

# **Study Group to Review Minority Shareholder Protection and Other Frameworks of Quasi-Controlled Listed Companies: Second Phase**

## **Minutes of the Ninth Meeting**

**Date:** Monday, January 26, 2026, 14:00 – 15:30

**Location:** Tokyo Stock Exchange, 15F Special Conference Room

**Attendees:** See member list

### **Watanabe, Director, Listing Department, TSE:**

We would now like to hold the Ninth Meeting of the Second Phase of the Study Group to Review Minority Shareholder Protection and Other Frameworks of Quasi-Controlled Listed Companies.

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

As Member Goto is absent today, Ms. Kawamura from SoftBank Group is attending in his place. In addition, members Kansaku and Kanda, as well as observers from METI and the Ministry of Justice are joining us online.

Now, we would like to move on to the agenda.

First, let us explain about the agenda.

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

Thank you for gathering.

There are three main items on today's agenda. The first is the revision of listing rules regarding minority shareholder protection, which you discussed in the last meeting. We would like to discuss specific proposals based on the feedback we received in the last meeting.

The second is the protection of minority shareholders in cases of MBOs, privatization, et cetera. In July last year, we revised the Code of Corporate Conduct on MBOs and subsidiary conversions and are enhancing information disclosure. Since the revision, the number of cases has also been quite large, and we have received a variety of feedback from investors. While we are not immediately revising the rule in any way, we would like to follow up on the status after the revision and would appreciate any suggestions you may have.

The third is promoting disclosure on such matters as group management. At the first meeting of this fiscal year in October, we followed up the status of disclosure, and we received some feedback such as the lack of progress in disclosure. As we enter our third year next year, we would appreciate any suggestions you may have as we consider more effective approaches.

### **Watanabe, Director, Listing Department, TSE:**

Next, TSE would like to provide an explanation based on the materials.

First of all, we would like to explain "Revision of listing rules regarding minority shareholder protection" in Document 1.

**Yamawaki, Manager, Listing Department, TSE:**

I would like to explain the revision of listing rules regarding minority shareholder protection in Document 1.

There are two points of contention. The first point is requiring companies to disclose their responses to take minority shareholder approval rates and opposing votes into account.

Page three and beyond are the comments we received in the last meeting.

To begin, please see the top row. There is a need to take into account the concerns of minority shareholders when they are expressed in the form of negative votes. The institutionalization of this disclosure will promote dialogue between subsidiaries and shareholders. We recognize that there was generally no objection to this overall direction.

On the other hand, we received the opinion that, in designing the rule, the burden on listed companies to understand dissenting opinions and consistency with international norms should be taken into consideration.

The top of page four is regarding the scope of subject companies.

A target company is basically a corporation with shareholders holding a majority of voting rights, or a subsidiary with a parent company according to controlling interest criteria. In addition to this, however, we received the opinion that companies with shareholders who have a substantial majority of voting rights should also be included when taking into account the general ratio of voting rights exercised.

In addition, as described in the "Other" section, we received opinions that we should continue to enhance information disclosure during normal times as a precondition for disclosing the percentage of approval or disapproval, as well as concerns on the part of investors, such as the mechanical exercise of voting rights.

Based on these discussions, page five is a concrete proposal for review.

As stated in the lead sentence, we expect to require disclosure under the TSE listing rules (timely disclosure).

First, regarding the "resolutions within the scope." The purpose of introducing this system is to make the management of listed subsidiaries more aware of minority shareholders and to improve the effectiveness of the outside directors who supervise them. Therefore, we assume that the proposal for the election of directors will be covered.

The "companies within the scope" are listed companies with a major shareholder that holds 40% or more.

As described on page seven, this is based on the fact that the company could be a parent company depending on the control criteria, such as majority control of the board of directors, and that the company is in a state equivalent to holding a substantial majority of the voting rights when considering the ratio of voting rights exercised at many listed companies.

We expect to determine whether the shares are eligible for inclusion in the aggregate, if a group of companies, rather than a single company, holds shares in the company.

Disclosure is required in two stages, taking into consideration consistency with international norms and the time required for listed companies to engage in dialogue.

Specifically, we assume that the disclosure will be made promptly after the shareholders' meeting and, in practical terms, in conjunction with the submission of the extraordinary report. In case where more than 50% of minority shareholders vote against a proposal, we expect to request disclosure of the policy for dialogue with shareholders to understand the reasons for opposition, et cetera.

Then, within six months of the shareholders' meeting, we expect the company to disclose the progress, including the content of feedback actually obtained from shareholders through dialogue and whether any additional action is required.

The level of opposition of 50% or more of minority shareholders is conscious of the MoM condition, but we have also confirmed that it is consistent with international norms.

Page nine and beyond provide specific information.

First, about 2% of the resolutions for the election of directors of listed subsidiaries were opposed by more than 50% of the shareholders other than the parent company, as circled in red.

Also included on the right side is the distribution of resolutions for which the overall percentage of opposition was 20% or more, not limited to minority shareholders.

In the UK Code, for example, there is a principle that dialogue, et cetera, is required when the overall percentage of opposition is 20% or more. As you can see, many of the proposals with opposition percentages of 20% or more are covered by the red area, so this is also consistent with international norms.

From page 10 onward is the second point, revision of the independence criteria.

The following pages are the comments we received in the last meeting. As shown in the upper section, I believe that many of you commented that requiring independence from major shareholders other than the parent company is a desirable direction.

On the other hand, there were various opinions regarding the scope of major shareholders who are denied independence. As per the first and second points, most of the respondents were of the opinion that 10% or more would be the threshold, based on investor and corporate practice, as the level at which a listed company receives a certain degree of influence through the exercise of voting rights and other means.

We also received comments that it is important to determine substantively whether there is a relationship that is clearly different from that of a general shareholder, such as the second half of the second point or, as in the third point, where an agreement exists for the appointment of directors, regardless of the specific threshold.

In this regard, as indicated in \*, investors have voiced concerns about the independence of the cross-holding relationship as well, as it is a different relationship from that of general shareholders.

On the other hand, as you can see at the bottom of the page, we have received a suggestion that raising the independence hurdle excessively may hinder their ability to secure excellent independent outside directors.

In this regard, as the second point on page 12, there is an opinion that the review is only a criterion for designating independent directors and executive directors or outside directors who are not independent can continue to be appointed.

As noted below, the opinion was also expressed that in addition to a major shareholder of a listed company, independence from a company in which the listed company is a major shareholder should be required as well. As shown at the bottom of the page, we also received the opinion that other types of relationships, such as

business relationships, should be required to be disclosed specifically enough to allow investors to determine independence.

A proposed review based on these comments is described on page 13.

Specifics are in the gray area. We would like to address this issue by dividing it into several categories.

The first is the expansion of the independence criteria (individuals who are deemed to lack independence) in red. We do not wish to recognize the independence of persons who are currently or have recently been a major shareholder of a listed company or a business executor of a company of which the listed company is a major shareholder.

In addition, as noted in the note, we expect to present in the guidelines, et cetera, the fact that there are concerns that the independence requirements may not be met in cases where a director is not a major shareholder but has a contract with the company to nominate directors, et cetera.

The second point is the expansion of sections marked "disclosure required" in yellow.

An image of the review is included on the next page (page 14). In addition to the category in red where independence is not recognized, the TSE has established a "disclosure required" category where independence is not denied but the relevant status must be disclosed.

We expect to add cross-holding relationships to this section and request disclosure of the relevant status.

Go back to page 13 and look at the bottom. For cases that fall under other types of disclosure requirements, such as the executive officer of a non-key business partner, we would like to require, for example, a description that shows the scale of the business relationship so that investors can judge the independence.

On page 15, we show the percentage of companies that currently or recently have appointed a person who is an executive officer of a major shareholder as an independent outside director, which is the affected party.

As you can see, only about 1% of the companies have appointed such a person, so the overall impact is limited.

Page 16, for your reference, confirms whether the relevant persons are actually appointed as independent directors in listed affiliated companies with which there exists a relationship, mainly in the form of nomination of candidates for directors.

As noted in the notes, most of them were appointed as non-independent directors, and only one company designated the relevant person as an independent director.

Finally, page 18 is the schedule for the revision.

Based on the content of today's discussion, the TSE will consider the details and move to rule revision procedures, such as the publication of the outline of specifications, around spring.

In terms of actual application, it is expected that the revised rules will be applied gradually from the annual general meeting of shareholders for the fiscal year ending December 31, 2026, after a six-month period of public awareness, taking into consideration the impact on the appointment of directors and other officers of listed companies.

That's all from me.

**Watanabe, Director, Listing Department, TSE:**

Now, we would be happy to receive your comments.

**Kikuchi, Member:**

Thank you for putting this together. The major direction of the revision has created no feeling of strangeness for me. Regarding the first point, disclosure of the percentage of approval or disapproval of minority shareholders, et cetera, there were several areas where I felt that the wording of the materials might make some variation in what is disclosed. I would like to say two things mainly about page five.

First, regarding the content of the disclosure, the content that should be disclosed after six months is called "additional response." This type of notation might cause boilerplate disclosure. You cited the example of the UK Code and the ICGN Principles of Governance as examples from overseas. Similarly, it would be good to have a description that leads to specifics such as how they have incorporated shareholder feedback and what measures they are actually considering or have already taken.

Second, which medium will be used for disclosure? As explained in your explanation, if "immediately disclosed after the shareholders' meeting," it would be disclosed in an extraordinary report or a timely disclosure with a date similar to that. It would be better to finalize the discussion to whether, if "to be disclosed within six months after the general shareholders' meeting," to have the information disclosed in a timely manner or in a corporate governance report.

Also, although it may be beyond the scope of this study group, the content of this disclosure is an important element with respect to governance. For example, it would be good if you could send out a message that listed companies can append to their annual reports' information on the measures they have taken and how they are responding to it.

I have a proposal for a survey. On page nine, as a reference, you explained that 26 resolutions had a percentage of opposition below 20%. The compliance rate for Supplemental Principle 1-1-1 of the Corporate Governance Code is almost 100% in both Prime and Standard markets, and only a few companies have made an explanation. While the supplemental principle does not specify a figure of 20%, I believe there is language that calls for analysis and subsequent action in the expression that it corresponds to a significant number of votes against the proposal.

If we actually surveyed these 26 companies, we do not know if they would respond. But I think it would be helpful to the design of the system to investigate, to the extent possible, what kind of analysis and disclosure is being done and how it was actually considered or not considered.

This is because, as I feel as a long-time institutional investor in charge of voting rights, in cases of anti-takeover measures or scandals, many vote against top management, so companies often respond proactively and demand dialogue with investors. In addition, I believe that companies often disclose what they are thinking about regarding anti-takeover measures and how they are responding.

On the other hand, I feel that there are fewer examples of disclosure in other cases than the ones I just mentioned, partly because the Supplemental Principle 1-1-1 of the Corporate Governance Code does not even require disclosure. I think it is important to design the system while also taking into account what the actual situation is.

**Sampei, Member:**

Thank you for your compilation and explanation.

First, regarding the disclosure of the percentage of approval or disapproval of minority shareholders, et cetera; on page five, I agree with the three points you summarized here, namely, that it should be mandatory

under the listing rules (timely disclosure), that the threshold for target companies is companies with a major shareholder that holds 40% or more, and the required contents of disclosure.

In addition, regarding the content of the disclosure, I would like you to indicate that the role of outside directors will be very important in the dialogue with shareholders in cases where more than 50% of minority shareholders are opposed to a proposal.

I also think it is good that it clearly states that disclosure of response and action policies, et cetera, is required for the disclosure within six months. However, I think it is necessary to define minority shareholders, because depending on how you view the scope of minority shareholders, the percentage of approval or disapproval and whether it constitutes opposition in excess of 50% will vary greatly.

For example, I think it is necessary for the TSE to provide a definition such as "shareholders who, objectively speaking, have no interest concerns other than pure investment purposes" and have companies disclose how they will take this definition into account when identifying the specific scope of minority shareholders. In the draft, companies are supposed to write who is excluded, but I would like you to also indicate TSE's thinking.

Also, regarding the revision of the independence criteria on page 13, I am a little uncomfortable with the \* in the lead sentence. I don't think the phrase "mid- to long-term" and the parentheses following it are necessary. Also, the phrase "in general" is used, but this is not a principle, so "basically" would be a more appropriate description.

Also, after that, I think it would be good to include an expression such as the difference in time horizon (investment horizon) before "in some situations."

This is because, even if both major and common shareholders have a purely investment perspective, their opinions may differ when they have different investment horizons and time horizons. Even if both parties are seeking to increase corporate value, one side may have a "medium- to long-term" perspective and the other side may not.

I think it would be better to make it clearer in the lead sentence that there could be a difference in time horizon as a situation where the interests of the shareholders do not coincide.

Also, I think the third point under \* should be "has an agreement," not "has a contract." When the disclosure of material contracts is revised in the disclosure ordinance for annual securities reports, for example, it is also stated that even if there is no written contract or agreement, those that are mutually agreed upon by both parties are included in material contracts. Since these agreements regarding appointments, et cetera, are of the utmost importance, I think that the term "agreement" would be better and more consistent with the annual securities report.

The latter half of the same sentence under \* seems a bit confusing. I feel that it is unclear whether you are saying that they cannot submit an independent director notification because of concerns, or whether you are saying that they should judge on a case-by-case basis because of such concerns.

If they can make individual decisions and issue an independent director notification, I think it is necessary to specify that they have an agreement regarding nominations. So, I would suggest that you write that in your practical guidelines.

Regarding the disclosure required in yellow, I think it is very progressive that it mentions cross-shareholdings, but the most common explanation for the purpose of cross-shareholdings is to maintain and strengthen business relationships. If that is the case, it is hard to believe that the relevant person would make a neutral

decision on voting and vote against the client company with which he or she does business depending on the circumstances.

Then, since there is a conflict of interest with general shareholders in this relationship, I think it is reasonable to assume that outside directors from companies with cross-shareholdings are not independent. I used to create voting criteria that way in my previous job.

Of course, it is good to maintain good relationships with business partners, so you may do so. But do you then need to own shares in the business partner or do you need to let the business partner own shares in your company? We cannot necessarily say yes to this. If it is absolutely necessary, it would be better to conclude an agreement such as a capital and business alliance and write it as an important contract.

**Kuronuma, Member:**

Regarding the mandatory disclosure of the percentage of approval or disapproval of minority shareholders on page five, I agree that it should be required by the listing rules. In addition, considering the fact that there is a substantial control/subordinate relationship, I think it is appropriate for the target company to be a listed company with a major shareholder that holds 40% or more of voting rights, including the combined holdings of affiliated companies. I think it would be a good idea to divide the disclosure into two phases.

Regarding the scope of minority shareholders in the calculation, I initially thought that the TSE should determine a uniform standard. However, if the shareholders who have been voluntarily excluded are also to be clearly identified, this approach would be more appropriate.

As to what is to be disclosed within six months of the shareholder meeting, it says here that it is feedback from shareholders. It would be nice if they could write what kind of feedback they received from the shareholders, but I believe that the board of directors should analyze what the reasons are for opposition and write the results of that analysis. So, I think it needs to be written in such a way that it is ultimately the responsibility of the Board of Directors to describe the results of its analysis.

I generally agree with the revision of the independence criteria on page 13. While there were various opinions on the standard, I am in favor of the proposal to establish a criterion that an executive officer of a company in which the listed company is a major shareholder (holding 10% or more of the voting rights), or an executive officer of a major shareholder, would be added to the category of persons who are not allowed to be independent.

I, too, have some concerns about \*. As for an executive of a company with whom you have a contractual relationship, if the contract is, for example, that you will not object to a candidate indicated by a listed company, that means exactly that you will vote as the listed company says. So, I think it is rather natural to assume that those who come from such companies do not have independence in the appointment of directors.

It also states that the TSE will indicate in its practical guidelines that there are concerns. However, given that the effect is not very clear, I would rather put this in the category where independence is not allowed.

As for the type of disclosure required, I feel that it is not clear in what cases disclosure is required and the scope of such disclosure, as Mr. Sanpei commented in detail. I think the intent is to require disclosure of the existence of a cross-holding relationship to the present, and that persons who have been executives in the past also fall under the type of disclosure required. It is fine as long as the purpose is clear.

There are various views on cross-shareholdings. I think what Mr. Sampei said earlier is also right. In such cases, I currently believe that you could pick up as many shareholders as possible who have contracts regarding the nomination of directors, and for other cases, "disclosure required" may be acceptable.

**Yamawaki, Manager, Listing Department, TSE:**

As for the point you asked, your understanding is correct. We expect that companies should disclose the applicable status of executives who currently belong or belonged within the past 10 years to a company with which the company has a current cross-holding relationship.

**Kanda, Member:**

Thank you very much. I, too, think there is basically no problem as described in the document. I would like to raise two points that are a little unclear to me after thinking about them myself. Both are described a bit in the document and also related to the points already made by other members.

The first is regarding the disclosure of the percentage of approval or disapproval of minority shareholders, et cetera, and I think the contents in the document are good. This was already pointed out and may be beyond the scope of this study group; I think there is naturally a point of contention that if a company without a controlling shareholder has a significant number of objections, should we ask for some explanation?

For example, what if there is no controlling shareholder but 40% of the shares are held as cross-shareholdings? Or if there are not that many cross-holdings but a very large number of negative votes, do you not require disclosure like the ICGN or UK norms? Is it logical to make the request only with respect to cases where there is a controlling shareholder, because this study group is about listed subsidiaries/affiliates?

Even if there are no such shareholders, it seems more logically consistent to require disclosure if there are a significant number of negative votes. I think it is good to try first in the direction proposed here, but it would be good to organize about it.

Regarding the second point, the revision of the independence criteria, I would like to say in relation to the important contracts that pointed out already. From the standpoint of group management, I think it is good and common for a voluntary nominating committee of a listed parent company at the top of the group to make personnel decisions for group companies.

On the other hand, I think this is a rare case: If the nominating committee of a listed parent company appoints an independent director together with the appointment of an executive director of a listed subsidiary, the parent company's nominating committee will formally recommend a person who meets all the independence criteria of the relevant dependent listed company.

Of course, the board of directors of the dependent company in question will propose the candidate for its own board of directors to the general shareholders' meeting, but, needless to say, it is the parent company that exercises voting rights at that meeting.

Even if the independence of the candidate is formally satisfied in this way, it seems less desirable for the nominating committee of the parent company to make the appointment and nominate the candidate. At the very least, the company needs an explanation for such a situation.

To put it a little more abstractly, the question is whether there are any material contracts or agreements, and whether there are cross-holdings. However, from the perspective of group management, when the nominating committee of the parent company uniformly proposes the appointment of directors for group companies, I do not think it is a bad thing to propose executive officers, but I do not think it is a very desirable practice to propose independent directors as well, without explanation.

I am not aware of the extent to which such a practice actually exists, but I would be grateful if you could organize your thoughts.

**Ouchi, Member:**

I would like to make almost the same point. First point, regarding the companies subject to disclosure of the percentage of approval or disapproval of minority shareholders on page five, I think that companies with a major shareholder that holds 40% or more is a very good criterion.

On the other hand, even though we judged a company with a majority of voting rights as a company with a strong grip, but now we include its holdings in affiliated companies, it would no longer be logical, since most affiliated companies have no such grip.

I strongly disagree with this, because even after reading the summary on page seven, I don't think the average person would think that it includes holdings via affiliates.

I also read that minority shareholders for a company naturally means all but companies with a strong grip. Otherwise, this too would be logically incorrect.

The second point is the revision of the independence criteria on page 13. I read the sentence under the asterisk in the first point, "medium- to long-term improvements in corporate value," as a very thoughtfully written statement. I would love to see these sentences remain as they are, as a statement that short termism is not acceptable and that investors are supposed to be a group of people who believe in and wish for the growth of a company.

With regard to the independence criteria, there was a discussion as to whether it is a "contract" or an "agreement." Since an oral agreement is naturally also a contract, I think you should refer to it as a "contract" here and indicate in a note or other manner that a contract is not limited to a written document but also includes an oral agreement.

**Kato, Member:**

I have no objection to your proposal, policy and details, but would like to make a few comments.

First, as for the required disclosure of the percentage of approval or disapproval of minority shareholders, et cetera, on page five. The target companies are listed companies with major shareholders holding 40% or more of the voting rights, which, when read in conjunction with page seven, I believe means that a new type of classification has been created.

There are so many criteria related to control, and I understand that each of them is at this level for a reason. However, I think it is necessary to properly explain why the 40% level is being used for the subject companies this time, and what the policy is for using such a figure in relation to the listing rules.

As a future issue, on page seven, there is a section titled "Other Related Companies (Affiliated Companies)." I believe that there are quite a few instances in the listing rules of the Tokyo Stock Exchange, including this page, where the terminology of accounting standards is used as it is.

This relates to the discussion of future group management disclosure: I think it is sometimes difficult to explain that "other related companies" and "affiliated companies" are subject to group management disclosure requirements based on these terms, regardless of the substance of the accounting standard.

I don't think it is necessary to change the substance of the rules, but it is necessary to come up with new terms that are appropriate to the substance of the rules and that are easy for readers to understand.

Next, I would like to discuss the revision of the independence criteria. Independence from major shareholders is already included in the category of disclosure required under the current listing rules, and it is my

understanding that this time, instead of "disclosure required," it will be included to a category that formally denies independence.

In addition, on page 15, we find an explanation of the current appointment of executive officers from major shareholders. Given the small number of cases of appointing an executive officer from a major shareholder as an independent director, listed companies seem to have a sense that it is difficult to explain firmly that there are no conflicts of interest with the role of an independent director when appointing an executive officer from a major shareholder as an independent director.

Therefore, adding independence from major shareholders as a formal criterion is, in effect, a revision in line with current practice, and I think it is desirable.

This time, not being a business executor of a major shareholder now and in the recent past will be added to the factors that negate independence. I suggest that you reexamine the number of cases in the past in which a person who was an executive officer of a major shareholder has been appointed.

I believe that the graph on page 15 does not include cases where a person who was an executive of a major shareholder in the past is appointed, since it only includes those who are currently/were recently applicable. I was curious as to how much that actually is.

Finally, regarding the case where an agreement exists regarding the listed shareholder's nomination of candidates for directors. Several members have already expressed their opinions, and I would also like to confirm a few points. The question is whether a director nominated pursuant to an agreement regarding the nomination of candidates for directors of a listed company can be an independent director if he or she meets the formal requirements of an independent director, although there are concerns about his or her independence. Is my understanding of this correct?

**Yamawaki, Manager, Listing Department, TSE:**

Are you asking whether those who are nominated based on the right to nominate candidates for directors can be designated as independent directors in the future?

**Kato, Member:**

There are concerns about the independence of the executive officers of companies and other entities that have contracts regarding the nomination of candidates for directors, et cetera, and have the right to nominate them. But independence is not uniformly denied or subject to required disclosure simply because the nomination was made pursuant to such a contract. Is this correct?

This point is also related to Mr. Kanda's earlier question. Stronger contractual authority over the nomination of candidates would eventually become the authority of the controlling shareholder. I wanted to confirm how being a director appointed under such an agreement would be treated under the criteria for independence.

**Yamawaki, Manager, Listing Department, TSE:**

Under the current system, the executive officers of shareholders who have contracts regarding the nomination of candidates do not fall under any particular independence criteria or the type of disclosure required. In addition, as a matter of fact, there is no voluntary disclosure from listed companies.

The secretariat will consider how to provide information on this review in guidelines and other documents in the future. In addition to indicating that there is a concern about a conflict with the independence criteria, we could ask that the relevant circumstances be disclosed in light of such concerns when the appointment is made. The secretariat will consider this based on your comments.

**Kato, Member:**

Thank you very much.

I have no objection to your current answer. As for contracts regarding the nomination of candidates for directors of listed companies, the disclosure itself has only recently begun, and the purpose of such contracts and the actual conditions of their appointment need to be investigated in the future.

Further, a major shareholder is formally a shareholder holding 10% or more of the voting rights. However, compared to controlling shareholders, et cetera, the contents seem to be considerably broader or more varied.

This time, independence will be denied to the business executor of a major shareholder on the grounds that the major shareholder has influence over the company by exercising a certain degree of voting rights. It would be very important for the future maintenance of the system to find out what kind of people are the major shareholders of the listed companies.

The figure on page 15 shows statistics for companies with major shareholders, but the figure on the right shows that 98.9% of companies do not appoint an executive officer from a major shareholder as an independent director. Assuming that the population is 3,300 companies and all listed companies on the TSE are 4,000 companies, I was reminded that the number of companies with major shareholders is quite large. Therefore, I am somewhat concerned about who the major shareholders are and how they are related to the company.

**Ms. Kawamura:**

As before, I am attending this meeting as a proxy. I would like to pass on the comment I received from Mr. Goto. I basically agree with the point regarding mandatory disclosure of the percentage of approval or disapproval of minority shareholders in proposals for the election of directors and the subsequent dialogue with minority shareholders and measures taken by the company.

However, based on the principle of shareholder capitalism, I think it is strange that end up with the argument of passing/not passing minority shareholders' opinions. Rather than constraining corporate behavior by setting or changing detailed rules, I believe that companies should be required to pursue adequate disclosure of how they are explaining and responding to the opinions of minority shareholders while firmly listening to them.

So, while I support mandatory disclosure, I believe that there are a number of practical issues to be addressed. I also think it is necessary to leave some room for corporate discretion regarding the content of disclosure.

First of all, specific guidelines may be needed regarding the scope and method of collecting minority shareholders' opinions, and the selection of opinions to be taken up.

I would also very much like to hear TSE's thoughts on how to create an infrastructure to consolidate opinions.

In addition, if you are referring to the UK Code of Governance, it would be beneficial to examine specific examples of disclosure in the UK to confirm whether effective disclosure is being made in line with the purpose of this system before proceeding with the discussion.

It is also necessary to keep in mind whether there is any bias in the opinions of some shareholders who actively express their opinions, whether these opinions will not be overly diffused as the general opinions of minority shareholders, to what extent the existence of a voting advisory company will affect, and whether, in the end, discussions with the voting advisory company will not just be disclosed.

In order to resolve these issues and to increase the effectiveness of disclosure, I believe it is important for the TSE to have a certain level of checking function regarding the content of disclosure.

I would also like to ask, in general, when we say majority of minority or majority of minority shareholders, how we treat those who do not exercise their voting rights. I believe that the segment that does not vote should be counted as a minority shareholder and in favor of the majority. I would appreciate your input on this as well.

With respect to the revision of the independence criteria, I continue to have strong concerns about the shortage of candidates for independent directors due to the tightening of the independence criteria. If prioritizing formal independence results in fewer effective and talented independent directors, this is undesirable. I believe that it is necessary to consider the balance between this and the policy request to increase the number of independent directors appointed.

One of the minor issues is the cross-shareholdings that have been discussed earlier. For the corporate side, there is a concern that voting advisory firms will use the information as a formality if the company is required to disclose everything regardless of the percentage of ownership. I believe that there could be some kind of insignificance criteria.

With respect to the disclosure of other transactions, I believe that it is not realistic from the standpoint of the materiality standard in financial statements to specifically disclose all other transactions, even those of small amounts. I believe that insignificance criteria are needed here as well.

**Takei, Member:**

Let me first ask a question related to the disclosure of the percentage of approval or disapproval of minority shareholders. How many companies have major shareholders holding 40% or more of their voting rights, including those held by affiliated companies?

**Yamawaki, Manager, Listing Department, TSE:**

Currently, there are a little less than 300 companies with parent companies, including unlisted parent companies. In addition, there are a little less than 200 companies with major shareholders who are not parent companies holding 40% to 50%. Therefore, the total number of companies is expected to be about 500.

Since we also do not have data on the holdings of affiliated companies, the total including such holdings may be higher.

**Takei, Member:**

Regarding the disclosure of the percentage of approval or disapproval of minority shareholders on page five, I was somewhat cautious last time, but ultimately I stand by your opinions. On top of that, regarding the point made by Mr. Ouchi about whether affiliates really have a grip, I think we should reconsider whether to include affiliates uniformly, since there are a variety of individual circumstances.

In addition, as Ms. Kawamura mentioned earlier, it should be noted that this could result in strengthening the influence of formal judgments by voting advisory companies. I am sure that companies will try to prevent such situations from arising. Especially in recent years, when companies are experiencing considerable frustration from investors exercising their voting rights in a formal manner, it is a good idea to clearly communicate that this is not the kind of message you want to send.

The second point is the revision of the independence criteria on page 13. I don't think we should deny independence even to those who have been an executive officer of a major shareholder within the past 10

years. I would like to reiterate for the record that I agree with the Secretariat's proposal, which is limited to current and recent cases and excludes those that fall within the past 10 years.

Then, while I understand the overall direction, I am somewhat concerned that we may be overly hostile to the companies that own cross-holdings and their related parties. These people are also the ones who together create the corporate value of the target company.

Therefore, I am concerned that the idea that if a board of directors has a person associated with a company that has cross-shareholdings as an independent director, such a board cannot engage in legitimate discussions from the perspective of improving corporate value, which is also in the interest of general shareholders, is a bit excessive.

Furthermore, as I said before, we should be cautious about adding more and more requirements that deny independence ahead of time, regardless of when, in the future, the number of independent outside directors may go from one-third to a majority. We should always be aware of the effects and dangers of the independence criteria, which would formally exclude beneficial personnel from joining the board, before designing the system.

Unlike the disclosure of the percentage of approval or disapproval of minority shareholders mentioned earlier, this discussion of independence standards is relevant to all listed companies and can have a considerable impact considering the number of companies involved. If we are going to conduct a review this time, we need to have a clear message about the direction of the system.

Also, as Ms. Kawamura mentioned earlier, there is a concern that by adding the disclosure of cross-shareholdings to the "disclosure required" category, this will result in this being used as a formality for voting. Cross-shares are individual and may be cross-shares that are economically rational. Therefore, I agree with the idea of placing an insignificance criterion, as Ms. Kawamura mentioned earlier, rather than treating it uniformly and negatively.

I follow your discussion of the independence criteria as a whole, and since it is an institutional theory, it tends to produce easily understood formal effects. However, with the current problems of formal voting, I feel that it is necessary to carefully look at the impact of the policy so as not to discourage people who are truly beneficial to corporate value from joining the board.

**Watanabe, Director, Listing Department, TSE:**

Thank you very much.

Next, we will provide an explanation of "Status of Protection of Minority Shareholders in Cases of Privatization," in Document 2 and "Promoting Disclosure on Such Matters as Group Management" in Document 3.

**Nakamura, Associate, Listing Department, TSE:**

I will explain the protection of minority shareholders in cases of privatization in Document 2.

Page two is the overall picture of the revision of the Code of Corporate Conduct that was conducted last July.

The first is a revision of the scope of actions covered by the Code. Under the previous rules, when a controlling shareholder makes a company into a wholly owned subsidiary or conducts an MBO, it was required to obtain opinions from disinterested parties and to make necessary and sufficient timely disclosures. In light of the growing trend of group restructuring, et cetera, the conversion of a company into a wholly owned subsidiary

by other related company that holds 20% or more of the company's voting rights is also newly included in the scope, since there are similar concerns about conflicts of interest.

Another is the revision of the content of the Code.

The listing rules also clarify that opinions must be obtained from a special committee composed of independent directors. The content of the opinion has been revised so that it does not request a negative opinion, such as "it is not disadvantageous to minority shareholders" because a certain premium is attached, but rather so that it requests an opinion on "fairness to general shareholders" from the perspective of whether the transaction is such that the increase in corporate value is fairly distributed to general shareholders.

In addition, we also expanded the disclosure of share value calculations so that shareholders can appropriately judge the fairness of the transaction.

Page three is about perceptions of the business environment.

The number of MBOs and conversions to wholly owned subsidiaries by controlling shareholders and others disclosed last year totaled 65, the highest level in recent years.

Of these, 32 cases have been filed since the Code was reviewed in July, and a list of these cases is shown on the right.

Page four and beyond discusses the situation after the revision.

First, on page four is the status of the special committee. In all cases, opinions are obtained from a special committee composed mainly of outside directors in accordance with the listing rules.

In the past, there have been cases where the target company, while endorsing the tender offer, did not recommend the application and remained neutral due to price concerns. Since the recent revision, "fairness of price" has also become a determining factor, and the target company now makes a set of recommendations to support or accept the tender offer based on the "fairness" opinion of the special committee, except in cases where a counteroffer was made at a higher price after the opinion was expressed.

The recent review also clarified the perspectives that should be considered and disclosed when forming opinions from the perspective of ensuring the effectiveness and transparency of the special committee. Each of these perspectives is shown on page five.

With respect to the fairness of the terms of the transaction. For example, as noted in the first checkmark, we ask for consideration and disclosure of consultation and negotiation policies and key issues. Regarding the reasonableness of the premium level of the third checkmark, if negative information is disclosed in close proximity, we also require consideration and disclosure of the reasonableness of the negative information.

With respect to the fairness of the procedure. From the viewpoint of requesting consideration of appropriate fairness assurance measures according to the specific circumstances of each case, in addition to the specific implementation status of fairness assurance measures, if some of the measures are not implemented, the reason for not implementing the measures and how it is considered from the viewpoint of ensuring overall fairness are also to be explained.

Page six provides an example of actual disclosures regarding the special committee's considerations.

On the left, we present the SCSK case study, which describes the main issues in the process of discussions and negotiations with the acquirer. On the right side, the case of Fuji Oil is presented as an example where the rationale for the downward revision of the earnings forecast prior to the expression of opinion is explained in

terms of the revision factors and their anteroposterior relation with the timing of the start of the consideration of this going-private process.

Page seven is about the enhancement of disclosure of share value calculation assumptions.

We have now expanded the disclosure of the concept underlying the financial projections and calculation methodologies. Specifically, we are requesting new disclosures regarding the underlined portions.

Page eight is an example of an actual disclosure.

On the left side of the page is an example of SUPER VALUE, which describes the entity that prepared the financial forecast and what assumptions were made about the business environment. Below, we present an example of DRAFT that explains the difference between the figures in the financial projections used in the stock value calculation and the figures in the published medium-term management plan, based on the current situation.

On the right side, we introduce examples of TAC and SANYU CONSTRUCTION as examples that explain the concept of separating cash and deposits, securities holdings, and rental real estate, which are particularly problematic in practice, in terms of the valuation method of individual assets, which is an issue that is likely to be challenged by investors.

Page nine is the status of implementation of fairness assurance measures.

Regarding the majority-of-minority condition, there have been cases where the MoM is the result of the lower two-thirds limit required for the second step in cases where the acquirer's ownership percentage is low, such as MBOs or becoming a wholly owned subsidiary through other related company. However, there are no cases where this condition is set in cases where the acquirer has a high shareholding ratio, such as when a controlling shareholder makes a company a wholly owned subsidiary.

Active market checks have also been implemented in some MBO cases, but there has been no significant change from before the revision.

On page 10, we show for your reference the distribution of acquisition premiums for the deals after the Code revision. I will spare you the explanation.

Page 11 is what investors have to say about this situation. As indicated in the first point, we have received an assessment that a certain degree of progress has been made with regard to information disclosure. On the other hand, some still voiced concerns about the fairness of the prices in some cases, and many voiced expectations for the establishment of majority-of-minority conditions and the implementation of proactive market checks, as shown in the second and subsequent points.

As per the last points, we have also received opinions such as the need to enlighten independent directors, both in normal times and in emergency situations, from the viewpoint of improving the effectiveness of the special committee.

Page 12 is future initiatives.

As a result of last July's revision, there has been some progress in the content of the special committee's opinion letter and disclosures regarding share value calculations.

On the other hand, investors are still calling for further fairness measures to be promoted. We do not intend to conduct any kind of rule revision immediately, but from the perspective of making the revision effective,

we would like to make the independent directors who will be members of the special committee aware of investors' opinions regarding the implementation of such measures.

If there are any other matters that should be considered or that should be brought to the attention of listed companies or market participants, please let us know.

As indicated in \* below, it is also important to discuss corporate value at ordinary times before contingency situations such as going private, and to appoint independent directors who can meet expectations as members of the special committee. We would also like to promote initiatives during normal times, as explained in Document 1.

On page 13, for your reference, we reiterate the concept of acquisition consideration in the Ministry of Economy, Trade and Industry's "Fair M&A Guidelines." We will skip the explanation.

**Yokoyama, Manager, Listing Department, TSE:**

I will explain Document 3. This is our policy for the next fiscal year regarding disclosure of group management and other information. Any feedback would be appreciated.

Page two is our policy for the future. As we enter the third year of our request for enhanced information disclosure, we expect to consider a more effective approach after this summer, based on the status of disclosure to date.

First, as per the second point, we would like to focus on making more progress in disclosures regarding companies with parent-subsidiary relationships.

In previous meetings, we have received comments that disclosure has not progressed well, and that better clarification of items that should be disclosed would lead to actual corporate action. In light of these comments, we would like to reorganize the points that are considered particularly important and consider clarifying them in concrete terms.

In addition, as per the third point, we would like to consider effective measures for companies in controlling relationships. We have received suggestions that some companies may not be aware that disclosure is recommended. As such, awareness and disclosure of the issue is less advanced than for companies with parent-subsidiary relationships.

We believe that a step-by-step approach would be effective first, so we would consider, for example, promoting disclosure starting with disclosures that allow investors to determine the relationship between the company and its quasi-controlling company.

In addition, as indicated in the last \*, we expect to continue to follow up on the status of disclosure and introduce investor perspectives and case studies to assist companies in their deliberations.

From page three onward, we provide reference materials, including opinions discussed at previous study groups and a collection of case studies on parent-subsidiary listings, et cetera, published at the end of last year. I will skip the explanation.

**Watanabe, Director, Listing Department, TSE:**

We would appreciate your comments on any of the above.

**Kikuchi, Member:**

Regarding Document 2, I recognize that, for the time being, this is a phase to follow up on what is being disclosed and sort out what problems exist.

Then, to be more specific, the Fuji Oil case study on page six explains that it was not an intentional downward revision and that there was no problem, given that the company began considering going private about six months after the downward revision of its earnings forecast.

On the other hand, companies retain inside information, and earnings forecasts are easy to guess. Although this would not be a problem if the timing were far off, I believe that this is also a case that leaves the impression that it is difficult to judge.

In addition, on page 11, the opinions of foreign institutional investors are introduced, stating that they do not believe that a P/B ratio of one time is an absolute level. At this very moment, I believe that it is necessary to sort out what issues and problems exist in some of the cases where the P/B ratio is still around one time, once the discussions have been settled.

No one method of pricing will satisfy all investors, and it is to be expected that someone will object that it would be wrong. I think there is a need for an after-the-fact verification of how the decision was made, how the discussion was conducted, or whether the structure and process were fair.

Finally, regarding Document 3, I feel that the concept of group management and group governance is not always consistent across laws, corporate governance codes, accounting and disclosure standards. Particularly with regard to disclosure, the corporate boundary is expanding, partly due to the introduction of sustainability disclosure standards in accounting. On the other hand, I have the impression that the listing rule and legal framework are lagging behind in addressing group management and group governance.

Even in the Corporate Governance Code, the idea of group governance is not sufficiently emphasized. Under the current circumstances, I felt that the scope of the discussion would be unclear unless we sort out how we should view these situations and to what extent we, as a study group, should discuss them.

**Sampei, Member:**

Thank you for updating us on the status of Document 2. We were also introduced to several specific case studies. I would like to comment briefly on that.

First, regarding the Fuji Oil case study on page six, I think you have made a step forward in terms of explanation of the downward revision situation, even as Mr. Kikuchi pointed out. However, I think the most important explanatory point is why the actions that caused the downward revision had to be implemented at this time. If you are going to create such a good example, you need to provide an example that also explains "why now."

Specifically, the sale of all shares of Tokyo Sekiyu Kogyo K.K. in Fuji Oil's downward revision disclosure (1) should be a matter where management can choose the timing. An explanation is required as to why it had to be at this time.

Also, with regard to the inventory write-down at the end of H1 in the downward adjustment disclosure (2), without an explanation of why it was at this timing, whether the write-down must necessarily be recorded in H1, or whether it could be recorded after looking at H2, or whether it was due to a suggestion by the CPA, I do not feel it is sufficiently persuasive.

Regarding the SUPER VALUE in the upper left corner of page eight, I think that is a very clear disclosure of the assumptions. As for DRAFT below it, if it was prepared on the assumption that a downward revision of the medium-term management plan is realistic, then a downward revision of the medium-term management plan should be disclosed.

However, if a downward revision of the medium-term management plan is disclosed in advance, that itself would fall under the disclosure of downward revision mentioned earlier, and further explanation would be required. So, I feel that it is not clear that this is a good example.

Regarding the TAC in the upper right corner, I feel that it clearly explains the non-business assets that affect the price calculation and is exactly the kind of disclosure we have come to expect. The SANYU CONSTRUCTION case below that is also a good premise disclosure, although not as good as TAC's, because it is clear how the division was made between business and non-business assets that affect the price calculation.

Regarding the fourth point of feedback from investors on page 11, the Ministry of Economy, Trade and Industry's "Fair M&A Guidelines" on page 16 states that two types of value should be considered separately: value that can be realized without M&A and value that cannot be realized without M&A.

The former should be enjoyed by all shareholders, including minority shareholders who are 100% squeezed out. On the other hand, it is fair that the general shareholders should enjoy a reasonable portion of the latter, rather than all of it, and that is the meaning of M&A. The above guidelines state as such. I feel that the fourth point of feedback from investors may not have a good understanding of these concepts.

The organization of the Fair M&A Guidelines may be difficult to understand because it is also different from the general practice in the US market. This is organized according to the circumstances of the Japanese market, and I think it is necessary to make this more widely known in the future.

As for the fifth point, reason for not setting MoM conditions, "destabilization" is used as a common practice, and to us this sounds like an excuse. Since there is no need to proceed with the deal in a hasty manner, it would be no problem to proceed after setting the MoM conditions. I think this point is difficult to convince.

Regarding the sixth point, as I said in Document 1, I think we should clarify what the scope of minority shareholders should be. Some examples of concerns expressed by investors regarding the scope of minority shareholders in the MoM terms and conditions include the following: A shareholder included on the minority shareholder side explained that a director had been dispatched to the acquirer, and that the outside director had a conflict of interest and therefore did not participate in the resolution when making the decision on the acquisition.

However, this is only a verbal explanation and is not included in the disclosure documents. If such considerations have been taken into account, they should be clearly stated in the statutory disclosure documents to demonstrate their validity. Even if MoM conditions cannot be made into rules, there is room for further study on how to express them, including providing guidance and direction.

Regarding Document 3, as Mr. Kikuchi mentioned earlier, I too feel that there are various issues and have not found a clear solution. For example, in communicating with companies as to why they hold equity method companies, we see P&L thinking such as because profits are inflated.

However, when evaluating corporate value, foreign investors, especially those who think in terms of balance sheets, do not count such profits as future cash flows. There is also the idea that the company should have more management control if it wants to keep the profits derived from it under its own control, in line with its own management policies.

There is still a lack of explanation as to what the intent and purpose of such a form is. Therefore, I feel that it is necessary to organize an approach for such issues through interviews with investors, et cetera.

**Takei, Member:**

Regarding Document 2, the rule was revised last year. I believe that these measures are sufficient at this time and that we should not be in a hurry to take additional action through the rule.

MBOs, going private, et cetera, are done with the intention of ceasing to be a listed company for some reason. The premise of the "what's missing from the disclosure" argument is that the target company should pay the exiting shareholder a higher price, even a penny more. On the other hand, that amount could increase the subject company's debt. The interests of the shareholders leaving the target company differ from those of the other stakeholders in the target company, those who will be left behind.

In MBOs and privatizations, the emphasis should be on whether the transaction will lead to investment in future growth and enhancement of corporate value, which is in line with the principle of enhancing corporate value as stated in the first principle of the "Guidelines for Corporate Takeovers" It is important to consider whether going private at that price/value will really enhance the corporate value of the target company. Even when shareholders point out that the price offered is low, we should calmly consider whether this is really the case and whether the idea that even a penny more is good enough should proceed any further.

From this perspective, the TSE has already developed an elaborate disclosure system last year based on the Fair M&A Guidelines. Rather than requiring further, more systematic disclosure, I believe it is appropriate to provide an explanation from the perspective of how a company should contribute to investment for future growth, and then leave the rest to the independent judgment of the market.

In Japan, unlike overseas, synergies are also distributed and are not the same in structure as overseas, especially in the United States. In Japan, unlike the US, even listed companies are granted the right to file a price purchase petition, so if an ordinary shareholder is truly dissatisfied with the price, he or she can obtain relief in court. Thus, in Japan, shareholders are afforded a considerable degree of legal protection.

Therefore, I believe that the disclosures for which the TSE is responsible are fully in place with last year's review. While there may be some minor points of contention, and I think it is important to gather feedback from market participants on a regular basis, I don't think there is a need to immediately revise the system.

**Watanabe, Director, Listing Department, TSE:**

Thank you very much.

With that, we would like to conclude this meeting. Finally, we would like to explain our schedule.

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

Thank you very much for your active discussion today.

With respect to the revision of listing rules regarding minority shareholder protection, the TSE will proceed with the rule revision procedure after considering the details in light of the opinions we received today. We will report back to you by email or other means regarding the status.

In the coming year, and again after the summer, we would like to follow up on the status of disclosure by companies regarding group management, et cetera, and have specific discussions on how to enhance disclosure. We will contact you again when it gets closer to the date.

**Watanabe, Director, Listing Department, TSE:**

With that, we would like to conclude this meeting.

Thank you very much.

[END]