, regardless of the continued listing criteria. We also hope to create an environment that will make companies more aware of this point through disclosure and other means after listing. How to secure this is also important.

Thus, the overall focus of the study is on how to successfully encourage companies from the IPO stage so that growth-oriented management continues even after they goes public.

**Brokerage firm:**

What the TSE wants to do is to make it clearer that the Growth Market is a market for growth, not just an entry/exit point. You want to make the market more functionally aware. Is my understanding correct? The Standard Market is currently a market that attracts companies outside of the Prime and Growth Markets, making it difficult to achieve this goal. But just as in the Prime Market, you would like to take steps to ensure that the Growth Market attracts the right companies for the Growth Market. Is this what you mean?

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

Your understanding is correct. We want to take measures that can successfully embody the concept of the Growth Market, where growing companies gather, as well as measures for the Prime Market with a global mindset.

Page seven of the document also states relief measures to be taken to ensure that the companies is subject to move to the Standard Market. As with the 2022 market restructuring, we are not pursuing this with the goal of delisting companies from the TSE market. The Prime Market is intended to attract companies that can compete globally, and we have asked companies to manage their businesses with overseas investors in mind toward this end, and we are seeing some gradual changes. In the same way, the Growth Market is a market aimed at attracting startups aiming for high growth, and if listed companies in the Growth Market are more aware of this, it may lead to the creation of large ventures in Japan. That is what we want to do, and we are not stopping companies from moving to the Standard Market. Of course, the aim of the review of the continued listing criteria is to create an opportunity for a company to break out of its current situation by, for example, considering a merger and acquisition with another company if it is difficult for the company to achieve the criteria on its own. However, that does not prevent a company from choosing to move to the Standard Market.

**Brokerage firm:**

It seemed to me that the positioning of the Standard Market would be more difficult. If too much emphasis is placed on the fact that the Prime Market is for mature companies and the Growth Market is for growing companies, and the Standard Market is neither, it would seem to be a bit of a departure from the original intent. There are more companies with a market capitalization of less than JPY10 billion in the Standard Market than in the Growth Market.

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

If the Prime Market is for global companies and the Growth Market is for venture companies, I don't think it can be said that there should not be a market that accepts companies that do not fit into those categories but have the aptitude to be listed companies.

**Brokerage firm:**

Is it because it is the Growth Market that you require aggressive initiatives during the first five years after listing, and you don't necessarily require that for the Standard Market?

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

Your understanding is right.

**Brokerage firm:**

In North America, publicly traded companies finance USD1 trillion to USD2 trillion annually, while companies including private companies finance USD4 trillion to USD5 trillion annually. If only the TSE imitates this, it will not work. You need to do something to make the local exchanges other than the TSE and unlisted areas marketable as well.

To use an analogy, it is like suddenly aiming to become a top star in the J-League without a development system such as J2 or J3. I think it is necessary to discuss such issues as inviting Zico as a professional from abroad to serve as a role model. I think it is also timely to pursue the possibility of JDR and others in the Asia Startup Hub concept.

Intel's founder famously said, "Only paranoia will survive." One of the characteristics of a manager who excels at generating one from zero is that he or she possesses such aptitude. If such characteristics are to be truly valued, there should be a discussion as to whether screening is really necessary or whether filing alone is sufficient. Saying "let's move up to J1 and be fair," despite the fact that you are "burning your house to fright the mouse away," won't work. I think companies have to be naughty and free-spirited at first. I think it will be difficult to achieve the reform without a discussion on what the criteria should be and the development of the overall ecosystem like foreign players joining the J-League. It seems to me that people who are fearless but capable have been excluded from the Japanese capital market in the past because they did not fit in. The key to accepting and debuting them will be how many individuals you can bring in who have a big heart and a high tolerance for risk. Although individuals have tended to be regarded as lacking in price discovery ability, a bird's-eye view of the investment trends of individuals in the book-building at the time of IPOs and in the Growth Markets shows that many of them actually have sufficient ability. I believe it is more important to educate individual investors who have diverse opinions and manage their own money directly, rather than salaried fund managers who manage other people's money, while targeting them for marketing.

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

We often receive the opinion that either the TSE or the government should create a system in which they can act as a fleet to encourage companies that are trying to grow together. As we work on this project, TSE would like to encourage companies that are trying to grow by appealing to the world. We would like to value companies that are willing to take the lead and move forward.

Regarding the screening process, companies should not be unrestrained in their internal management system, etc., but they could be somewhat bold in their pursuit of growth potential. In that, I think balance is important.

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

In the course of listing examinations, we certainly meet presidents with strong personalities. However, if the person is attractive, it seems to me that there are people around to support him or her and a good team is assembled. For example, I believe that there are cases where a good CFO is managing the company well, and

the company is progressing well with two wheels. Companies that scale seem to have a good team in that way.

**Brokerage firm:**

I think it would be good if the TSE would communicate more of the ideas you just mentioned. I often say, "Passion, mission, operation." Nothing can begin without passion, but passion alone is dangerous. It is only by reflecting the passion in the mission and the mission in the operations that the business can grow smoothly. I am trying to say that if you don't have that structure in place, the IPO will not work. I think that is what you meant. I think TSE itself should communicate that this is what business growth is all about, that passion alone is not enough, but that mission and operations alone are not attractive and do not allow for growth.

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

That may be so. Regarding the listing examination process, there is often a lot of talk about technical issues, such as what points are checked and what must not be done in order to go public. However, for managers who are going to IPO, perhaps the larger view of what kind of company we want to come in and what we want it to become is not being conveyed. We will take your points into consideration.

**Brokerage firm:**

As a point of screening, I recognize that the ability to develop a budget is often a point of contention. While it would be certainly best to have high ability, in the Growth Market, it seems to me that how well the company is growing is more important than meeting earnings forecasts. Our clients often point out this as well. There is a screening for disclosure of growth potential, but how much growth is not a key factor in the screening process. Even if we don't set quantitative numerical standards, I don't think we can pick up companies that are growing without knowing that they have grown, for example, 30% in the past. In considering where to look in the screening process, I think it might be a good idea to look at such track records of growth.

**Brokerage firm:**

I believe that the press for earnings forecasts is practically obligatory. Instead of this, we often discuss internally that it might be a good idea to have the past growth track record disclosed.

**Brokerage firm:**

It is challenging to grow in the future when there is no track record of past growth. With past track records, I think we can expect growth to be an extension of that track record. However, I don't think it is very likely that a company that has not grown in the past will suddenly grow like a J-curve as soon as it goes public.

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

Currently, the Exchange takes the position that the high growth potential is left to the evaluation of the recommending brokerage firm, and the Exchange looks at whether the business plan built up on the basis of that evaluation is reasonable. However, if the standard of JPY10 billion in five years is to be added in the future, I think it is conceivable that, based on such a new market concept, we can look more closely at growth potential together with recommending brokerage firms, taking past track records and other factors into consideration. We would like to think about how the screening should be done while receiving other opinions.

**Brokerage firm:**

We do not believe that the numerical standard for the entrance should be raised, considering the purpose you have just explained. However, we actually have a strong desire to bring IPO deals that will be supported by institutional investors to the market.

From that perspective, I think it is conceivable that we could require the implementation of IM, Information Meetings, although we need to consider separately to what extent it should be binding. Even if you try to arrange an IM, institutional investors will not underwrite unless the company is deemed worthy of their investment. We would like to see TSE send out a stronger message regarding the process of communication with institutional investors. Or our opinion is that you could make it mandatory. In any case, we are discussing within the company whether we should ask issuing companies to do so in some way.

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

It may not necessarily have to be JPY10 billion. For example, it might indeed be possible to incorporate the perspective of institutional investors by seeing if a company with market capitalization of less than JPY10 billion has held an IM.

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

One idea would be that the support of institutional investors would be the basis for evaluating growth potential. Recently, one of the factors we use in screening deep-tech companies is whether they have the support of institutional investors and whether their stocks are held for the long term. Of course, that is not all, but it is one possible approach.

**Brokerage firm:**

There was an entrance/exit discussion at the beginning of the meeting. So far, we have talked about the initial listing criteria as an entry point and about JPY10 billion in five years as a transitional step. What is TSE's view on exit?

We find a comparison with Nasdaq on the document, but I think the two are actually quite different. The Growth Market has become a market for incubation, and many companies seem to go to the Prime Market when they get big. If the market capitalization is in the tens of billions and the company remains in the Growth Market to grow further, it is closer to Nasdaq. Also, in the sense of branding, I think it will be much closer to Nasdaq if you can encourage companies to have the ultimate goal of continuing to be listed on the Growth Market, not that they want to be listed on the Growth Market first and then move to another. Conversely, if

it were a step-up market, it would be similar to GEM in Hong Kong or AIM in London. Could you please share your thoughts on this point?

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

In the old days, Mothers was a market where companies were supposed to move to the First Section. However, after the market restructuring, each market is independent and the system is designed as a market where you can stay forever. On the other hand, there was the problem that companies outside of the First Section/Prime Market could not join TOPIX. So, we also reviewed the index. The index was separated from market segments, and from now on, even Growth Market companies will be included in TOPIX if they meet the requirements.

I also have the opportunity to speak with presidents of companies with a market capitalization of tens of billions of yen in the Growth Market. We often hear from people who want to pursue growth in the Growth Market but are wondering if they should go to the Prime Market because other companies go to the Prime, and they want to know the advantages and disadvantages. Of course, even in the Growth Market, dialogue with foreign investors can be conducted, and the TOPIX problem can be solved, so if they want to stay in the Growth Market, I think it would be better for them to stay in the Growth Market. Since it has only been a short time since the market restructuring, I think there is still a general tendency to aim for the Prime Market. However, we are also mindful that there will be companies that will stay in the Growth Market forever and pursue growth like the companies that have been on Nasdaq for a long time.

**Brokerage firm:**

Are you considering raising incentives to stay in the Growth Market?

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

We are thinking about it. Regarding the management that is conscious of cost of capital and stock price, which is promoted in the Prime Market, publicizing examples that have been evaluated by investors also draws attention to the companies, creating a positive cycle. We believe that we also may be able to make companies in the Growth Market that are working toward the growth stand out from the crowd. We are trying to figure out what we can do as an incentive that will benefit companies practically.

**Brokerage firm:**

We too are concerned about exits, and the message that it is okay to stay in the Growth Market should be sent out more. Currently, there seems to be a strong sense among listed companies in the Growth Market that when they get big, they will go to the Prime.

I also think that the reason why the Growth Market index is down as it is now may be not only because the listed companies in the Growth Market are not growing but also because all the companies that have grown in the Growth Market have moved to the Prime Market. I believe that unless you create an index that includes companies that have moved to the Prime Market, for example, we will only see a discounted picture.



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

We often receive comments that the Growth Index does not include an index of graduates. However, a comparison of the current index with the index including graduates shows that the index with graduates is rather less good, partly because it is strongly influenced by individual firms. On the other hand, structurally, I think your point is also correct. Therefore, we are considering what kind of index we should create in the index department, in line with the recent Growth Market initiatives.

**Brokerage firm:**

I think the advantage of the Prime Market is that it benefits from the distortions caused by the very large number of passive buyers. Even if you do branding of the Growth Market so that companies remain there after a certain market capitalization achieved, I don't think they will stay unless it creates advantages over the Prime Market. Therefore, I think it is fundamentally important to find a way to break out of such a situation.

**Brokerage firm:**

The new NISA is behind the large percentage of individual investors in the floating stocks of deep tech companies in the Growth Market. A wide range of individuals are diligently and continuously buying the stocks.

By the way, in terms of taking full advantage of management's ability, I think it would be a good idea to actively allow class shares only in the Growth Market. If so, I think it is possible that companies from Southeast Asia and other countries where class shares are not permitted may come to the TSE. Why not allow the class shares while they are in the Growth Market and have them move to the Prime Market when they become milder?

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

I believe that you are referring to multiple voting shares. We are often inquired about that. Although the class shares are already available, we think that it has not been easy to make progress, probably due in part to the problem of balancing the need for utilization and actual underwriting. While the Prime Market does not prohibit it, institutional investors are basically opposed to it, which makes it difficult in practice. I think it is possible to clearly indicate that the Growth Market is already a market with the use of class shares in mind.

**Brokerage firm:**

I think just having a very large company from overseas come to the Growth Market would have a considerable impact.

Another possibility would be to reinstate the bidding system. Google has successfully conducted IPOs through Dutch auctions, but in this case, only the final settlements were done by a brokerage firm, so it can be said to be a case of disintermediation in the investment banking business. We believe that there may well be potential for pricing to rely on individuals with price discovery capabilities.

**Brokerage firm:**

I am speaking because I think that if today's discussion is going to be included in the materials for the next follow-up meeting, it would be better to avoid any misunderstanding.

I am wondering if what we are trying to do for the Growth Market is really fundamentally consistent with what the members of the Follow-Up Council are trying to do. From the minutes of the Follow-up Council's meetings, I understand that there is a great deal of awareness of the problem of eliminating the disadvantages of small companies that continue to remain and M&A activity that has not increased. One major difference between the past and the present is that while there were no unlisted procurements when Mothers was formed, unlisted procurements are now common for good companies. Despite these circumstances, talented people continue to be involved in companies that operate in areas where TAM is not large and do not grow easily even after listing, and management costs are high. The Japanese economy is facing this problem, and I understand that you wish to solve that. For those feelings, I believe that this measure may be a solution, but may not be sufficient. I hope you will discuss this with this in mind, not whether it is good or bad.

Again, with the obvious development of unlisted procurement compared to the past, there seems to be a clear shift in the cost of listing and the meaning of listing. So, I don't think we should take individual cases from the past and discuss them as if they still apply today. If there is no choice, then I think cases should be handled individually.

I think that if you don't make criteria stricter, you will end up discussing only how to make IPOs work, instead of getting companies to turn their attention to selling through M&A instead of IPOs. I don't think that is what the members of the Follow-up Council, or the world in general, believe to be the problem, nor is it a question of whether institutional or individual investors are better. In Japan, liquidity is created only when both sides are present, and I think this differs from overseas in that the diversity of views prevents extreme price movements when buying and selling. The level at which analysts are attached and stock price formation is based on fundamentals is not JPY10 billion but much higher. I do not believe that this measure will go far enough to change that situation.

**Brokerage firm:**

I am also of the honest opinion that JPY10 billion in five years is not enough to make an impact. However, I believe that this figure was realistically assigned in light of the fact that the criteria for the Prime Market is JPY25 billion and the current situation where 70% of companies in the Growth Market have a market capitalization of less than JPY10 billion. Of course, even with JPY10 billion in five years, some VCs are disciplined in the direction of increasing M&A exits, for example, by creating sales forces for companies that will be M&A buyers. However, from the brokerage firm's perspective, at least JPY30 billion is required for institutional investors to enter the market and ensure liquidity. Therefore, I think that JPY10 billion, and that it will finally be secured after five years, is not enough to make an impact. I wish you could have come up with a more impactful proposal that would have shaken up entrepreneurs and capital market participants. The five-year part may not be able to be changed any further, but I think it would be good to announce that the JPY10 billion will be raised in stages in the future. We think it would be better to tell companies that they actually could not be listed unless they had a market capitalization of JPY30 billion or JPY40 billion, which would be better for a 10- or 20-year perspective. To begin with, what is the basis for JPY10 billion in five years?

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

First, as a premise, I think it is difficult to solve everything by listing criteria. Therefore, we have proposed measures as a package.

As we have also introduced the voices of institutional investors, we understand very well that JPY10 billion is really a minimum line and that institutional investors will not fully enter the market unless listed companies have market capitalization values of JPY30 billion to JPY40 billion. Nevertheless, this is one of the criteria and should be set based on other factors such as the impact on listed companies. Incidentally, no other global market sets its criteria at such high levels as ours, including the market capitalization criteria of traded stocks in the Prime Market. However, since it is still difficult for stagnant companies to proceed with mergers and acquisitions, etc. without criteria, we propose that a minimum level be set while striking a balance. In reality, there are about 200 companies with market capitalizations between JPY4 billion and JPY10 billion, which will receive considerable impacts from our measures, so we need to proceed carefully.

Based on the feedback we have received, I think it would also be useful to present a message as a result of the discussions at this meeting that institutional investors have a higher viewpoint and that companies should not just clear the minimum bar but aim even higher.

**Brokerage firm:**

I think we concur on size, but is market capitalization the only criterion? As for market capitalization, fluctuations in the share price can affect the fate of the company. As an OR condition, with the idea of focusing purely on growth, could you consider judging by growth rate?

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

For example, the Nasdaq criteria is a combination of several, but I believe a single criterion is easier to understand as a guide.

**Brokerage firm:**

I basically agree with TSE's policy of reviewing the continued listing criteria without touching the initial listing criteria. However, I was wondering whether a single criterion of market capitalization only would be used, or whether the system would be designed to provide a relief measure so that a company does not drop out in an irrational way.

Currently, we are in a transient period, and small IPOs are seen as a problem. Under such circumstances, companies are becoming aware that they need to have a certain scale, and the awareness of the potential listing companies is certainly changing. Therefore, even if the continued listing criteria were changed to JPY10 billion, there would not be many companies that would list at exactly JPY10 billion, and many companies would list with some buffer.

For companies with a market capitalization of around JPY10 billion at the time of their IPO, there is a tendency to be neglected because there are few services that can be provided after listing. As a brokerage firm, it would be ideal to watch over the company's growth after listing, but realistically, it is difficult to do so if the company is small in size. In this sense, I think it is good to encourage companies to be conscious of their autonomous growth by revising the continued listing criteria, and I believe that some new businesses will be created as a result.

Another thing is that human beings are weak, so I think it is necessary for shareholders to prod them, rather than placing the heavy responsibility on the management alone. I am in favor of bringing in institutional investors because it is difficult to put pressure on management with a shareholder composition that is centered on individual investors. On the other hand, institutional investors are investors who can share interest in the long term from the initial stage. We hope that the system will be designed so that it is easy to use the scheme of preferential allotment of newly issued shares, for which there are still few examples of its implementation, and that it will be easier for institutional investors to exert pressure on management.

**Brokerage firm:**

Just as it is difficult for securities firms to provide adequate support for companies with market capitalization of JPY10 billion or JPY20 billion, the institutional investor side is also unable to devote time to researching such stocks.

In this regard, we should focus on the function of the analyst. Currently, the number of stocks covered by analysts is very limited, even if their market capitalization values are around JPY30 billion. It would be good to promote dialogue by having analysts cover more small-cap stocks with growth potential that are listed on the Growth Market to enhance communication to institutional investors.

**Brokerage firm:**

I personally think that JPY10 billion market capitalization in five years is a moderate and interesting standard. Most mid-term management plans are three-year plans, and we honestly do not know what will happen five years from now. We would like to work on how we can help companies with a market capitalization of less than JPY10 billion to grow through IPOs.

On the other hand, I am wondering if the Growth Market cannot aim for high production and high death. We should also consider the existence of a market in Japan based on the concept that companies that grow will grow and those that do not will be delisted. When I saw the news report that a company would be delisted if it did not reach JPY10 billion in five years, I thought that the TSE had taken a pretty drastic step. However, in the end, if the market change path to the Standard Market is left if the continued listed criteria are not met, then that is halfway. Companies that are willing to grow should grow, and those that are not should be delisted. You should be such bold.

However, with the move to increase entrepreneurship in Japan as a whole, the current scenario is that even companies with small market capitalizations can go public and accelerate their growth from that point. I am concerned that raising that criteria unnecessarily could destroy the startup ecosystem and negatively impact entrepreneurial motivation and the flow of capital into startups.

**Brokerage firm:**

As for the entry of institutional investors, I think analysts should cover for them and we will do what we can. But on the other hand, there are few institutional investors that deal in small and mid-cap stocks, so even if analysts cover them, I don't think they will necessarily trade them. Of course, I think it is one of the necessary elements. However, given the history of the decline of active investment in small- and mid-cap stocks in Japan, the fundamental problem cannot be solved unless we create an environment in which trading is more active overall, such as by increasing the attractiveness of small- and mid-cap stocks and increasing the number of

active and passive managers. Initially, I think it is important to aim for a market where a company that grows is able to raise funds or be traded easily through slightly raising the criteria and how to achieve this. Fundamentally, however, the hurdles to doing this are quite high. So, I think that if we do not consider in parallel what to do in the transition period, we will probably get the opinion that the hurdles are just too high. Even though there is a difference between taking the emotion out of the issue and guiding companies, if there are those who say that even JPY10 billion is too low, then we should consider that as well.

Also, let me confirm how to communicate. I think you mean JPY10 billion is really the minimum. There are good times and bad times in the market, and in bad times, stocks may be traded at less than half the normal price. If the bar remains the same even in such a situation, the market will not accept it without some leeway, as the market slump can last for a long time. We also need to tell companies that this is really a minimum bar that incorporates such things, or else, it will be misleading and we will have difficulty providing advice and guidance to our clients. If the world trend does not change that way, companies will not follow suit. I think it would be better to tell them that JPY10 billion is really the minimum line, and that if they do not aim for that level, it is the managers who will have a hard time raising funds and their stocks will not be traded.

**Brokerage firm:**

I think it is dangerous to focus on a single criterion because it will boost the pressure as the deadline approaches. We are concerned that if we do not have a remedy in place, it could lead to good companies breathing their last.

**Brokerage firm:**

At the end of five years, the pressure to do something, for lack of a better word, window dressing, etc., may be easier to come by.

**Brokerage firm:**

I believe the remedy is just a move to the Standard Market. The message should also communicate that even if market conditions were bad, we want them to meet at least this level, and we want them to aim higher. I think we need to emphasize this strongly because otherwise, companies will only focus on market conditions and stock prices.

In addition, I believe that the essence of the revision of the continued listing criteria is to put pressure on managers who think that listing is the goal and have not yet grown, even after listing. In that sense, I think it would be a lot of pressure on management to set the criteria at five years instead of 10 years and at JPY10 billion, which 70% of the companies have not met. I think it will have a great impact and I would love to see it happen.

**Brokerage firm:**

With more than 400 companies in the Growth Market currently not meeting the JPY10 billion threshold, companies moving to the Standard Market are those that meet the criteria of JPY100 million in ordinary

income, while loss-making companies and others that do not meet the criteria will exit the market. In establishing the JPY10 billion criteria, we would appreciate any simulation results on such points.

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

I would be happy to answer each of your several points. The same issue was discussed during the 2022 market restructuring. When we raised the criteria for the market capitalization of tradable shares in the Prime Market from JPY1 billion to JPY10 billion, we kept in mind that we want companies seeking an IPO to go public in a size that can be exceeded stably with a buffer even if market conditions fluctuate slightly. Before the market restructuring, there was a difference between the initial listing criteria and the delisting criteria, so it was difficult to violate the delisting criteria even if a company was listed just exceeding the initial listing criteria. Since these are now common, I think the message needs to be that if they don't exceed the criteria with margin, they will have a hard time after listing.

On the other hand, I would like to ask you one question. This time, even if the market capitalization is in the billions of yen at the time of the IPO, we have not nipped a company in the bud that is likely to grow thereafter. In this context, I also think that if we overemphasize the message that if the company is too small, it will have a hard time after listing, it may give companies the impression that although they envision high growth in a few years, it may be difficult to go public at the current size. Each company may have a different policy, but is it good that you do not reject all such companies?

**Brokerage firm:**

We don't reject them, but I think most companies that can't get financing or rely on someone else are not going to be happy after they go public. We often talk about this internally. Since it is the Growth Market, I don't think companies need to be profitable. However, I believe that a company that can generate a final profit of JPY1 billion, if it wants to, will be able to run its business to some extent no matter what. Even after a company's listing, market conditions can make it difficult to raise funds, and there are always ups and downs, so I think it is important to be able to make a profit and endure when the time comes. I believe that many managers assume that a company will continue to grow steadily, go public, and remain so afterwards. But there are fluctuations, and if they cannot make a bottom profit, there is nothing else they can do. This requires a certain degree of scale. The size of billions of yen makes it difficult for securities companies to provide support, and in the majority of cases, the company is left without liquidity, and management cannot escape. So, I do not deny such companies, but I think the negative aspects are significant.

**Brokerage firm:**

Although they are not Growth Market stocks, Yahoo, Yamada Denki, and Zensho Holdings have also grown significantly after going public with JPY4.7 billion, JPY6.5 billion, and JPY3.5 billion, respectively, so we should not deny them. However, I think the problem is that companies that do not metabolize and cling to their positions continue to stay.

To solve this problem, I believe that if we raise the cost of maintaining a listing, both qualitative and quantitative, people will say that there is no point in being listed if they do not grow, or they will exit because of the cost of ensuring accountability to investors. Since this is not the case, they are content with the status of being a manager of a publicly traded company and goof off. To prevent this from happening, it is important

how to encourage companies that are not growing to exit the market, and it is important not to crush the buds of new companies, even if they are billions of yen in size.

**Brokerage firm:**

Brokerage firms are also doing businesses, so we are not actively trying to underwrite small IPOs. The small IPOs that are emerging now are just getting smaller and smaller, even though they were deemed to have a large market capitalization when we got the lead underwriting contract. I don't think it is possible to predict that a company will surely grow and have social significance and therefore worth to support listing, even if it costs JPY3 billion or JPY4 billion. Therefore, I think it is better to have post-listing delisting criteria and not to have a bailout because it will reduce the credibility of the criteria. Instead, it would be good for them to be aware that if the standard is JPY10 billion, it is dangerous not to have a market capitalization of JPY20 billion to JPY30 billion. I think it is a fallacy to turn down the JPY10 billion criteria or provide a bailout because there may be companies that window dress as the deadline nears. Companies that window dress only need to have their managers arrested.

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

We are not thinking or discussing such things at all.

Also, regarding deadlines, companies that implement shareholder benefits in order to temporarily increase their stock price are often seen as problematic, but in the end, this does not last long and is not sustainable at all. Essential improvements are expected.

**Brokerage firm:**

What I said earlier about boosting pressure is not so much an action on the part of the company, but rather an action on the part of the investor, with the concern that it might lead to extreme investment behavior toward the clearly foreseeable future.

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

Regarding the simulation of the impact, there are about 400 companies, or 70% of the total, with market capitalization of less than JPY10 billion, and half of these, about 200 companies, have market capitalization below the current continued listing criteria of JPY4 billion. The market capitalization of the remaining 200 companies is between JPY4 billion and JPY10 billion.

Regarding the standard of JPY100 million in ordinary income for the Standard Market, I think this standard should be there for new listings. However, there are some companies in the Growth Market, such as deep-tech companies, that have made up-front investments, and I am wondering if there are any issues regarding how to handle them when changing market segments.

**Brokerage firm:**

I believe that the Standard Market and the Growth Market have different standards required for governance structure. Are you considering making the transition automatically, with the idea that this point will be addressed in five years?

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

The transition is not automatic, but the system requires that the transition be made after a review for the change in market classification.

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

Even today, if a company has been listed on the Growth Market to some extent, we conduct our review on the assumption that the company has the governance in place to be a publicly listed company.

With so many harsh opinions on the Growth Market, I think it is important for startups to understand that there is a cap on access to quality financial services on top of the continued listing criteria that define the real minimum. I felt that it would be good if the brokerage firms could convey the message to the startups that the criteria for receiving quality financial services are somewhat higher.

**Brokerage firm:**

The level of access to quality financial services means the level of access to equity financing from institutional investors, or in the case of M&A, a reasonable deal size.

**Brokerage firm:**

We believe that a deal that is acceptable to institutional investors is not only in terms of size but also in terms of whether or not there is an expectation for the angle and speed of growth. I think this is also connected to the point of whether or not we will underwrite IM of companies without more than JPY30 billion at the time of listing.

**Brokerage firm:**

I am concerned that the bailout criteria will cause a moral hazard that companies think it is enough to list for now and move to the Standard Market within five years. I believe Nasdaq has no relief criteria. I would like to ask why you dare to establish relief criteria and connect them to the Standard Market while claiming that the three markets are independent.

**Brokerage firm:**



The SSE and FSE are currently doing sales activities, and even if companies are unable to move to the Standard Market, they will simply move to the regional exchanges.

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

Considering only the incentives for the purpose of getting companies to make a firm commitment, I am sure that, as you say, the incentives would work better if the transition to the Standard Market is not possible.

On the other hand, the impact on shareholders and investors must also be considered. While many shareholders and investors are concerned that they will no longer be able to trade on the TSE, I believe it is necessary to strike a balance while taking such voices into consideration when creating the system. We hope to strike a good balance by providing a certain amount of relief while at the same time clearly stating the purpose of the criteria review.

**Ao, Senior Executive Officer:**

Now that our time has come, we would like to conclude today's meeting. Finally, we would like to explain the future process.

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

Thank you very much for your lively discussion.

We would like to take your comments into consideration in our future actions, and we would be happy to exchange opinions with you and with other practitioners in the future, as appropriate, at the ongoing cooperative meetings. Thank you for your continued support.

[END]