

Minutes of the Third Council of Experts Concerning the Revision of the Quarterly Disclosure System

Date: Friday, October 27, 2023 18:00 - 20:00

Place: Tokyo Stock Exchange 15F Special Conference Room

Attendees: See member list

[Kansaku, Chair]

We will now hold the third Council of Experts Concerning the Revision of the Quarterly Disclosure System.

Thank you all for taking time out of your busy schedules to participate in this council again.

Mr. Sampei is joining us online today. All other members are present here.

We will now move on to today's agenda. Today, the secretariat will explain the material, and then we will exchange our opinions.

Now, I would like to hand over to the secretariat.

[Naito, Manager, Listing Department, TSE]

I, Manager of Listing Department, will explain today's material. There are two documents. Document 2 shows the opinions we received at the second council and our thoughts on them. Document 3 is a draft of the Practical Policy that are intended to be compiled, and we would like to receive your comments on this today.

First of all, I would like to explain the Document 2 in the secretariat's explanatory material. See page 4.

On page 4, you will find a summary of our comments on the disclosed contents. Some commented that matters requested for proactive disclosures should not be perceived as mandatory, while others said that the importance of the matters listed in the examples would vary depending on the nature of the business and other factors. Based on these opinions, we emphasize that "useful information for investment decisions" is illustrative only, given that investor needs vary by industry, business type, and other factors.

With regard to the description whether or not a review by an auditor is conducted in the summary information, we have changed the wording of the sample summary information form in response to a comment that the subject of the review should be clarified.

Next, page 5 discusses disclosure timing. We recognize that many of you have commented that, in principle, when a review is mandatory, the earnings report should be disclosed after the completion of the review, and we have adopted such a policy.

On the other hand, with regard to the case of optional review, there was a comment that two-step disclosure may confuse users and that the recommendation for two-step disclosure should be re-examined in light of the fact that the disclosure will be integrated into the

earnings report. In light of these comments, we have decided not to indicate our stance recommending two-step disclosure as presented in the second council.

In addition, we have received comments on the practice of two-step disclosure in other countries and have tabulated the situation in Germany. About one-third of the companies disclosed some of their financial information in advance.

Next, on page 6 are issues such as review and enforcement. Regarding the review, we have changed some of the wording based on the previous discussion. Regarding the conclusion when conducting a review, the following was added based on discussions at the Audit Subcommittee of the Business Accounting Council, etc.: While the review regarding compliance is the basis, if a report is compliant with the regulations for financial statements applicable to the Semiannual Securities Reports in the new system (the "regulations of the new system") and disclosures are not omitted, a review regarding fair presentation may be conducted. We will explain this point again in the relevant section of Document 3.

Regarding enforcement, there was a comment that it is necessary to consider whether or not a provision such as the amendment disclosure in the statutory disclosure should be required. This point will be explained on the next slide, so I will not go into it here.

We understand that you had no particular objection to our handling of the Q2(second quarter)/full-year earnings reports.

Regarding the data distribution format, one commenter questioned whether all listed companies would be able to handle HTML submissions. We have confirmed that all domestic listed companies are using printing companies' tools to prepare their financial statements, and we believe that it will be possible for them to comply with the new system by the time it begins.

Page 7 is about whether a correction order is required. The upper part of the slide organizes the process leading up to the correction in the FIEA and Exchange Regulations. Under the FIEA, in the event that a false statement is made in a securities report, etc., the correction of the false statement may be ordered after identifying the contents of the false statement. On the other hand, the Exchange makes inquiries in the event of suspected fraud, etc., and requires the company to disclose corrections if circumstances warrant such corrections. Therefore, the Exchange does not have a provision such as a correction order, but the premise is that there is a difference in that the Exchange does not have mandatory investigation rights and have limited fraud detection capabilities.

Based on these assumptions, a draft policy is included in the middle of the slide. In light of the fact that the review of the Q1(first quarter)/Q3(third quarter) earnings reports will in principle be voluntary, there is a possibility that accurate reporting may not be obtained in response to inquiries based on the current regulations. Therefore, it is our policy to clearly state in listing rules that if the Exchange deems it necessary, such as in the case of suspected fraud, it will require an investigation and its report for accurate reporting.

Next, on page 8, we have organized the enhancement of information disclosure. Some commented that when the supply chain is long, positive and negative factors are intertwined, and that disclosure before scrutiny could be misleading, and some commented that it would be better to supplement the reasons and ideas that investors seek in terms of the key points of disclosure.

Based on these comments, we have made changes to the points of disclosure, including adding the reasons why investors seek such information.

Next, on page 10, we present the items we would like you to discuss. We would appreciate your comments on Document 3, which I will explain later.

I will now move on to the explanation of Document 3. Document 3 was prepared as a summary document.

Page 4 describes the background of the consideration and how it will proceed. The background of the consideration is also presented in the outline for the establishment of this council and other documents. The last two lines of the second point describe the concept of the summary. In this council, the secretariat prepared draft policies in accordance with the contents of the DWG report and received comments on the draft policies. With that said, this Practical Policy will be compiled by TSE.

Regarding the future, we expect to proceed with procedures such as rule revisions in accordance with the Practical Policy. At the time of publication of the Practical Policy, the Financial Services Agency, the Accounting Standards Board of Japan ("ASBJ"), the Japanese Institute of Certified Public Accountants ("JICPA"), and other relevant parties may be in the process of conducting necessary studies. Therefore, in response to these developments, we anticipate that we may change some parts of the Practical Policy in order to proceed with rule revisions, etc. It is also noted that additional councils may be held as necessary.

Pages 5 through 8 provide a list of members, a summary of the DWG report, and other information.

Beginning on page 10, the policies for each issue are described. I will mainly focus on the changes from the second council. Some of the descriptions of the financial reporting framework have been rearranged because we have prepared a separate slide. With regard to the disclosure content of the Q1/Q3 financial reports, as bracketed in the financial statements column of the table, the wording regarding the treatment of the cash flows statements has been changed from "proactive disclosure requested" to "disclosure requested based on investors needs."

See page 11. While maintaining the basic stance that proactive disclosure of matters that investors need is important, the importance of such matters differs depending on the type of industry and nature of business, etc. Therefore, the information to be disclosed is determined by each company according to the needs of investors. In addition to the items listed in the second council, the item of notes on material post-balance sheet events has been added to

the examples.

See page 12. The basic policy regarding the timing of disclosure has not changed, but the treatment of cases subject to review has been changed based on the discussion in the second council.

In cases where a review is obligatory, in view of the purpose of requiring the review from the standpoint of credibility, the company shall, in principle, disclose the information after the completion of the review.

For the case of optional review, we have incorporated our stance that two-step disclosure is preferable, which we presented in the second council.

Page 13 provides an image of the financial reporting framework. For the Q1/Q3 financial statements and notes, it is assumed that the regulations for financial statements applicable to the Semiannual Securities Reports in the new system will be complied with, while provisions for terminology changes and omission of disclosures will be made in the listing rules. Specifically, the terminology for recognition and measurement will be changed through the Ordinance, while complying with the respective accounting standards. In addition, it is assumed that provisions will be made for Q1/Q3 to follow current quarterly securities report practices. In addition, we expect to allow omission of items other than those mandated by the Exchange for disclosure.

We have also heard that ASBJ intends to develop accounting standards with a six-month accounting period for the semiannual securities report. The issue of the need to sort out the relationship with the existing treatment of quarterly accounting standards by setting the period to six months will be considered by ASBJ, and this is noted in Note 1.

Page 14 is an image of the summary information changes. The description whether or not a review was conducted is clarified as "review of consolidated quarterly financial statements" and the option is changed from "Yes (Regulation)" to "Yes (Mandatory)."

Starting on page 16, we will discuss the partial mandate and enforcement of the review. Regarding the partial obligation to review, based on the previous discussion, the wording has been changed at the beginning of the Basic Concepts to "reviews shall be optional in principle."

In addition, as noted in the second item from the bottom, there is no change to the previous statement regarding the conclusion when a review is conducted, which is that if disclosure is omitted, the review may be a compliance review. On the other hand, based on discussions at the Audit Subcommittee of the Business Accounting Council, confirmation with related parties, and opinions received in prior explanations, if, hypothetically, the regulations for financial statements applicable to the Semiannual Securities Reports in the new system is followed and disclosures are not omitted, in other words, if the disclosure is at the same level as that for the semiannual securities report in the new system, it is considered to be a review for fair presentation. It means that we do not deny such an option.

Regarding the standard of review, we also added that the Audit Subcommittee of the Business Accounting Council has been discussing the standard of review during the period, including quarterly earnings reports.

On page 17, we have also added a note stating that about the revised quarterly earnings reports, if a company prepares financial statements conforming to the regulations of the new system without any omissions of disclosure items, this will be considered a fair presentation framework

Page 18 is a slide of the presentation by Ms. Fujimoto at the second council on the differences in financial reporting frameworks and the review process and conclusions.

Page 19 is about enforcement. As explained in Document 2, we have added to the specific policy (1) that we will require an investigation and a report on the results of the investigation. In addition, regarding (3), the wording was changed from including "response to the Exchange's request" as a justification for lifting the confidentiality obligation to "requests for information sharing from TSE," as it is a precondition for the measure in (2).

On page 20, at the beginning, we have added a note that the FSA and TSE are conducting enforcement to ensure the effectiveness of their respective rules and regulations.

Next, on page 22 is about the treatment of the revised Q2/full-year earnings reports. The name of the earnings reports of Q2 has been changed to "Earnings Reports for Q2 (Interim)" based on the discussion in the second council.

The data distribution format on page 24 is unchanged from that presented in the second council.

From page 26 onward, the policy about enhancement of information disclosure is unchanged from the second council.

On page 27, the presentation of the Key Points of Disclosure regarding Changes in the Business Environment has been changed from the second council. The items and ideas for requesting corresponding information are added to the expectations as investors section at the bottom of the table. In addition, we have added a note with an asterisk at the bottom of the table that if there is a strong interest from investors, such information may be disclosed even if the impact is minor.

On page 28, we have an image regarding the revision of the supplemental explanation of the basket clause. We have pasted the page on basket clauses in the Timely Disclosure Guidebook. The disclosure guidelines framed in (1) are currently presented in the same way as the de minimis criteria. However, we intend to move this disclosure guideline to a later section so that the purpose of requiring companies to make substantive judgments based on the degree of impact on investors' investment decisions is properly understood.

(2) explains the principle approach to decision making. In that explanation, we intend to add that it is important to consider the impact of future cash flows and other factors on corporate value.

Today, we would like to receive your comments on the draft Practical Policy in Document 3. That's all for the explanation of the material.

[Kansaku, Chair]

Thank you very much for your explanation. Now let us move on to the exchange of views.

Please raise your hand if you would like to speak. I would like to make a nomination for you. If you are participating online, please mention your name at the beginning and then speak.

To speak, press the lower right button on your microphone, and when the talk line on the button turns green, please speak. Also, if you are participating online, please enter your request to speak in the chat. I will make nominations in order. To speak, please turn on the camera and unmute your microphone.

Now, we would like to accept your comments. Ms. Fujimoto, please.

[Fujimoto, member]

Thank you for your explanation. Also, thank you for your suggestions based on our discussion in the second council. I would like to make a few comments.

First, I would like to make one comment before discussing the general content. Given that we are assuming general purpose financial reporting, I believe that what is being discussed here will be released by TSE asking for public consultation.

I recognize that in the case of TSE, the rules themselves are not published as proposed amendments, but are proposed in the form of a draft outline. So, I would like to see those financial reporting frameworks, especially in terms of fair presentation and compliance, clearly presented in the draft outline. We would appreciate your consideration in the stage of publishing the proposed amendments.

I would like to make a few comments on the content.

First, with regard to the disclosure content of the earnings reports of Q1/Q3, notes on post-balance sheet events are not currently an item that must be disclosed, but rather an item that is recommended for disclosure.

Assuming that the earnings reports will be used by a wide range of users, I am not sure if the notes on post-balance sheet events are recommended as a framework for financial reporting. I believe that we will need to have a common understanding on this point. In particular, I believe that it is necessary to sort out the points included in the general principles of business accounting principles.

In the case of a compliance framework with no notes on post-balance sheet events, I believe that a conclusion of compliance can be expressed without formal notes. However, I believe that in the very rare case where, for example, the going concern assumption is in doubt after the quarter-end date, a situation could arise where the conclusion would be

disclaimer if the company did not include a note.

In the auditing standards, it is assumed that such rare situations exist even in the case of the compliance framework, and there is a possibility of incorporating such contents in the quarterly practical guidelines to be considered by JICPA in response to such a situation. I would appreciate your attention to this point.

Next, I will discuss the content of the disclosure. It states that the notes may be partially omitted. I would like you to consider incorporating into the regulations, depending on the situation, how to ensure continuity of presence or absence of notes.

The next point is the timing of the disclosure of earnings reports. There still remains an option of two-step disclosure. If so, when should we consider the point in time when the financial statements are settled? In other words, if a company's financial results are determined through a certain process, and the company first discloses an earnings report, and then receives a review from the auditor and issues another earnings report with a review report, should we consider the initial timing to be the point in time when the financial results are determined? I could not fully understand that in the material you proposed, so I would appreciate clarification.

Finally, I would like to discuss the image of a financial reporting framework. In addition to the compliance framework, you have suggested that we consider the framework of fair presentation. In this regard, the quarterly earnings report originally emphasizes quick reporting and assumes simplified note contents, etc. In other words, I understand that this would be a compliant framework. On the other hand, I believe that one of the comments made at the recent Business Accounting Council's Audit Subcommittee meeting was that there should be a framework for fair presentation. I have no particular objection to leaving it as it is, and if so, I think it would be a conclusion of fair presentation.

However, I would like to see a clear distinction between the framework of fair presentation and the compliance framework stipulated. I believe that the compliance framework is the simplest state of the notes, and the fair presentation framework is basically the state in which all disclosures are made in accordance with the upcoming new Ordinance. I think there is some debate about what is between them. In that sense, I would like to see the framework clarified in the regulations so that full disclosure is the framework of fair presentation, and if disclosure is omitted, it is the compliance framework.

That's all for my comments.

[Kansaku, Chair]

Thank you very much.

You made some comments about the process and some points about the content. Is there anything that the secretariat would like to answer, particularly regarding the process?

[Naito, Manager, Listing Department, TSE]

As Ms. Fujimoto commented, normally in the rule revision process, the Exchange presents the outline of the system for public consultation. This time, from the perspective of smooth implementation of the practice and preparation for consideration by other parties involved, we hope to present some standards for preparation at the time of public consultation. We would like to discuss internally how to present this information.

[Kansaku, Chair]

Does that answer you? Now, Mr. Matsumoto, please.

[Matsumoto, member]

Thank you for your explanation.

First, I would like to discuss the content and timing of disclosure of the 2-1 earnings reports of Q1/Q3. As a general matter pertaining to the disclosure of earnings reports, you have clearly stated that the review of the summary of the earnings reports is optional. I would like to reiterate my request that other guidance materials and the like also state that reviews are optional in principle, so as not to mislead users of earnings reports. In addition to the issue of optional review, the revisions are expected to be wide-ranging as a result of this revision. I would like to ask that you proceed with caution while consulting with operating companies about the specific provisions of the Timely Disclosure Guidebook, including the guidelines for the preparation of earnings reports, in order to avoid any of their misunderstandings.

Specifically, I will discuss the contents of Q1/Q3 on page 10. I mentioned last time that voluntary disclosure would be fine, because there were some objections in the DWG to mandatory disclosure of the summary of business results, and because there are many cases where explanations are provided through voluntary disclosure. In the case the reference method is permitted and the disclosure is mandatory, some companies may have a heavy workload if they are required to register their reference materials on TDnet. Therefore, if it is mandatory, I would like you to specify that the registration of reference materials is optional.

With regard to the items requesting proactive disclosure of the contents of quarterly earnings reports on page 11, in "Example of useful information for investment decisions," you stated that "each company should judge the information to be disclosed based on investors' needs." I understand that this clarifies that this is a matter of judgment for each company, not a strong recommendation. I would like to confirm whether there is any discrepancy in recognition in this regard, just to be sure.

Regarding the timing of disclosure of quarterly earnings reports on page 12, I agree that we do not encourage two-step disclosures when they are reviewed on a voluntary basis. I also do not see any particular problem in not preventing the optional two-step disclosure.

Regarding the financial reporting framework on page 13, I recognize that, taking into

account the DWG report as well, the information in the semiannual securities report will be at the same level as the current quarterly securities report. Based on this assumption, I understand that the accounting standards will naturally be at the same level as the current quarterly accounting treatment, and that the simplified methods permitted under the current quarterly accounting standards can be used without modification. Although it may not be something I should mention here, I hope that ASBJ will keep in mind that the simplified method for Q1/Q3 will not be effectively abolished in the new accounting standards covering six-month periods.

Regarding section 2-2, review enforcement, I find it very difficult to understand the difference between a review of compliance framework and a review of fair presentation framework, as described in the reference on page 17 regarding the partial obligation to review on page 16. On the other hand, on page 18, it states that the level of guarantee remains the same and the review procedures are the same for compliance reviews and fair presentation reviews. If the review procedures are basically the same, although there may be some exceptional differences, I feel that it would be better to start by explaining that there is no real difference between a compliance review and a fair presentation review, rather than to emphasize the differences between the reviews.

Next, please allow me to ask about the enforcement on page 19 for my understanding. I mentioned in the last council that when TSE lifts an audit firm's confidentiality obligation to a listed company, I would like you to confirm this with the relevant listed company in advance. Please let me confirm whether it is correct to understand that this is secured by Rule 604.1 of the Securities Listing Regulations, which you stated as a reference.

I have no particular opinion on the treatment of the revised Q2 and full-year earnings reports.

Regarding the data distribution format for earnings reports, in your previous explanation, we were told that all listed companies use the tools provided by PRONEXUS Inc. or TAKARA PRINTING CO., LTD. to create earnings reports and other documents, and that the process of converting them to HTML is not time-consuming. However, I have heard that some companies have voiced doubts. If the submission of HTML is to be made mandatory, I believe it is necessary for TSE to conduct sufficient verification. At the very least, I ask that this be decided in such a way that there is no obvious additional burden on companies.

I am afraid I take long time. In 2-5, enhancement of information disclosure, in key points of disclosure regarding changes in the business environment on page 27, I am pleased to see the statement at the beginning that information on the impact of changes in business environment can be expected that it may take time to investigate the impact of such changes. On the other hand, I believe that in some cases, it still takes time to scrutinize the objective facts on which investment decisions are premised, as to whether or not they are in areas that are expected to have an impact. As I mentioned in the last council, if you have a simple

business operation system, I think it is of course possible to disclose the information without taking too much time. However, in companies that have long supply chains and are subject to a wide range of macroeconomic influences, positive and negative factors are intertwined. I believe that in cases where only part of an event is disclosed while the area of influence is unclear, it may mislead the user, the investor. In this regard, I ask that you mention that it is expected that it may take time to scrutinize the objective facts on which investment decisions are based.

In addition, the note states, "In cases where investor interest is considered to be high, even if the impact of a company's changes in the business environment is expected to be negligible, the company is expected to disclose this fact." It is assumed that each investor has a different level of interest as well as understanding of the company. I also believe that these things should essentially be secured by communication between the investors and the company. Therefore, I believe this is a slightly excessive statement and would ask that it be removed.

Finally, I would like to say something about timely disclosure in general, although it may not be something to say at this time. I understand that you intend to enhance timely disclosure from a substantive perspective with these revisions. On the other hand, there are a few things in the current regulations that seem overly formalistic. If the overly formalistic regulations are left while substantive disclosure is required, it will be unacceptable to the corporate side. I would very much like to ask you to consider eliminating some of the overly formalistic regulations. As a specific example, there are cases where there are no de minimis criteria and disclosure are required when there is a merger or other reorganization action as a decision of a listed company. I understand that if it is a wholly owned subsidiary and a minor merger, there will be no impact on consolidation at all and it will not affect investment decisions. In addition, there is an de minimis criteria for a decided fact of a subsidiary. Also, for example, in the case of a company that adopts a holding format, a subsidiary under the holding effectively controls the group, but when the subsidiary consolidates a sub-subsidiary, it is not required to disclose if it is a minor one. Thus, depending on the form of the organization, there are cases in which timely disclosure may or may not be required, even if the reorganization action is intended to have substantially the same effect. In addition, when a listed subsidiary or other company revises its earnings forecast, the parent company is required to disclose the revised forecast in a timely manner without any de minimis criteria. This area may be related to laws and regulations on insider trading, but I would appreciate your consideration in the future to make these items that are considered formalistic more substantive.

That's all from me.

[Kansaku, Chair]

Thank you very much. I think there were a couple of points to confirm. Could the secretariat

answer them?

[Naito, Manager, Listing Department, TSE]

Thank you very much. Basically, there are two points, and I understood that the first point is about the positioning of the specific examples on page 11.

Regarding the statement on page 11, while assuming the basic idea that "it is important in principle for listed companies to understand the needs of investors properly and proactively disclose the relevant items," I believe that each company should make its own decision according to its investors' needs because the importance of such matters varies depending on the industry and nature of business.

The specific examples given here are those that have been raised as information considered useful for investment decisions in the discussions at the council so far. Each company will be asked to determine what needs and importance it has in these areas.

The other point was about enforcement on page 19. Basically, as you mentioned, Article 604, Paragraph 1 of the Securities Listing Regulations stipulates that listed companies shall cooperate with this, and under that, they agree to release confidentiality obligations. The revision of (2) is intended to expand the scope of what is necessary to determine the applicability of the current delisting rules, and basically the Exchange's rules expect them to handle in accordance with the applicable rules after the revision.

[Matsumoto, member]

I understand. Thank you very much.

[Kansaku, Chair]

Do you have any other comments? Mr. Iguchi, please.

[Iguchi, member]

Thank you. Thank you very much for your explanation, Mr. Naito.

First, I agree with the secretariat's proposals.

I would like to comment on a few slides. On page 10, I believe that the Overview of operating results, etc., which you just mentioned, should be disclosed. I believe this is something that many companies are already doing. We are not asking for detailed disclosure. We would like to know the general situation because it is not at all clear if only financial figures are disclosed. I believe this is essential, because without it, it is impossible to understand even if only financial figures are presented.

Regarding page 12, since the quarterly securities report will be eliminated, the role of the earnings report, which used to be only a flash report, will now also assume the function of providing reliable information to a certain extent. Regarding the case of optional reviews, the

last time it stated that the Exchange recommend a two-step disclosure, but I think to eliminate that and do it as you have suggested would be correct and appropriate.

With respect to the requirement for a partial mandate for review on page 16, I would like to agree with you for the cases other than an unqualified opinion. For institutional investors as well, the voting standard to oppose the proposed appropriation of retained earnings is common, because they cannot trust the financial statements in the cases other than an unqualified opinion. Given this, the unqualified opinion is very important and makes a difference in our confidence in the financial statements. So I think it is the right approach to set threshold here.

Regarding page 22, I agree with the treatment of Q2 and full-year earnings reports.

Finally, regarding the enhancement of information disclosure in the future on pages 27 and 28, as you just mentioned, it is indeed difficult to provide all reliable quantitative information when some sudden event occurs out of the blue. However, even though they are under scrutiny, I would like to see those companies that are good at disclosure, as the companies of members here, do a two- or three-step disclosure, saying that this is what they think about these events. I am sure that all of companies of you here are doing it. I would like to see such things expanded to more TSE-listed companies.

The reason why it is important to provide such information first is that if you don't provide anything, people will assume that management is not responding to anything, and this will affect their trust in management. Therefore, I think it is important that you first provide us with information on how you perceive the event, even if it is qualitative, and then follow it up with quantitative information.

The note states that in cases where investor interest is considered to be high, even if the impact of a company's changes in the business environment is expected to be negligible, the company is expected to disclose this fact. It is certainly understandable that there is resistance to disclosing even things that are not related to performance. In accounting, impact and potential are often referred to. Even in the event of an accident, for example, and I don't mean to be rude, but employee safety may not be a factor in the company's immediate performance, but it may be a matter of great interest to investors who take a long-term view of the company. However, this is not to say that it should be disclosed at any cost. I think it says that, if you understand the importance and the interest from investors, such disclosure is acceptable and not necessarily mandatory. As is often the case with accounting standards, I think the intent is to understand what investors are interested in and to respond to that as best we can. I do not think it will have any particular significant impact on the practice, so I hope you will leave it.

That is all. Thank you very much.

[Kansaku, Chair]

Thank you very much for your input. Mr. Kumagai, please.

[Kumagai, member]

Thank you for organizing this council.

Regarding this quarterly disclosure revision, I understand that with the elimination of quarterly securities reports, as Mr. Iguchi mentioned earlier, the role of the earnings report will no longer be solely that of a preliminary report, and that the quarterly earnings report will take on some of the information disclosure that has been handled by the quarterly securities report.

While not all of the users' wishes have been met, I think it is welcome that the content of the disclosure is being enhanced in this way compared to the conventional earnings report.

I would like to say that although I understand that there is strong resistance from preparers, there is a strong desire to have the statement of cash flows disclosed in Q1/Q3 as well.

However, I understand that it would be difficult for TSE to require a statement of cash flows for Q1/Q3 in an earnings report while the current reporting framework allows the omission of a statement of cash flows for Q1/Q3 with respect to Japanese GAAP.

For this reason, it states that if a statement of cash flows is omitted, notes on cash flows should be disclosed in attachment. Also, you have included a statement of cash flows in the contents of disclosures on page 11.

As I mentioned earlier, companies that already disclose a statement of cash flows in their reports are currently preparing a statement of cash flows as a current practice and have such a system. In light of this, I believe that the placement of the statement of cash flows at the beginning of the useful information for investment decisions on page 11 is not a strong recommendation for disclosure, but rather an encouragement for voluntary disclosure. I understand that the fact that, in addition to the statement of cash flows, other matters are stated means that this is merely a list of items that are useful for investment decisions within the scope of disclosure practices that have traditionally been made in quarterly securities reports.

On the other hand, as we discussed in the first council, I still think that the elimination of the securities report in itself reduces the disclosure burden for the preparers in general.

In Q1/Q3, the level of disclosure itself is much lighter compared to the current quarterly securities reports. I hope that the companies that create documents will take this into consideration.

On top of that, I have a question. In this proposal, it is stated that in some cases an opinion on fair presentation instead of compliance can be expressed. Here, it is assumed that disclosures will be made in accordance with the new Ordinance. In this revision, first of all, with respect to accounting standards, quarterly accounting standards will be eliminated and the interim six-month disclosure will be revised to replace, but the previous disclosure for Q2

will be maintained with respect to the content of disclosure. I understand that this will probably make the Q2 disclosure much heavier than Q1/Q3. Does this mean that the opinion on fair presentation can be expressed only after it is ensured that the Q1/Q3 disclosures are as good as Q2 disclosures, and that in some cases, in accordance with the Ordinance, details not stipulated in the accounting standards are also disclosed depending on their materiality?

Or will the indication, evaluation, and review of fair presentation be based on the assumption that there is more disclosed than what is written on page 10, in accordance with the TSE's new framework and as required, to help investors in their decision making? I was not clear on this area and would appreciate it if you could enlighten me.

[Kansaku, Chair]

Thank you very much. There was a question. Could you answer it?

[Naito, Manager, Listing Department, TSE]

Thank you very much. I understood your question as to what form the review of fair presentation would take.

A fair representation review shall be performed when a company complies with the Ordinance of the new system but does not omit any disclosures. Basically, Japanese GAAP currently allows the omission of the statement of cash flows for Q1/Q3, for example. However, we believe that the Ordinance and accounting standards for the semiannual financial report in the new system do not provide for such things, and that the Ordinance and accounting standards for quarterly reports themselves will be eliminated.

Therefore, in Generally Accepted Accounting Principles there will be no longer a provision, for example, for the omission of a statement of cash flows. Therefore, when review regarding fair presentation is conducted, it is necessary to include a statement of cash flows as in the current IFRS, and we understand that basically a review of fair presentation can be made if the reports of Q1/Q3 are prepared in the same manner as Q2.

This point also leads to the question of how a review of fair presentation can be made, and we would like to discuss this point in cooperation with the JICPA.

[Kumagai, member]

Thank you very much. Understood.

So, I understand that companies that provide the same level of proactive disclosure as in Q2 will be reviewed under the framework of fair presentation.

[Naito, Manager, Listing Department, TSE]

That is our assumption at this time.

[Kansaku, Chair]

Thank you very much. Mr. Kuroda, please.

[Kuroda, member]

Thank you very much. Thank you very much for your compilation based on the discussions in the first and second councils. I agree with the basic direction. I would be happy to comment on a few points, including some details.

First, let me discuss the contents of page 10. As I commented in the last council, I believe that the discussion of not requiring a statement of cash flows for US GAAP and IFRS is a highly commendable conclusion from the perspective of increasing the number of companies applying IFRS on a voluntary basis, which is the national policy.

I would like to confirm one point about the summary of the business results, etc., which will be required from this time onward. In discussions with other preparers, I have heard that some companies conduct performance management, etc. on a quarterly basis rather than on a cumulative quarterly basis. From the perspective of appropriately communicating the performance of these companies to investors, I believe that in some cases it may be preferable to explain the performance of these companies on a quarterly basis. Therefore, I would like to confirm whether it is acceptable to explain the Overview of operating results, etc. on a quarterly basis instead of a cumulative quarterly basis in the earnings report, just to be sure.

On page 11, I think it is a very good statement that "the needs of investors are different depending on the industry or the business." As I mentioned in the last council, I believe that users understand that the statement of cash flows is of little importance to financial institutions. Therefore, I hope that you will continue to keep the points you have added in mind when considering mandatory disclosure in the future.

On page 13, I would like to discuss the image of the financial reporting framework. I understand that this is a very difficult distinction to make with ASBJ, and I would like to make a few comments on this point.

As mentioned earlier, the current discussion is to prepare earnings reports of Q1 and Q3 by reference to the accounting standards prepared by ASBJ, which use six months as the accounting period. On the other hand, I understand that ASBJ is currently discussing the elimination of some of the simplified methods that were allowed under the current quarterly accounting standards when adopting the accounting standards based on a six-month period.

If this is adopted, there is a concern that companies that apply Japanese GAAP and have traditionally used the simplified method will have a greater burden to prepare their financial statements in comparison to the previous method. I understand that the original concept was to reduce costs and not to increase the burden of preparing financial statements. I understand that TSE had a similar view on this point. Therefore, in order to communicate TSE's thinking

to ASBJ, please consider stating that you do not expect the burden of preparing financial statements to be greater for Q1 and Q3 compared to previous years, regardless of the location, such as in *1. The notes, of course, are a different matter. Perhaps none of the people attending today are anticipating a greater burden of preparing financial statements. If there is any discrepancy in perception, please point it out.

Secondly, I would like to discuss the obligation to provide notes on cash flows. While it is possible for companies to prepare the notes at the level currently required in Q1/Q3, it is advisable to carefully discuss who should determine how the notes should be prepared. Currently, it seems that TSE is supposed to prepare the method for making these notes, etc., but I think it would be desirable for ASBJ to set the method. I would appreciate it if you could carefully discuss among stakeholders, including the pros and cons of including the content of disclosures required by TSE in the scope of the review.

Next, on page 16, I discuss the partial obligation to review. Thank you for putting forward the principle optionality. I think it is in line with the purpose.

Earlier in Document 2, you introduced the disclosure situation in Germany. Although the sample size is small, it means that less than 10% of the companies listed on the Prime Market among the stocks that make up the DAX index have been reviewed. So, based on the fact that the Q2 review is mandatory, I believe that the system should be designed in such a way that companies that really want to undergo the review can do so in the case of optional review.

Next, I will discuss compliance and fair presentation on page 17, which has been discussed. I believe that until now only compliance framework has been assumed for reviews, but I understand that this has been changing to a description of both, perhaps in response to the recent discussion at the Audit Subcommittee. However, how common is the compliance framework itself internationally? I hope that you will take care not to create a Galapagos-style system in comparison with international trends.

For example, if you let ASBJ define the Q1/Q3 disclosures based on the minimum TSE required disclosures and the Q2 disclosures similar to the conventional quarterly disclosures, and if the method of preparing financial statements is the same as the conventional quarterly reporting, and the review is integrated into one for fair presentation, it would be unnecessary to consider compliance. I believe that integrating into the fair presentation framework is an option rather than letting the unfamiliar compliance framework become entrenched in the world. For example, (Recognition and measurement) GAAP and (Disclosure) TSE rules and GAAP in the "Reference" column would be a good way to organize fair presentation. I believe this is an area for consideration by JICPA and others. I would appreciate a careful discussion so that we can gain the understanding of all interested parties. At the very least, please avoid a situation where the simplified quarterly method I mentioned earlier becomes unacceptable.

On page 24, I will discuss the data distribution format for earnings reports. I recall that you explained at the last council that most of the additional HTML which will be mandate to submit

are covered by the major vendors and can be handled without additional work. I would like to make sure that you have checked to see if you can say that if there are no errors in the PDF, there are no errors in the HTML. The purpose of my question is to determine the extent of the burden of converting to HTML and how much of a burden is expected to be placed on companies. Currently, companies are still spending personnel to scrutinize the XBRL and PDF to ensure that they are identical. Is it safe to assume that through this revision it will be automatically checked that PDF and HTML, XBRL and HTML are the same? If this is not the case, and the consistency check is required by companies, I feel that TSE's explanation of no additional work is an oversimplification. So, it would be desirable to be able to show that the increase in burden is limited.

Finally, as for the way forward, I think the process is to publish a draft of Practical Policy and then solicit public consultation on the revision of the Exchange Regulations and Timely Disclosure Guidebook, while taking into account the status of discussions by the FSA and ASBJ. It states, "If there are any changes from this Practical Policy, a new council for discussion will be held." I hope that you will continue to work closely with preparers.

That is all. Thank you very much.

[Kansaku, Chair]

Thank you very much. I believe you had one question and one confirmation. Could the secretariat please answer those points?

[Naito, Manager, Listing Department, TSE]

Thank you very much.

First, regarding the disclosure contents on page 10, I would like to answer the question as to whether it is possible to provide an explanation on a quarterly basis in the Overview of operating results, etc. In explaining the business results, we believe that it is possible to explain them in a quarterly basis in line with the actual situation of the company.

As for HTML, as far as we understand in our communication with the printing companies, there is basically no need to check the HTML because the printing companies' tools are used to create the HTML.

On the other hand, I understand that detailed tagging is required for XBRL, and that checking whether such tagging is properly done is done in practice. From this perspective, we understand that there will no basically increase in the burden about HTML.

[Kuroda, member]

I understand. Thank you very much.

[Kansaku, Chair]

Thank you very much. Mr. Sampei, who is participating online, has requested to speak.

[Sampei, member]

My name is Sampei.

First, I would like to thank the secretariat for the development of the draft of Practical Policy. On that note, I would like to make five points.

Before that, regarding Mr. Kuroda's question as to whether it is sufficient to only provide the information on a quarterly basis with respect to the overview of operating results, I think there is no problem as explained by TSE. However, I am a little surprised and did not understand the intent of the question. It is routinely said that managers think about management from a long-term perspective, while investors have a short-term perspective. With investors gradually shifting from a short-term orientation to a long-term orientation, I wondered if companies are thinking so short-term and only want to provide short-term information. For example, we have said again and again that we need quarterly updates because we want to monitor the progress of companies' situation over the medium to long term. I had the impression that our discussion could not have been in the right ballpark.

Now, I would like to make five points.

Thank you for the revised text from the original draft regarding the "For optional reviews" written at the bottom of page 12. As stated, I would like to reiterate that this is a decision to be made at each listed company only, and not to lead to a decision "at the time of completion of the review" or to create a bias as to which is preferable.

Second, regarding reviews, I would like to make sure that users are informed. I recall that you previously shared the results of interviews with users by the Securities Analysts Association of Japan. I believe that you shared the information at the DWG and also shared it at the first meeting of this council. The results of the hearing showed, to me, an unexpectedly low level of interest in the review. In light of these circumstances, I would like to see you work with the Securities Analysts Association of Japan and others to make it known that while reviews are basically optional, they are mandatory in certain cases, and that there are changes to the summary information in relation to these reviews. I would like to see you be thorough so that users know exactly what changes have been made and how the review is positioned.

The third point, on pages 16 and 17, is about the major additions that have been made in this draft. Regarding the second point from the bottom on page 16 and the bottom of the middle column of the table on page 17, "Compliance (note)," I feel what the note description states is unclear.

I'm not sure "will be considered" is the right phrase. Maybe this is such an expression because it depends on how the Ordinance is finalized. In short, I feel that it would be a good idea to clearly state that the fair presentation framework is not excluded. And I think it needs

to be clearly stated in the summary information which framework the review is for.

The fourth point is about "expectations as investors," which you added to the bottom of the table on page 27. This simple description may convey a certain amount of information, but I still think there is a possibility of misunderstanding, so I would like to add a few words. For example, the term "maximum loss" appears on the right side at the bottom of the table. The maximum loss is useful for users to understand the degree of risk as a guide by first report or as a starting point for analysis. I think Mr. Iguchi explained it that way earlier. So, I think it would be good if nuances and supplementary explanations could be included in the Timely Disclosure Guidebook to convey to companies that the information users are not necessarily looking for maximum loss with high accuracy. I think this is all you can write in the space of this document, but I hope that the actual Timely Disclosure Guidebook can include more detailed explanations.

The fifth point is regarding the whole. The term "investor needs" is used with respect to the content and timing of disclosures. I believe this means that each company will be given the discretion to make decisions based on investor needs. Therefore, it is important to ensure that investors do not become skeptical and that their trust can be won. I believe this will be an important touchstone in determining whether voluntary disclosure could be considered in the future. So, I hope that companies will take on this responsibility. As for the disclosure of the statement of cash flows, for which there is said to be a very strong need on the part of investors, after much discussion, I think we have no choice but to come to this conclusion. However, I hope that companies will work on the disclosure, accepting that such a strong need is being communicated, even within a voluntary framework.

[Kansaku, Chair]

Thank you very much for your input.

Are there any other remarks? You may speak for a second time. If you have any additional comments based on the discussion so far, we would be happy to hear them.

Mr. Kumagai, please.

[Kumagai, member]

I am afraid this is the second time to say. Earlier, Mr. Kuroda commented that while ASBJ is creating six-month standards, he is concerned that the accounting treatment that is currently allowed for the quarter will no longer be allowed. I am very sorry to say this in the presence of myself and Ms. Chujo, but ASBJ is actually forced to create six-month standards. After all, with the legal framework as it is, as Mr. Kuroda is concerned, in creating six-month standards, the accounting treatment that was allowed for a three-month accounting period will no longer be allowed. It will not be allowed because of sufficient time, or the evaluation will be based on the nature of the business. However, I believe that the simplified method,

which has been approved especially in the short period of three months, should be approved from the user's point of view.

While ASBJ is already making only six-month standards, is it possible for the TSE framework to enter into that accounting treatment and allow a simplified method, as a remedy? Or rather, I believe it would be good for TSE to make it acceptable. How do you think?

[Naito, Manager, Listing Department, TSE]

Thank you for your question. ASBJ is in the process of studying the interim accounting standards, and it will depend on the progress of the study. For example, there could be a rule that in Q2 (interim), the figures for Q2 shall be made without using the figures for Q1.

The Exchange's financial reporting framework is basically based on the assumption that recognition and measurement will be in accordance with interim accounting standards through the Ordinance. However, for Q1/Q3, we expect that provisions will be made in a manner that follows current practice for the preparation of quarterly financial statements; for example, we expect that the figures for Q2 will be used for Q3.

[Kansaku, Chair]

Thank you very much. Mr. Uemura, please.

[Uemura, member]

Thank you. I am Uemura.

First, I would like to thank the secretariat on behalf of all 3,800 listed financial statement preparers for the numerous reviews. Thank you very much. I will now comment on what I feel are still issues and concerns.

First, I would like to discuss the financial reporting framework on page 10 of Document 3. As I said at the second council, the phrase "items may be added as necessary" may evolve into the logic that exchange, which are not originally standard setters, are empowered to require disclosures that exceed the Ordinance and accounting standards. Therefore, I believe that this additional part is unnecessary.

In addition, this financial statement framework starts with the Ordinance and accounting standards in the new system, but also includes the issue of elimination of the current Ordinance. Therefore, instead of making the Q1/Q3 financial reporting framework this complicated, I believe it is sufficient for the Exchange to simply indicate the Q1/Q3 disclosures.

Next, I will discuss the specific matters required to be disclosed. Since it is assumed that notes on cash flows will not be stipulated in the Ordinance in the new system, I believe that the final report of this council should describe not only the items but also their contents in detail.

Specifically, I believe that it is sufficient to state depreciation and amortization of property, plant, equipment and intangible assets excluding goodwill, as well as amortization of goodwill under Japanese GAAP. If we were to consider stipulating this separately, we would need to discuss it again at that point.

In the section of notes, regarding notes on segment information, it now states "same level as semiannual securities report in the new system," as I commented in the previous council. This would require disclosure regarding reconciliation of the difference between reportable segment income and consolidated P/L income, or disclosure of third-party and inter-segment sales by segment, which may exceed the full-year earnings report level. Therefore, I think it is appropriate to delete the statement "same level as semiannual securities report" and leave the content of disclosure to management's judgment.

Next, on page 11 of the explanatory material, I would like to discuss specific examples of disclosures that are not required in the earnings reports of Q1/Q3. Of the notes on the financial statements, as I mentioned previously, I believe that the notes related to B/S and P/L and the notes on financial instruments should be deleted. Notes on B/S and P/L could require comprehensive disclosures, which could be burdensome for preparers. I believe it is appropriate to remove this from the examples of disclosure requests and to voluntarily disclose those that management deems to be of particular importance.

Disclosure of notes related to financial instruments/securities/derivatives is, as I mentioned before, exempt for most companies in Q1/Q3 under Japanese GAAP. In addition, this disclosure was a major burden in the Q1/Q3 securities reports for companies applying IFRS and others. Therefore, I believe it should be removed from the examples.

I also believe that it is problematic to include such specific examples of this disclosure, since the current treatment of the securities reports of Q1/Q3 as described in *1 may no longer be stipulated in the new system.

Notes on Post-Balance Sheet Events, which was originally not included, has been added to the examples. I disagree with Ms. Fujimoto, and I believe it is sufficient to state that it is not mandatory, as stated on page 11 of this document.

In addition, on page 13, there is an image of the financial reporting framework for reference. One of the basic ideas is that "refer to the regulations for financial statements applicable to the Semiannual Securities Reports in the new system in preparation for the earnings reports of Q1 and Q3." I have a feeling of strangeness with this phrase.

I believe that a review of ASBJ's quarterly accounting standards should be considered not only for the interim period, but also for Q1/Q3. However, it appears that the quarterly financial rules covering Q1/Q3 will be discontinued. If we use the Ordinance applicable to semiannual reports as the basis, the problem arises that the simplified accounting and disclosure standards for Q1/Q3 that have been discussed earlier cannot be referenced. So, I would like to ask TSE to cooperate to prevent such problems from occurring.

Therefore, in preparing the Q1/Q3 financial statements, not only the Ordinance in the new system but also the accounting standards in the new system to be revised should be the subject of reference.

In addition, *1 on page 13 states, "ASBJ intends to develop an accounting standard with a six-month accounting period for Semiannual Securities Reports" I would like ASBJ to revise the quarterly accounting standards so that they can be compliant for the preparation of the Q1/Q3 earnings reports, not just for the interim period. In other words, I would like ASBJ to revise the accounting standards during the period, not for 6 months currently under consideration by ASBJ. I would appreciate TSE's request to ASBJ on this point.

Since I am also a member of Accounting Standards Advisory Council of ASBJ, I will strongly confirm this point by making a request on that occasion.

Next, on page 12, the second item regarding the contents of the financial statements, there is an expression in brackets behind "to happen that companies enhance the disclosure of quarterly earnings reports," which reads, "such as the disclosure of the financial statements and notes of current quarterly securities reports." I believe that the phrase with parentheses should be removed because it could be misinterpreted as encouraging disclosures that would rarely be implemented.

Next, I would like to comment on the proposed policy for partial obligation to review on page 16. As I have pointed out many times, it should be clarified that requirement (4) of obligation to review should be limited to cases of accounting fraud or internal control deficiencies. Also, requirement (5) is basically unnecessary. It is preferable that the person conducting the review be the same as the auditor for the year, but I would like to comment again, as before, that it is better to insert the word "in principle."

The framework of compliance as a review standard is a mechanism that first emerged at this council. Specific procedures, review times, feasibility and issues are not sufficiently clear, and as a preparer, I remain concerned about its feasibility.

In addition, as discussed earlier, the Audit Subcommittee of the Business Accounting Council on September 5, 2023, expressed the opinion that it is necessary to clarify the framework of compliant financial reporting with respect to the review based on the compliance framework. I think that naturally you should also present a draft text for the opinion section of the specific review report, including not only Japanese GAAP, but also IFRS, US GAAP, and other global responses. I thought it should be presented in this final report, but since it is not presented in this document, I would like to know the image of it.

As Mr. Sampei commented earlier, I believe that by looking at the model of the quarterly review report and the way it is described, it should be possible to understand whether it is a review of compliance or fair presentation. Also, you have now added the statement " If a company prepares financial statements without any omissions of disclosure items, this will be considered a review for fair presentation." Please explain why you added this statement

and whether there is a need for such a review. One member of the Audit Committee made this comment at a recent meeting, but has not yet reached a conclusion. So, I think it is necessary to consider making a note in this document "based on the conclusions of the Audit Committee." These are questions to TSE secretariat and to Ms. Fujimoto.

In addition, in considering revisions to the practical guidelines for specific reviews, etc., I would like to hear opinions of preparers and discuss thoroughly.

Review of quarterly earnings reports is optional, with some exceptions of obligation. So, while it is no problem that you create a compliance review mechanism, please be careful not to encourage or lead companies to do so.

Next, I would like to discuss the relationship between the financial reporting framework and the review on page 17. The wording of the second paragraph from the top has changed slightly from the previous document, saying "It is assumed that certain omissions from disclosures will be permitted while conforming to the regulations of the new system."

However, as before, I believe that inserting the term "accounting standards" and stating "while conforming to the Ordinance and accounting standards in the new system" would be sufficient. This is because, as already commented, I believe that it is necessary to be able to refer to the Q1/Q3 simplified accounting treatment and disclosures from the revised accounting standards, as Mr. Kumagai mentioned earlier.

For the same reason, I would like the wording of the note under the asterisk (*) in the framework of fair presentation under this table to also be revised to "in accordance with the Ordinance and accounting standards in the new system."

On page 19, I discuss the enforcement policy. In the specific policy (2), it is written, "The scope of Rule, which requesting a survey with certified public accountants, etc., shall be expanded beyond cases in which TSE deems it necessary to decide the appropriateness of delisting to cases in which TSE deems it necessary to consider the measures for ensuring effectiveness" This is a better wording than the mere word "measures."

However, it is difficult to understand the specifics of these measures for ensuring effectiveness, and there is some question as to whether this is even broader than the scope of accounting irregularities, etc. So, based on the DWG report, I think it is fine to say that the expansion of the scope should be limited to accounting irregularities, etc. For this purpose, I hope to clarify by adding, for example, the phrase "for (1)" before the measures of ensuring effectiveness or stating "measures for ensuring effectiveness against accounting fraud, etc."

Please give me a little more time because I would like to discuss a very important issue.

Regarding the third agenda item, the data delivery method for earnings reports, XBRL and HTML, has been extensively reviewed and a proposal has been made to make it mandatory. However, as I strongly stated in the last council, I have significant concerns about making this change at the same time as the quarterly disclosure revision, as it would place a practical burden on preparers. Consideration should also be given to the fact that the burden is greater,

since full-year financial statements are also subject to disclosure, which are subject to a greater number of disclosure items than quarterly earnings reports.

I have heard many times that TSE secretariat has confirmed these points with the two printing companies and there are no major problems.

Please note that I have also confirmed this with the sales representative of our printing company, and I am the one who originally introduced this system within our company, so I am well aware of this point.

We represent financial statement preparers for all 3,800 listed companies. Therefore, in collaboration with the Kansai Economic Federation (Kankeiren), which is sitting behind me, we have conducted a direct questionnaire to the creators, which unfortunately TSE office does not conduct. Please note that only large listed companies were included in the survey, so small and medium-sized companies were not included.

First, with regard to whether or not they use the two printing companies' tools, at this time, 1 of the 15 responding large companies indicated that it does not use the printing company's tool in the preparation of their earnings reports, or that they do not use the tool at all, in effect. Regarding the extent of tool use, about 80% of the companies indicated that the printing company's tools are also used in their earnings reports, and about 10% responded that Word or their own tools are used. About 20% of the companies responded that they could not immediately respond to the expansion of the XBRL format or that it would be a large or certain burden.

Furthermore, taking into account the situation of small and medium-sized listed subsidiaries that are subsidiaries of listed companies, about 20% of the companies answered that the required transitional period is "2 to 2.5 years," about 20% answered "1.5 to 2 years," and about 15% answered "1 to 1.5 years," while 20% answered "we think transitional measures are necessary but we do not know the appropriate period."

The current results are as I just mentioned, but this is an emergency survey for large companies only. Assuming the same situation for small and medium-sized companies, the number of companies that would experience increased burden and hassle would increase dramatically, and confusion would likely ensue.

Based on the above survey, I believe that it is unreasonable to suddenly make XBRL and HTML mandatory in the new format, given that XBRL submission is a request in the current format and HTML is optional. I also imagine that requiring a new format with a new data delivery system at the same time as the quarterly disclosure revision would not only place a heavy burden on preparers but could also cause delays in the disclosure of quarterly and full-year earnings reports for some companies, and could even lead to missed submission deadlines.

For the time being, I believe it is appropriate to make the new format for data distribution a request. If a new form of data distribution were to be made mandatory, I believe it would be

appropriate to allow at least two years for preparation. I believe that placing the entire burden of the new form of data distribution on preparers is not consistent with the original policy of this quarterly disclosure revision.

I also understand that TSE system automatically converts to PDF when submitting XBRL and HTML. You are ready for not requiring PDFs to be submitted at the time of the quarterly disclosure revision, aren't you?

We submit only XBRL and HTML to the FSA's EDINET, which is automatically converted to PDF using the FSA's system and posted on EDINET. I think that TSE is naturally ready for that automatic PDF conversion mechanism. I don't think that such a thing (no preparation of a mechanism for automatic PDF conversion) is possible, but let me check just in case.

As an opinion representing all 3,800 listed companies, when XBRL and HTML submission becomes mandatory, TSE should handle the PDF conversion as with FSA. This is a question for TSE, please respond later.

Finally, I would like to discuss the enhancement of information disclosure. As Mr. Iguchi commented, the first of the notes* outside the column on page 27 states, "In cases where investor interest is considered to be high, even if the impact of a company's changes in the business environment is expected to be negligible, the company is expected to disclose this fact." As a Japanese, I think this is a very difficult sentence to understand. I believe that a review of whether or not this content is necessary in the first place, or a modification of the statement is necessary.

These are my comments. We have now only five months until April 2024, the implementation date of the quarterly disclosure revision. Therefore, I would like to ask you to publish the final report of this council in a hurry, based on the points raised by all of us today. Of course, we would be happy to confirm this in advance. After that, I would like to request that the proposed amendments to the Securities Listing Regulations and the Practical Guidance for Disclosure of Earnings Reports be published as soon as possible and that public consultation be solicited.

That is all the comment from my side. Thank you for your cooperation.

[Kansaku, Chair]

Thank you very much.

There were questions for TSE and Ms. Fujimoto related to the review. TSE also received a question about the PDF conversion. First of all, could you please answer that question?

[Naito, Manager, Listing Department, TSE]

Thank you for your question.

First of all, regarding the conclusion of the review, we are aware that the JICPA has been discussing it or will be discussing it in the future. I understand that on page 18 of the material,

the conclusions for fair presentation and compliance are outlined.

As for the review of fair presentation, we have included it for the reason that such an option should not be ruled out based on the discussions in the Audit Subcommittee of the Business Accounting Council.

Regarding the data distribution format, this is the first time I have heard that the Kansai Economic Federation has conducted a survey, and I have not been able to confirm its contents. So, we would be happy to review the survey questions, specific options, and their responses and consider your question in light of this.

You mentioned earlier that some do not use tools in preparing earnings reports. However, for example, in preparing financial statements and current quarterly securities reports, it is expected to use the tools of printing companies. In such cases, I have heard that the printing companies will be responding to the tools in conjunction with this quarterly disclosure revision.

For the creation of HTML, if you are using a printing company's tool, the printing company's tool already has a function to generate HTML. As you are probably aware, Mr. Uemura, I have heard that if you are using a printing company's tools, you can basically create a report that is similar in feel to Word. Then, even if you are not using the printing company's tools for the relevant part at this time, we believe that you can handle it if you work in the same way on the printing companies' tools. In any case, we believe it is necessary to carefully inform the public, working with the printing companies as necessary.

[Fujimoto, member]

Thank you very much.

As Mr. Naito just commented, the part of the report format shown on page 18 will change. The part "not present fairly" will be changed to "not prepared in accordance with." Other specific report formats are now under consideration by JICPA. Basically, we are considering changing this part of the report without making any major changes from the review report for the current quarterly securities report. Since we are still considering this matter, we would like to present the final draft of the amendment to you at a later date.

As for the additional conclusion on fair presentation, we are on a flat position as a reviewer. It is our position that companies should make the necessary disclosures as requested by investors and that we grant them confidence. Therefore, if it is a compliance framework, a review for it is attached. However, as the Audit Subcommittee recently commented, if there is an expectation for disclosure in the framework of fair presentation and a review of that disclosure, we would be willing to make the necessary preparations to accommodate that expectation.

[Kansaku, Chair]

Thank you very much. Mr. Uemura, what do you think?

[Uemura, member]

Regarding the first point, the quarterly review report, I understand that it is uncertain because the Audit Subcommittee is also involved. I think what you have described on page 18 is a bit insufficient, so I would like you to give us a more complete picture. In particular, in response to the lead statement that "There are no differences with the audit methodology" and that "The level of assurance is the same for a review of financial statements," preparers can only assume that the procedures, volume, and responses will remain the same. If that is what you are referring to, I would be happy to have it written that way.

This is only voluntary, but if a company is conducting a review on an optional basis, the decision will be a threshold whether the review is a compliance review or a fair presentation review. It may not be finalized now, but it is very important, and if you do not write more carefully, I will not understand it, as Mr. Kuroda mentioned a little earlier.

We don't know what will change, so I reiterated my comments.

Also, thank you for your comment, Mr. Naito. Regarding the data submission method, honestly, our network is limited in hearing whether this is really a burden or not. I believe TSE owns names of the person in charge, as it is always required when submitting to TDnet. I thought one idea would be to conduct an email survey to them.

[Kansaku, Chair]

Thank you very much. Would it be possible to show the results of the survey you conducted to the secretariat?

[Uemura, member]

After consulting with the Kansai Economic Federation, we are ready to provide you with statistical data on the questions asked, with the names of the companies removed. However, please understand that we have not been able to conduct extensive research, as the parameter is only about 15 companies at this time.

It is also true that we really wanted to ask the small and medium-sized businesses, but we did not know how to contact them. I believe TSE, which accepts the application on TDnet, would know them well and survey to them.

[Kansaku, Chair]

Thank you very much. Mr. Iguchi, please.

[Iguchi, member]

Thank you very much. Since Mr. Uemura is beside me, it is a little difficult for me to speak up, but I would like to make a few comments.

First, regarding page 10, I think both companies and investors probably know that the segment information and other notes are important information. The role of the quarterly earnings report is to review the progress of the fiscal year and half-year. Since the value of the information will be reduced if different segments are used from the segments in the annual or semiannual reports, I would appreciate it if the statement that the same level as the semiannual report in the new system could be retained.

On page 11, regarding matters other than those that are required to be disclosed, for example, a company might look at these examples to see what information is hoped other than those that are required. I think it is also useful to provide such examples in terms of showing that this is the kind of information investors want.

This was not adopted in DWG either. However, for example, in companies that have adopted IFRS, it was often the case that all the extraordinary losses in other income/losses were listed in the notes related to the income statement, etc., and the contents were not clear at all. This is not obligatory either, but it would be very much appreciated if companies could explain it properly, for example, in the Overview of operating results, etc. Not all companies are in contact with investors, so it would be very helpful to have a wide range of information on what kind of information investors want.

Third and final point, regarding the mandatory requirements on page 16, in addition to (1) and (3), I think (4) and (5) are also very important. In fact, when something like this happens, the stock price can plummet. They may lose confidence in the financial statements and become more cautious about how they invest in the future. However, as Mr. Uemura mentioned, it could occur under various circumstances. The second line of (4) states "except where it is clear that the reliability of financial statements is not in question" I think it would be better if you wrote prominently, "except where it is clear that the reliability of financial statements is not in question." These things have a very significant impact on the stock price, and subsequently on the reliability of the financial statements, so I hope you will keep them.

That is all. Thank you very much.

[Kansaku, Chair]

Thank you very much.

Are there any other comments?

If any observers would like to speak, we would appreciate it.

[Chujo, Board member, Accounting Standards Board of Japan]

Thank you very much. Thank you for your comments on ASBJ's standards development today. We would like to continue to develop standards based on your feedback.

[Kansaku, Chair]

Thank you very much.

We have received a variety of feedback. Finally, we would be happy to discuss with you how to proceed.

As mentioned in the document and in the report, the draft Practical Policy in today's Document 3 is expected to be finalized and published by TSE based on the considerations at this council.

At this council, based on the report of the DWG, the secretariat has presented a draft policy for each issue, and various discussions have been held on it.

It is certain that there are still areas where opinions differ on individual items. On the other hand, the draft Practical Policy presented by the secretariat in Document 3 was compiled by the secretariat based on as much as possible on the opinions of you to date. Today, we have furthermore received many very valuable comments on this Document 3.

Therefore, I think the discussion on how to proceed could be whether or not to hold another council, specifically for the compilation of the report. On the other hand, while there are certainly still areas where opinions have not yet been consolidated, I believe that there has been a consensus of opinion in the basic direction. Also, as Mr. Uemura mentioned at the end, I think the lack of much time is a real problem.

Therefore, I suggest that we do not hold another council, but rather have the secretariat review the very valuable comments we received today, formulate a revised draft of the Practical Policy, and consult with you on an e-mail basis or by other means, including direct correspondence in some cases, before proceeding to a final decision.

I am very presumptuous, but if you don't mind, I would like to suggest that the final report be compiled after necessary confirmation, etc. between myself and TSE. We would appreciate your feedback on proceeding as described above.

Would you be willing to do so? Mr. Uemura, please speak.

[Uemura, member]

I basically agree with the current opinion of the chairperson. However, I have a concern that by talking to each individually, the publication of the final version may be delayed. I still think that meeting in one place is another option, and I hope that the chairperson and the secretariat will consider this. If a good method is found, and even after talking individually, as long as the aggregation and convergence is comfortable, I don't see a problem.

But lastly, I am persistent, but as I have been a practitioner, I can see that the data distribution method is very burdensome. The burden will be borne by all 3,800 listed companies, and I would appreciate your full understanding in this regard.

[Kansaku, Chair]

Mr. Uemura, thank you very much for your valuable input.

Please see the second item under Future on page 4 of Document 3. The FSA, ASBJ, and JICPA are currently in the process of conducting the necessary studies for the revision. If there are any significant changes to today's draft Practical Policy in the future, we may be willing to hold another council. The secretariat and I would be very happy to make a decision on this matter.

Mr. Kanda, please speak.

[Kanda, member]

I don't disagree with what the chairperson said, but I would like to mention one possible approach, which I am afraid is just a thought. I think it ultimately comes down to whether the subject matter of these materials is TSE or the council.

Of course, if opinions converge, both will be equal, and TSE will then make a decision. However, in cases where there are divergent opinions within the council, the council leaves such remarks or opinions in the report when there is a minority opinion.

This is because, in many ways, it may serve as a future reference. I would like to leave the future process to the chairperson, but if such an approach is possible, we could have a document as a council and have a record of opinions and important points raised, and based on that, TSE could create something like a draft Practical Policy and move forward with TSE's responsibility.

I understood today's proposal to be that we should be less conscious of disagreements at the council and move on to the next step in unison with TSE, and that we do not have much time. On the other hand, if there are matters in the process going forward where disagreement among the council itself is a valuable point, I am sorry to repeat myself, but I believe one way would be to put together a text as a council and include such a point of view, considering what happens afterwards. However, I will basically leave it up to you.

[Kansaku, Chair]

Thank you, Mr. Kanda, for your valuable input.

Based on the feedback we have received today, we will discuss the proposed revisions with each member. As a result of our consultation, if there are points of disagreement, as Mr. Kanda pointed out, we would like to discuss this with the secretariat, considering that one of the options is to put this on the record. Thank you very much for your very valuable suggestions.

Is there anything else you would like to point out?

Based on the above, the secretariat would now like to provide further additional details on how to proceed. Thank you for your cooperation.

[Naito, Manager, Listing Department, TSE]

Thank you very much for your active discussion today.

We would like to discuss this with the chairperson in the future. Basically, the idea is that the secretariat will revise the Practical Policy based on your comments today, and then confirm it with you via e-mail or other means. Then, in consultation with the chairperson, we would be happy to compile a final draft based on the feedback we have received, as well as to consider how to make it public.

We believe that the timing of the announcement will depend in part on developments in the deliberation of the FIEA bill. We would like to do so as quickly as possible, taking such circumstances into consideration. We also believe that we will proceed with the procedure for rule amendments in accordance with the Practical Policy after the enactment of the bill to amend the FIEA.

ASBJ, JICPA, and other related parties are still conducting the necessary studies for this revision, and there are still some uncertainties. Please be aware that there is a possibility that we will proceed with the procedure with some changes in the content of the Practical Policy according to such developments.

In addition, based on the status of the studies conducted by the parties concerned, if a major change in the current assumptions occurs, or if some other matter arises that requires a new study by the council, it is possible that a council may be held again. We would again appreciate your assistance in this regard.

That is all from the secretariat.

[Kansaku, Chair]

Thank you very much.

Now, on behalf of the secretariat, Mr. Ao, Director and Senior Executive Officer in charge of listing, would like to conclude with a few words.

[Ao, Senior Executive Officer, TSE]

I am Ao of TSE. Thank you very much for attending today's meeting despite your very busy schedule and the late hour. We are also very grateful for your energetic and positive consideration and discussion of a wide range of issues regarding the revision of quarterly disclosure since June, amidst various uncertainties.

The fact is that the Diet's deliberations on the revision of the FIEA are just beginning, and there are also uncertainties in the treatment of accounting standards, reviews, and the second quarter. On the other hand, if we aim for the start in April next year, it is very important for us to present our Practical Policy as promptly as possible to listed companies, investors, information vendors, and various other parties concerned, and to be fully aware of the need to ensure that the practical implementation of the project will go smoothly, even though we have to include such uncertainties in our policy. We may be a little inadequate in some areas,

but we will proceed firmly to show where we can as quickly as possible.

As for the direction of the compilation, as suggested by the chairperson and Mr. Kanda, we will carefully examine the comments we have received today regarding the Practical Policy, balance the whole process, and consider how we can move as speedily as possible based on the purpose of each person's comments, and the secretariat will then discuss the matter thoroughly, and will present what can be presented realistically.

We would also like to proceed with the rule revision process as soon as possible after that.

This revision of quarterly disclosure is in line with the intent of the report of the DWG of the Financial System Council, which is to improve the efficiency of disclosure by consolidating statutory quarterly securities reports and quarterly earnings reports into a single document, thereby reducing the burden on companies and at the same time creating a market environment in which the necessary information is fully disclosed to investors. We, TSE, will continue to make ongoing efforts toward the transition to the new system, so that the smooth implementation of the practice and the objectives mentioned earlier can be achieved.

We will work closely with the members of the council, observers, and other concerned parties as appropriate, and with their cooperation, we will make sure that the transition to the new system will be smooth and realistic. We look forward to your continued cooperation.

Thank you very much so far.

[Kansaku, Chair]

Thank you very much.

With this, we would like to conclude the third Council of Experts Concerning the Revision of the Quarterly Disclosure System."

Thank you very much for taking time out of your very busy schedule to join us today.

End