IPO Liaison Meeting

Minutes of Sixth Meeting

1. Date and Time: March 23, 2026 (Monday), from 2:00 p.m. to 3:30 p.m.
2. Venue: Conference Room, third floor, TSE
3. Attendees: see list of members
4. Meeting Minutes

Hayase, Senior Manager, Listing Examination Department, JPX-R:

At the fourth meeting in October and the fifth meeting in December of last year, we sought your views on the Exchange's Measures in Response to Accounting Fraud at the Time of IPO. Based on those discussions, we consolidated the input received and announced TSE's countermeasures on December 12.

Following this, the Japanese Institute of Certified Public Accountants (JICPA) published its own countermeasures in January, followed by the Japan Securities Dealers Association earlier this month.

Today, we will begin with an overview of the countermeasures introduced by each association. We will then ask you to review the Exchange's countermeasures and the overall framework of the current initiatives. We also welcome your views, including on practical issues related to changes of audit firms.

Japanese Institute of Certified Public Accountants:

Please refer to Document 1-1, which outlines the Japanese Institute of Certified Public Accountants' measures in response to recent accounting misconduct (Japanese only).

Please turn to page 2. On January 26, 2026, the Association published the following two documents:

"1. Initiatives to Enhance the Reliability of Audits Conducted by Registered Auditor of Listed Companies, Etc." and "2. Audit Responses in Light of Accounting Fraud Cases Involving Newly Listed Companies, Etc. (Notice)" (both in Japanese).

As highlighted, the former outlines the Association's measures and planned measures to enhance the reliability of audits of listed companies in its capacity as a self-regulatory body.

The latter, as highlighted, is a compilation of points to be noted in conducting audit work, prepared for audit firms that are registered auditors of listed companies, etc., and serves as a notice to the Association's members.

The contents of each document are explained starting from the next slide. The first four slides (pages 3 through 6) cover the former, and the following three slides (pages 7 through 9) cover the latter.

Please turn to page 3. I will now explain the Association's measures under "1. Initiatives to Enhance the Reliability of Audits Conducted by Registered Auditors of Listed Companies, Etc."

The measures consist of six items, with the implementation timing for each indicated in square brackets.

First is "1. Measures Based on Reviews of Individual Cases."

Among these, the publication of the notice entitled "Audit Responses in Light of Accounting Fraud Cases Involving Newly Listed Companies, Etc." was implemented on January 26, 2026. In addition, as a measure, we have decided to verify each firm's implementation status regarding the points of attention through quality control reviews, with implementation scheduled for the FY2026 review.

Next is "2. Monitoring the Operation of Quality Management Systems for Registered Auditors of Listed Companies, Etc."

Two points are addressed here.

The first is "(1) Monitoring the Operation of Quality Management Systems for Registered Auditors of Listed Companies, Etc." Implementation is scheduled for August 2026, and starting with the FY2027 review, guidance and supervision will be conducted through the review process. Specifically:

- Key points regarding the operation of audit firms' quality management systems required of registered auditors of listed companies, etc., will be identified, and monitoring will be conducted based on those points
- Failure to identify risks of material misstatement due to fraud constitutes the greatest risk to audit reliability; therefore, even in individual audit engagements, with respect to the operation of quality management systems in audit work, we will establish and disseminate criteria for deficiencies in review procedures regarding matters such as the identification, assessment, and response to fraud risks, and provide guidance and supervision to each firm through reviews.

Please turn to page 4. The second item is "(2) Article 94 of the Regulations for Enforcement of the Certified Public Accountants Act." This provision requires the involvement of certified public accountants with appropriate knowledge and experience in audit engagements, and monitoring will be conducted with respect to this requirement from the FY2026 review. Specifically:

・ During regular reviews, based on the attributes of the listed company concerned, the audit firm's arrangements for involving certified public accountants with sufficient knowledge and experience in the financial statement audit of that company will be examined.

・ In particular, when the audit client engages in businesses involving AI-based transactions or transactions involving crypto-assets (blockchain technology), special attention will be paid to examining the composition of the audit team.

Next is "3. Improving Member Competence through Training and Other Activities."

・ In relation to the training programs on "Audit Quality and Responses to Fraud Risks" and "Case Studies on Fraud," which are mandatory under the Continuing Professional Development (CPD) system for members engaged in statutory audit work, the Association will strive to enhance members' competence through the publication of a collection of audit recommendations (case studies) based on the results of individual case reviews, as well as through the implementation of continuous training programs for members.

This initiative will be implemented during the summer training session of fiscal year 2026.

Please turn to page 5. Next is "4. Support Measures through the Liaison Council for Small and Medium-Sized Audit Firms." The Association has established the Liaison Council for Small and Medium-Sized Audit Firms, through which it provides support for strengthening the operational foundations and improving the quality of such firms. This initiative was implemented in November 2025 and will be continued on an ongoing basis.

Next is "5. Other Matters (Items to Be Communicated to Members)." The first item is "(1) Handling of Confidentiality Obligations Regarding the Circumstances of Auditor Changes," with implementation scheduled for this month, March 2026. Specifically:

・ This initiative is based on the Exchange's response to accounting fraud cases, including the clarification in the New Listing Guidebook that interviews with predecessor auditors may be conducted, as well as the request for similar arrangements in interviews conducted by lead underwriters.

From the perspective of preventing misconduct through cooperation among IPO-related stakeholders—the Exchange, lead underwriters, and audit firms— while each fulfills its respective role, we will further disseminate, through contract templates and other means, matters that audit firms and others should address with respect to confidentiality obligations.

This applies not only to the handover of audit work between prospective auditors and auditors in voluntary audits of companies seeking a listing, but also to interviews conducted by the Exchange and other relevant parties.

This matter was announced earlier today, shortly before this meeting.

The second point is “(2) Response to Matters Which may Constitute a Violation of Laws and Regulations,” and the implementation schedule was announced in a notice issued in January 2026. Specifically:

・ We will further disseminate the requirements under the Code of Ethics of the Japanese Institute of Certified Public Accountants, which provide that, even in cases where Article 193-3 of the Financial Instruments and Exchange Act (Responses to the Discovery of a Fact That Constitutes a Violation of Laws and Regulations) does not directly apply, firms may nevertheless be required to consider whether to report identified violations of laws and regulations to regulatory authorities.

Please turn to page 6. Next is “6. Medium- to Long-Term Measures.”

The implementation schedule is stated as “promptly commencing deliberations.” Specifically:

・ With respect to audit firms that conduct audits of listed companies, the Association will consider raising requirements related to staffing as a form of self-regulation, from the perspective of further enhancing audit quality.

To this end, a project to review organizational requirements for registered auditors of listed companies, etc., will be established. The Chair of the Japanese Institute of Certified Public Accountants will serve as the project chair, and the project will be composed of relevant officers. The schedule is as indicated.

Next, pages 7 through 9 contain the details of the notice to members.

Page 7 explains the purpose of the notice. There are five key points:

・ Based on recent accounting fraud cases involving newly listed companies, the notice consolidates key points requiring attention in audit engagements in order to maintain and enhance public trust in audits.

・ It does not introduce new requirements, but rather highlights points that warrant particular attention when complying with existing standards, drawing on practical case examples.

・ For the sound development of the capital markets, active and appropriate initial listings are desirable, and auditors are required to appropriately respond to market needs for audits as certified public accountants, particularly at the time of initial listings.

・ For each item, the notice presents “Relevant Requirements,” “Points of Attention,” and “Checkpoints,” and requests audit firms conducting audits of listed companies and others to maintain professional skepticism throughout the entire audit process and perform appropriate audits.

・ In addition, documents previously disseminated by the Association—such as the Chairman's Circulars on audit responses to inappropriate accounting treatments and research reports on circular transactions—summarize points that remain useful for current audits. Accordingly, member firms are requested to once again review the relevant Auditing Standards Board Statements and other published materials, give them due consideration, maintain professional skepticism, and continue to conduct audits appropriately.

Specific details are provided on pages 8 and 9.

Please turn to page 8. There are six items.

Under "(1) Changes of Audit Firms for Companies Seeking a Listing and the Evaluation of Risks in Accepting New Audit Engagements," the following two points are described:

・ The importance of carefully evaluating the risks associated with accepting a new audit engagement

・ The usefulness of maintaining communication even in cases where the firm does not fall under the category of a "predecessor auditor" as defined in Auditing Standards Board Statement No. 900, "Change of Auditors"

Under "(2) Understanding the Company's Business Model and Identifying and Assessing Fraud Risks," the following point is described:

・ The importance of understanding the company's business model, the economic substance of contracts, and identifying and assessing the risks of material misstatement at the time of accepting a new audit engagement, or when an existing audit client enters into new business areas

Under "(3) Addressing Assessed Risks," the following point is described:

・ The necessity of obtaining audit evidence that is more relevant, more persuasive, and in greater quantity for risks of material misstatement due to fraud, compared with cases where fraud risks have not been identified

Please refer to page 9. Under "(4) Maintaining Professional Skepticism Regarding Management's Integrity," the following point is described:

・ The need, when considering possible forms of fraud, to assess management's reliability and integrity without preconceived notions

"(5) Obtaining Professional Advice" re-emphasizes the following point:

・ In transactions involving new technologies—such as AI as well as cryptocurrencies (blockchain technology)—auditors may not necessarily possess sufficient expertise. Accordingly,

auditors should not accept management's explanations of industry practices at face value, but should, where necessary, seek professional advice from experts outside the audit firm and obtain corroborative audit evidence based on knowledge and common sense regarding the business.

The final item, "(6) Communication with Statutory Auditors and Other Governance Bodies," describes the following two points:

- The importance of close collaboration with outside directors, statutory auditors, and others who play an important role in governance
- The fact that a formal assessment of internal controls—based solely on the existence of departments or internal rules, or on the presence of qualified personnel—does not lead to the appropriate identification and assessment of risks, and the importance of thoroughly understanding and evaluating the actual effectiveness of internal controls.

The above summarizes the content of the two documents issued by our Association on January 26, 2026.

Japan Securities Dealers Association:

Based on Document 1-2, I would like to explain the measures taken by the Japan Securities Dealers Association.

Please turn to page 1. This section is titled "1. Measures in Light of Accounting Fraud Issues (Overview)."

As you are all aware, discussions were initiated at the fourth IPO Liaison Meeting held on October 8, 2025. Subsequently, at the fifth Meeting on December 12, the document titled "The Exchange's Measures in Response to Accounting Fraud Cases at the Time of IPO" was compiled and published.

In that document, with respect to matters concerning the Japan Securities Dealers Association (JSDA), it was stated that "in response to the strengthening of measures against fraud risks at the exchange, we (TSE and JPX-R) will work in cooperation with the Japan Securities Dealers Association to ensure that securities companies appropriately fulfill their underwriting examination functions."

Thereafter, on December 19, the Exchange revised the New Listing Guidebook and related materials, and on January 26 of the following year, the Japanese Institute of Certified Public Accountants published "Initiatives to Enhance the Reliability of Audits Conducted by Registered Auditors of Listed Companies, Etc."

Please turn to page 2. This section is titled "2. Background of the Association's Deliberations."

The Association initiated deliberations aimed at preventing recurrence through the joint efforts of the Working Group on Underwriting and the Working Group on Underwriting Examination.

Within these working groups, deliberations were conducted on the formulation of guidelines setting forth matters to which lead underwriter members should pay particular attention when conducting underwriting examination procedures. In formulating these guidelines, matters from the revisions to the JPX-R New Listing Guidebook that were deemed necessary for lead underwriter members to address were incorporated. In addition, other matters considered important for lead underwriter members to keep in mind were also included, and the guidelines were formulated accordingly.

Please turn to page 3. This page sets forth the specific content of the guidelines.

"1. Introduction" explains the purpose of the guidelines. In light of cases where accounting fraud by issuers at the time of initial listings has come to light, the guidelines organize matters to which lead underwriter members should pay particular attention when conducting underwriting examination procedures. The second supplementary note also states that the guidelines are not intended to have an undue impact on appropriate initial listings.

"2. Definitions" sets forth definitions of the relevant terms.

Please turn to page 4. Section "3. Matters Requiring Particular Attention by Lead Underwriter Members When Conducting Underwriting Examination Procedures" sets out the specific content of the guidelines.

First, under "1. Verifications Based on Fraud Risks," item "(1) Verification of the Status of Suppliers, Customers, Subcontractors, and Advertising and Promotion Activities, Taking into Account the Risk of Circular Transactions" is described.

First, lead underwriter members are required to verify the issuer's performance with major suppliers, customers, and subcontractors over the past three years. For counterparties accounting for 10 percent or more of total purchase, sales, or subcontracting amounts, the background to the commencement of the transaction must also be verified, and direct verification should be conducted where necessary.

Second, where 50 percent or more of purchase or sales amounts involve transactions conducted through agents, the status of the actual suppliers and customers must be verified, and direct verification should be carried out where necessary.

Third, where it is difficult to verify such status, the reasons for the difficulty must be confirmed.

Finally, the status of the issuer's advertising and promotional activities must be verified.

Next is "(2) Verification of the Circumstances Surrounding Changes of Audit Firms with the Predecessor Audit Firm."

First, where a change in audit firm is identified—including not only the termination of an audit contract but also the termination of advisory contracts entered into in connection with IPO preparation on the premise of conducting an audit at the time of listing—lead underwriter members are required to confirm the reasons for the change with the issuer. This requirement applies not only to audit contracts but also to advisory engagements at the preparatory stage, and confirmation is to be made with the issuer.

Second, where an audit firm has been changed within the past three years, the guidelines require that the reasons for the change be confirmed by, for example, conducting direct interviews with the predecessor audit firm.

With respect to confidentiality obligations, the guidelines reflect arrangements under which the Exchange and lead underwriter members are able to conduct interviews with predecessor audit firms.

Please turn to page 5.Item “(3) Interviews in Cases Where Concerns Arise Regarding Management’s Qualities or the Issuer’s Response During Underwriting Examination” provides that, where concerns arise regarding the issuer’s management or its responses during the underwriting examination process, lead underwriter members are to conduct interviews with management or personnel of relevant departments of the issuer and examine the matter thoroughly.

Next is “2. Verification of the Appropriate Establishment of Internal Whistleblower Systems and Responses to Information on Misconduct, Etc.”

Under “(1) Verification of the Status of the Issuer’s Internal Whistleblower System,” lead underwriter members verify matters such as:

The establishment of whistleblowing channels independent of management, in addition to internal channels

Initiatives to ensure the effective functioning of the internal whistleblower system

Methods for informing officers and employees of the system

Under “(2) Confirmation of Awareness of Reporting Channels,” lead underwriter members confirm whether the issuer has informed its officers and employees of the existence of the reporting channels operated by the financial instruments exchange.

Under “(3) Response to Information on Misconduct, Etc.,” the guidelines stipulate that, where information is received through the exchange’s reporting channel or through other means, the information should be verified, its reasonableness carefully examined, and appropriate action taken where necessary.

Please turn to page 6.

“3. Confirmation with the Representative Director and President, Statutory Auditors, and Independent Directors” is described.

First, lead underwriter members confirm matters relating to corporate governance with top management, including the Representative Director and President.

Second, lead underwriters also confirm with independent directors their policies on corporate governance, along with other specified items, which are summarized as confirmation points in the guidelines.

These guidelines apply to underwriting examinations of issuers applying for listing in or after April 2026. The guidelines were published on March 18 on the Association’s WAN and official website.

Starting from page 7, the full text of the guidelines is included as reference material.

This concludes the explanation of the Japan Securities Dealers Association’s response.

Hayase, Senior Manager, Listing Examination Department, JPX-R:

Next, based on Document 1-3, I would like to once again provide an overview of the Exchange’s response measures. With respect to the Exchange’s response measures that were announced in December and have already been in effect since January, we will omit a repeat explanation at this meeting. Instead, today I will explain, on pages 10 and 11, the Exchange’s initiatives to publicize its reporting hotline, which will be implemented starting in April.

Please turn to page 10, which sets out the proposed revisions to the New Listing Guidebook.

In principle, the scope of dissemination is intended to cover all officers and employees. However, it is also anticipated that applicant companies may, at their discretion, narrow the scope where appropriate, for example by excluding part-time workers or officers and employees of subsidiaries with low materiality on a consolidated basis.

With regard to the timing of dissemination, we would like applicant companies to provide this information as early as possible, ideally from the stage at which they begin preparing for listing. While we will take into account circumstances in which companies wish to limit the recipients from an information-management perspective, we believe that receiving reports only immediately prior to listing would not be desirable. Accordingly, we ask for appropriate guidance to ensure that the scope is not unduly narrowed.

As shown in Attachment 1, we plan to post on the TSE website materials that applicant companies may use to inform their officers and employees of the reporting hotline. These materials may be used as is, adapted by using the content as a reference, or replaced with company-specific notification materials prepared by each applicant.

There are no specific restrictions on the method of dissemination, such as email, posting on an internal network, or distribution of printed materials. In addition, we do not consider it necessary to verify dissemination on an individual-by-individual basis.

Please turn to page 11 for details on how the dissemination status will be confirmed in the listing examination process. We will revise the “Instruction for the Preparation of Annual Securities Report for Initial Listing Application (Part II)” and the “Instruction for the Preparation of the Various Explanatory Materials” to require applicant companies to describe the status of dissemination of the Exchange’s reporting hotline during the listing preparation period.

Furthermore, although this is not part of the matters verified or confirmed in the listing examination process, we have also received views in previous meetings that awareness-raising activities for management are important for fraud prevention. Accordingly, as shown on page 13 and in Attachment 2, we plan to post materials for awareness-raising activities aimed at fraud prevention for companies preparing for listing on our website by the end of March.

The main content of Attachment 2 is based on the e-learning materials that officers of applicant companies have traditionally been required to complete after submitting a listing application.

In addition, these awareness-raising materials also introduce content that we encourage companies to refer to during the listing preparation stage. This includes, in addition to guidebooks issued by the Japanese Institute of Certified Public Accountants, various materials prepared by the Exchange. In particular, we have prepared content that we would like companies to be mindful of prior to listing, such as materials on Management that is Conscious of Cost of Capital and Stock Price, as well as content aimed at enhancing post-listing investor relations. We would appreciate it if IPO stakeholders could introduce these materials to their clients as part of the guidance provided during the listing preparation stage.

This concludes the explanation of the Exchange’s response measures.

Document 1-4 summarizes the responses of IPO stakeholders that have been introduced thus far, and the Exchange, the Japanese Institute of Certified Public Accountants, and the Japan Securities Dealers Association plan to publish this document jointly later this month.

As noted in that document, in order to ensure the effectiveness of the measures while avoiding undue burden on companies preparing for listing, we would like IPO stakeholders to continue

cooperating closely. If challenges are identified in the course of implementing these measures, we intend to utilize forums such as this meeting to address and resolve them.

In addition, while the measures presented today primarily focus on the fraud case involving alt Inc., as fraud can take many forms, we reiterate the importance of initiatives aimed at enhancing the individual capabilities of us as market gatekeepers.

With that in mind, please refer to Document 1-5 for the points we would like to align on during this meeting to ensure effectiveness.

This document sets out points of consideration, or a shared perspective, when representatives of the Exchange and securities firms conduct confirmations with a predecessor audit firm in cases where a change of audit firm occurs during the listing preparation period within the three fiscal years prior to the listing year (N-3).

Assuming that appropriate handover procedures are conducted between audit firms, it would generally be expected that there are no important matters that have not been communicated to the successor audit firm, and that the response would be that “all key points have already been handed over.” Nevertheless, from the perspective of the Exchange and securities firms, we believe it is important to first confirm the situation with the applicant company and the successor audit firm, and then confirm with the predecessor audit firm to ensure that there are no inconsistencies.

In this regard, taking into account the response measures of the Japan Securities Dealers Association, we would appreciate your views on whether there are any points that should be added from the perspective of future operational practice.

This concludes the Secretariat’s explanation of the first agenda item. We would welcome any comments or questions from the participants. Thank you.

Audit firm:

Regarding Document 1-5, as an audit firm, we consider this to be an important matter and would like to offer our comments. This document appears to place emphasis on obtaining consent for materials submitted by the predecessor auditor, such as management letters and short review reports. In practice we have also been asked by securities firms whether it is possible to waive confidentiality with respect to handover meeting minutes.

While verbal inquiries may present a relatively low hurdle, handover meeting minutes are formal written documents. Accordingly, determining the extent to which confidentiality waivers are required in such cases is an important issue. As each audit firm has its own policies and degree of sensitivity on this issue, we would like to confirm the shared perspective.

Handover meeting minutes are not documents that are typically shared with companies preparing for listing. From this standpoint, we believe that reviewing such minutes prior to conducting interviews would be useful in the listing examination process.

Hayase, Senior Manager, Listing Examination Department, JPX-R:

While it would indeed be useful to receive documents such as handover meeting minutes from audit firms, in practice, other than audit reports, audit firms generally do not submit written materials of this kind to external parties. Accordingly, we envisage obtaining, on an indirect basis, documents that the audit firm has provided to the company preparing for listing, through that company.

Audit firm:

From the perspective of how fully the background of the issue should be understood, it is possible that management letters or short review reports do not necessarily describe in detail the circumstances that led to the fraud. Against this background, may we understand that the approach would be to first obtain an overview of the handover on a verbal basis from the current auditor, and then, based on that understanding, seek clarification from the predecessor auditor?

Hayase, Senior Manager, Listing Examination Department, JPX-R:

My understanding is that the facts leading to the change of audit firms are generally reflected in management letters and similar documents, and that it is difficult to obtain a full understanding beyond what is documented therein. Accordingly, I consider the starting point to be reviewing the management letter and other relevant materials after obtaining the necessary consent.

Based on that review, I had envisaged an approach whereby we would first ask the successor audit firm, on a verbal basis, about the nature of the handover, and then conduct an interview with the predecessor audit firm to confirm that there are no discrepancies in understanding. Is this consistent with the practical approach assumed by securities firms?

Securities company:

While I cannot say this with certainty, it appears that within each securities company, discussions may not yet have fully crystallized around the specific scope of information to be obtained.

Given that there are inherent limits to what can and cannot be provided, there may be instances where it is somewhat optimistically assumed that obtaining certain materials would be desirable if possible. In that sense, it may be necessary to further work through and refine the practical aspects.

Hayase, Senior Manager, Listing Examination Department, JPX-R:

While the waiver of confidentiality obligations may help establish an environment that facilitates communication, there may still be situations in which, after considering various risks, the predecessor audit firm finds it difficult to discuss certain matters. Taking into account the position and circumstances of the predecessor audit firm, we would like to proceed with this matter in a careful and considerate manner.

Audit firm:

As with standard CPA interviews, my understanding is that the timing of such interviews is not disclosed. Is the same approach also applied to interviews with the predecessor auditor?

Hayase, Senior Manager, Listing Examination Department, JPX-R:

Yes, the same applies. In the Exchange's listing examination process, we do not inform companies preparing for listing of the timing or substance of meetings with audit firm representatives.

Audit firm:

Similarly, do you inform companies preparing for listing that you have asked, or plan to ask, the predecessor audit firm questions?

Hayase, Senior Manager, Listing Examination Department, JPX-R:

Once we receive the contact information for the predecessor audit firm through the lead underwriter securities company at the time of the listing application, the Exchange contacts the audit firm directly. Accordingly, we do not provide any feedback to the company preparing for listing.

Securities company:

There may be cases where the audit firm has already changed by the time the lead underwriter agreement is executed. In such cases, if a meeting were requested with the predecessor audit firm at that stage, would they generally be willing to respond to such a request?

Hayase, Senior Manager, Listing Examination Department, JPX-R:

In the recent revision of the confidentiality agreement template by the Japanese Institute of Certified Public Accountants, it is premised that confirmations may be conducted by the lead underwriter securities company during the listing preparation process. Accordingly, the matter would be subject to interpretation of that premise. That said, from a practical standpoint, we believe it would be preferable to make such inquiries at an earlier stage.

Audit firm:

With respect to the scope of cases covered when verifying the circumstances surrounding a change of audit firms in this context, the focus extends beyond audit engagements to include advisory engagements as well. As such, a broader scope is contemplated than the definition of a predecessor auditor under the Auditing Standards Board Statements.

Given that the JICPA has recently indicated that communication is useful even in cases where a change occurs at the advisory engagement stage, it is expected that handover procedures will be carried out more frequently than in the past.

On the other hand, as such handovers are not mandatory requirements, there may still be cases in which no handover is conducted. In such cases, we would also appreciate it if you could explain how the practical process or flow is envisaged.

Hayase, Senior Manager, Listing Examination Department, JPX-R:

I do not expect the overall process to change significantly. As you noted, in cases where there is nothing to be handed over, we envisage the following steps: first, confirming with the successor audit firm that no handover has taken place; next, asking the applicant company about the reasons for the change; and finally, seeking an explanation of the background and circumstances from the predecessor audit firm.

Audit firm:

I understand that the absence of a handover alone does not significantly change the overall process.

Hayase, Senior Manager, Listing Examination Department, JPX-R:

While we would like handovers to be conducted whenever possible, we recognize that there are practical limits to what can and cannot be done. Given cases such as the fraud case involving alt Inc., it would not be realistic for either the Exchange or securities firms, going forward, not to ask the predecessor audit firm anything at all when an audit firm change occurs. Accordingly, even if the information that can be shared is limited, we would appreciate your cooperation in first holding a meeting. Furthermore, if you are aware of any truly significant issues, we would ask for your cooperation in ensuring that such matters are appropriately communicated.

Audit firm:

When we attend a meeting as the predecessor audit firm, may we ask whether it would be possible to receive the questions in advance? As is typically the case with standard CPA interviews,

we would generally need to submit our proposed responses to our headquarters for internal review before the meeting, and we would appreciate your clarification on this point.

Hayase, Senior Manager, Listing Examination Department, JPX-R:

As there have not yet been any actual precedents, we would like to further refine the practical arrangements going forward. That said, as with our general meetings with audit firm representatives in the course of the listing examination process, we envisage providing the agenda in advance. We would also seek to ensure that adequate preparation time is allowed for your responses.

Securities company:

With respect to the Prime, Standard, and Growth markets, I understand that the recently compiled measures will be taken going forward. However, regarding the TOKYO PRO Market, has there been any discussion within TSE? As some companies are transitioning from the TOKYO PRO Market to the Growth or Standard market, the TOKYO PRO Market may come to function as a gateway, and it is anticipated that more companies will seek initial listings via this route. From that perspective, one could argue that a certain degree of deterrence or preventive measures should be considered even at the TOKYO PRO Market stage. In that context, has there been any discussion on how situations such as a change in audit firm should be addressed for companies preparing for listing on the TOKYO PRO Market?

Isogai, Manager, New Listings Department, TSE:

With respect to companies preparing for listing on the TOKYO PRO Market, if a J-Adviser identifies certain risks arising from circumstances such as a change in audit firm, we believe it would be desirable for the J-Adviser to carry out appropriate confirmation as needed, taking into account the measures implemented for the other markets in this instance. On the other hand, given the characteristics of a market intended for professional investors, we do not consider it necessary, at this stage, for the Exchange to prescribe a uniform set of actions or requirements for such situations.

Securities company:

On page 10 of Document 1-3, it reads “TSE requests companies preparing for listing to ensure that the existence of the reporting contact point is communicated to their officers and employees” and “it is generally desirable that the existence of the reporting contact point be communicated to all officers and employees.”

While we agree with this principle, there are cases—such as subsidiary listings—where, from an information-management perspective, it may not be feasible to inform all officers and employees. In addition, amid recent discussions regarding the “JPY 10 billion market capitalization after five years” criterion, some companies are still deliberating whether to pursue a listing or opt for an M&A exit. From the standpoint of managing expectations among officers and employees, there may therefore be cases where companies are unable, or prefer not, to disseminate such information at an early stage.

We understand that the appropriate scope of dissemination should be determined by the lead underwriter securities company and management after weighing these factors. In cases where dissemination is limited in this way, could the Exchange, during the listing examination process, point out that the level or scope of dissemination was insufficient?

Hayase, Senior Manager, Listing Examination Department, JPX-R:

I believe that limiting communication may be acceptable where there are special circumstances that reasonably justify such an approach. However, if a similar incident were to occur and it were determined that management had intentionally narrowed the scope of communication, resulting in the Exchange and the lead underwriter being unable to identify the issue, that would raise concerns. In that sense, I believe the key point ultimately lies in whether the limitation was based on reasonable and justifiable grounds.

Ikeda, Senior Manager, Listing Department, TSE:

Could you elaborate a bit more on the reasons why dissemination of such information may be difficult in cases where a subsidiary listing is being pursued, or where an M&A exit option is under consideration?

Securities company:

The reason is that, in many cases, management has not disclosed, at the outset, the fact that the company intends to pursue a listing, which makes it difficult to disseminate information about the whistleblowing hotline. Based on my experience with the companies I have been involved with, it has in fact been relatively uncommon for the intention to go public to be communicated to all officers and employees.

Audit firm:

I had the same impression. It is quite common to see companies that limit information to a dedicated project team and prefer not to communicate it to the broader organization until the last

possible moment. Determining the appropriate timing for such wider disclosure is a challenging issue.

Hayase, Senior Manager, Listing Examination Department, JPX-R:

As noted in the materials, while it is permissible to narrow the scope of dissemination depending on the circumstances, we would ask that such decisions be made with due consideration of the potential downside that issues may surface immediately prior to listing. On this point, we do not perceive any significant difference in perspective between lead underwriter securities companies and the Exchange. Accordingly, where a lead underwriter securities company determines that there is a reasonable justification for limiting the scope of dissemination of the reporting hotline, we do not consider such an approach to be problematic.

Audit firm:

Regarding Document 1, while short review reports are generally prepared by audit firms with the expectation that they may be provided to external parties, management letters are not typically intended for external submission. To date, in cases where an issuer has wished to provide information externally, we have considered it acceptable for the issuer to submit a summary prepared by the issuer, rather than the management letter itself. Would such an approach be acceptable from the perspectives of TSE and the lead underwriter securities companies?

Hayase, Senior Manager, Listing Examination Department, JPX-R:

I believe that, in practice, approaches to date have varied depending on the policies of each audit firm and, in some cases, individual auditors. Given that the issuer has already been provided with the document, we would, if possible, like to review it as well. That said, we recognize that there may be cases where, instead of the management letter itself, a summary prepared by the issuer is provided, and we consider that approach to be within the range of acceptable practices.

Hayase, Senior Manager, Listing Examination Department, JPX-R:

Regarding Document 1-4, which is currently labeled as a “draft,” we intend to publish the finalized version on March 27. In addition, with respect to the revisions to the Instruction for the Preparation of Annual Securities Report for Initial Listing Application (Part II) and the revisions to Instruction for the Preparation of Various Explanatory Materials, as set out in Document 1-3, we aim to publish them as soon as possible.

Hayase, Senior Manager, Listing Examination Department, JPX-R:

Moving on to the second agenda item, I would like to share an update on the status of recent discussions based on Document 2, “Recent Discussions at the Council of Experts Concerning the Follow-up of Market Restructuring and Future Initiatives.”

Ikeda, Senior Manager, Listing Department, TSE:

The first page of the document provides an overview of the key topics. As noted in the section titled “Promoting Management That is Conscious of Cost of Capital and Stock Price” in the upper left corner, we are currently advancing discussions on revising the Corporate Governance Code in collaboration with the Financial Services Agency, and we have held two expert panel meetings to date.

We plan to make four major revisions. The first is to move toward a more principles-based and streamlined framework overall. The Code was originally established in 2015 and subsequently revised in 2018 and 2021, making this the third revision. As the Code has become increasingly detailed through these revisions, we have decided to reorganize it as a whole. A draft of the revision has already been published. While the substance of the Code will not be diluted, we intend to streamline its structure by consolidating approximately 83 items into around 30, thereby improving overall clarity and coherence.

The above relates to changes in form. The second point concerns substantive changes, specifically the appropriate allocation of management resources and investment in growth areas.

While the Code itself will be revised, in terms of TSE’s past initiatives, efforts toward Management That is Conscious of Cost of Capital and Stock have been progressing. From the perspective of medium- to long-term investors, what matters most is a company’s strategic direction and how it allocates management resources toward growth areas. An increasing number of companies are now articulating their capital and cash allocation policies, and through such disclosures, we would like to encourage further consideration of, and action on, how available management resources are deployed.

The third point concerns the timing of disclosure of annual securities reports prior to the general meeting of shareholders. Following a request from the Minister of Finance in March last year, disclosure has generally shifted to an earlier stage. For example, among Nikkei 225 companies, the proportion disclosing their reports prior to the general meeting has increased from around 10% to a majority of companies. That said, some investors have called for disclosure to be made three weeks prior to the general meeting. However, disclosure one day before the meeting and disclosure three weeks in advance are materially different. Implementing the latter would require significant

adjustments, such as changing the record date, and would therefore be a complex undertaking. With these considerations in mind, discussions are currently ongoing.

The fourth point concerns strengthening the secretariat functions of the board of directors. As the number of outside directors has increased and enhancing the effectiveness of the board has become a key challenge, it is an important issue whether the board secretariat appropriately shares information with outside directors and sets the agenda properly.

With respect to parent–subsidiary listings, there are two sets of rule revisions scheduled for this month. While we have previously encouraged companies to disclose the reasons for maintaining parent–subsidiary listings, we are, separately from that, planning rule revisions from the perspective of protecting minority shareholders.

Specifically, we intend to apply these changes to listed companies that have a major shareholder holding 40% or more of the voting rights. We plan to require such companies to disclose the proportion of minority shareholders who voted in favor of proposals for the election of directors. While the overall voting results are disclosed in Extraordinary Reports, the voting ratio among minority shareholders is not currently disclosed. We are therefore considering requiring such disclosure in order to raise awareness of this issue.

There have been cases in which companies have effectively dismissed concerns by noting that a resolution was ultimately approved, even though a majority of minority shareholders voted against it, giving rise to concerns among minority shareholders and investors. The planned revisions are intended to encourage companies to consider how they should proceed going forward while taking such opposing views from minority shareholders into account. We plan to publish the Outline of Specifications later this month.

We also plan to review the independence criteria. Currently, parent companies are considered non-independent, but we intend to broaden the scope slightly to include major shareholders—specifically, those holding 10% or more of the voting rights—as non-independent. We also plan to release the Outline of Specifications in March.

Regarding the Growth Market reform shown on the right, we have continued discussions since last year on the continued listing criteria, namely achieving a market capitalization of JPY 10 billion or more after five years, and we intend to continue these efforts. In order to create an environment in which companies can continue to pursue growth even after listing, we plan to further advance our deliberations through ongoing dialogue with visionary startup executives and other relevant stakeholders.

As for TOKYO PRO Market, rather than positioning it solely as a stepping stone toward listing on the general market, we would like to explore effective ways to utilize it so that it can more broadly meet pre-listing secondary market needs.

Furthermore, with respect to the Standard Market, while it is operated on the premise that it accommodates a wide range of companies, there are inevitably some listed companies that pose problems from the perspective of investor protection, which leads to the question of how such cases should be addressed.

There are cases in which a company significantly changes its business operations after listing, potentially giving rise to investor protection issues. Where such changes involve an M&A transaction, the matter can be reviewed under the framework for “inappropriate mergers.” However, a challenge arises in cases where significant changes occur without accompanying M&A activity. To address this, we have stated in the published materials that we intend to establish a mechanism that allows us to verify such situations as well.

We are sometimes asked whether this approach targets specific industries, but our response is that it does not. Rather, the idea is to have an appropriate framework in place as a matter of principle. Our focus is less on addressing issues through reviews or examinations by self-regulatory organizations after the fact, and more on identifying risks at an earlier stage and preventing such situations from arising in the first place.

Overall, while 93% of companies on the Prime Market have disclosed their efforts regarding Management that is Conscious of Cost of Capital and Stock Price, approximately 50% of companies on the Standard Market have yet to do so. However, many of these companies are not lacking in motivation; rather, they often lack the necessary resources or are unsure how to approach the issue. Accordingly, we believe it is important to provide support through an approach different from that adopted for the Prime Market.

Finally, I would like to turn to the topic of the transitional measures ending at the end of this month, under “Actions in Response to End of Transitional Measures.” In total, approximately 120 companies are estimated not to meet the continued listing criteria. As determinations are made on a fiscal year-end basis, there are currently just under 40 companies with a March fiscal year-end that are subject to assessment at this stage. Among these companies, some are considering transferring to the Nagoya, Fukuoka, or Sapporo exchanges, while others—if currently listed on the Prime or Growth markets—are planning to move to the Standard Market. At the same time, there are also companies that have not yet considered such measures. While this situation is, to a certain

extent, unavoidable, I believe it is important that shareholders and investors be appropriately and thoroughly informed.

The details I have just discussed are included from page 2 onward, so I would appreciate it if you could refer to those pages as well. Finally, I would like to add a brief comment on page 6. Preparations for an IPO tend to focus heavily on responding to the listing examination. At the same time, having an understanding in advance of matters such as post-listing investor relations and how institutional investors view listed companies can, in practice, help things proceed more smoothly after listing.

We would like to continue exploring initiatives that go beyond merely "clearing the IPO process," and instead support companies in smoothly enhancing corporate value after listing. We would appreciate the opportunity to continue consulting with you as these efforts progress.

That concludes my remarks.

Hayase, Senior Manager, Listing Examination Department, JPX-R:

I believe that there are areas in which the gap between the hurdles required to clear the listing examination and the hurdles associated with meeting investor expectations after listing has been widening. If investor expectations were applied directly to listing examination standards, this could risk making the IPO entry point overly restrictive. Accordingly, while remaining mindful of the appropriate line that should be required in the listing examination, we would also like to delineate and communicate the initiatives that are necessary for achieving a better IPO.

Securities company:

As the awareness-raising activities described on page 6 become increasingly important going forward, we also expect that materials for management of companies preparing for listing—such as those set out in Attachment 2 to Document 1-3, which were introduced earlier in the meeting—will be utilized.

The content is very well organized, and I understand that it has been carefully refined to avoid overwhelming readers by including too much information. That said, one point that gave me a slight sense of incongruity was that certain keywords which typically become relevant after listing—such as "independent directors" and "minority shareholders"—are not explicitly included.

While the materials do refer to concepts such as the common interests of shareholders and the increasing number of stakeholders, it may be helpful, when the content is reviewed in the future, to add perspectives that companies should be particularly mindful of as listed entities after going public.

Hayase, Senior Manager, Listing Examination Department, JPX-R:

Thank you. This document was prepared with a focus on fraud prevention; however, as you rightly pointed out, there are a variety of important themes to be addressed, including governance.

In this instance, we have provided reference materials as an entry point, so that those who wish to explore these topics in greater depth are aware of relevant resources. Going forward, we would like to continue providing access to a wide range of such information in a similar manner.

Ikeda, Senior Manager, Listing Department, TSE:

Ideally, it is important to encourage not only management but also outside directors to adopt this perspective. We would therefore like to include this point as part of our future considerations as well. Thank you.

Hayase, Senior Manager, Listing Examination Department, JPX-R:

As our time is now up, I would like to bring today's meeting to a close. Once again, thank you very much for taking the time to join us today despite your busy schedules.