

Measures to Prevent Misconduct in IPOs

Message to Management of Companies Preparing for Listing *(From Tokyo Stock Exchange)*



**IPO Center, New Listings Department, Tokyo Stock Exchange
Listing Examination Department, Japan Exchange Regulation**

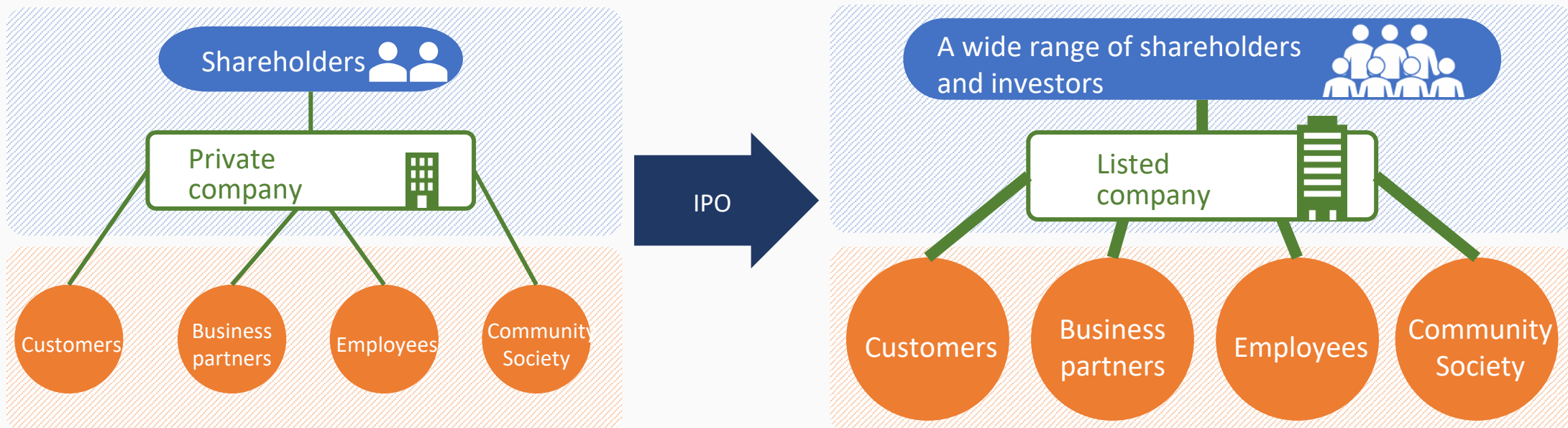
Purpose of This Document

- One of the important roles of the securities market is to provide companies with opportunities to raise the capital necessary for growth through listing and to support their growth after listing.
- At the same time, if a newly listed company becomes involved in misconduct, it not only damages the credibility of the company itself but may also undermine confidence in the listing market and, ultimately, in the securities market as a whole.
- In particular, misconduct led by or involving company officers can have a significantly greater impact. To prevent such situations, it is essential that each officer—such as representative directors (including representative executive officers), other directors, executive officers, and auditors—clearly recognizes the responsibilities associated with serving as an officer of a listed company and appropriately fulfills his or her respective role.
- Accordingly, this document has been prepared to share with management and officers of companies preparing for listing the fundamental points that are expected in order to prevent misconduct before it occurs.

I. Listed Companies = Public Companies

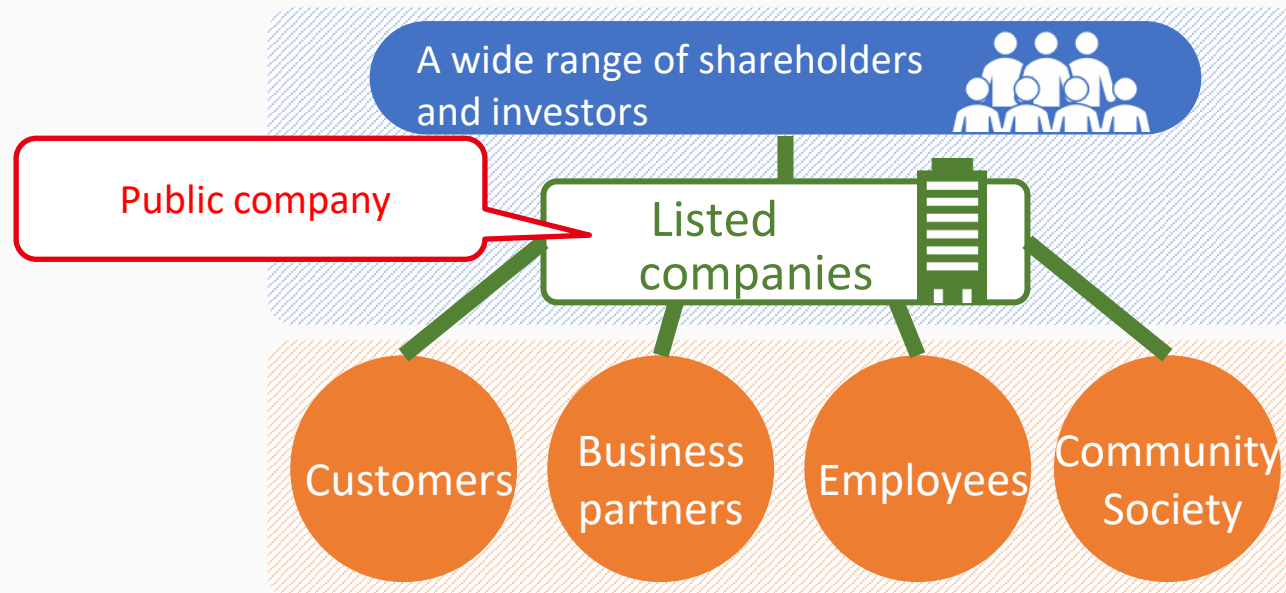
I. Listed Companies = Public Companies

- IPO stands for Initial Public Offering. It refers to the process by which a company raises capital from a wide range of investors and lists its shares on a stock exchange, enabling those shares to be traded on the market.
- By completing an IPO and becoming a listed company, a company becomes an investment opportunity for a wide range of investors. In other words, becoming a listed company **means welcoming a broad group of shareholders, as well as investors who may become future shareholders, as new stakeholders.**
- Furthermore, by leveraging the advantages of listing—such as smoother and more diversified fundraising and enhanced social credibility and public recognition—and continuing to grow the company, **the range of stakeholders expands significantly. Compared with the period when the company was unlisted, this broader group may include customers, business partners, employees, and local communities.**



I. Listed Companies = Public Companies

- The actions of a listed company, whether positive or negative, can affect a wide range of stakeholders. For this reason, **listed companies are considered to bear a particularly significant level of social responsibility.**
- Accordingly, listed companies are **often referred to as “public companies”** and are **expected to conduct their business with a “public” perspective in mind.**



II. Responsibilities Arising from Listing

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- While becoming a listed company allows a company to enjoy various benefits—such as more diversified means of raising capital, enhanced social credibility, and greater public recognition—these benefits are made possible by the presence of **a large and unspecified number of investors** participating in IPOs and the securities market.
- It should also be recognized that **market trust has been built over time through the accumulated track records of participants across the securities market**. These include not only investors, but also established listed companies, audit firms, securities firms, stock exchanges, and supervisory authorities.
- Accordingly, when a company becomes listed, it not only benefits from listing, but also **assumes a role as a member of the market whose actions can influence market credibility**. As a result, a listed **company bears responsibilities toward the market**.

Benefits of Listing

More diversified funding options

Enhanced social credibility

Greater public recognition

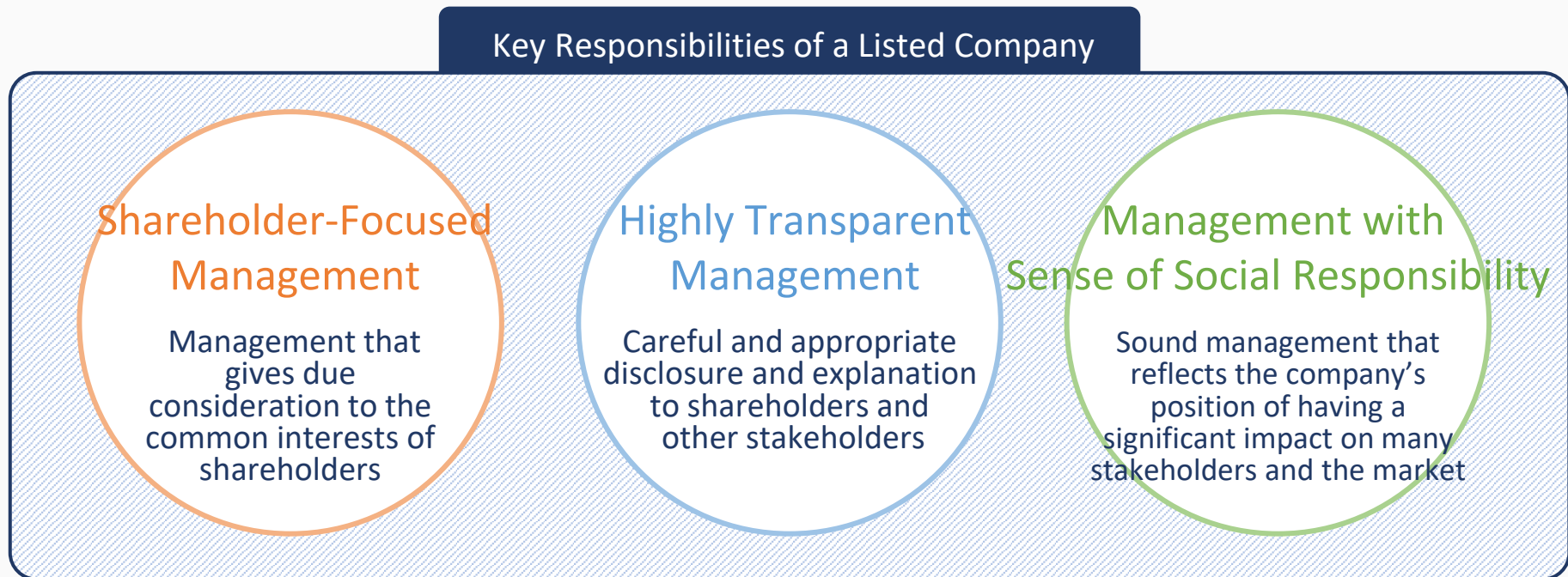
And more



Becoming a listed company means enjoying various benefits, while assuming responsibilities toward the market

II. Responsibilities Arising from Listing

- Furthermore, it is important to fully recognize that becoming a listed company entails significant responsibilities, and that accountability may be required in connection with those responsibilities. With this understanding, each officer is expected to have **clear awareness and a strong sense of responsibility as an officer of a listed company**, and to **firmly transition to the mindset and management framework appropriate for a “public company,” including sound corporate governance and internal control systems.**
- In particular, representative directors are expected, as top executives, to take the lead in this regard and to demonstrate a strong commitment to continuously maintaining and enhancing these frameworks even after listing.



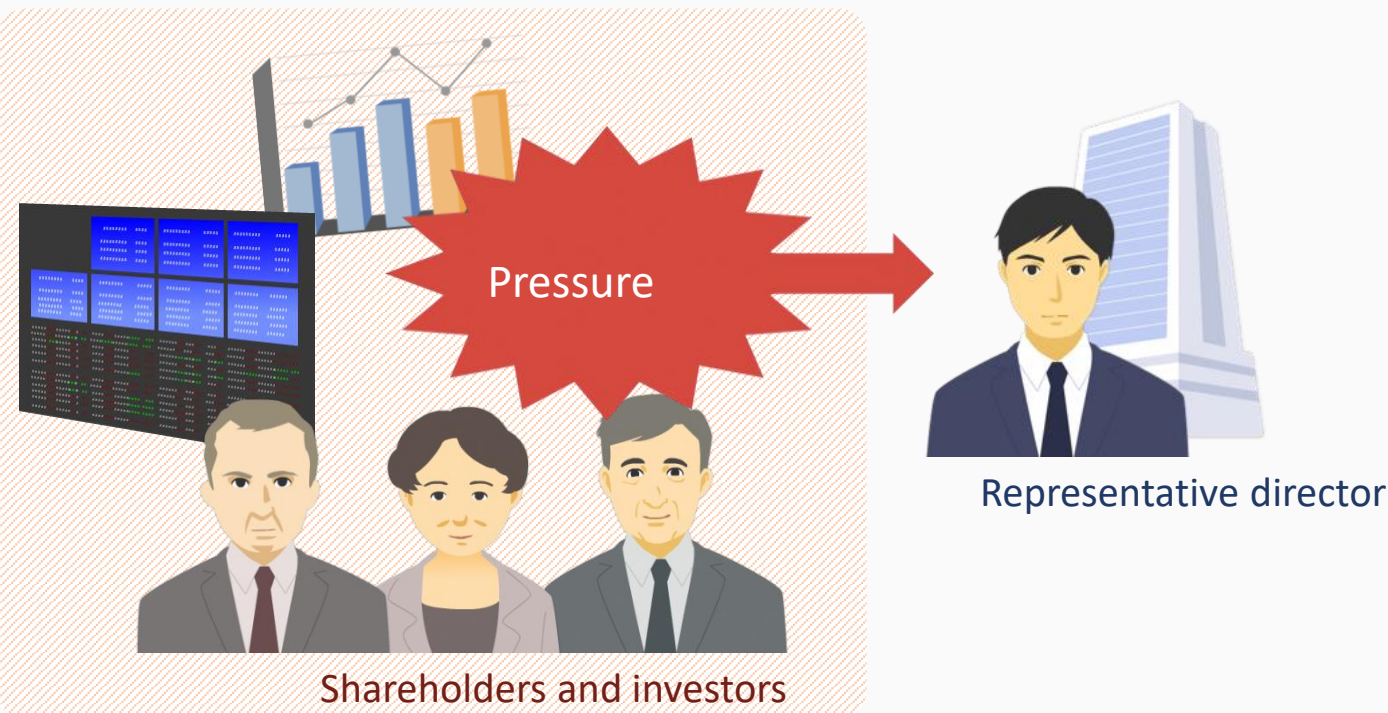
III. Establishing an Appropriate Management Framework for a Listed Company

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- **Listed companies are required to conduct business in a manner that continuously enhances corporate value.**
- Furthermore, preventing scandals (such as serious legal violations or other fraudulent or inappropriate conduct) is a fundamental prerequisite. To this end, it is necessary to **establish appropriate corporate governance and internal control systems** prior to listing.
- In particular, **as the top executives of a listed company**, representative directors are expected to **maintain a high level of awareness toward compliance and take the lead in establishing highly effective systems.**

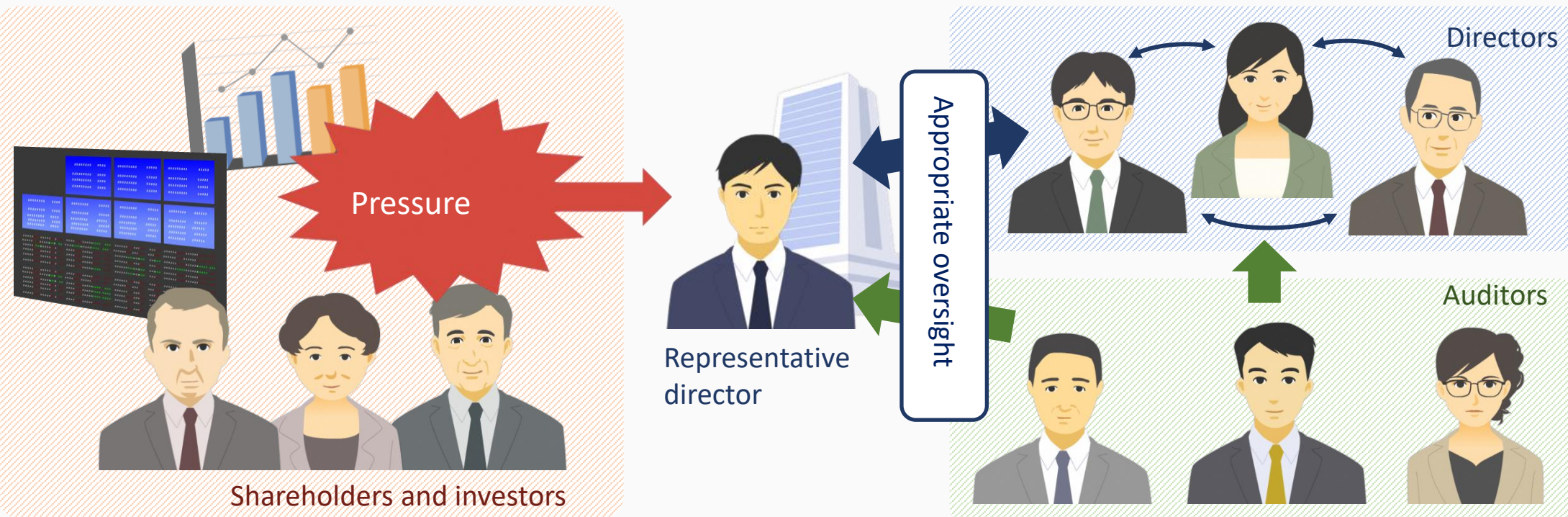
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- However, after listing, a wide range of shareholders and investors become new stakeholders. As a result, there may be situations where **companies face significant pressure stemming from high expectations and demands regarding management, as well as critical and sometimes harsh feedback.**
- In fact, there have been cases in which, **against the backdrop of such post-listing pressures, a representative director of a company engaged in misconduct shortly after listing.** Moreover, incidents of organizational misconduct have also occurred at large corporations that had already accumulated substantial experience as listed companies.



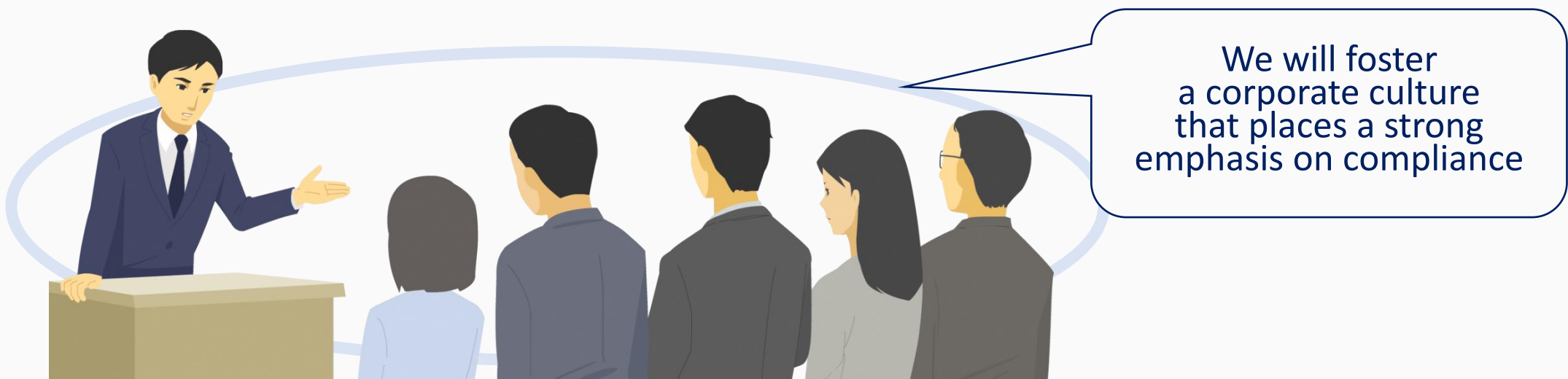
III. Establishing an Appropriate Management Framework for a Listed Company

- In order to ensure that sound and highly transparent management is sustained under all circumstances, it is essential to **establish and operate a governance framework that provides appropriate checks and oversight, including over those in top management positions themselves**, so that representative directors or other top executives do not initiate or become involved in misconduct.
- Furthermore, **directors and auditors** are strongly encouraged to recognize **their responsibility to exercise appropriate oversight over representative directors and other directors**. In particular, directors are expected to respect and give due consideration to the views and opinions of other directors and auditors.



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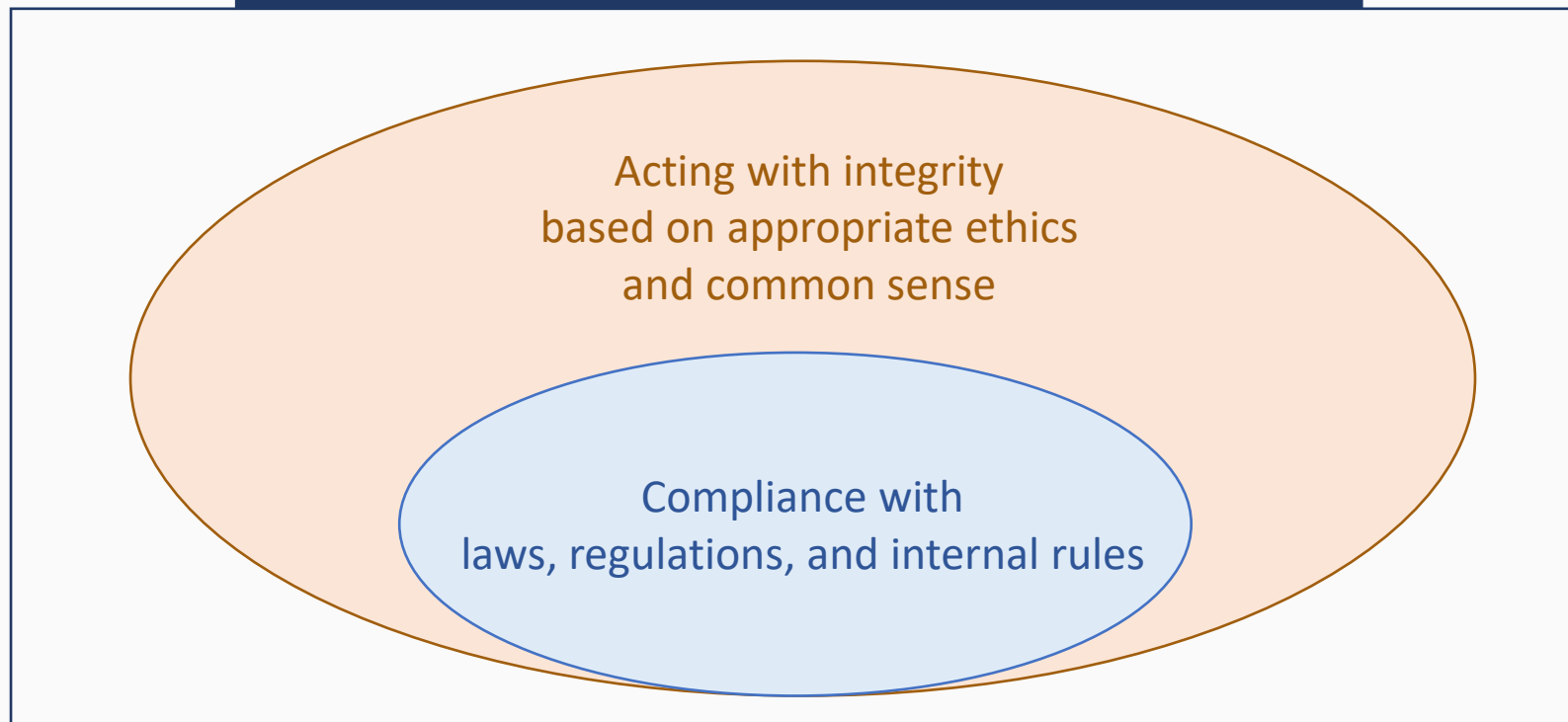
- **As a company grows in size, there will inevitably be areas where management’s direct oversight does not fully reach.** In addition, the range of matters that must be considered in managing the business will continue to expand. Even in such circumstances, in order to make appropriate management decisions and to prevent accidents, misconduct, or errors before they occur, it is **essential to establish an appropriate internal control framework** based on a thorough analysis of the company’s risks.
- Furthermore, as the company continues to grow, the level of systems required will also change. Accordingly, it is necessary to review and update these systems as appropriate, so that they remain suited to the company’s circumstances at each stage. In doing so, it is important not merely to establish systems in form. With the recognition that misconduct can occur at any company, **management must take the lead on an ongoing basis in fostering a corporate culture that places a strong emphasis on compliance**, and in ensuring the effective and continuous operation of such systems.



III. Establishing an Appropriate Management Framework for a Listed Company

- One point to which we would like to draw particular attention is that the “compliance” expected of a listed company goes beyond simply complying with laws, regulations, and internal rules. Rather, it involves being broadly mindful of social norms as a whole and **acting with integrity based on appropriate ethics and common-sense standards of conduct.**
- In other words, companies are expected to conduct their management with integrity in a manner that can be confidently explained to society.

“Compliance” encompasses all of the following:



IV. Misconduct During the Listing Preparation Process

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- Unfortunately, there have been cases in which misconduct was recognized during the listing preparation process but was concealed, as well as cases in which members of management themselves engaged in misconduct in an attempt to achieve a listing.
- **Misconduct will inevitably come to light.** If involvement in misconduct by management, or the concealment thereof, is discovered during the listing preparation process, **the listing plan will be cancelled or postponed indefinitely.** Moreover, if such misconduct is discovered after listing, **members of management** who were involved in the misconduct or complicit in its concealment **will be held to even more serious accountability, including potential criminal liability.** In addition, if the exchange discovers misconduct that occurred prior to listing, **the company may be subject to severe measures, including delisting,** regardless of the length of time that has passed since the listing.



Involvement by
management in
misconduct or its
concealment

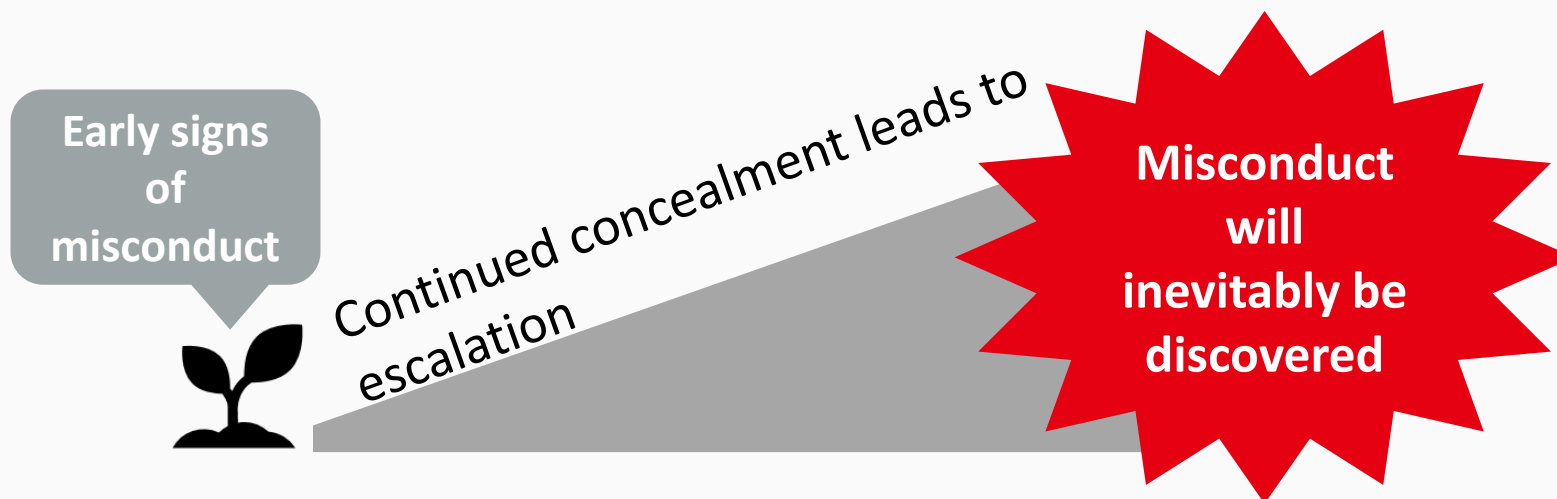
**Cancellation or indefinite
postponement of the listing plan**

**Holding management accountable,
including criminal liability**

**Disciplinary measures by the
exchange, including delisting**

IV. Misconduct During the Listing Preparation Process

- Looking back, in many cases, misconduct that occurs during the listing preparation process often **begins as what appears to be relatively minor issues or challenges**. Despite the availability of alternative and appropriate solutions, hasty or short-sighted decisions are sometimes made, and these choices can lead to serious and unfortunate outcomes.
- **Once a company takes the initial step of engaging in misconduct, it is not easy to withdraw from that course of action.** Moreover, even when misconduct begins on a seemingly small scale, **it often escalates over time as efforts to conceal it continue, ultimately leading to consequences that are increasingly difficult to remedy.**
- It is essential that executives of listed companies keep firmly in mind that **engaging in misconduct is never acceptable**, and that **there is no benefit to be gained from continuing to conceal it.**



IV. Misconduct During the Listing Preparation Process

- TSE provides information reporting channels on its website for companies that have not yet listed (companies considering listing, companies preparing for listing, companies applying for listing, and companies that have received approval for listing).
- These channels receive more than 100 reports each year, primarily from employees of companies preparing for listing. Unfortunately, there continues to be a steady number of cases in which misconduct at listing applicants is uncovered as a result of reports submitted through these channels.

https://www.jpx.co.jp/english/regulation/mail/new_listing/index.html

Report Matters Affecting the Eligibility of Listing Applicants

This page is for executives, employees, and other related parties of companies applying for listing on Tokyo Stock Exchange to provide us with information regarding falsified financial statements and other matters that will materially affect an applicant's eligibility for listing.

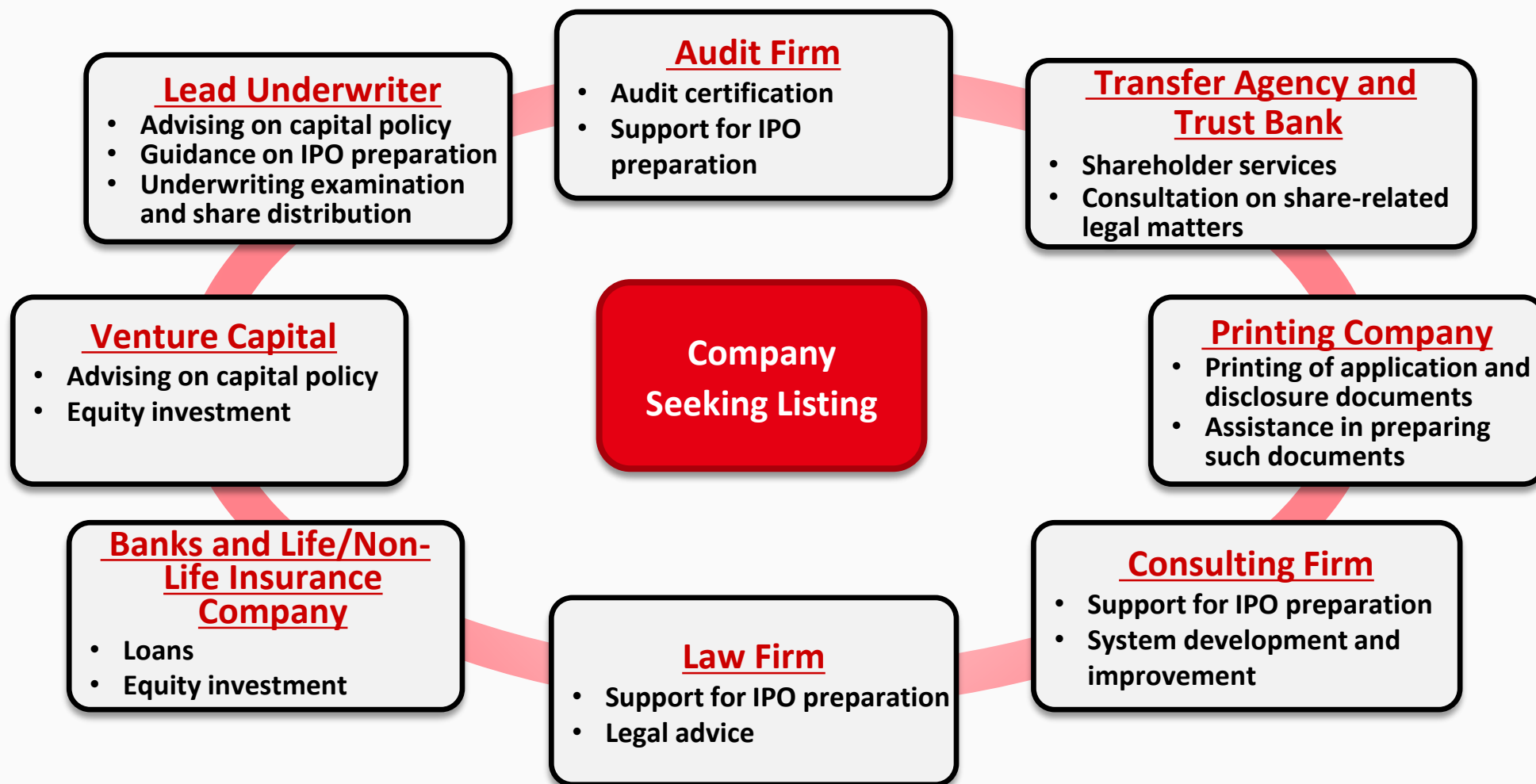
The information provided will be used for our listing examination operations. Please note that the information provided will be shared with the lead managing underwriter to the extent deemed necessary for the listing examination and relevant parties may be contacted for confirmation. Although we take utmost care to preserve the anonymity of the person(s) who provided the information, please understand that there may be cases where the initial listing applicant may be able to infer that the investigation was initiated as a result of the information provided.

[File a Tip or Complaint](#)



IV. Misconduct During the Listing Preparation Process

- To address challenges related to listing preparation, a wide range of professionals, including lead managing underwriters and audit firms, provide expert support to companies. TSE also offers full support to companies seeking listing through its IPO Center. If you identify any challenges related to listing preparation or early signs of potential misconduct, please proactively consult with the relevant parties at an early stage so that such issues can be properly addressed.



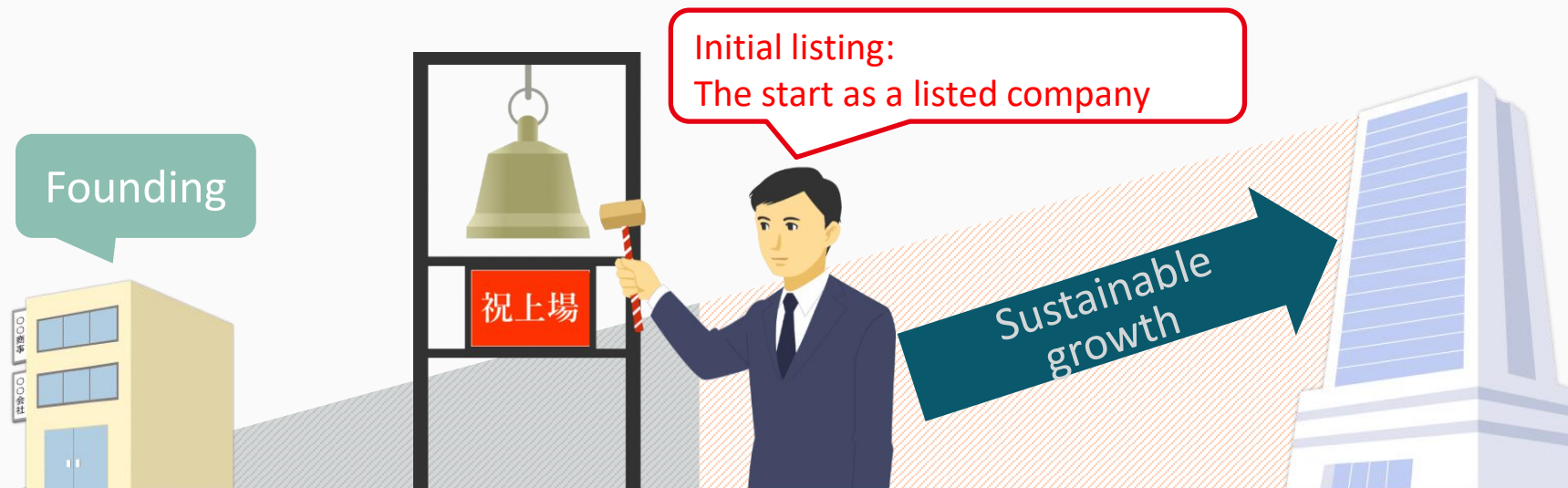
V. Initial Listing Marks the Start as a Listed Company

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- As discussed earlier, a company is required to establish an appropriate management framework when preparing for listing.
- In addition, once a company becomes listed, it must disclose company information in a timely and appropriate manner so that a large number of shareholders and investors are able to make informed investment decisions.
- These requirements are often regarded simply as obligations associated with listing. However, **the outcomes they bring—such as more systematic organizational operations, appropriate oversight and checks, and management monitoring by third parties through disclosure—contribute to the sustainable enhancement of corporate value.** In this sense, they can be regarded as some of the benefits accompanying listing, alongside smoother and more diversified fundraising and enhanced social credibility and public recognition.

V. Initial Listing Marks the Start as a Listed Company

- The process leading up to listing is by no means easy, and while achieving a listing may be considered a significant milestone, **listing itself is a means of enabling a company's growth and should not be regarded as the ultimate goal.**
- Investors who become shareholders of a company for the first time through an initial listing expect that the company will grow after listing.
- With the full recognition of these expectations and the significant responsibilities that accompany them, companies are encouraged to reconfirm whether they possess both the necessary systems and the determination required to meet such expectations, and to ensure that they begin this next stage fully prepared. Furthermore, even after listing, it is essential to remain mindful of these expectations and responsibilities, to stay true to the company's vision, and to pursue steady and forward-looking management over the long term.



Guide to Reference Materials

Preliminary Preparation Guidebook for Initial Public Offerings (IPOs)

- The Japanese Institute of Certified Public Accountants (JICPA) has published the “Preliminary Preparation Guidebook for Initial Public Offerings (IPOs)” (Japanese only) with the aim of promoting a better understanding of the timeline leading up to an IPO and the key matters that should be addressed at each stage.
- This guidebook compiles essential information that management of companies preparing for an IPO should understand in order to organize and resolve fundamental challenges, with a particular focus on accounting reporting systems.
- We encourage those responsible for companies aiming for an IPO, as well as all others with an interest in IPO support, to make full use of this guidebook.

<https://jicpa.or.jp/news/information/2026/20260213cdh.html> (Japanese only)



New Listing Guidebooks and TSE's IPO Center

- TSE has published “New Listing Guidebooks,” which explain the listing criteria, as well as the standards, concepts, and procedures for listing examination.

<https://www.jpx.co.jp/english/equities/listing-on-tse/new/guide/index.html>



- In addition, the IPO Center is available for consultations and inquiries regarding IPOs. We welcome questions not only on listing examinations and procedures, but also on broader matters related to organizational and system preparations for listing.

<https://www.jpx.co.jp/english/equities/listing-on-tse/ipo-benefits/01.html>

Contact: IPO Center, New Listings Department, Tokyo Stock Exchange

ipo@jpx.co.jp

Introduction to Compliance-Related Materials

- Japan Exchange Regulation (JPX-R) hosts seminars and panel discussions led by leading experts in their respective fields on topics related to corporate governance and internal controls, including internal audits and whistle-blowing. These initiatives aim to ensure the appropriate development and operation of internal management systems at listed companies and to prevent misconduct.

<https://www.jpx.co.jp/regulation/seminar/01.html> (Japanese only)

- In addition, JPX-R has published the “Handbook for Strengthening Internal Controls and Preventing Misconduct: Key Insights from Systematized Recurrence Prevention Measures” (the “Internal Control Strengthening Handbook”) (Japanese only). This handbook categorizes recurrence prevention measures disclosed by listed companies following incidents of misconduct according to their causes and objectives, and highlights key points.

- We encourage companies to make use of this handbook when developing organizational structures and systems during the listing preparation stage.

<https://www.jpx.co.jp/regulation/listing/handbook/index.html>

(Japanese only)

Contact for Inquiries Regarding Misconduct Prevention Activities:

Japan Exchange Regulation

General Affairs Group, Listed Company Compliance

Tel: 03-3666-0431 (Operator)

E-mail: jojo-kannri@jpx.co.jp



Introduction to Content Aimed at Preventing Insider Trading

- JPX-R has established the Compliance Learning Center (COMLEC) with the aim of promoting compliance support for market stakeholders and provides a variety of compliance-related training services.
- JPX-R also offers services that are available to companies preparing for listing aimed at preventing insider trading, including the dispatch of instructors for training programs for officers and employees, as well as e-learning programs. We encourage companies to make use of these services in order to develop and strengthen their information management frameworks and insider trading prevention systems.
<https://www.jpx.co.jp/english/regulation/preventing/activity/index.html>
- In addition, JPX-R has published a booklet in an easy-to-understand Q&A format that is based on the fundamental aspects of insider trading regulations and incorporates frequently asked questions received by JPX-R (Japanese only). We encourage companies to make use of this publication as well.
<https://www.jpx.co.jp/english/corporate/learning/resources/index.html>



Action to Implement Management that is Conscious of Cost of Capital and Stock Price, and Others

- TSE is promoting “Action to Implement Management that is Conscious of Cost of Capital and Stock Price” for the Prime and Standard Markets, and “Measures to Enhance the Functionality of the Growth Market” for the Growth Market. To serve as a reference for listed companies, TSE has published information on its website regarding investors’ expectations, as well as examples of initiatives that were well received by investors. We encourage companies to refer to this information as they prepare for listing.

Action to Implement Management that is Conscious of Cost of Capital and Stock Price

<https://www.jpx.co.jp/english/equities/follow-up/02.html>

Measures to Enhance the Functionality of the Growth Market

<https://www.jpx.co.jp/english/equities/follow-up/03.html>

Main Content

- ✓ Purpose of Action
- ✓ List of Companies That Have Disclosed Information
- ✓ Key Points and Examples Considering The Investor’s Point of View
- ✓ Roundtable Discussion (Japanese only): Why Management That Takes the Perspectives of Shareholders and Investors into Account Is Required

Main Content

- ✓ Revisions to the Continued Listing Criteria
- ✓ Requests Related to Action to Achieve “Management That Strives for High Growth” (Investor Expectations)
- ✓ Examples of Initiatives by Growth Market-Listed Companies That Were Well Received by Investors
- ✓ Launch of the Growth Market Special Page

課題解決に向けた企業の取組み事例集（抜粋）

投資家が評価しているグロース上場企業の取組み事例集（抜粋）

Seminars and E-Learning Courses on Corporate Value-Focused Management

- To help deepen understanding of the fundamental knowledge and information required for corporate value-focused management that incorporates investor perspectives, such as the cost of capital, we provide materials and lecture transcripts from previously held “Corporate Value-Focused Management Seminars,” as well as “Corporate Value-Focused Management e-Learning” programs for listed companies. These resources are also available to companies preparing for listing, so we encourage you to make use of them.

Corporate Value-Focused Management Seminars (Japanese Only)

<https://www.jpx.co.jp/equities/listed-co/co-value/03.html>

◆ FY2018: The Strategic Significance of Recognizing the “Cost of Capital” in Management Strategy

講演内容	登壇者
「資本コストとは。-資本コストを認識することの経営戦略上の意義-」	柳 良平 氏 (早稲田大学大学院会計研究科 客員教授/エーザイ株式会社 常務執行役CFO)
「改訂コード5-2及び対話ガイドライン2-2の意図」	三瓶 裕喜 氏 (フィデリティ投信株式会社 ヘッド・オブ・エンゲージメント)

◆ FY2019: Learning the “Cost of Capital” from the Basics

講演内容	登壇者
「企業価値向上と『資本コスト』～経営への活用に向けた基礎と実践～」	加賀谷 哲之 氏 (一橋大学大学院経営管理研究科 准教授)
投資家が求める企業価値向上と「資本コスト」意識 ～対話の現場からの期待～	中神 康議 氏 (みさき投資株式会社 代表取締役社長)
『率の経営』(「資本コスト」を意識した経営)の深化と社内浸透のあゆみ	高橋 孝一 氏 (ダイキン工業株式会社 常務執行役員 経理財務本部長)

Corporate Value-Focused Management e-Learning (Japanese Only)

<https://www.jpx.co.jp/equities/listed-co/seminar/e-learning/index.html>

◆ Basic Course Series

企業価値向上経営の意義と実践に向けて	<ol style="list-style-type: none"> 1. 企業価値向上経営の意義と必要性 2. 必要な自己資本と自己資本のコストとは 3. 東証上場企業の企業価値向上経営の現状と課題
資本市場と企業経営	<ol style="list-style-type: none"> 1. 上場とは 2. 株主とは 3. 少数株主(機関投資家)の概略 4. 少数株主の存在感の変遷 5. 日本企業の抱える課題 6. 持続的な成長と中長期的な企業価値の向上に向けて - コーポレートガバナンス・コード、E S G情報について
独立役員の実務	Case 1. 新規事業への参入を提案されたらどう考える？ Case 2. 剰余金の処分についてどう考える？ Case 3. T O Bの対象となったらどう考える？

◆ Best Practices for Enhancing Corporate Value Series

Series 1	オムロン株式会社の取組み
Series 2	丸紅株式会社の取組み
Series 3	株式会社ユニテッドアローズの取組み
Series 4	ピジョン株式会社の取組み

* Speakers' titles and positions are as of the time of the event.

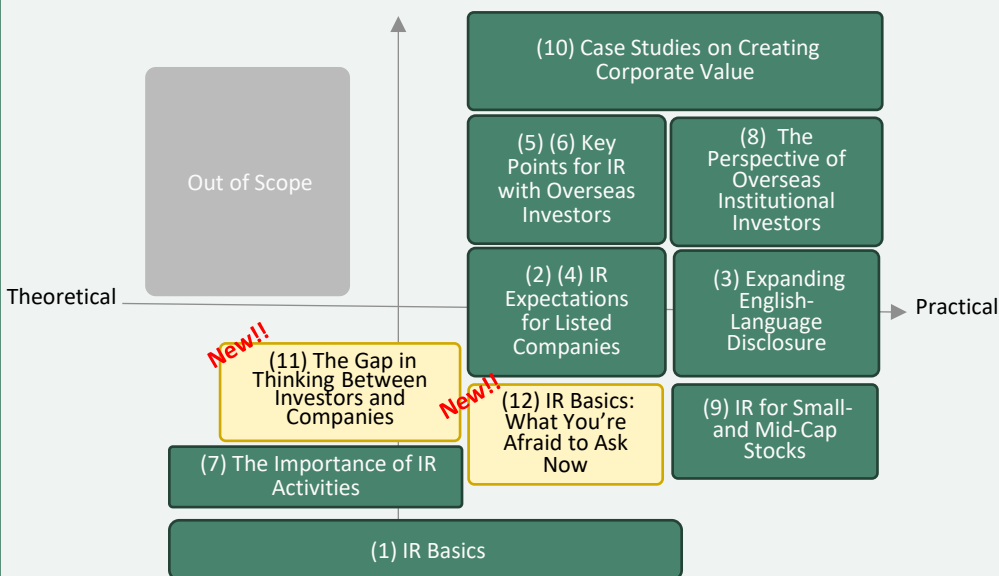
Enhancing IR Activities After Listing

- Listed companies are required to establish an IR system to provide information for building relationships with shareholders and investors. To support the enhancement of effective IR activities, TSE provides resources for learning about IR and introduces practices and examples from other listed companies. We encourage you to make use of these resources.

Online IR Seminars (Japanese Only)

- Online seminars featuring IR experts and institutional investors as speakers, covering fundamental IR knowledge, key considerations, and the IR practices expected by institutional investors

For Advanced Learners



For Beginners

Registration is required to view these seminars
(Also available to companies preparing for listing)



Investor Feedback on IR Systems and IR Activities

- TSE has compiled a summary of investor expectations regarding IR, examples of where investors expect improvement and examples of initiatives that have been well received by investors, based on feedback from domestic and overseas investors regarding IR systems and IR activities.

<https://www.jpx.co.jp/english/equities/listing/investor-relations/index.html>

Investors' Expectations (General Overview)

- Investors expect listed companies' management and their IR departments to:
 - Describe their medium- to long-term management strategies and visions for the future in their own words, through their IR activities
 - Take the feedback that they receive through individual interviews and other interactive dialogues with investors, view it as a management problem, and use it to improve their corporate value
- Investors do not expect listed companies to merely establish IR departments and staff. They expect listed companies to consider and work on the IR system and activities that are needed to improve their corporate value, while keeping in mind such things as cost of capital and stock price.

Investors' Views

Some companies may have gotten help from consulting firms to produce some flashy IR materials, but when we talk with them individually about their management plans, things don't add up.

We do not want flashy materials. We want companies' management and their IR departments to share the same point of view and to express their vision and management approach in their own words. We would like companies to take the opportunity to consider developing IR systems that make those things possible.

In order for companies to improve their IR, it is important for them to first understand investors' expectations before learning how to make flashy IR materials. Actively engaging with investors through IR briefings and individual meetings is the quickest way for companies to improve their IR.

In order to build lasting and trusting relationships with shareholders and investors, it is important for companies to take the feedback that they receive through their IR activities with investors, view it as a management problem, and use it to make needed improvements. We expect companies to develop IR systems not only for disseminating information but also for putting IR to good use in their management.

Practices and Examples From Other Listed Companies (Japanese Only)

- Interview articles featuring listed companies that are well-regarded for their engagement and dialogue with investors.



Topics include:

- Aspects companies believe are valued by investors
- Internal structures and resources for IR activities
- Approaches to building effective touchpoints with investors

<https://www.jpx.co.jp/equities/listed-co/ir-interview/index.html>



The Listing Bell

A bell once rung to
signal the start of trading

At the listing ceremony, this bell will be rung five times, drawing inspiration from the tradition of a bountiful harvest, to mark the company's first step as a listed company and express hopes for its continued growth.

**We look forward to the successful listing of
your company.**

Disclaimer and Cautionary Statement Regarding This Material

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