

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

Date: Thursday, June 29, 2023 13:00 - 15:00

Place: Tokyo Stock Exchange 15F Special Conference Room

Attendees: See member list (Mr. Kanda absent)

[Kikuchi, Director, Listing Department, TSE]

The time has now come to begin the First Council of Experts Concerning the Revision of the Quarterly Disclosure System. My name is Kikuchi from the Listing Department. I'm looking forward to working with you. Thank you for gathering here today, despite your busy schedules during shareholder meeting season. First of all, I would like to ask Mr. Ao, Senior Executive Officer in charge of listing, to say a few words of behalf of the secretariat before we start the meeting.

[Ao, Senior Executive Officer, TSE]

Thank you very much for taking time out of your busy schedule to attend today's meeting. The report issued by the Financial System Council's Working Group on Corporate Disclosure last June recommended eliminating overlapping contents between quarterly securities reports required by the Financial Instruments and Exchange Act (FIEA) and quarterly earnings reports, and integrating the two to reduce costs and improve the efficiency of disclosure. In addition, the December report indicated a direction for each issue with regard to the specifics of the "integration" concept. The purpose of this Council is to examine specific practices related to the "integration" of quarterly disclosures in a manner consistent with the direction indicated in the report. With regard to the abolishment of quarterly securities reports, I understand that although the House of Representatives has passed a bill to amend the Financial Instruments and Exchange Act, at the House of Councillors the bill was carried over to the next session.

We are holding these Council meetings in order to look at the practical implications of the proposed law in advance of its enactment, even though it has not yet been passed into law, so as to be ready for implementation in April 2024, the scheduled date of its enactment. Although we do not have much time, we would very much like to have a lively discussion on what quarterly earnings reports and information disclosure should be like after the revision, and to consider how to make the disclosure system even better. With your assistance, we would like to proceed with discussions to produce a positive outcome. Thank you very much.

[Kikuchi, Director, Listing Department, TSE]

I will now move onto how the Council will proceed. The Council is chaired by Professor Kansaku of Gakushuin University. Professor Kansaku, please say some words.

[Kansaku, Chair]

My name is Kansaku of Gakushuin University, and I am pleased to serve as the Chair of

this Council. Thank you in advance for your cooperation.

I look forward to your cooperation and to drawing on your wisdom to ensure we hold fruitful discussions. Due to the limited time available today, rather than introducing each member I ask that you look at the list of members included in Document 2.

Regarding attendance at today's meeting, Professor Kanda of Gakushuin University is absent. In addition, Mr. Iguchi of Nissay Asset Management Corporation and Mr. Uemura of Panasonic Holdings Corporation are participating online.

First of all, the secretariat will explain how the Council will operate.

[Naito, Manager, Listing Department, TSE]

I will speak on behalf of the secretariat. The Tokyo Stock Exchange Listing Department will act as the secretariat for the Council. We look forward to working with you.

In principle, meetings will be “private”, but distributed materials will be published on the Japan Exchange Group website on the day of our meetings.

In addition, the secretariat will prepare verbatim “minutes” of the discussions at Council meetings, which we will publish promptly after the meeting, after asking members to confirm the minutes and make corrections if necessary.

That completes my brief explanation of how the Council will operate.

[Kansaku, Chair]

Thank you very much. I would appreciate your understanding. If there are no objections to the way in which the Council will operate, I will immediately begin the agenda.

Today, after explanations from the secretariat and Ms. Fujimoto of the Japanese Institute of Certified Public Accountants (JICPA), we would like to begin exchanging opinions.

Now, I would like to ask the secretariat to start with their explanation.

[Naito, Manager, Listing Department, TSE]

I'm Naito from the Listing Department, and I will now explain the secretariat's document.

First, please turn to page 4. In 2022, the DWG (Financial System Council's Working Group on Corporate Disclosure) pointed out the overlap in content and proximity in timing of disclosure between quarterly securities reports required by the FIEA and quarterly earnings reports required by the Tokyo Stock Exchange rules, and based on this, recommended these reports be “integrated” to reduce costs and improve disclosure efficiency. At that time, based on the usefulness and timeliness of the information and its use by investors, the DWG recommended that quarterly securities reports be integrated into quarterly earnings reports.

The quarterly disclosure requirement will be uniformly mandated for the time being, and made voluntary in the future. To this end, It will be necessary to raise corporate awareness of disclosure and to establish a market environment for proactive information disclosure.

Page 5 includes specific directions for each of the issues. These will also appear in the discussion section later on, so I will not explain them now.

Please turn to page 6. First, regarding the movement to revise the FIEA, while the House of Representatives has passed an amendment bill, it is waiting to be debated at the next

session of the House of Councillors. Meanwhile, since April 1, 2024 has been set as the effective date in the bill, we would like to proceed with studying the content in advance so that we will be able to take practical measures in time for the effective date if the bill is enacted. Regarding how the Council will proceed going forward, the Council will meet three times in total, and we hope to put together a practical policy by the autumn.

From here on, I will talk about each issue. First, I would like to discuss the content of the quarterly earnings reports. Page 8 summarizes the details in the DWG report. The part in the red box indicates the direction indicated in the DWG report. In order to ensure that this revision is not perceived as a regression in terms of information disclosure, the report recommended adding segment information and cash flow information, which are strongly needed by investors. In addition, the report suggested the need for stating whether a review [by an audit firm] has been conducted from the viewpoint of providing information to investors.

On pages 9 and 10, we compare the disclosure items in the quarterly earnings reports and the quarterly securities reports. On page 11, we provide an example of segment information and cash flows notes in a quarterly securities report for your reference.

Page 12 describes the simplification of the earnings reports implemented in 2017. Current earnings reports are simplified in order to take on the role of being a newsflash type report, on the assumption that details are disclosed in annual securities reports and quarterly securities reports. Regarding the “Qualitative Explanation of Operating Results and Financial Condition” in the bottom right, most companies have continued to include this information, even after the request to include it was cancelled.

Page 13 provides data on the filing dates for the quarterly earnings reports and quarterly securities reports. On average, there is a difference of about 5 days between quarterly earnings reports and quarterly securities reports. Regarding the distribution of the difference in filing dates, the chart on the lower right shows that just over 25% of the companies filed both their quarterly securities report and quarterly earnings report on the same day, and 65% of companies filed the two reports within five days of each other.

On page 14, we have presented our proposed policy regarding the content and timing of disclosure of quarterly earnings reports. First, with respect to items which have been disclosed solely in quarterly securities reports, our basic approach is to move those which investors have a strong need for to quarterly earnings reports, and to make such disclosures mandatory. With regard to the financial reporting framework, the exchange allows omission of items other than those required to be disclosed by the exchange from the regulations on financial statements applicable to semiannual reports under the new disclosure system. This is because TSE does not expect any new items to be added to financial statements and notes.

As for the specific details to be disclosed, we are assuming that a description of whether reviews have been conducted will be added to the summary information and that the current item titled “changes to specified subsidiaries” will be changed to “significant changes in the scope of consolidation” from the viewpoint of aligning the definition with the quarterly securities report. Regarding financial statements, we assume that the financial statements required in the quarterly earnings reports will, in principle, be the same as those

required in the quarterly securities reports for 1Q and 3Q (first and third quarters). As for notes, we assume that we will add “Notes to Segment Information”, and “Notes to Cash Flows” for J-GAAP companies. In addition, we assume that when companies have their quarterly earnings reports reviewed, they will be required to attach a review report.

In addition, the timing of disclosure will continue to be “as soon as settled,” and if disclosure within 45 days of the end of the quarter is not possible, timely disclosure of the situation will be required.

Next, on page 15, we have indicated the items we would like you to discuss. In addition to your comments on the draft policy, with regard to the details to be disclosed, we would like to know if there are any matters that are required to be disclosed in addition to the matters specifically stated in the draft policy, and if so, whether such disclosure should be mandatory or whether we should request disclosure of such matters.

Also, with regard to the timing of disclosure, some companies are expected to undergo reviews, which we envisage may result in a delay in the timing of disclosure compared to the past, and we would like to know what you think about this.

Next, is the review of quarterly earnings reports and enforcement. On page 17, the direction indicated in the DWG report is summarized in the red box. Although reviews are not uniformly mandated, for example, if there is an accounting fraud, then the review is considered mandatory from the perspective of ensuring credibility.

TSE is expected to implement enforcement more appropriately.

On page 18, we have summarized the situation surrounding quarterly disclosure and reviews in other countries. In the U.K. and France, quarterly disclosure is not mandatory. In Germany, quarterly disclosure is required according to stock exchange rules, but reviews are voluntary, and only some companies undergo reviews. In the U.S., both quarterly disclosure and reviews are mandatory.

Next, moving on to page 19. Standards and guidelines are needed for receiving reviews, and on this page, we compare existing sets of standards. Quarterly Review Standards apply to reviews of financial statements required by the FIEA and the JICPA has established practical guidelines for reviews of other financial statements. Currently, there are no corresponding guidelines in Japan, but there is a set of international review standards, called ISRE 2410, which stipulates reviews by the auditor for the fiscal year.

Page 20 explains that there is a review of the fair presentation framework and the compliance framework. Ms. Fujimoto will provide a supplementary explanation on this point later, so I will not explain it.

On page 21, we introduce measures taken by TSE to ensure the effectiveness [of the Listing Regulations]. In addition, Article 604 of the Listing Regulations, which is included at the bottom of the page, mandates that listed companies cooperate when TSE requests explanations of circumstances from certified public accountants, etc., as it deems necessary to determine whether the delisting is applicable. Specifically, it mandates consenting to the lifting of confidentiality obligations.

On page 22, we have summarized and listed enforcement measures under TSE rules and the law.

On page 23, we have presented our proposed policy for partially mandating reviews of

quarterly earnings reports. First, the basic idea is that reviews will not be mandated across the board, but that reviews will be mandatory when it is necessary to ensure the reliability of financial statements. In doing so, the requirements for mandating reviews will be clearly stipulated for listed companies and auditors from the perspective of foreseeability.

Specific mandatory requirements are proposed in items (1) to (5). As shown in the note with an asterisk (*), we are thinking that if the most recent securities reports or other reports after correction fall under the categories of (1) and (3), reviews will be mandatory. Regarding the period covered by the requirement, we will require reviews of 1Q and 3Q financial statements filed after the requirement is met. However, the handling of 1Q and 3Q financial statements that have already been disclosed is an item to be discussed later.

Regarding the lifting of the obligation, the obligation will be lifted when none of the above requirements are met in annual securities reports and internal control reports submitted after the requirement is met.

Regarding the reviewer, we assume the reviewer will be the same auditor as the auditor for the fiscal year, and the standard for the review is assumed to be a compliance review based on the practical guidelines issued by the JICPA. This is something we also assume will be the case for voluntary reviews.

Next, on page 24, we have indicated the items we would like you to discuss.

First, we would like to ask you what you think about the proposed policy I have just presented, and what you think about the treatment of the 1Q and 3Q earnings reports that have already been submitted. For reference during discussion, we have provided examples on page 25.

The bottom half of page 24 relates to enforcement. From the perspective of more appropriate enforcement by TSE, it is conceivable that we could strengthen cooperation with auditors and establish a framework that would enable us to grasp an overview of fraud at an early stage. We indicate our thoughts on this point here.

As an example of such a measure, including a report on TSE's request as a justification for lifting the confidentiality obligation in the audit engagement, and broadening the scope of the aforementioned obligation to cooperate in hearings with accountants from the current delisting to cases deemed necessary to consider [enforcement] measures, are conceivable, and we would appreciate your opinions on these or other measures.

Starting on page 27, we have included details concerning the enhancement of information disclosure.

We have included an excerpt from the DWG report. It is considered an important issue for companies to properly identify and assess the risks of unanticipated events and to enhance information disclosure within the framework of timely disclosure required by TSE, and the enhancement of timely disclosure is important as a premise for considering making quarterly disclosure a voluntary choice.

In addition, the report states that in order to encourage proactive timely disclosure, the DWG suggested that TSE continue to consider publishing good practices, strengthening enforcement, and revising the rules for timely disclosure.

Page 28 summarizes the discussion by the DWG.

Page 29 gives an overview of the timely disclosure system at TSE. As a basic principle,

we require that listed companies practice disclosure on their own initiative from an investor's perspective. The bottom of the page includes a summary of the items currently required to be disclosed by TSE.

Next, moving on to page 30. Regarding decisions and occurrences, in addition to individual provisions stipulating matters to be disclosed individually, the Listing Regulations also establish a principle-based basket clause. While there are no de minimis criteria for the basket clause under the regulations, the Timely Disclosure Guidebook provides quantitative guidelines for disclosure using sales and profit figures as a reference when making judgments.

Next, moving on to page 31. The DWG noted that during the pandemic of COVID-19 and when the situation in Russia and Ukraine deteriorated, there was limited disclosure by listed companies regarding changes in the business environment. This page shows TSE's response at the time and the actual state of disclosure.

Page 32 is a summary of the disclosure points that TSE requested during the pandemic, etc. as well as examples of disclosures that we provided when we published the examples. Such information is generally considered important when changes occur in the business environment, and we believe that such information should be disclosed more proactively.

Page 33 introduces efforts by the Financial Services Agency to collect good examples of descriptive information in annual securities reports.

Next, on page 37, we have indicated the items we would like you to discuss regarding the enhancement of information disclosure. As a premise, since we believe that it is important to create a market environment in which listed companies voluntarily and proactively disclose information that is important for investment decisions in a timely manner, we would like to hear your opinions on the following points in this regard.

In terms of specific issues, first, regarding “disclosure of changes in the business environment,” which was pointed out by the DWG, we would like to hear your opinions on what information investors expect companies to actively disclose, and what kind of information listed companies should disclose more actively.

Furthermore, as a prerequisite for enhancing disclosure during the year, we would like to hear your opinions on what information should be required to be proactively disclosed in periodic disclosures such as annual securities reports, etc. and in earnings forecasts, and what kind of information listed companies should disclose more actively.

We also present as a discussion point the measures that could be taken to enhance and establish these disclosures. Specifically, we believe that the disclosure points should be illustrated with examples, and that the disclosure of such points should be requested and examples should be published on an ongoing basis to encourage listed companies to disclose information on their own initiative. If you have any opinions on these or other measures, we would like to hear them.

In addition, we have presented, as a discussion point, the measures that could be taken to enhance the timely disclosure of existing facts of decisions and occurrences. For example, we believe that reviewing the position of the disclosure guidelines in the basket clause is conceivable. If you have any opinions on these or other measures, we would like to hear them.

The remaining pages are a restatement of the points that we would like you to discuss regarding each of the issues. That completes my explanation of the document.

[Kansaku, Chair]

Thank you very much. In the secretariat's explanation, there was talk about the nature of the review, and I understand that Ms. Fujimoto from the JICPA will explain this to us. Ms. Fujimoto, please go ahead.

[Fujimoto, member]

My name is Fujimoto and I am from the JICPA. Thank you very much for the opportunity to make a presentation today. As Mr. Naito mentioned earlier, I would like to briefly explain that our audit and review opinions on fair presentation and compliance are established in accordance with the financial reporting framework.

First of all, as to what makes the financial reporting subject to our audit premise different in terms of content, we refer to the financial reporting framework adopted by management that is compatible with the characteristics of the entity and the purpose of the financial statements, or that is based on legal requirements, as the "applicable financial reporting framework". This is to be considered along two axes. The first axes is "general purpose," which assumes a wide range of users, and the second is "special purpose," which assumes specific users as the intended users.

Another perspective is disclosure. If additional disclosure requirements are required to achieve fair presentation separate from the standards set in laws and regulations in order to achieve fair presentation, this is the "fair presentation framework." Otherwise, if there are no additional disclosure rules and the purpose is compliance with laws and regulations, this is considered to be the "compliance framework."

Next, as for the fair presentation framework and the compliance framework, each of them will affect the audit opinion. For example, in the case of the fair presentation framework, it is necessary to make disclosures that go beyond what is specifically required, and there are explicit and implicit provisions for this. In addition, if there are explicit provisions for departures from the financial reporting framework when such departures are necessary in order to achieve fair presentation, the opinion will be an opinion on fair presentation. In addition to a judgment on whether the financial statements have been prepared in accordance with generally accepted accounting principles, the opinion will include substantive judgments such as the organization and application of accounting policies adopted by management, and whether the financial statements as a whole are presented in a manner that ensures fair presentation.

The compliance framework will be examined solely in terms of whether the entity is in compliance with laws and regulations and whether such disclosure has been made. Therefore, opinions on compliance differ from opinions on fair presentation, since they are opinions as to whether the financial statements have been prepared in conformity with the accounting standards applied when preparing such financial statements, given that there are no additional disclosure requirements regarding accounting standards.

You may ask whether the level of assurance will change, but both offer reasonable

assurance and the level of assurance remains the same. However, there is a difference in that a substantial judgment as to whether fair presentation is ensured is not considered in compliance opinions.

Next, I will explain the steps to determine whether something is a fair presentation framework, using the FIEA as an example. First, as to whether there is an explicit provision for additional disclosure to achieve fair presentation, in the case of the FIEA, the FIEA clearly requires additional notes and requires additional information to achieve fair presentation. In addition, when there is an explicit provision for additional disclosure, two points need to be judged comprehensively. The first is that even if there is merely a provision for the purpose of establishing an explicit provision for additional disclosure, it would be appropriate to treat it as a framework for compliance if additional disclosures are not actually made. However, in the FIEA, this is considered appropriate as the purpose of establishing the provision, based on the practice that additional disclosures are made based on the notes to the additional information.

The second point is the perspective as to extent to which accounting standards, etc., applied to the same type of entity differ from general-purpose accounting standards, which follow a transparent process and certain due process, and this is based on accounting standards and rules for financial statements, and these are considered to be a fair presentation framework given that they follow a due process that is widely and generally accepted to be fair and reasonable. Therefore, this is deemed to be fair presentation under the FIEA.

If we separate the FIEA and TSE's rules, the disclosure framework under the FIEA is the world of fair presentation, as I mentioned earlier. In the case of TSE's rules, if we assume that the disclosure items are limited with an emphasis on prompt disclosure, I think it would be appropriate to view this as a world of compliance from the perspective that there are not that many items to disclose and that there are no additional information notes.

Regarding the wording of review reports, as I mentioned earlier, review reports will look a little different. We believe that the current review reports provided for in the FIEA, which includes for example, statements that financial statements have been prepared in accordance with generally accepted standards and that they fairly present the results of operations, will no longer be incorporated into opinions on compliance. That is all from me.

[Kansaku, Chair]

Thank you very much. Now, I would like to move on to sharing opinions. We would like to hear opinions from members based on the "Items to be Discussed" on pages 36 to 38 of the Secretariat's handout we have distributed.

If you would like to speak, please raise your hand and I will nominate you. If you are participating online, I would appreciate it if you would first start by saying your name before stating your opinion. When speaking, please press the button on the bottom right of the mic, and speak when the light towards the top of the mic turns green.

Also, if you are joining us online, please let us know in the chat that you wish to speak and I will nominate you to speak. Please turn your camera on and unmute yourself before speaking.

We would be very happy to hear from anyone who would like to share their opinions. Mr. Matsumoto, please go ahead.

[Matsumoto, member]

Thank you for your explanation. Regarding the basic concept of the study of quarterly disclosure, I understand that the simplification of the quarterly disclosure system is the major objective. In addition, since the scope of this study includes future voluntary disclosures of quarterly earnings reports and the promotion of voluntary disclosure, I feel that additional items to be disclosed should be limited to the minimum necessary, and that additional mandatory disclosure should be limited to segment information and cash flow information, which are said to be strongly desired by investors. In particular, with regard to the cash flow information, I understand from the proposal that companies applying International Financial Reporting Standards and U.S. GAAP are required to disclose consolidated cash flow statements. However, companies operating according to Japanese standards are only required to provide 1Q and 3Q cash flow information in the notes. For example, for companies subject to International Financial Reporting Standards, earnings reports are not subject to IAS 34 interim financial reporting regulations. Given this situation, I have my doubts as to why only companies applying International Financial Reporting Standards and U.S. GAAP are required to disclose cash flows statements. Including the fact that there is no logic to this requirement, I think it would be appropriate to keep disclosure as a system to the notes required under current Japanese GAAP, regardless of which standards are applied. I feel that companies that wish to provide a consolidated cash flow statement should disclose such statements at their discretion.

Also, there has been some discussion about stating whether a review has been conducted, but my understanding is that in this review of quarterly disclosures, reviews are only voluntary. In order to remind users that the principle is voluntary, I believe that making it mandatory to include whether a review was conducted in the summary of the earnings reports would undermine the purpose of making reviews voluntary. In other words, I believe that the basic rule should be that companies that have voluntarily undergone a review should decide whether to include such information at their own discretion, and that companies that have not undergone a review should not be required to include such fact. I also believe that even if a company takes the initiative in including that it underwent a review voluntarily, such a fact should be described in the special notes in the earnings report. Even current earnings reports clearly state that they are not subject to audit in the special notes, and I think it would be better to add a statement to the effect that a review was conducted.

With regard to the timing of disclosure of earnings reports, the elimination of quarterly securities reports for the 1Q and 3Q has attracted concern that the timing of disclosure may be delayed. However, I believe that the additional details disclosed in earnings reports should be limited so as not to impair the speediness of earnings reports.

In addition, as for requiring some companies to be reviewed, I think it is unavoidable from the standpoint of the reliability of information that companies that have committed accounting irregularities be required to be reviewed in the 1Q and 3Q after such

irregularities are discovered. However, I think that it is too much to retroactively conduct reviews of past periods. I am aware that it would be excessive to conduct a retrospective review of the 1Q and 3Q, especially considering that there have been almost no cases in the past in which a company has been ordered to pay a surcharge in the 1Q and 3Q. There has been some discussion about what to do with comparative years in future 1Q and 3Q earnings reports, but I believe that it is only necessary to address this, as necessary, in the comparative year reviews in periods reviewed, and that it is not necessarily needed to retroactively review past periods.

I am sorry to talk for so long, but I would like to add a few words about timely disclosure. Regarding timely disclosure, since this is a review of quarterly disclosure practices, I am wondering if this is a matter that should be discussed by this Council. Regarding expanding information disclosure, I think that each company is currently responding based on the premise of the basket clause, etc., and I believe that this is basically sufficient as a provision. I think it is important to continue to constantly publish examples of good practices, etc. that companies have been implementing so far so that companies have an incentive to voluntarily disclose information.

In terms of timely disclosure, there is one thing I would like everyone to understand. In particular, we are discussing timely disclosure when business changes occur that may have a significant impact on investment decisions. For example, if there is a major earthquake or a fire that destroys the manufacturing facilities in our manufacturing business, we can quickly conduct a quantitative analysis of the impact on our business performance. However, the Russian-Ukrainian issue and the COVID-19 pandemic are events that have a major impact on the global economy. For example, we operate in the materials industry, and our supply chain is extremely long, so we are affected by the macroeconomy from various aspects, some positive and some negative, and the reality is that ascertaining this takes a considerable amount of time. In light of this, I can understand the argument for the need for timely disclosure of events that directly affect a company, but I am not convinced that it would be appropriate to disclose indirectly affected items timely in between although the quarterly disclosure system asks listed companies to disclose financial statements every three months. I would appreciate it if you could give sufficient consideration in light of these realities in discussions on timely disclosure. That's all from me.

[Kansaku, Chair]

Thank you very much. Does anyone else have anything to say? Mr. Kuroda, please speak. I would appreciate your understanding.

[Kuroda, member]

Thank you very much. I would like to briefly express my opinion, which is similar in parts to Mr. Matsumoto's opinion. I think the major premise of the discussion regarding disclosure is to simplify quarterly reports and not to lose the speediness of disclosure, as was mentioned earlier. Given this, we must carefully consider how to disclose the existence of quarterly reviews.

First off, this revision is based on the assumption that quarterly reviews are voluntary.

The proposed framework is that, since undergoing a review on a voluntary basis would be highly appealing to investors, companies that wish to undergo a quarterly review can do so. So requiring companies to disclose whether they underwent reviews in summary information may implicitly create the impression that reviews are conducted as a matter of course and so I think it is preferable to include it in the special notes (if mentioning it at all) rather than on the cover page. However, special notes are designed differently, so the way in which reviews are described need to be considered. The special notes currently state "not reviewed or audited," and I understand that the background to this was that audit firms did not want investors to assume an audit has taken place, which means that the description needs to be adjusted. I think the framework should be such that when a company undergoes a voluntary [review], such fact should be stated in the special notes or, for companies that submit disclosure documents other than the earnings report as quarterly disclosure, such fact should be stated in the voluntary disclosure documents, and so we should carefully consider how to state whether or not a review was conducted in the summary information (cover page). It is understandable that disclosure [of the review information] should happen in cases that are subject to review in accordance with regulations, and so I believe that it is appropriate to make a clear distinction from voluntary cases, and even if disclosing that a voluntary review was conducted, such fact should be included in the special notes, at most.

Next, regarding financial statements, I do not think there is any problem in case of applying Japanese GAAP since I believe that there is no change, but I believe that the treatment of companies applying IFRS should be carefully considered. As discussed at a recent meeting of the Business Accounting Council's Accounting Subcommittee, it is my understanding that the direction of increasing voluntary application has been reaffirmed for Japan. Companies write in their annual earnings reports about their preparations for IFRS. While many companies are considering or preparing to voluntarily adopt IFRS, I think it is important to note that there are currently various issues, one of which is quarterly disclosure. Currently, when considering voluntary adoption, the need for notes based on IAS 34 (Interim Financial Reporting) is a major burden. In other words, it is difficult to prepare such notes upon undergoing reviews within 45 days, and this is one of the reasons why companies are not able to adopt IFRS on a voluntary basis. (Of course, the requirements for the notes are limited this time and reviews are optional) If the preparation of a cash flow statement is required here, the extent of the burden reduction will be also limited, and the ideal situation here is to require financial statements at the same level as those required under Japanese GAAP, as in the past. I believe that this will not be contrary to the government's direction to expand the voluntary application.

With regard to the review, I fully understand that one solution is the review of compliance, but I think we need to sort out the specific procedures and what auditors have to do. It also looks like an agreed upon procedure in effect, and if it is an agreed upon procedure, I get the impression that it is difficult to state what it guarantees or what it conforms to. Since it is somewhat difficult for the reviewee to understand the effectiveness of the review, (although I fully understand that this is not a topic that should be discussed here) the question is what practices are required of auditors in the new review? On the other hand, if the same review

and work are required as in past quarters, this will cause a burden to companies, and I think this is something that needs to be considered carefully. I understand that compliance is one way, but I am having a hard time deciding if it really works without being able to see specific practices.

Finally, regrading timely disclosure, this too should be considered based on the premise that different companies have different requirements and, in short, operate in different environments. I believe that TSE should consider applying the rules to all companies, both small and large, and in that case, requiring the highest standards would still be a high hurdle. Basically, I think it would be best to set a minimum standard and then proceed to expand voluntary disclosure. I believe that there are a reasonable number of disclosures by large companies that are highly regarded by analysts, so I think it would be a good idea to present a collection of good examples based on these examples and expand disclosure with reference to them, and to keep what should be required as rules to the bare minimum.

In addition, while some may say that the basket clause makes it difficult to disclose information, in reality, in terms of disclosure circumstances, we are very particular about timely disclosure and we have established a framework to collect information by appointing a person in charge of timely disclosure at each group company. In the case that there are hundreds of subsidiaries, the issue is whether all occurrences should be reported if there is no basket clause when the person in charge ensures the appropriateness of timely disclosure. In order to actually ensure the appropriateness of timely disclosure, it will be somewhat difficult to work within the internal framework of our timely disclosure system if we are considered to have failed to report something without a basket clause or are unable to report until we have all the information and so it is good to have a certain basket clause. I believe that it would be desirable to maintain the existing framework while addressing this issue as a collection of good practices, based on the recognition that the basket clause has become important for successful implementation in practice. That's all from me.

[Kansaku, Chair]

Thank you very much. Mr. Kuronuma, please go ahead.

[Kuronuma, member]

My name is Kuronuma. I would like to make a few comments and then ask two or three questions. First of all, since the past two speakers both mentioned the basic premise, I would like to touch on this too, although I am not sure if it is worthy. Simplification of quarterly disclosures has already taken place with the abolition of quarterly securities reports. This abolition is based on the basic premise that quarterly earnings reports and quarterly securities reports will be combined into a single report. In the past, quarterly earnings reports have also been simplified by virtue of there being quarterly securities reports. Therefore, I think the premise of our work this time is to enhance, not simplify, the quarterly earnings reports. I think it would be a big mistake to misunderstand this basic premise.

On a specific point, I agree that the quarterly earnings reports, in addition to the current financial statements required in the 1Q and 3Q quarterly securities reports, should include

additional segment information and notes on cash flows. In addition, although it is not being requested at this time, as was indicated in the document, most companies are disclosing their operating results and financial condition, and I think that qualitative explanations will be necessary. So I would like to request that the explanation of operating results and financial condition be added to the content to be disclosed. As for the form of disclosure at that time, currently disclosure is based on the premise that quarterly securities reports are required, but since this is a self-regulatory disclosure system, I think it would be appropriate to require disclosure in accordance with TSE's rules.

Next, regarding the partial mandating of reviews, it is of course fine to make the review voluntary, but you have proposed requirements for mandating reviews when reviews are considered necessary to ensure the reliability of financial statements. The proposed requirements cover all bases and so I think the proposal is acceptable. And considering the fact that reviews are mandatory in order to ensure the reliability of financial statements, and that investors need to refer to them, I think it is extremely important to draw investors' attention to the statement of whether there was a quarterly review in the summary information, and I believe that companies should be required to state whether a review was conducted in the summary information.

As for the criteria for the review, I am not an expert and it is difficult for me to make a judgment, but one question I would like to ask is that you explained in the diagram that the disclosure framework of the FIEA is the fair presentation framework, while the disclosure framework in TSE rules is the compliance framework. Before the quarterly reporting system became statutory, were the 1Q and 3Q disclosures under TSE's self-regulations audited or reviewed? If they were, was the framework at that time the compliance framework? I would like to hear about this. In other words, I am not sure if we are trying to revert to the former situation or if we are trying to change the former situation into a compliance framework. I would appreciate being told which one it is.

As for the enhancement of timely disclosure, as discussed by the Financial System Council, I believe that this is an issue that should be addressed by sharing wisdom on where the problem lies and what should be done about it. I would like to ask one question on this point as well, and I would like you to answer it. The problem is that many companies did not properly disclose information relating to the spread of COVID-19 and the situation in Ukraine, despite TSE requesting explanations and providing examples of disclosure and points to explain. This was identified as a problem and I would like to ask why this happened, and what TSE really feels about this situation. I think it is not effective to just put words together in a report. That's all from me.

[Kansaku, Chair]

Thank you very much. I think you had two questions. Who would like to answer these? Someone from the secretariat? Please go ahead.

[Naito, Manager, Listing Department, TSE]

Thank you, Professor Kuronuma. Regarding the first question about the situation before the quarterly reporting system was introduced under the FIEA, at that time, we did not

require any additional disclosures to achieve fair presentation, so we are aware that reviews were not being conducted at least within the fair presentation framework. I would like to confirm whether that is equal to reviews within the compliance framework we are talking about here.

As for your second question, regarding the spread of COVID-19 and the Russia-Ukraine situation, we provided disclosure examples and requested disclosure, and while there were a certain number of companies that made timely disclosures in response to such requests, not many companies responded. I understand that there were some companies that provided detailed explanations, including items requested when closing their accounts. I understand that one of the reasons for the lack of timely disclosure was that some companies could not engage in timely disclosure until the impact could be accurately ascertained to some extent, and that this limited the overall number of companies disclosing information.

[Kikuchi, Director, Listing Department, TSE]

I would like to add some supplementary details regarding the first question. Before the introduction of the quarterly reporting system under the FIEA, TSE's rules required disclosure of financial statements by companies listed in the Mothers Market. The quarterly financial statements had to be prepared in accordance with the standards for preparation of interim financial statements and they had to be reviewed accordingly, which is quite different from the framework that allows significant omission of notes, that we are discussing now.

[Kansaku, Chair]

Professor Kuronuma, do you have anything you would like to add?

[Kuronuma, member]

With regard to timely disclosure I think it would be beneficial for TSE to organize and present a little more information on what the issues were at the next or a subsequent meeting. Thank you very much.

[Kansaku, Chair]

Thank you very much. I'd like to ask TSE to research and summarize the information to the best of its abilities. Thank you very much. Next Mr. Iguchi wishes to comment. Mr. Iguchi, please speak.

[Iguchi, member]

I'd like to apologize for the fact that, due to health reasons, I am participating online today. Like Mr. Kuronuma, my understanding as a member of the Financial System Council's DWG is that the discussion was not about simplification, but about streamlining quarterly earnings reports and securities reports since they overlap and are an unnecessary burden on companies. I don't think we were talking about reducing the amount of information companies provide to investors or the amount of information in the

quarterly reports. So, in terms of emphasizing the sense of direction of the DWG, the purpose of which was explained at the start by TSE, I think we should conform to this line, and discuss what is needed to this end. That is my first point.

I fully agree with the proposal regarding quarterly earnings reports on page 14 presented by the secretariat. In addition, as Professor Kuronuma mentioned, investors basically look at the summary sheet and then go straight to the information about what the company did during the period, not the financial statements. There are also some briefing materials, and I think we need the disclosure system that has something like these materials. As shown in the document, the fact that 97.1% of companies provide an explanation of their operating results and financial condition indicates that there is an understanding among companies and investors that this is basically essential, and I think that disclosure should be made mandatory or that proactive disclosure should be required.

There was some discussion about stating whether quarterly reviews have been conducted and I think such information should be included. I think this is related to the basic premise I mentioned earlier. In terms of promoting the provision of information to investors, it is very good thing for the capital market to have companies undergo reviews so that investors can fully trust them, and so I think reports should state whether quarterly reviews are conducted. I think it is possible that the release of some quarterly earnings reports may be delayed as a result, but as was discussed by the Financial Services Council, my understanding is that the delay will not be that great, and since quarterly earnings reports are only to show progress, I think it is better to think of it as a way of thanking companies for their efforts, even if they are a little late.

Also, regarding the format of the review reports, as Ms. Fujimoto mentioned earlier, I think it needs to be prepared properly. I would like to make a final comment on the review and enforcement which are the items for discussion listed on page 24. As is stated in the proposal on page 25, TSE has indicated how far back reviews should go, and I think proposal (1) is good proposal. I believe that quarterly earnings reports are designated only to show progress, and that it is not necessary to go back and revise everything. That's all from me. Thank you very much.

[Kansaku, Chair]

Thank you very much. Next I would like to invite Mr. Sampei to speak.

[Sampei, member]

This is Sampei. Thank you for nominating me to speak. First of all, the basic premise is very important to our discussions and so I would like to confirm it once again. As a participant in the DWG, as Professor Kuronuma and Mr. Iguchi mentioned, there were two types of disclosures, statutory quarterly disclosures and earnings reports required by TSE, and we are trying to integrate them given the cost and effort involved in preparing both of them, which are published around about the same time. However, as was mentioned earlier, working on the assumption that the two reports coexist and given that earnings reports were previously simplified, when integrating the reports, we need to put together earnings reports so that they include sufficient information. Put simply, my understanding is

that this meeting is to sort out which information from quarterly securities reports must be included in earnings reports. There was some discussion as to why timely disclosure was mentioned here. The DWG raised the issue that if more timely disclosures are made in the future, there may be a reconsideration of periodic disclosure. I believe that the argument at that time was that timely disclosures are not currently sufficient, and that the market cannot trust timely disclosures enough to rely heavily on them, and thus the decision was made that we should monitor progress going forward. Therefore, my understanding is that the issue of how to improve the attitude toward timely disclosure will be discussed, and that is why the issue was raised again this time.

In light of this, I would like to address each of the three major issues one by one. First of all, I think it is necessary to require consistent disclosure with regard to the contents of quarterly earnings reports, keeping in mind improving the attitude toward timely disclosures. I agree with the proposal on page 14. I would like us to think a little more about this, taking into account the fact that this will be introduced. On page 9, there is a comparison of earnings reports and quarterly securities reports, and regarding the questions of choosing information in quarterly securities reports which is not included in earnings reports, I think the choices are fairly minimal. I think it is necessary to distinguish between “must have” and “nice to have” when considering which information to include. My understanding is that TSE would appear to have differentiated between the term “obligation” and “request”.

In that sense, the items I would like to see as obligatory items are, with regard to the notes to the financial statements, first of all, depreciation and amortization of goodwill, as separately mentioned on page 14. Other than that, for the quarterly balance sheet, income statement, and cash flow statement, what I would like to see as obligatory is, and this is not an exhaustive list, for example, if there is a timely disclosure or an extraordinary report has been filed during the period, I would like to see notes saying which figures relate to these or are affected by these. Then it will be possible to sort out what should be written in the notes depending on whether there was such a fact or not, and there will not be many cases. When we say it is obligatory, it may sound like there are a huge number of obligations, but such cases do not come up very often, and it is not really a hassle or that hard. However, I think this is a very important perspective from the reader's point of view. If such details are not included, I believe that investors will always go to check the contents that relate to it after receiving the earnings report. This is highly likely to be a violation of the Fair Disclosure Rule and is very dangerous if companies are responding and talking to investors individually when investors check with them.

Similarly, financial instrument relationships, too, may fluctuate greatly in price. The same can be said of securities and derivatives. Since there is naturally a possibility that business combination will have a major impact, and I am sure that facts such as these that occurred during the period will naturally be disclosed in a timely manner or in some other way. So I would like to see notes that explain how financial items are affected by such facts in quarterly earnings reports.

Other than that, in terms of so-called “nice to have” requests, I think that each company should consider their response on its own, bearing in mind the perspective of fair disclosure and based on the fact that it would be very dangerous to respond individually to questions

about such matters when they are asked.

Next, regarding the main notes to non-financial information, if there are any material changes in business activities, important management contracts, or status of research and development activities, etc., I would like there to be an obligation to disclose such changes in light of timely disclosure and extraordinary reports. Research and development expenses are attracting more attention, especially since the 2021 revisions to the Corporate Governance Code, which added the importance of investments in intellectual property and other assets and the formation of intangible assets. Also, as something not included here, and as an important indicator for business management, much more information is being provided on details such as to the number of employees and the status of employees in annual securities reports since the fiscal year ended March 31, 2023. In this respect, how companies utilize their current human resources and capital is extremely important, and at the same time, there is a social issue in terms of the shortage of human resources.

Until now, it has not been easy to find out how much companies have invested in human resources and how this investment has affected the company's performance, but I think this information will be very accessible in the future, and in that sense, how the number of employees changes over the quarter will be particularly important information. This is important information not only for individual companies, but also from a macro perspective, and is of great interest to both companies and institutional investors.

In other areas, regarding the timing of disclosure, I think it is natural for it to be disclosed as soon as settlement details are finalized. I would like to see disclosure happening within 45 days of the end of each quarter. One thing is written here that left me wondering when I read it. The case about disclosure takes longer than 45 days is currently covered in Article 402, Item 2-u of the Listing Regulations, and it is a provision that assumes the disclosure rules for annual securities reports. I was wondering if it is correct to say that if the period exceeds 45 days, timely disclosure is required, and that this should be considered pursuant to the elimination of the quarterly securities report.

Also, as has come up several times in the DWG, companies are pointing out that adding just a little more information to the current earnings reports will delay the timing of disclosure, and they are asking if that is okay. I have to wonder about such wording. While companies are asked to disclose more information and proactively provide information, companies are competing across the world. In this context, if they say an increase in the amount of information causes a delay of disclosure, then I wonder why they do not improve the efficiency of internal information gathering. I think it is nonsense to argue that adding one more item will result in it taking a little more time to prepare reports, without also reconsidering the current approach. I would like to see more proactive disclosure in this area, taking into consideration how to improve efficiency.

Now for my second point. As for review and enforcement, I agree with the proposal on page 23. As for the period covered by the mandate, given that the retrospective correction of earnings reports is expected from the general principles of timely disclosure, and given that correction audits are conducted when securities reports are corrected retrospectively, I think that being reviewed only after the requirement is met is sufficient, and the significance

of retrospective reviews may be limited. In practice, when we go back when there is a problem, since financial data is entered into a database, and it is true for financial data that we go back and use those figures, and if we want to look at the notes, we would look at the statutory disclosure documents. I think the figures in earnings reports should be corrected properly, but I don't think there is necessarily a need to conduct reviews retrospectively.

In terms of enforcement, I think we need a system that strengthens cooperation with auditors and enables early detection of issues. Also, regarding the part about enforcement, what I would like you to emphasize is that on page 22, there is an explanation about TSE and statutory enforcement, and when we were discussing this in the DWG, the focus was mostly on misstatements and whether or not they existed. However, Professor Kuronuma explained in a way that was extremely easy to understand that from civil, criminal, and other perspectives, ultimately enforcement is legally effective, so I think it is important to make this widely known and understood. Spread of rumors would be one example. I think that if such aspects are widely understood, it will have a substantive effect on enforcement.

My third point is that the enhancement of information disclosure, which is summarized on page 32, is very easy-to-understand and effective. Therefore, I would like to see this information included in the timely disclosure guidebook, at the very least. If possible, I would like you to consider including this as a basic principle in the Listing Regulations. The information enclosed in blue on the left side is difficult to obtain because it requires time to examine the situation closely. However, the reason why this is important is that it is important to disclose the state of recognition and analysis of the situation from management's perspective, where the uncertainties lie, and through what channels might changes in external conditions propagate and affect performance, and failure to disclose such information is taken as a sign that management does not understand such matters. Also, when investors have a certain understanding of a company, companies will tell them that their understanding is wrong and that this situation caused it to change. It is also meant as a reminder that demand will change significantly, the profit structure will change, the supply chain will change, and the sensitivity and priority will change.

Therefore, the inability of a company to disseminate such information is viewed very negatively. The market does not know how to evaluate the risk for itself, so it protects itself by over-estimating the risk as being greater than it actually is. Negative associations spread, which has a very negative impact on stock price formation, for example. This is a disincentive to rational stock price formation, and I would like you to take this into account.

On the right side, I think the two main categories are exposure information and sensitivity information, which are not really difficult to obtain. It is best to announce this as a first report when there is first some such major change in the situation, and such reports indicate merely objective facts. For example, what happened to the share of sales to Russia, or what the ruble's currency balance is, or how many assets or accounts receivable or order backlogs are denominated in rubles - these are fairly objective facts, but how investors receive such facts? They would like to know maximum possible loss. If they can grasp that, the loss may be within that range, so if they know the maximum, they will not be even more skeptical from then on. So this is information that should be put out quickly. Also, if companies can provide sensitivity information, such as how a 1% change in the ruble

against the yen will affect operating income, this would be useful for investors when making their own calculations.

Finally, regarding the basket clause, I think it is very unlikely that this will be added right now. Given that we are moving to a principles-based system, since they first have to be able to voluntarily consider whether disclosure is required, I can't really imagine the basket clause being added. On the other hand, here this focuses on things like the impact on the current year's performance, but what is essentially needed is how it will impact corporate value. How does it affect the corporate value, which means cash flow - how does it affect future cash flow? Companies must first consider whether or not growth prospects, profit structure, and uncertainty and so on will be affected by such factors, and if a company, upon thorough consideration, feels that this may have a significant impact, this must be mentioned, then I think that it will be possible to communicate smoothly with the market.

Lastly, and this is slightly supererogatory as it is not mentioned here as an issue, but I think that the positioning of cash flow statements is too low. As I mentioned earlier, cash flow information is extremely important when considering corporate value. Companies that are seriously trying to improve their corporate value now include cash flow-related indicators in their incentives and KPIs for division managers, etc. and cash flow is becoming more and more important within companies. So the fact that there is a discussion on whether to abolish cash flow statements is in itself very off the mark. Amidst this situation, it is not clear from the perspective of foreign countries that there are three standards, Japanese GAAP, IFRS, and U.S. GAAP, and that the depth of disclosure differs between them. So, given international considerations, I wonder if this is really the right thing to do, but I am aware that this is a bit out of the scope of today's discussion. That's all from me.

[Kansaku, Chair]

Thank you very much. He raised one question regarding the timing of the release of the earnings reports, and I was wondering if you could answer it.

[Naito, Manager, Listing Department, TSE]

Thank you for your question. Under the current timely disclosure rules, in Article 402, Item 2-u of the Listing Regulations, there is a rule that requires timely disclosure when there is a delay in submitting an annual securities report or a quarterly securities report, and I understand that you are asking whether the rule applies mutatis mutandis to the requirement for timely disclosure when 45 days have passed, as indicated on page 14. Since this article itself refers to delays in meeting the statutory disclosure deadline, I do not think it will be applied mutatis mutandis. The idea would be to request timely disclosure of the status when it becomes clear that submission [of an earnings report] within 45 days in a similar manner is not expected.

[Sampei, member]

Thank you very much.

[Kansaku, Chair]

Are you happy with that response?

[Sampei, member]

Yes.

[Kansaku, Chair]

Now, I would like to call on one of our members participating online, Mr. Uemura. Please go ahead and speak.

[Uemura, member]

This is Uemura. I am in Osaka, so I am participating hybrid today. I would appreciate your understanding. I would like to comment on everything being discussed. I believe that the professors and other members have already talked about the contents to be disclosed in quarterly earnings reports, but after reviewing the contents of the DWG report, I do not believe that all the major premises are necessarily clearly color-coded. As two of the people involved in preparing the [DWG] report mentioned earlier, what can be read from the report is that the basic and main objectives overlapped and the intention was to simplify reporting and improving reporting efficiency, and the report concluded that there is a need to consider items to be unavoidably added to the quarterly earnings reports. I think that is what the discussion was about.

In that sense, my understanding is that in this discussion, if we are talking about the items that have to be added, it is sufficient for us to consider adding cash flow information or some of segment information in accordance with the conventional TSE rules. In addition, when considering this, I think it is necessary to also consider the situation in other countries in Europe where disclosure of 1Q and 3Q is not actually required.

Also, at the top of page 14, the basic approach is presented, which is to transfer the items disclosed in quarterly securities reports that are highly needed by investors to the quarterly earnings reports and require their disclosure. That may have been the opinion on one side of the discussion, but my understanding is that the final conclusion was to add some very important items and items in high demand based on the current disclosures in the quarterly earnings reports, and to not require disclosure but to request disclosure as at present, and that is how I think discussions will proceed. Next, moving on slightly to the “Financial Reporting Framework” on page 14, this also includes the topic of the ASBJ's review of the quarterly securities reporting system. If we “allow omission of items other than those required to be disclosed by TSE under the rules for financial statements, which also apply to semiannual reports under the new system” we will be starting with a much higher hurdle than now, and I am opposed to this “financial reporting framework”. I would like this kind of information and description to be removed since, in the first place, originally, we started with the understanding that we would add some information to the quarterly earnings reports.

Regarding financial statements, you could read it that IFRS and U.S. GAAP require all financial statements, including cash flow statements, but I think it is sufficient to treat

reporting in the same way as Japanese GAAP and if we do so uniformly as a country, then I think that should be sufficient. Also, regarding the notes on cash flows in the note section, I don't think it is particularly necessary for this to be limited only to Japanese GAAP companies.

And, regarding quarterly reviews, as has already discussed and commented on, it was intended that such reviews is voluntary, and I would very much like you not to make statements that suggest that reviews are, in fact, recommended. Or, it would be very easy to understand if you were to clearly state that reviews are voluntary and that you are not intending to recommend reviews under TSE's rules, and I think that was the original start line. Regarding quarterly reviews, I think they are unavoidable if there are inadequacies in some internal controls or accounting irregularities, etc. Regarding reviews becoming a burden, my understanding is that this time there will be a partial mandate of reviews, with the exception of the ultra-minority, which needs to be challenged. For example, if the summary information includes an easy-to-understand statement about whether or not a company has undergone a voluntary review, even though it was not the main purpose of the summary information, the statement may seem to lead the reader in the direction of a voluntary review, and so my understanding is that it would be sufficient to state in the current Special Notes section that, for example, the company has undergone a voluntary quarterly review.

Regarding the notes to segment information, as was in the chart, a detailed disclosure template, such as "items concerning the adjustment of differences" has not been prepared even for annual disclosures, so I don't think it is necessary to go into that level of detail. Of course, if a company requires it, they can submit information on a voluntary basis, but there is a limit, and so I think it should be left up to each company, on a voluntary basis.

Regarding compliance reviews, this was explained earlier, but I am not at all convinced, so I would like the JICPA to have a further thorough discussion to see if it is really useful or if it covers all accounting standards, including IFRS and U.S. GAAP, and of course, I would like discussions to include the assumption that reviews are applicable only to minority companies.

Also, regarding the B/S and P/L notes, these are included in a square box in the middle of page 15. In the DWG report, this was included as an opinion in Note 18, and was not included even in the main text, but it has been boldly included here as a comment that all notes need to be considered. However, here, addition as a disclosure item in the quarterly earnings report is not necessary because management includes notes in an organized manner as necessary, including information on their own company or their own supply chain, in periodic disclosures. Regarding analysis of operating results, etc., it was mentioned earlier that 97% of companies disclose this information in their earnings reports, and if management always includes this analysis, including voluntary disclosure, then I understand that there is no need to interfere in the content or where it is disclosed.

Moving on, regarding the timing of disclosure relating to information, someone commented that it would be wrong to increase the number of days for disclosure. Although there are physical concerns that this may happen, companies and corporations do not think it is right to increase the number of days. Rather, they want to communicate with the

market as quickly as possible, including various risks, so they want to emphasize speed as much as possible. Conversely, companies place the priority on the speed and the timing of communication, so paradoxically, if a lot of additional disclosures are considered, we will end up with the gap with the priority, considering the current practice.

Also and I apologize for the being picky, at the bottom of page 14, in the section on timing of disclosure, it states that disclosure will be requested as soon as the details of the financial results are settled. The current statement is as soon as the financial results are settled. In the future, since there are no subsequent quarterly reports in 1Q and 3Q, I think it would be better to write correctly that the content of the report will be established as soon as checks are complete and that financial results will be disclosed as soon as confirmation of the content is complete. Of course, I do not consider it right to delay disclosure a few days for this, but if the fact that items that have changed is correctly noted as having changed, I think it would be right to change the terminology a bit as well.

Also, regarding expanding information disclosure, etc., I hope that the examples of good practices published by TSE will push companies and that they will make a concerted effort to disclose information. As for the basket clause, I believe that at present, this will be combined with a reconsideration of the detailed regulations and principles, etc., and so I do not think there is much need to proceed too quickly at this point.

Lastly, and this may be a bit of a tangent, but my understanding is that we will be discussing the contents of 2Q (second quarter) or full-year earnings reports at the next meetings, but since the original discussion started with no discussion of 2Q or full-year earnings reports, in that sense, nothing has changed, and amidst the situation in which nothing has changed, I think we have reached a point where we need to rack our brains to find a way to reach a decision on 1Q and 3Q quarterly earnings reports. I am very concerned that if we push too much for the disclosure of quarterly earnings reports in 1Q and 3Q, the full-year and 2Q, which are backed by the statutory disclosure under the FIEA, will not be designed properly, and they might be designed in a bizarre way. That is exactly the opposite of the intention to revise and simplify quarterly disclosures. That's all from me. I would appreciate your understanding.

[Kansaku, Chair]

Thank you very much. Next I would like to invite Mr. Kumagai to speak.

[Kumagai, member]

Thank you very much. As I listened to everyone's comments, my initial impression was that there is a huge difference of opinion between the preparers of the reports and users/academics. And, perhaps by chance, users such as Mr. Iguchi, Mr. Sampei, myself, and Professor Kuronuma, an academic, participated in the DWG. Although we have consolidated our opinions on the basic premise, members who did not participate in the DWG, upon reading the DWG report, have slightly different understanding of the basic premise of simplification. I'm a little surprised to find that, but I think this is unavoidable.

The basic premise is that the DWG members share the understanding that simplification has been achieved by eliminating the quarterly securities reports and consolidating them

into a single quarterly earnings report. However, if other members read the report and if they did not necessarily come away with that understanding, then, although we checked the report, that means that our checks were not sufficient.

As a starting point, the preparers of the reports are thinking about the revision based on the current earnings reports and quarterly securities reports. On the other hand, the users start thinking about the extent of returning to the former quarterly earnings reports before they were simplified based on the premise that there are [detailed] securities reports. Given this situation, I understand that the proposal from the secretariat is very well-balanced. The biggest issues that have arisen are related to cash flow information and segment information. The Securities Analysts Association of Japan conducted a survey in preparation for the DWG, and there were very strong requests for the inclusion of a cash flow statement and MD&A. Also, and this is our fault, we did not include segment information in the survey. Listening to comments after the fact, it seems there is an extremely strong desire for segment information, and so we would like to see more of this information.

Under current accounting standards, under Japanese GAAP, quarterly cash flow statements for the 1Q and 3Q are not actually required and are therefore voluntary. Accordingly, I feel there was no choice but to write it this way, but as Mr. Sampei mentioned earlier, in light of the importance of cash flow, I think it is after all desirable to attach a consolidated cash flow statement, even when adopting Japanese GAAP. However, this is not quite what is required by the accounting standards, so I think it would be best if it was presented as a strong request from TSE. For IFRS and U.S. GAAP, I think consolidated cash flow statements are required as a “must”.

As for MD&A, as I mentioned earlier, I feel very strongly about my desire for this and would prefer it to be mandatory if possible. But if it is difficult to make it mandatory, I hope that at the very least, TSE will make this a request to be proactively included. Personally, I think that MD&A, and also the question of whether to be reviewed should be optional for companies. I think there is a way to have stock market participants evaluate the difference in the disclosure stances of companies.

As for reviews, in fact, the results of survey by the Analysts Association also revealed that when comparing the opinions of those who said reviews for the 1Q and 3Q were necessary and those who said they were not, there were very slightly more respondents who said they are not necessary. In that sense, I think it would be appropriate to make reviews voluntary. As for making them mandatory, I agree with the proposal. I think it would be appropriate to mandate reviews in cases of accounting scandals and fraud, etc., and for reviews to be made mandatory for a certain period of time.

On the other hand, I find the fair presentation framework and the compliance framework very confusing. Also, I wonder whether reasonable assurance and limited assurance are adequately understood among financial statement users. Beyond that, the fair presentation and compliance frameworks are probably not understood by many financial statement users. Without this understanding, I think it is very misleading to discuss whether reviews should be mandated, and I think it will lead to some kind of large gap in expectations.

The fact that a review is conducted may lead many people to think that the fair

presentation is being practiced, and so in order to educate or thoroughly familiarize people in this area, it would be necessary to, for example, ensure that the difference between the two is posted on TSE's website, and I think it is necessary to cooperate with the Analysts Association and the JICPA in conducting educational activities.

As for enforcement against misstatements, there are also after-the-fact penalties. If the purpose is to prevent misstatements from occurring, I believe that the severity of the penalties may function as a deterrent to some extent. In that sense, the removal of the confidentiality obligation is a very serious issue. I think this is a very serious issue, not only for auditors but also for companies, so I think it is necessary to expand the scope or range. However, although there may be some opinions on as to how far the scope should be expanded, it is necessary to expand the scope from the viewpoint of deterrence.

Regarding business changes, as was mentioned earlier, I can easily understand why the people that prepare reports are unsure of how to respond when told to disclose information related to situations such as COVID-19 and Ukraine. On the other hand, as Mr. Sampei pointed out earlier, with regard to the pink area on the right side of page 32, it is precisely those details that do not require time for scrutiny that should be disclosed in a timely manner. The inclusion or lack of inclusion of such information enables investors to understand a company's risk as a numerical value to a certain extent. That should be enough in terms of preliminary information. Since there is no such thing as not being able to disclose this information, I think this will be a matter of communication between TSE and companies, and I think it would be good to ask companies to start with details that are able to disclose without feeling that the request is too heavy-handed.

I also think it is a very good idea to continue to publish best practices for timely disclosure. At the same time, listening to the discussion today, and I apologize to the people who prepare reports for saying this, but as is written on page 4, making disclosure of earnings reports voluntary in the future is premised on the improvement and enhancement of corporate awareness of disclosure. When discussing these kinds of issues, as a user, I don't necessarily think that the disclosure attitude is backward-looking, since many people preparing reports have been proactive in voluntary disclosure. As soon as we start talking about this kind of institutional disclosure, there is mention of backward or rather cautious attitudes, and I think that the premise of voluntary disclosure is not being fulfilled. However, while timely disclosure and earnings reports are published within the framework of timely disclosure, I think it is necessary to accumulate details of such best practices and for TSE to measure or rather to evaluate the effectiveness of such best practices. Even if good examples are provided, they are not likely to make a difference if they are left as they are and so I think it is necessary for TSE to take initiatives to measure effectiveness to link to enhanced disclosure.

Finally, I forgot to mention something regarding the timing of disclosure, the timing discrepancy between the disclosure of earnings reports and securities reports is the issue here. We have discussed that the timing of disclosure is delayed when a review is conducted or when the disclosure details are serious, but in my opinion, if quarterly securities reports are eliminated, this discrepancy should not really be a concern, precisely because the benchmarks will be eliminated. What is probably of concern is the timing of

disclosure in comparison with other companies in the same industry, and I imagine there may or may not be some discrepancies depending on whether other companies in the same industry conduct reviews, or on the difference in the volume of information being disclosed. However, as long as earnings reports are released within 45 days, I don't think users will have a problem with delays within that time frame. I'm sorry for talking for so long. That's all from me.

[Kansaku, Chair]

Thank you very much. We greatly appreciate the comments from members. Having listened to the comments made thus far I wonder whether you have any remarks, Ms. Fujimoto?

[Fujimoto, member]

Thank you very much. I too would like to comment on everything that has been said. First off, I have listened to everyone's opinions, and while I think there are a number of differences in awareness with regard to the DWG's discussions, for me, when I think about the purpose of quarterly earnings reports, the financial condition and operating results of a company should be disclosed in a timely and appropriate manner so that investors can understand them and use this information in their investment decisions, and in this respect, I think that we should consider the form that this information disclosure should take, taking into account the opinions of investors. On the other hand, since the emphasis is also on speed, we need to think about balance, and as accountants, we would like to respond appropriately to requests from market participants from the perspective of ensuring the reliability of information, and as I stated at the DWG, this policy will remain unchanged.

On top of that, regarding the content and timing of disclosure, there was a discussion on whether to disclose information on reviews in the summary information, and we agree that it should be disclosed. We also believe that ideally, review reports should be attached so that investors can fully understand the content of the review.

Furthermore, of the attached materials, regarding the notes to the financial statements, we also agree to adding notes to the segment information and notes to the cash flows, but regarding other items, whether it is necessary to add contingent liabilities and subsequent events as important information for the company, will depend on the needs of users, but we think it would be worthwhile considering adding such information. Also, some comments were made earlier regarding cash flow statements. If only notes to the cash flows are required under Japanese GAAP, I wonder how we should balance and ensure consistency with IFRS and U.S. GAAP disclosures. However, I believe that this too needs to be considered based on the needs of investors.

Regarding the timing of disclosure, I think it should be as is being proposed. However, given that a review period is required when we conduct a voluntary review, the timing envisioned here is that a company will first disclose information, after which a review will be conducted after the fact and then information will be disclosed, or information will be disclosed all at once after the review is complete, and I don't get the impression that consideration has been given to the specific timing here and this is something I would like

to check on.

Then, regarding the comments on making reviews mandatory, basically, I agree with this requirement. Also, as for the period involved, as many others here commented, I wonder if there is really a need for a retrospective review, if there is no need then they are not necessary, and I wonder whether there is any meaning in correcting past periods. These are things I felt earlier when listening to the opinions of the investors.

I also believe it is quite difficult to conduct reviews retroactively when we conduct reviews. Procedures may also be performed at a single point in time, but assuming that procedures are performed throughout the fiscal year and throughout the quarter, I believe that it would be slightly difficult to conduct a retrospective review. Given this, with respect to the release requirement, if, for example, when an incident occurs, reviews are not required from the following period onward, I believe that effectively the timing for requiring a review would be lost. This will depend on the timing of obligating reviews when fraud, etc. occurs, and depending on the situation, there is a possibility that the obligation will be meaningless, and so I think it would be better to organize everyone's thoughts on whether the obligation should be lifted at an appropriate time, for example, by the next fiscal year.

Moving on, regarding enforcement, I also believe that cooperation with auditors is very important. I think the first step in terminating confidentiality obligations would be to include a provision concerning confidentiality obligations with respect to companies in TSE rules, and then to cooperate with auditors. I would like you to consider this as well. And then there is the issue of enhanced information disclosure. I completely agree that information disclosure should be enhanced for the future.

On the other hand, in reality, the situation is still one in which we do not fully understand the status of timely disclosure. We understand that disclosure is being properly implemented according to the timely disclosure rules. However, I believe that it is necessary to promote efforts, including the monitoring of whether disclosure is really being conducted in accordance with the rules. I am not actually aware of how and to what extent this is monitored, but I would like to see it being monitored properly, and if the situation is like that such detail is not disclosed in order to enhance the disclosure, then unless we impose a certain penalty, etc., we will not be able to create a situation in which such disclosure is really sufficient. I hope we do not end up in such a situation, but I think we need to consider such possibility as well. Thank you allowing me to speak despite time running out. That's all from me.

[Kansaku, Chair]

Thank you very much. I would appreciate you researching the monitoring of timely disclosures and letting us know what you find out later, as time permits. We are running out of time, and so lastly, I understand that the Financial Services Agency representative, who is participating as an observer, will say a few words. I would appreciate your understanding.

[Hirokawa, Director, Financial Services Agency]

Thank you, Professor Kansaku. My name is Hirokawa and I am the Director of the Corporate Accounting and Disclosure Division of the Financial Services Agency. First of all,

I would like to thank you for holding this Council concerning quarterly disclosure.

As has been announced, the Financial System Council's DWG discussed this issue, and as was mentioned earlier, a significant number of the members present today also participate in the DWG. We also know many of this Council's members who are not involved in the DWG, and even though these members are not direct participants, they have been involved in the process of discussions to date in various ways. Each member comes from a different background, and I believe that members have earnestly exchanged opinions within your respective organizations, and that your opinions are probably based on this.

Where opinions are divided is the same as at the DWG, and it feels like a question of whether to climb the mountain from the north or the south, and we are slowly but gradually approaching the mountain from far, far away and we would have decided to ask TSE to handle the last part. I would like to express my sincere appreciation to TSE for taking this on. Ultimately, I would like TSE to reach the top of the mountain, and I would like us to cooperate, although this cooperation will continue to take the form of support as an observer.

That is the huge task. My next point relates to the bill, that was mentioned at the start by the secretariat. After being debated during an ordinary Diet session and passed by the House of Representatives on June 8, the bill is being treated as a bill for consideration at the next session by the House of Councillors and is waiting to be debated by the House of Councillors during the extraordinary Diet session. Given this situation, the effective date of the bill, in other words, the date of abolition of quarterly securities reports, the fixed date, is set for April 1 of next year. Therefore, we are extremely grateful for the timely nature of this Council meeting. I talked with Mr. Ito, Director-General of the Bureau, before coming here, and we believe that it is important to proceed with preparations properly. That means working on the assumption that the bill will be passed, but that it needs to be discussed thoroughly. In that sense, I am grateful for the lively discussion that took place today.

Various comments were made about the purpose of reviewing quarterly disclosures, like whether to climb from the north or the south. I will not repeat what is written in the report itself, but we received questions from the perspective of what the purpose of the review is during deliberations in the Diet. Mr. Ito, Director-General, has responded that the purpose of this change is to reduce the burden on companies by eliminating duplication of information by doing away with quarterly securities reports and integrating them into quarterly earnings reports.

Going forward, TSE will consider the content of earnings report disclosures, taking into account the opinions of investors and companies, to ensure that necessary information such as segment information and cash flow information is provided to investors in the same way as in the past. The FSA is aware of this issue and we are working on it together.

Finally, I would like to add some supplementary information. Regarding timely disclosure, the DWG's report states that going forward TSE will continue to study this issue. That is why the FSA has asked TSE to consider timely disclosure. As for which forum to use when considering this topic, the DWG has also been talking about timely disclosure in connection with quarterly disclosure, and the decision was made to discuss it together here, rather

than to discuss it separately. I think that was also the opinion put forth today, so in that sense, the FSA is aware that the issue is being discussed here. That is all I have to say as an observer, I am sorry for talking for so long. Thank you very much.

[Kansaku, Chair]

Thank you very much. Is there anyone else who would like to speak? Are you happy with that response? With that, since the scheduled finishing time is approaching, I would like to close today's discussion.

Finally, I would to ask the secretariat to explain the schedule going forward.

[Naito, Manager, Listing Department, TSE]

Thank you very much for the lively discussion today. Regarding the next meeting date, we will fix a date which is convenient for you, and let you know later.

[Kansaku, Chair]

Thank you very much. With that, I hereby declare today's meeting adjourned. Thank you very much for taking the time to participate today. We look forward to your continued support.

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