

TSE Explanatory Materials (1)

(Current Situation Around Equity Method Relationships and Future Initiatives)

Oct. 2, 2026
Listing Dept.
Tokyo Stock Exchange, Inc.



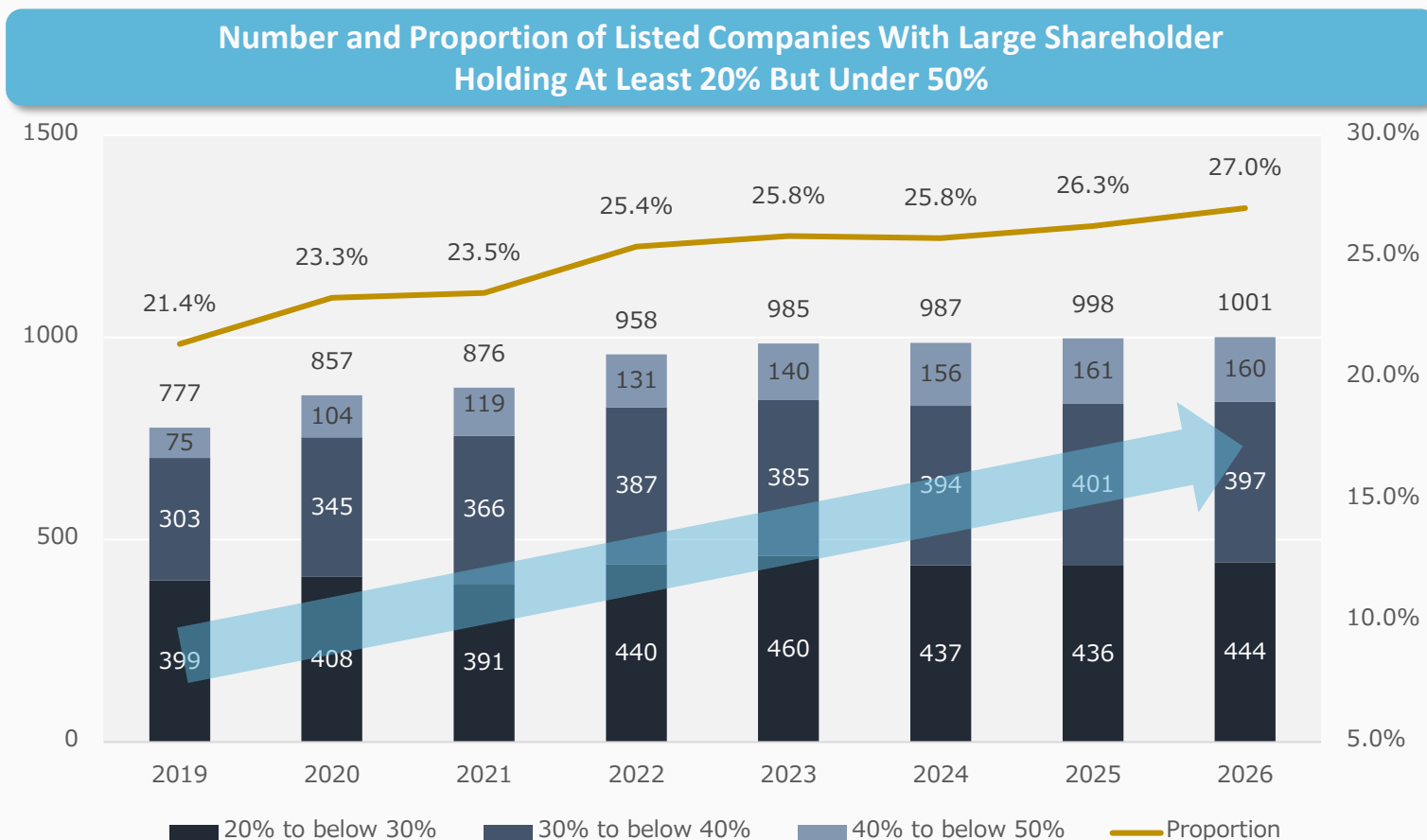
Past Developments and Today's Agenda

- At prior meetings, the study group **discussed group management and minority shareholder protection, focusing on companies in a parent-subsidiary relationship (CPSRs).**
 - Beginning in Dec. 2023, it **promoted consideration/disclosure on group management and minority shareholder protection.**
 - Listed **CPSRs must make disclosures** on group management and minority shareholder protection in their corporate governance (CG) reports. Listed companies in an **equity method relationship (CEMRs) are recommended to make** similar **disclosures**.
 - In July 2026, **disclosure of the approval rate of minority shareholders was made mandatory** from the perspective of minority shareholder protection. (Companies with a large shareholder whose shareholding ratio (SHR) is at least 40% are subject to this.)
 - While efforts are proceeding at CPSRs, **the following problems** have been observed **at CEMRs.**
 - While **CEMRs recognize the necessity of making considerations of group management**, many have not made **detailed considerations** and many are experiencing problems when making the considerations.
 - While CEMRs have a conflict-of-interest risk that is equivalent to CPSRs, **disclosure rules and procedural regulations regarding minority shareholder protection are limited for CEMRs in comparison with CPSRs.**
- 
- We would like the study group to deepen **discussion/consideration of necessary measures for CEMRs regarding consideration/disclosure of group management and protection of minority shareholders.**

Current Situation Regarding CEMRs

Listed Companies With a Large Shareholder Holding At Least 20% But Under 50%

- The number and proportion of listed subsidiaries (LSs) have decreased due to such factors as increased group restructuring. Meanwhile, **the number and proportion of listed companies with a large shareholder holding at least 20% but under 50% (excluding parent companies and individual shareholders) has slightly increased due to factors such as the formation of capital ties after listing (1,001 cos. as of July 2026).**

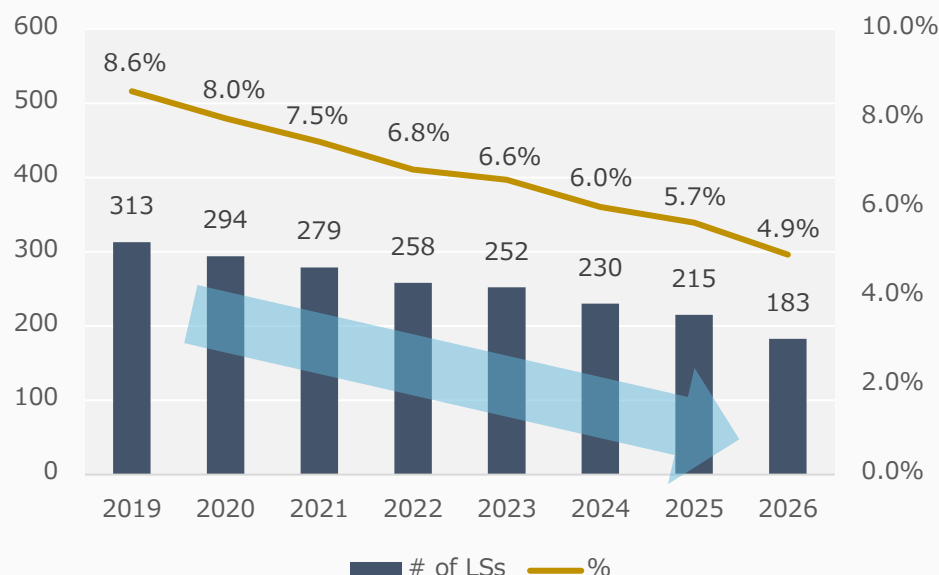


Source: Collated based on the CG report of each company with a shareholder holding at least 20% but under 50%, excluding those with parent companies and those whose largest shareholder was an individual.

Ref.: Number and Proportion of Listed Subsidiaries

- The number and proportion of LSs are slowly decreasing (183 cos. as of July 2026).
 - Amidst a growing tendency for parent companies to restructure groups from the perspective of appropriate allocation of management resources, LSs are being converted into wholly owned subsidiaries (WOSs) by their parent companies at a high rate.

Number and Proportion of LSs



Source: The number and proportion of listed companies with a listed parent company were collated based on each company's CG report.

Factors in the Net Decrease of LSs

	End of FY2021	End of FY2022	End of FY2023	End of FY2024	End of FY2025
# of LSs Added	13	11	9	17	9
Shareholdings Increased	9	5	5	12	7
Newly Listed	3	5	4	4	2
Other (e.g., Parent Co. Newly Listed)	1	1	0	1	0
# of LSs Subtracted	42	21	28	28	29
Became a WOS	27	12	11	14	19
Shareholdings Decreased	8	8	13	11	7
Other (e.g., Business Integrated with Parent Co.)	7	1	4	3	3
Net Decrease	-29	-10	-19	-11	-20

(Listed companies with a listed parent company; fiscal-year basis.)

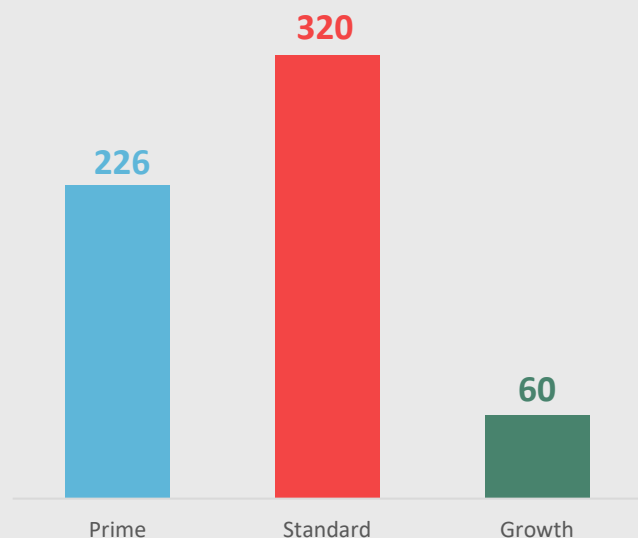
Source: "Nomura Sustainability Quarterly Summer 2026" prepared by Nomura Institute of Capital Markets Research.

Number of Listed Affiliates and Their Attributes

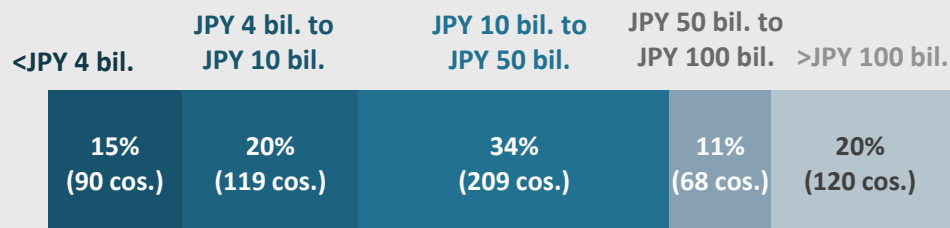
- Under “Disclosure of Matters Relating to Controlling Shareholder, etc.,” **there are 606 companies that have disclosed that they have other associated companies (OACs)** (i.e., companies that have a significant influence on the company's policy making and that are prescribed in the “Regulation on Terminology, Forms, and Preparation Methods of Financial Statements.”).

No. of LAs (Companies Disclosing the Existence of an OAC) and Their Attributes

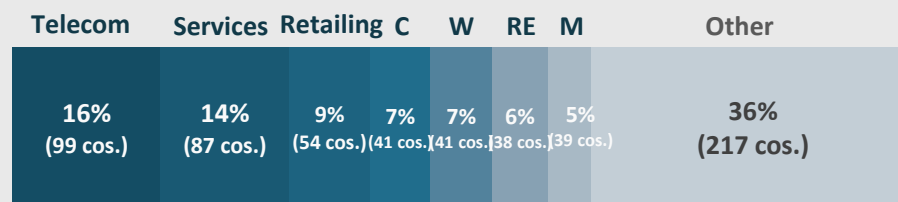
No. of LAs by Market Segment



Distribution by Market Capitalization (as of June 30, 2026)



Distribution by Industry

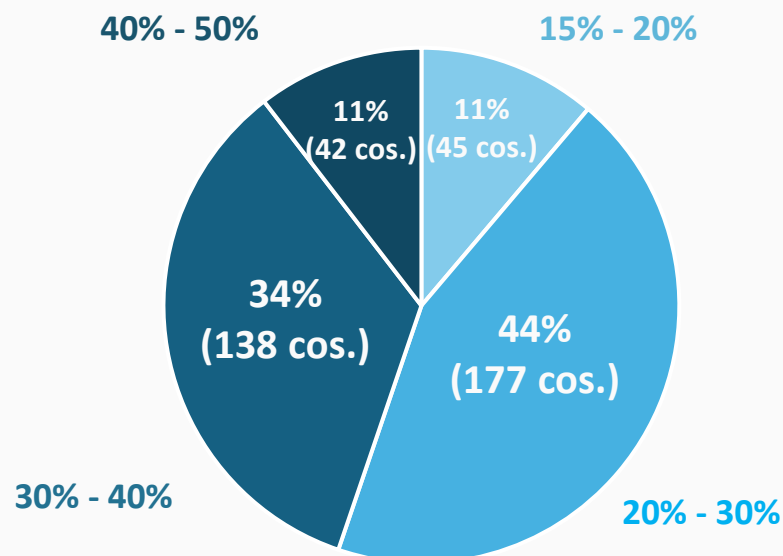


C: Construction
W: Wholesaling
RE: Real Estate
M: Machinery

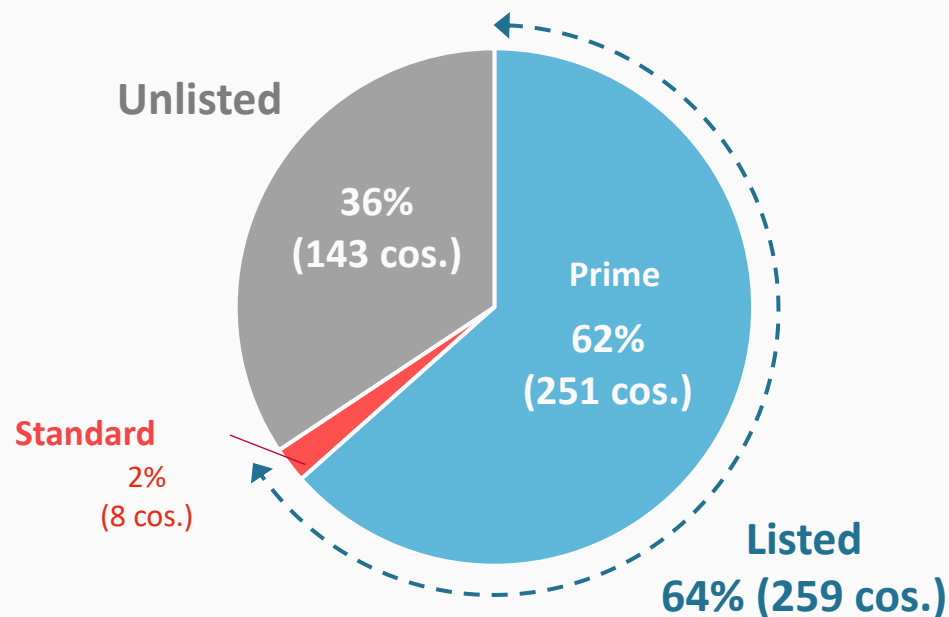
Source: Collated based on the CG Reports and other documents published as of July 14, 2026 by the 606 LAs that made a "Disclosure of Matters Relating to Controlling Shareholder, etc." between July 15, 2025 and July 14, 2026.

- We collated the status of disclosures of **LAs' relationships with their OACs** for **402 LAs** whose fiscal years end on March 31.
 - The OACs' **SHRs were widely dispersed** (most were in the at least 20% but under 30% range).
 - In **64%** of the cases, the LA's OAC was also **listed on TSE** (mainly on the Prime Market).
 - In **36%** of the cases, the LA's OAC was **unlisted** (e.g., an unlisted corporate, asset management company).

SHRs of OACs (HRs)



Listing Status of OACs (HRs)



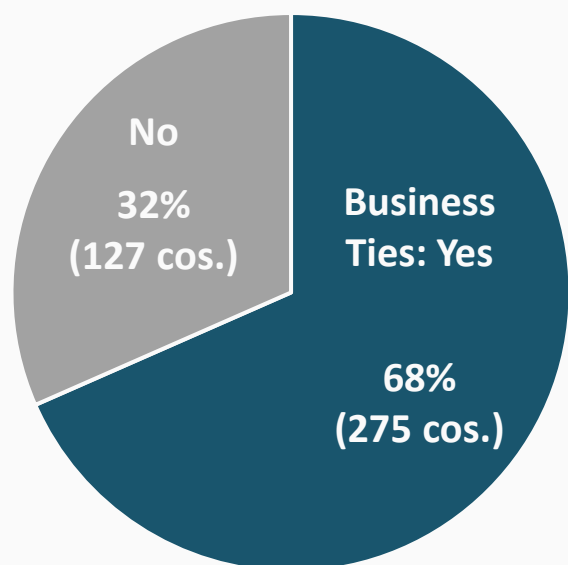
Source: The contents of each LA's disclosure were collated for the 402 LAs whose fiscal years end on March 31 and that made a "Disclosure of Matters Relating to Controlling Shareholder, etc. (as of March 31, 2026)."

(Note) If the LA disclosed that it had multiple OACs, information was collected for the OAC disclosed as having the most influence.

(Note) OACs that are listed on overseas exchanges are included in "Unlisted."

- Of the LAs whose fiscal years end on March 31, **68% disclosed that they had business ties with their OACs.**
 - **Business ties exist regardless of the SHRs of the OACs.**
 - Where the OAC is a **listed company**, **80% of their LAs disclosed business ties**, and where the OAC is unlisted, there were no business ties in about half of cases. (It is surmised that this is because, in some cases, the unlisted OAC is the founder's asset management company or fund.)

Disclosures of Significant Business Ties With OACs (HRs)

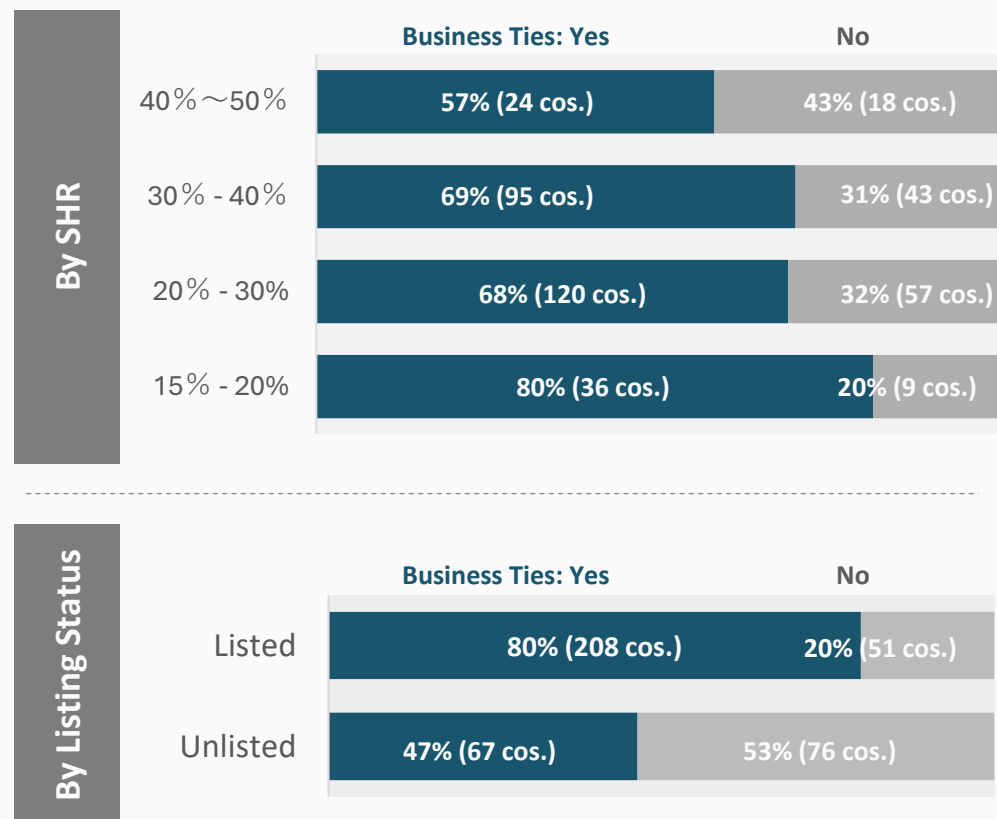


Source: The contents of each LA's disclosure were collated for the 402 LAs whose fiscal years end on March 31 and that made a "Disclosure of Matters Relating to Controlling Shareholder, etc. (as of March 31, 2026)."

(Note) If the LA disclosed that it had multiple OACs, information was collected for the OAC disclosed as having the most influence.

(Note) Business ties include significant transactions that are required to be disclosed as "related party transactions" in such documents as financial statements. They also include significant transactions that each company has disclosed voluntarily.

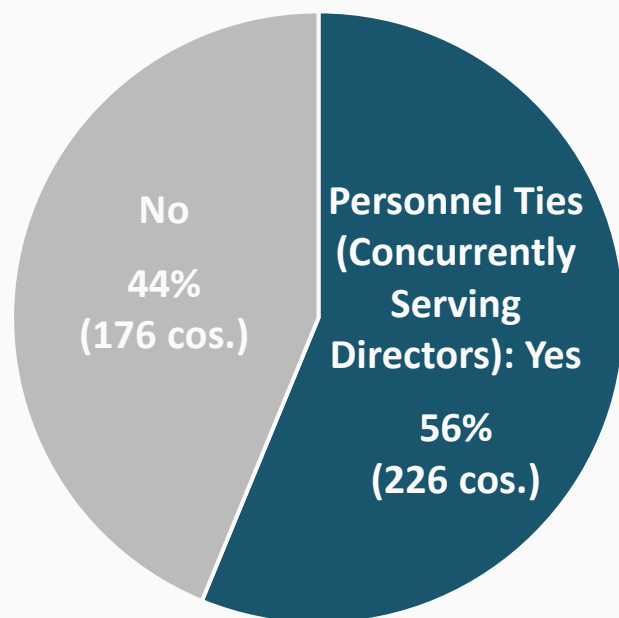
(Note) OACs that are listed on overseas exchanges are included in "Unlisted."



Relationships (Personnel Ties) Between LAs and Their OACs (HRs)

- Of the LAs whose fiscal years end on March 31, **56% disclosed that they had personnel ties (concurrently serving directors).**
 - Concurrently serving directors exist regardless of the SHRs or the listing status of the OACs.
 - There were also some companies that disclosed other personnel ties, such as concurrently serving auditors (12%) and employees on secondment (9%).

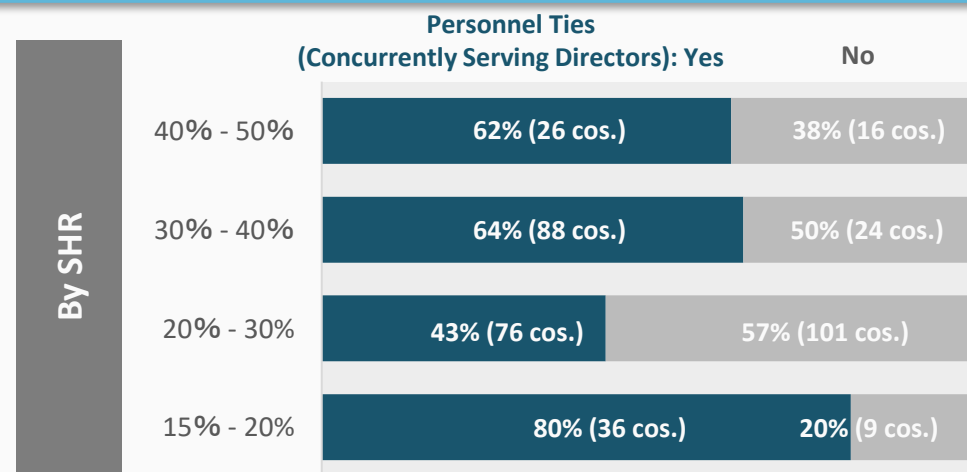
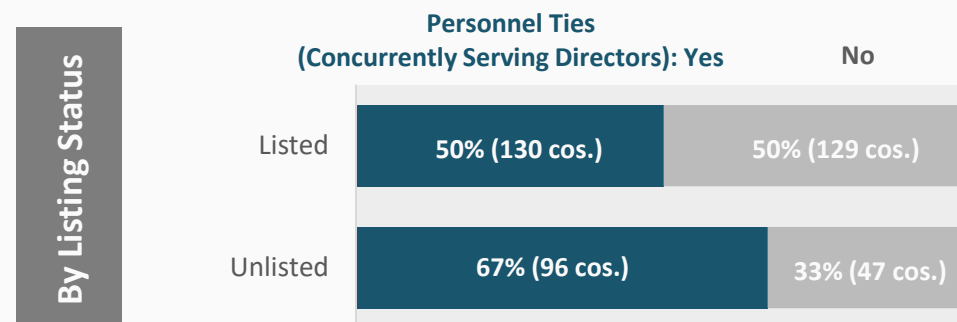
Disclosures of Personnel Ties (Concurrently Serving Directors) With OACs (HRs)



Source: The contents of each LA's disclosure were collated for the 402 LAs whose fiscal years end on March 31 and that made a "Disclosure of Matters Relating to Controlling Shareholder, etc. (as of March 31, 2026)."

(Note) If the LA disclosed that it had multiple OACs, information was collected for the OAC disclosed as having the most influence.

(Note) OACs that are listed on overseas exchanges are included in "Unlisted."



- Of the LAs whose fiscal years end on March 31, **86% had either business ties or personnel ties (concurrently serving directors) with their OACs.**
 - Regardless of SHR, there were few LAs that had neither type of ties with their OACs.

Cross Analysis of Disclosures of LAs' Business Ties/Personnel Ties (Concurrently Serving Directors) With Their OACs (HRs)

Either Type of Ties

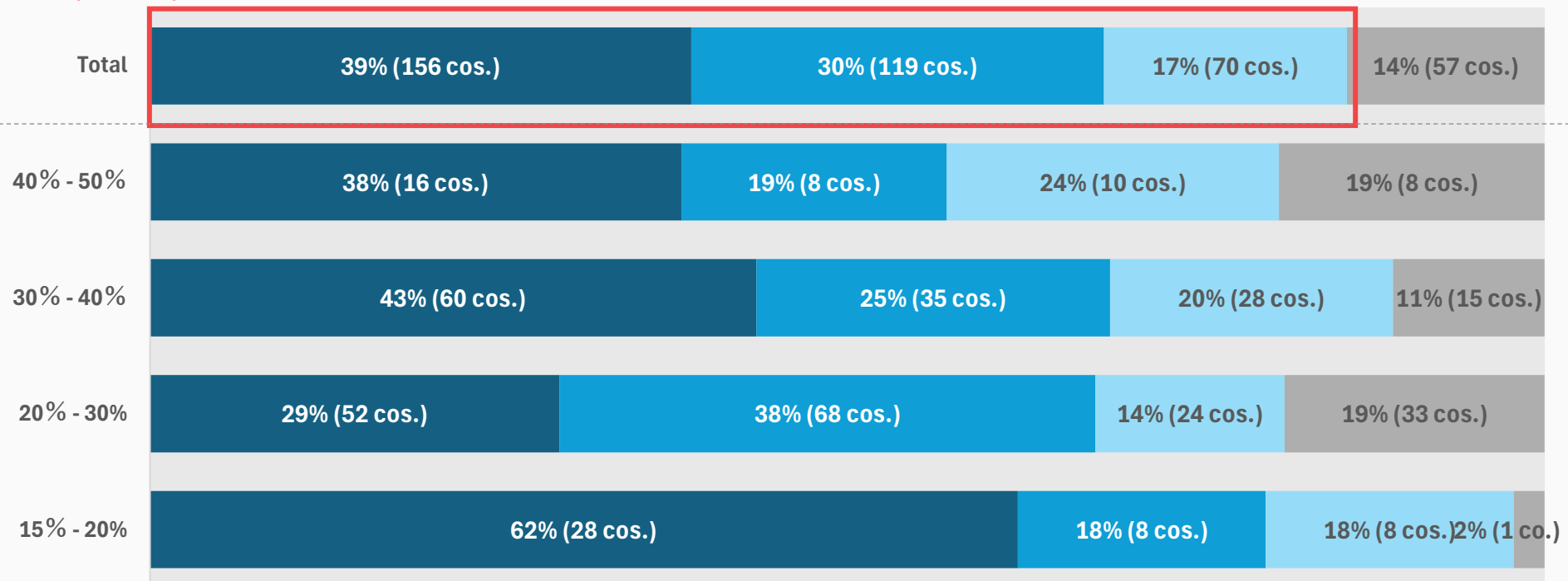
86% (345 cos.)

Both Types of Ties

Only Business Ties

Only Personnel Ties

Neither Type of Ties



Source: The contents of each LA's disclosure were collated for the 402 LAs whose fiscal years end on March 31 and that made a "Disclosure of Matters Relating to Controlling Shareholder, etc. (as of March 31, 2026)."

(Note) If the LA disclosed that it had multiple OACs, information was collected for the OAC disclosed as having the most influence.

(Note) Business ties include significant transactions that are required to be disclosed as "related party transactions" in such documents as financial statements. They also include significant transactions that each company has disclosed voluntarily.

- Regardless of the percentage of shares that the other associated company holds in **the listed affiliate**, a **certain percentage of the agreements contain provisions that are important for the investment decisions of the listed affiliate's minority shareholders** (e.g., nomination of director candidates and senior management, prior approval or consultation).

15% <	10% - 15%	5% - 10%	0% - 5%
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Existence of provisions by category

	All Listed Affiliates		< 20%		20% - 30%		30%- 40%		40% - 50%	
(1) Nomination of director candidates and senior management, etc.	90	15.5%	17	17.9%	40	16.7%	27	13.3%	6	14.3%
(Of which, obligations, prohibitions, and approvals)	(83)	(14.3%)	(16)	(16.8%)	(38)	(15.8%)	(23)	(11.3%)	(6)	(14.3%)
(2) Maintenance of shareholding ratio and anti-dilution	59	10.2%	8	8.4%	59	11.3%	18	8.9%	6	14.3%
(Of which, obligations, prohibitions, and approvals)	(53)	(9.1%)	(7)	(7.4%)	(24)	(10.0%)	(17)	(8.4%)	(5)	(11.9%)
(3) Sale/further purchase of shares held by shareholders and other matters on handling of shares	42	7.2%	8	8.4%	21	8.8%	9	4.4%	4	9.5%
(Of which, obligations, prohibitions, and approvals)	(34)	(5.9%)	(4)	(4.2%)	(18)	(7.5%)	(8)	(3.9%)	(4)	(9.5%)
(4) Exercise of voting rights of shareholders	5	0.9%	1	1.1%	1	0.4%	1	0.5%	2	4.8%
(Of which, obligations, prohibitions, and approvals)	(5)	(0.9%)	(1)	(1.1%)	(1)	(0.4%)	(1)	(0.5%)	(2)	(4.8%)
(5) Prior approval or consultation	58	10.0%	7	7.4%	29	12.1%	17	8.4%	5	11.9%
(Of which, obligations, prohibitions, and approvals)	(26)	(4.5%)	(2)	(2.1%)	(11)	(4.6%)	(11)	(5.4%)	(2)	(4.5%)
(6) Business coordination and avoidance of business competition	14	2.4%	2	2.1%	5	2.1%	6	3.0%	1	2.4%
(Of which, obligations, prohibitions, and approvals)	(8)	(1.4%)	(2)	(2.1%)	(2)	(0.8%)	(3)	(1.5%)	(1)	(2.4%)
(7) Continued listing	17	2.9%	3	3.2%	5	2.1%	7	3.4%	2	4.8%
(8) Appointment and use of independent directors	7	1.2%	2	2.1%	2	0.8%	2	1.0%	1	2.4%
(9) Respect for independence and autonomy, etc.	33	5.7%	5	5.3%	11	4.6%	11	5.4%	6	14.3%
Number of companies	580		95		240		203		42	

Notes: 1. Includes the 601 listed affiliates that responded to a survey on governance-related agreements, which was given to listed subsidiaries and listed affiliates as of January 5, 2022, excluding the 21 of those that responded that they did not know or could not answer.

2. "Number of companies" on the bottom row represents the number of responding companies by each shareholding percentage (including companies that responded "No agreement"). Percentages in the table are the proportions out of this number.

3. Shareholding percentages of the largest shareholder are based on each company's Corporate Governance Report. As a rule, the percentages are those of direct holdings and do not include indirect holdings.

4. "Obligations, prohibitions, and approvals" includes only agreements that stipulate obligations or prohibitions and items for which approvals must be obtained, and excludes agreements that only stipulate obligations to consult or make efforts and items only requiring consultation.

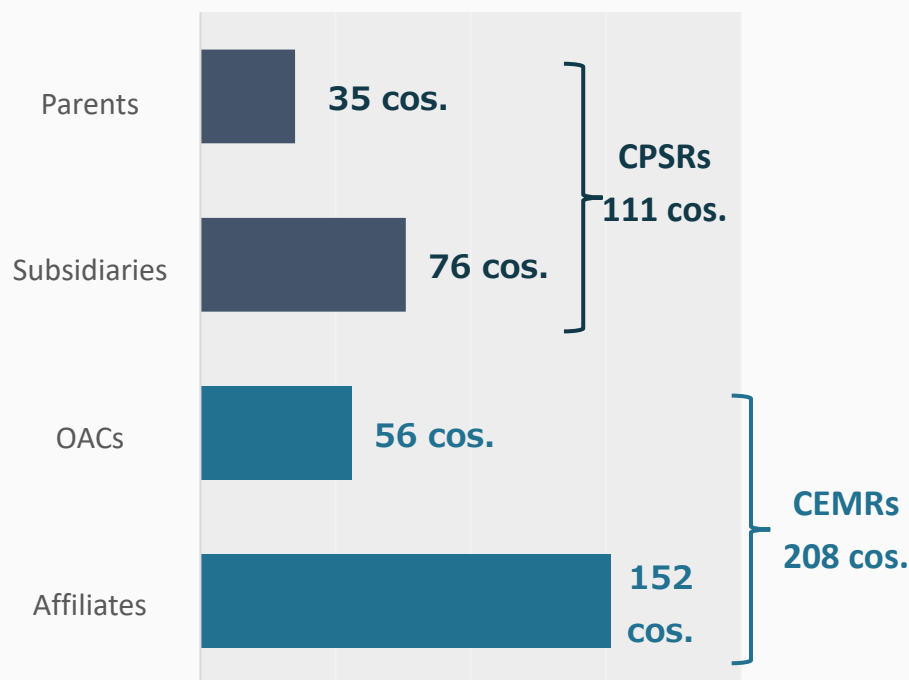
Consideration/Disclosure on Group Management

- In December 2023, a request was made for consideration/disclosure on group management and related issues. With three years having passed since then, a **questionnaire** was given to listed **CPSRs/CEMRs** regarding the status of their consideration of group management and issues faced in relation to this.
 - Responses were received from **111 listed CPSRs** and **208 listed CEMRs**.

Survey Contents

- 1. Status of Consideration/Disclosure** Regarding Group Management (multiple-choice/freeform response)
 - We decided that our current form was the most appropriate and disclosed this to investors
 - We recognize the need to consider whether our current form is the most appropriate
 - We have no plans to consider whether our current form is the most appropriate
 - We disclosed the results of our consideration and a policy to revise our current form
- 2. Issues Faced in Relation to Consideration/Disclosure** Regarding Group Management (multiple-choice/freeform response)
 - Communication between the parent (OAC) and the subsidiary (affiliate)
 - No considerations led by the parent (OAC)
 - Caution about making disclosures connected with management strategies and confidential information
 - Lack of internal structures or resources

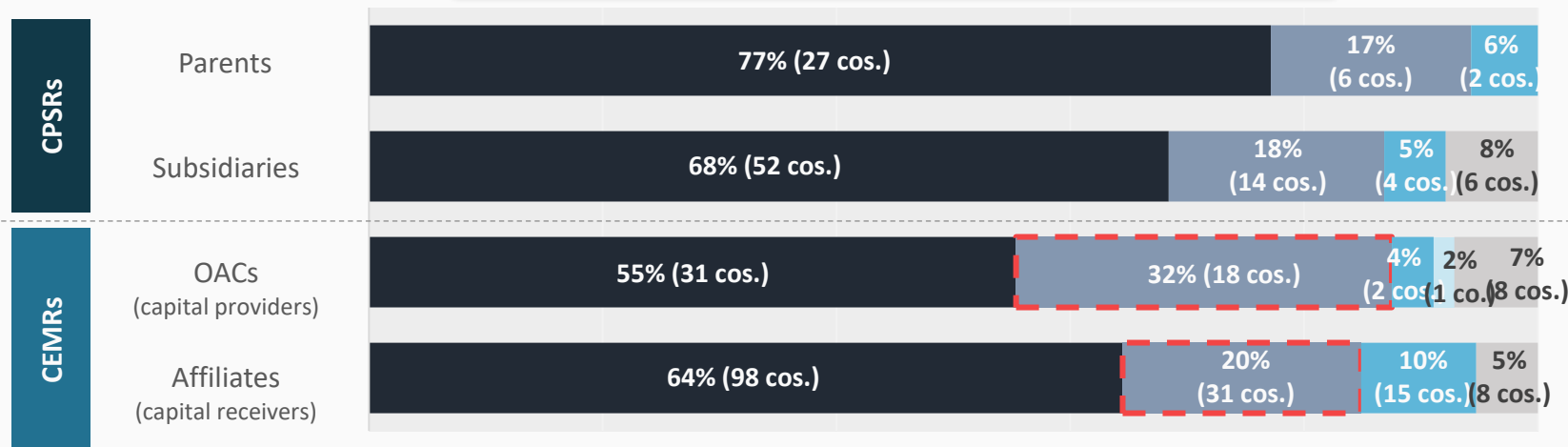
Attributes of the Responding Companies



- **Most of the CPSRs and CEMRs responded that they had decided that their current form was the most appropriate and had disclosed this to investors.**
- **Meanwhile, compared to CPSRs, there are relatively more CEMRs that recognize that they need to reconsider whether their current capital structure is the most appropriate going forward.**

(32% of OACs and 20% of affiliates)

Status of Consideration/Disclosure by Attribute

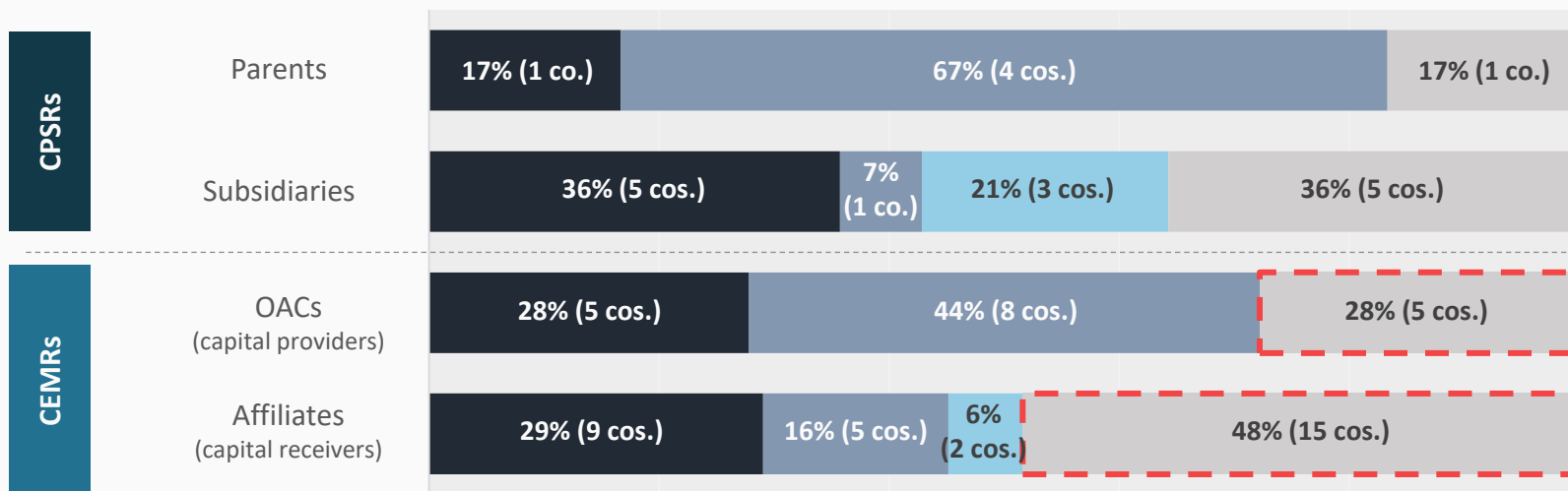


- We decided that our current form was the most appropriate and disclosed this to investors
- We recognize the need to consider whether our current form is the most appropriate
- We have no plans to consider whether our current form is the most appropriate
- We disclosed the results of our consideration and a policy to revise our current form
- Other

- Among both CPSRs and CEMRs, in many cases **the capital provider (the parent or OAC) is leading the considerations.**
- Meanwhile, compared to CPSRs, **there are more CEMRs that have not started specific considerations even though they recognize that they need to do so.**

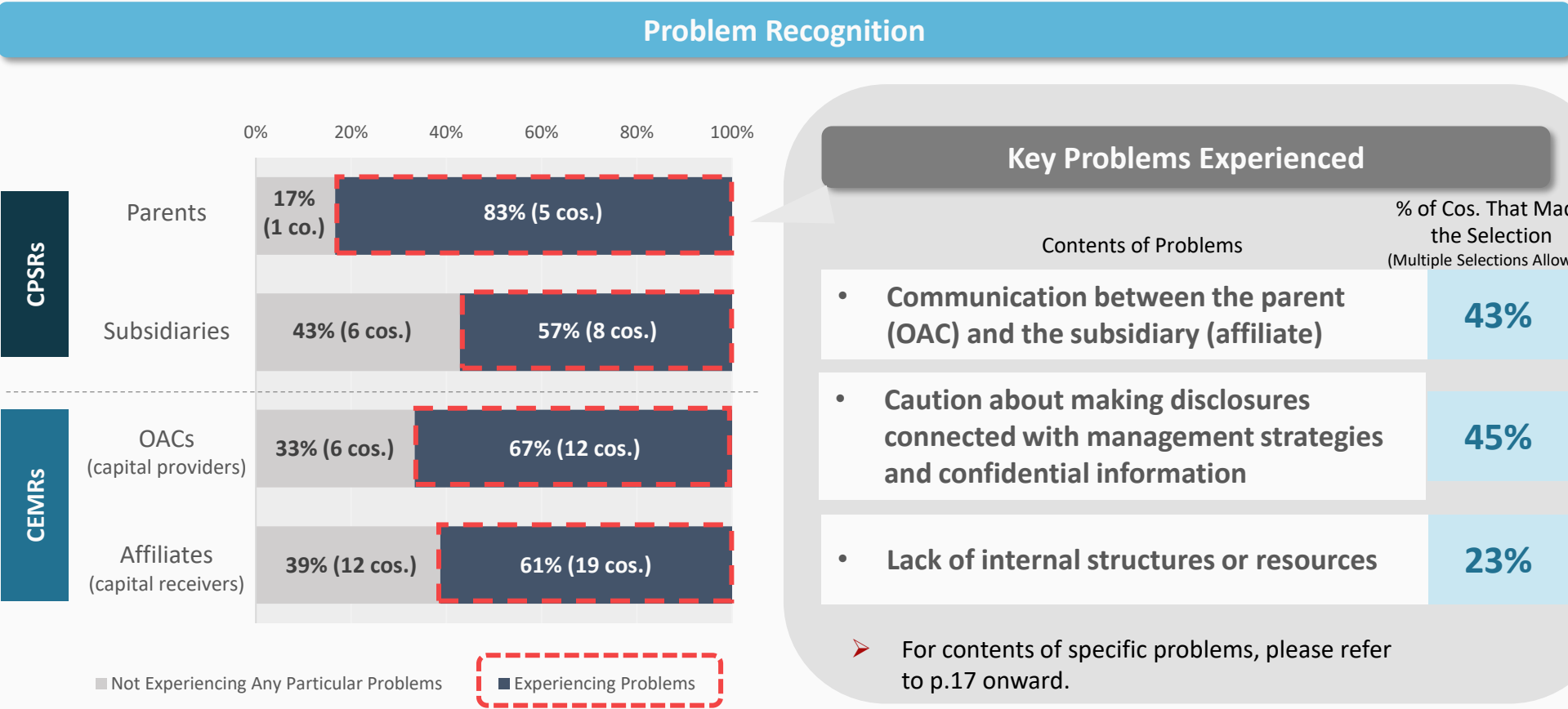
(Those that recognized the need to reconsider: 28% of OACs and 48% of affiliates)

Status of Specific Considerations



- Both parent (OAC) and subsidiary (affiliate) are carrying out considerations
- Parent (OAC) is carrying out considerations
- Subsidiary (affiliate) is carrying out considerations
- We are aware of issues but have not started specific considerations

- Most of the listed companies that recognized the need to reconsider also **recognized** some type of **issue**.
- Many CPSRs and CEMRs mention the following as specific problems: **how to communicate between themselves to carry out the considerations, the need to be cautious about disclosures connected with their management strategies/confidential information, and a lack of internal structures and resources.**



- Both CPSRs and CEMRs mention problems with communication.
 - Capital providers point out that **as they need to also take the capital receiver's independence into consideration, it takes time to share awareness and build consensus.** Capital receivers point out that **it is hard to see what the capital provider is considering** and that **there are limited opportunities for discussion.**

Communication Between the Parent (OAC) and the Subsidiary (Affiliate)

- Since the positions and management topics of the parent company and its subsidiaries differ, it is necessary to **communicate carefully, taking the subsidiaries' thoughts and problem recognition into consideration.** (Parent)
- Since affiliates are more independent than subsidiaries, it sometimes **takes longer to share an awareness of problems with capital structure and make detailed considerations.** (OAC)
- **It is hard to proceed with in-depth discussions** on reviewing capital structure **because there are parts that depend on the OAC's judgment.** (Affiliate)
- There are no working groups or opportunities for discussion, so **adequate opportunities for dialogue cannot be ensured.** (Subsidiary, Affiliate)
- Communication is centered on financial statement reports. There is a tendency for **most of the communication to be from the OAC to the affiliate.** (Affiliate)
- It is hard for subsidiaries to see what the parent is considering. (Subsidiary)
- Selling the subsidiary's shares is the parent's decision. **It is pointless for the subsidiary to consider it if the parent is not considering it.** (Subsidiary)

- In many cases, considerations of capital policy and business restructurings may include highly confidential information. Because of this, many companies **worry about the balance between enhancing explanations to investors and managing information.**
- In addition, some companies, particularly **Affiliates, lack the human resources to handle consideration/disclosure.**

Caution About Making Disclosures Connected With Management Strategies and Confidential Information

- Considerations of capital policy **may include highly confidential information about medium-to-long-term strategies and shareholder composition.** It is necessary to strike a **balance between enhancing explanations to investors and appropriately managing information.** (Parent, Subsidiary)
- **Information on business restructurings and on reviews of capital ties have a great impact on competitiveness and the market.** It is necessary to carefully assess whether to disclose such information before it has been finalized. (Parent, Affiliate)
- It is necessary to carefully assess whether to disclose the status of our considerations because **it borders on being insider information.** (Parent)
- **It is difficult to determine how much confidential information to share** with our parent company. (Subsidiary)
- Because the OAC does not have a controlling stake in our company, **we must carefully assess whether to share our undisclosed management strategy or confidential information.** (Affiliate)

Lack of Internal Structures or Resources

- We **lack specialized human resources** to handle consideration/disclosure of capital policy. (Affiliate)
- Our administrative division has limited resources. **We cannot set aside the resources to consider/disclose capital policy.** (Affiliate)
- Due to a lack of resources, it is hard to **build an adequate internal system.** (OAC)

- TSE received a lot of feedback from listed companies asking for **guidelines** on what to consider and disclose (e.g., **what to consider, how to consider it, and what they are expected to disclose**) and to provide them with **additional specific examples of disclosures**.
 - **There were a lot of requests** not only from CPSRs **but also from CEMRs**.
 - Some listed companies asked for practical guidelines and disclosure examples in cases where it was difficult to disclose the consideration process for information management reasons.

Disclosure Examples/Enhanced Guidelines

- We would like TSE to indicate, on an ongoing basis: **(1) items to consider**, including when the company maintains its current capital structure, **(2) the process for considering the items at board of directors' meetings/special committee meetings**, **(3) specific examples of the disclosures that are expected of companies**, and **(4) practical matters to keep in mind when making the disclosures**. (Subsidiary)
- When considering group management, we are **required to disclose not only explanations of qualitative synergies but also quantitative assessments based on such metrics as WACC and ROIC**. Because of this, we would like TSE to provide specific disclosure examples for obtaining a fair assessment from the market. (Affiliate)
- We would like TSE to indicate, on an ongoing basis, **the kind of governance that leads to improvements in the corporate value of both parent companies and their subsidiaries**, and **good examples of specific disclosures/dialogue that will be well received by the capital market**. (Parent)
- We would like TSE to **give more good examples of disclosures from companies with OACs**. (Affiliate)
- **Small-and-medium-sized listed companies lack the personnel and knowledge to review and make disclosures on group management and capital structure**. We would like TSE to provide **more specific disclosure examples and step-by-step guidelines on the disclosure process**. (Affiliate)
- While we recognize the importance of making proactive disclosures from the perspective of minority shareholder protection, **it is hard to disclose our considerations and progress before a decision has been made**. While we are in the process of considering, we have no choice but to repeat the same explanation. We would like TSE to give us guidelines and reference examples on **how to disclose this to investors and market stakeholders in a way that reduces their dissatisfaction**. (OAC)

Ref.: Investors' Perspectives & Case Studies on Such Matters as Parent-Subsidiary Listings

- The following materials may be used as a reference when considering group management and minority shareholder protection. They introduce such matters as investors' fundamental perspectives and examples that received positive evaluations from investors (focusing on CPSRs).

"The Investor's Perspective on Such Matters as Parent-Subsidiary Listings" (February 2025)

- This publication introduces the investor's perspective on the best approach to parent-subsidiary listings and examples of specific cases where listed companies' initiatives are not aligned with it.

Cases of Misalignment with the Investor's Perspective (1)

Parent | Group Management | Minority Shareholder Protection | JPX

1. The parent only cites the advantages of listing its subsidiary

Investors' Comments

Example (based on an actual disclosure)

We have decided to keep the subsidiary listed because we believe that its credibility as a listed company will help expand our client base, secure human resources, and maintain and improve employee morale, and this will contribute to increasing our group's corporate value.

✓ There are many cases where the parent company merely cites the advantages of listing its subsidiaries and does not consider or explain whether this is optimal in terms of capital efficiency and improving the group's corporate value.

⇒ In TSE's request to take "Action to Implement Management that is Conscious of Cost of Capital and Stock Price," companies are expected to appropriately allocate management resources by being conscious of the cost of and returns on capital and doing such things as reviewing their business portfolios.

Example (based on an actual disclosure)

We believe that we have sufficient grounds for keeping the subsidiary listed because doing so helps it acquire talented human resources, maintain and improve employee morale, and receive flexible financing from the capital market.

⇒ As the parent company considers the balance sheet and cash allocation policy that it is hoping to achieve, it should also discuss and explain how it will position and utilize its listed subsidiaries.

⇒ In addition to qualitative analysis, the parent company needs to perform quantitative analysis from the perspective of capital returns (e.g., ROE and ROIC) and market valuation (e.g., PER and PBR) to determine such things as whether the subsidiary is achieving a return on capital that exceeds the cost of capital.

⇒ It is also important for the parent company to consider the best owner principle (whether it is the holding entity that maximizes its subsidiary's corporate value). As a result, it may choose to sell its subsidiary to a third party. Investors applauded companies like Hitachi and Fujitsu for considering their business portfolio strategy and selling some of their subsidiaries.

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"Compilation of Case Studies on Such Matters as Parent-Subsidiary Listings" (December 2025)

- This publication contains examples of disclosures on corporate efforts related to such matters as parent-subsidiary listings. The disclosures were positively evaluated by investors from the perspectives of group management and minority shareholder protection.

Index

#	Company
1	Roche/Chugai Pharmaceutical
2	NIL/Nippon Paint
3	Canon/Canon
4	Fujitsu/SHINKO
5	NTT/NTT DATA
6	ITOCHU/DESCEN
7	ADEKA/Nihon
8	SoftBank Group/S

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Roche (SIX Swiss Exchange) / Chugai Pharmaceutical (Prime: 4519) (2)

Information disclosed by Chugai Pharmaceutical

Significance of the Strategic Alliance
Win-Win Partnership through Network-based Management

Benefits for Roche

- Consolidating Chugai by acquiring a majority of its shares
- Strengthening its presence in Japan (before its Japanese subsidiary, Nippon Roche, was ranked around 40th at the time)
- Gaining exclusive rights to market Chugai products globally (excluding Japan, South Korea, and Taiwan)

Benefits for Chugai

- Maintaining its stock market listing and corporate identity as Chugai Pharmaceutical
- Maintaining its management autonomy
- Gaining exclusive rights to market Roche products in Japan
- Gaining access to the global market through Roche's development and sales network
- Focusing its management resources on R&D

The stable income base provided through the strategic alliance with the parent company, Roche, enables the subsidiary to concentrate management resources on drug discovery. The subsidiary explains in detail how significant this strategic alliance is and the reasons for prioritizing autonomous and independent management, linking it to its own business model.

A Business Model of Autonomous and Independent Management, and a Strategic Alliance with Roche

Chugai products: Specialization in innovative, ground-breaking drug discovery. Global development and sales acceleration through our licensing to Roche.

In-Sourced Roche products: Exclusive rights in Japan for promoting new drug candidates. Stable profitability from Japanese operations.

Note: The two slides on this page were translated into English by Chugai Pharmaceutical

Source: Pages 5 & 6 of report on roundtable meeting between Chugai Pharmaceutical Co., Ltd. and institutional investors on October 30, 2024 (in Japanese only)
<https://www.nihon-sei.co.jp/en/roche/chugai-pharmaceutical-co-ltd>

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Source (JPX Website)

<https://www.jpj.co.jp/english/equities/improvements/study-group/index.html>

- While they recognize the importance of speaking with investors and disclosing information, **some companies expressed concern that there is a growing sentiment calling for uniformly breaking up or reviewing parent-subsidary relationships and equity method relationships.**

Concerns About Investors

- While some investors highly evaluate our efforts, **others are simply concerned about the fact that our parent company is also listed, and that has become a challenge in dialogue with those investors.** (Subsidiary)
- **We are concerned about the growing sentiment calling for uniformly breaking up or reviewing** parent-subsidary listings, including CEMRs, and capital structures that have listed affiliates. **We hope for an environment in which such structures are evaluated in a multifaceted and flexible manner from the perspective of enhancing corporate value**, taking into account not just the fact of the capital structure in itself but also specific circumstances such as the company's position within the group and SHRs. (OAC)
- **We are concerned that** regulations and disclosure rules related to parent-subsidary listings and similar concepts **may be utilized as a means of exerting pressure on the investee company by shareholders who prioritize short-term profits over medium- to long-term corporate value.** We are also concerned that if certain parts of the disclosed information are selectively excerpted and disseminated, this could deviate from the original intent of the rules and lead to significant adverse effects, such as hindering efforts to enhance corporate value. (Parent)
- Although we recognize the issue itself, we are concerned that requiring disclosure of the status of considerations could encourage short-term stock trading driven by expectations of a takeover bid, which could potentially adversely affect long-term corporate value. Furthermore, there are cases where investors, citing disclosure requests as grounds, seek information that is close to insider information, raising concerns that the rules may not be operating as originally intended. (Parent)

- Investors state that **discussions regarding group management and related issues have not progressed sufficiently within CEMRs**; specifically, with a focus on **capital-provider OACs**, there is an expectation that **the appropriate approach be examined from the perspective of management resource allocation** and that efforts be made to **enhance corporate value at LAs**.

Issues at CEMRs

- While there are **some equity method relationships that are strategically useful**, such as those aimed at enhancing the corporate value of both parties through technological or business synergies, there are **also cases where the objective/importance of continuing to hold said shares is not necessarily clear**. (Domestic Institutional Investor)
- If the goal is to respect a company's independence, a business alliance would suffice. If it is to enhance synergies as a group, the company should be converted into a wholly-owned subsidiary. **A rational explanation, such as "why that particular SHR?," is required for controlling relationships, as well**. (Domestic Institutional Investor)
- As investor scrutiny of parent-subsidary listings and cross-shareholdings has intensified, **this type of arrangement has become a loophole. Our impression is that companies have not sufficiently examined the importance/rationale for maintaining equity method relationships**. (Overseas and Domestic Institutional Investors)
- There are cases where, even if there was a rationale for holding the shares at the outset of a capital and business alliance, **no ongoing verification or review has been conducted** since then. (Overseas Institutional Investor)

Expectations of OACs (Capital Providers)

- The decision on whether to hold listed affiliates **should be considered as part of efforts on "management that is conscious of cost of capital and stock price"**—specifically, as part of appropriate resource allocation—and evaluated from the perspective of, for example, whether value creation exceeding the cost of capital is being achieved. (Overseas and Domestic Institutional Investors)

Expectations of OACs (Capital Providers) (Continued)

- **Listed affiliates** have, to some extent, been shielded from market discipline by the presence of their large shareholders, and **the pace of improvement, such as on management that is conscious of cost of capital and stock price, appears slower compared to companies with a more dispersed shareholder base.** It is important for OACs holding stakes in these listed affiliates to appropriately exercise their influence as large shareholders and promote the growth of the listed affiliates. (Domestic Institutional Investor)

Current Situation of Listed Affiliates (Capital Receivers)

- **While disclosure requests have served as a catalyst for reevaluating the rationale for listing,** the impression is that **discussions at listed affiliates are still in the early stages.** In particular, regarding mid-sized listed affiliates, we hear that, in part because they are not a high priority for the capital providers, there are some **cases where there is no dialogue with the capital provider, or where attempts to initiate dialogue are rejected.** (Trust Bank)

Promotion of Consideration/Disclosures Regarding Group Management

- There are a number of listed CEMRs that **feel the need to reexamine their reasons for adopting this capital structure from the perspective of enhancing their group's or their own medium-to-long-term corporate value.**
- Should TSE consider/implement such support measures as the below, in order to support such companies?
 - Identifying/publishing **key points for making considerations/disclosures on group management from investors' perspectives**
 - Collating/publishing **examples of disclosures that have been positively evaluated by investors**
 - ⇒ TSE plans to **interview institutional and other investors** about their perspectives on CEMRs (including their perspectives depending on the SHR)
 - In particular, is it important **to engage with OACs, which are the capital providers?**
 - Please note that it will also be emphasized that TSE's measures are not intended to **repute equity method relationships themselves.**

Listing Rules Related to Minority Shareholder Protection

- In light of conflict-of-interest cases that have come to light involving quasi-controlled listed companies with quasi-controlling shareholders, this study group discussed measures under the listing rules for minority shareholder protection.

Specific cases are not disclosed

- In December 2023, the study group **called for enhanced disclosure regarding minority shareholder protection**, as well as on group management.
 - This set out an expectation for **listed companies** to enhance **voluntary disclosures from an investor perspective**, so that **obstacles to long-term investment and excessive discounts** are eliminated, while ensuring **sufficient predictability for investors' investment decisions**.
 - ⇒ **For listed CEMRs**, the guidance remains merely a recommendation, and the number of companies making disclosures is limited (as of July 2025, 81 OACs and 240 LAs were making disclosures); there are also differences in the content and level of detail of the disclosures.
- Despite expectations for voluntary initiatives, cases that raise concerns from the perspective of minority shareholder protection continue to be observed.

Specific cases are not disclosed

Listing Rules Related to Minority Shareholder Protection

- For companies with a controlling shareholder, in addition to **requiring disclosure of measures for minority shareholder protection**, **certain procedural regulations have also been established for significant transactions with the controlling shareholder**.
 - In recent years, the scope of some rules has been expanded to include listed affiliates with OACs; however, **disclosure requirements and procedural regulations** for listed affiliates remain limited.

			Ownership Ratio By Large Shareholder	50% or more (Listed Subsidiaries)	40% or more	30% or more	20% or more (Listed Affiliates)	Less than 20%
Disclosure Rules	Disclosure of Matters Relating to Controlling Shareholder, etc.	<ul style="list-style-type: none"> Disclosure of relationships with parent companies, etc. (including transactional, personnel, and capital relationships) 		←	→	→	→	→
		<ul style="list-style-type: none"> Disclosure of guidelines and implementation status regarding measures for minority shareholder protection in transactions with controlling shareholders 		←	→	→	→	→
	Corporate Governance Report	<ul style="list-style-type: none"> Disclosure of the company's policies and measures for ensuring the effectiveness and independence of its governance structure (including involvement in decision-making and an overview of special committees) 		←	←	Recommended	→	→
Procedural Regulations	Conversions into Wholly Owned Subsidiaries	<ul style="list-style-type: none"> Obtaining the opinion of a special committee regarding fairness to general shareholders and ensuring necessary and sufficient disclosure 		←	←	Expanded from July 2025	→	→
	Other Significant Transactions With Controlling Shareholders*	<ul style="list-style-type: none"> Obtaining an opinion from an independent party regarding fairness to minority shareholders and ensuring necessary and sufficient disclosure * "Significant Transactions" refer to decisions and occurrences that require timely disclosure. 		←	→	→	→	→
Other	Approval Rate of Minority Shareholders, etc.	<ul style="list-style-type: none"> Disclosure of the approval rate of minority shareholders, as well as the status of dialogue with minority shareholders and implementation of additional measures in response to opposing votes 		←	→	For fiscal years ending from Dec. 2026	→	→
	Independence Criteria	<ul style="list-style-type: none"> Directors who are related parties of the parent company or major shareholders are not considered independent 		←	←	Expanded for fiscal years ending from Dec. 2026	→	→ (10% or more)

- Listed subsidiaries (LSs) are required to disclose **guidelines regarding measures for minority shareholder protection in transactions with the controlling shareholder, and the implementation status of these.**
- In addition, both the parent company and LSs are required to disclose **measures to ensure the effectiveness of the LS's governance structure, as well as their policies and measures for ensuring independence.**

Disclosure of guidelines and implementation status regarding measures for minority shareholder protection in transactions with the controlling shareholder

- Companies with a controlling shareholder (such as LSs) are required to disclose **guidelines regarding measures for minority shareholder protection in transactions with the controlling shareholder** (including policies for establishing internal systems, internal decision-making procedures, and the use of external bodies, etc.).
- In addition, **the implementation status of these measures** must be disclosed annually within three months after the end of the fiscal year.
- For listed companies on the Prime Market and Standard Market, **the Corporate Governance Code also includes disclosure principles regarding related-party transactions with controlling shareholders and others** (establishing appropriate procedures based on the significance and nature of the transactions and disclosing that framework).

Disclosure of measures to ensure the effectiveness of the LS's governance structure, as well as their policies and measures for ensuring independence

- LSs and parent companies are required to **disclose measures to ensure the effectiveness of the LS's governance structure, as well as policies and measures for ensuring its independence**, in light of the parent-subsidary relationship. The disclosure of each of the following points is optional:

Subsidiary

Whether and to what extent the parent company is involved in the decision-making process, an overview of special committees, and how the Nomination Committee is utilized, etc.

Parent company

Approaches and policies regarding the exercise of voting rights concerning the appointment and removal of directors of the LS, as well as approaches and policies regarding involvement in the nomination process, etc. (including, as part of group management policies, policies on the coordination and allocation of business opportunities and business sectors, and the handling of the cash management system)

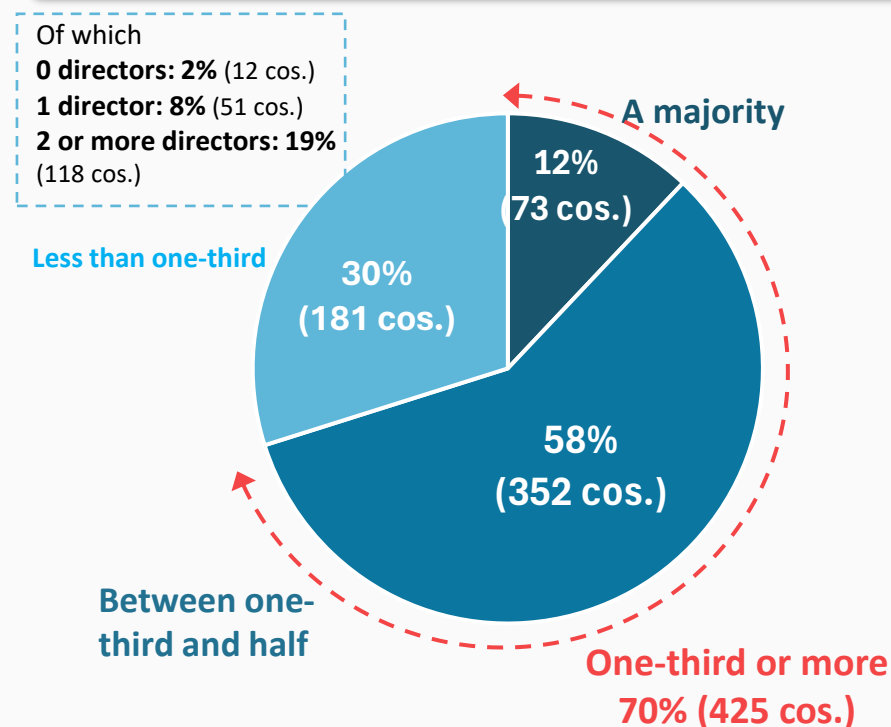
- **It is recommended that LAs and OACs provide similar disclosures.**

- On TSE, with respect to **significant transactions with controlling shareholders (holding more than 50% of voting rights)**, procedural regulations require **obtaining an opinion that the transaction will not undermine the interests of minority shareholders** and ensuring **necessary and sufficient disclosure**.
- **Overseas, transactions with a broader range of large shareholders are subject to procedural regulations** as related-party transactions (including approval by minority shareholders and obtaining opinions regarding the fairness of transaction terms).

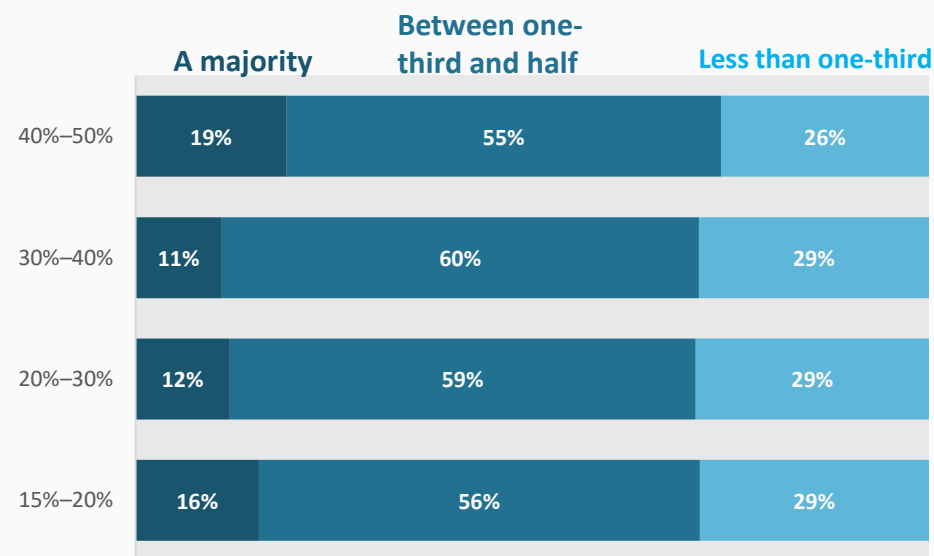
	Procedural Regulations (<u>Significant</u> Transactions with Controlling Shareholders, etc.)
Japan	<ul style="list-style-type: none"> ● For significant transactions with a controlling shareholder (holding more than 50% of voting rights), it is necessary to obtain an opinion from an independent party that the transaction will not undermine the interests of minority shareholders and to ensure necessary and sufficient disclosure of information.
United States	<ul style="list-style-type: none"> ● Transactions with related parties (such as transactions with shareholders holding 5% or more of voting rights) require prior review and oversight by the Audit Committee or similar body. (There is an obligation to cancel the transaction if it does not serve the interests of the company and its shareholders.) (Note: In the U.S., a controlling shareholder is defined as holding 50% or more of voting rights.) <div> <p>In addition to listing rules, protection is also provided through <i>ex post</i> damages claims based on the controlling shareholder's fiduciary duty under case law.</p> </div>
United Kingdom	<ul style="list-style-type: none"> ● Transactions with related parties (such as transactions with substantial shareholders (those holding 20% or more of voting rights)) require a resolution by the board of directors—excluding interested parties—and obtaining an opinion stating that the terms of the transaction are fair and reasonable. (Note: In the UK, a controlling shareholder is defined as holding 30% or more of the voting rights.)
Hong Kong	<ul style="list-style-type: none"> ● Transactions with related parties (such as transactions with substantial shareholders (those holding 10% or more of voting rights)) require approval at a general meeting of shareholders excluding interested parties, as well as obtaining an opinion from a committee of independent directors or a financial advisor confirming that the terms of the transaction are fair and reasonable. (Note: In Hong Kong, a controlling shareholder is defined as holding 30% or more of the voting rights.)
Singapore	<ul style="list-style-type: none"> ● Transactions with related parties (such as transactions with a controlling shareholder (those holding 15% or more of the voting rights)) require approval at a general meeting of shareholders excluding interested parties, as well as obtaining an opinion from the Audit Committee or a financial advisor that the transaction will not undermine the interests of minority shareholders.

- The appointment of independent directors has progressed to a certain extent at LAs as well.
 - **70% of companies have appointed independent directors constituting one-third or more of the board (of which 12% have appointed a majority).** (Among all listed companies, 79% have appointed independent directors constituting one-third or more of the board (of which 19% have appointed a majority).)
 - No significant differences in appointment rates were observed across different ownership ratios.

Distribution of the Proportion of Independent Directors at LAs



By Ownership Ratio (companies with a March fiscal year-end)



Source: Compiled based on the corporate governance reports of each company as of July 14, 2026, for LAs (606 companies) that disclosed “Matters Concerning Controlling Shareholders, etc.” between July 15, 2025, and July 14, 2026

- In July 2025, TSE revised its Code of Corporate Conduct on MBOs and subsidiary conversions based on the deliberations of the Council of Experts Concerning the Follow-up of Market Restructuring.

Review of the Scope of Actions Covered by the Code

- In such cases as **when a listed company decides on an MBO or its conversion into a wholly-owned subsidiary by an entity such as its controlling shareholder or another related company**,^{1,2} TSE will require the listed company to obtain an “opinion stating that the transaction will not undermine the interests of minority shareholders” and make a “necessary and sufficient timely disclosure” as stipulated in the “Matters to Be Observed” in the Code of Corporate Conduct.

	Subsidiary Conversion by Controlling Shareholder	MBO	Subsidiary Conversion by Other Related Company
(1) Opinion stating that the transaction will not undermine the interests of minority shareholders <ul style="list-style-type: none"> ● Requirement to obtain said opinion from an entity that has no interest in the controlling shareholder <ul style="list-style-type: none"> * Due to this revision, has been changed to an opinion regarding “fairness to general shareholders” 	Already applicable	Newly applicable	
(2) Necessary and sufficient timely disclosure <ul style="list-style-type: none"> ● Requirement for necessary and sufficient timely disclosure <ul style="list-style-type: none"> * Including outline of share value calculation. Due to this revision, disclosure related to share value calculation has been expanded. 	Already applicable		Newly applicable

¹ “Other related company” refers to that set forth in Article 8, Paragraph 8 of the Financial Statements Regulation (cases where a company holds 20% or more of the voting rights, or cases where a company holds between 15% and 20% of the voting rights and can exercise significant influence)

² Includes share exchanges and share transfers conducted by a controlling shareholder or other related company acting as a party to the transaction, in addition to cash-outs conducted through share consolidation without going through a so-called two-step acquisition or a tender offer.

Revision of Content of the Code

- Revision of the “opinion stating that the transaction will not undermine the interests of minority shareholders” (including providers and contents)** to improve the effectiveness of the deliberations of special committees
- Revision of the contents of “necessary and sufficient disclosure of information”** (enhancing disclosure of important assumptions for the share value calculation) to ensure that general shareholders judge the fairness of a transaction on the basis of sufficient information

Reference: Ownership Thresholds Related to Control and Influence

Ownership Percentage		Remarks
50% or more	Parent companies	<ul style="list-style-type: none"> "parent company means any entity which is prescribed by Ministry of Justice Order as <u>a corporation who controls the management of a stock company</u>, including, but not limited to, <u>a company which has a stock company as its subsidiary company</u>" (Article 2, Item 4 of the Companies Act) "parent company... <u>means a company, etc. that has control over the body that makes decisions on the financial and operational or business policies</u> of another company, etc. (Article 8, Paragraph 3 of the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements)
40% to less than 50%	Parent companies (if the control criteria are met)	<ul style="list-style-type: none"> Same as above (control over a majority of the directors, etc.)
	Deemed as a majority of voting rights in practice	<ul style="list-style-type: none"> Where a voting right participation rate of less than 80% is assumed (applies to approximately 80% of listed companies)
30% to less than 40%	The 30% rule under takeover bid (TOB) regulations	<ul style="list-style-type: none"> "Furthermore, taking into account the actual ratios of voting rights exercised at Japan's listed companies, holding voting rights of at least 30% is surmised <u>to enable the blocking of a special resolution of a shareholders meeting</u> at many listed companies and <u>to have a significant effect on an ordinary resolution of a shareholders meeting.</u>" (the Report by the Working Group on Tender Offer Rule and Large Shareholding Reporting Rule of the Financial System Council)
25% to less than 30%	Restrictions on voting rights under cross-shareholdings	<ul style="list-style-type: none"> "the shareholder prescribed by Ministry of Justice Order as the entity in a relationship that may allow the Stock Company to have substantial control of such entity through the holding of one quarter or more of the votes of all shareholders of such entity or other reasons" (Article 308 of the Companies Act)
20% to less than 25%	OACs or affiliated companies	<ul style="list-style-type: none"> "affiliated company" means, when a company, etc. or its subsidiary company <u>is able to exert its significant influence on decisions on financial and operational or business policy</u> to be made by another company, etc. that is not a subsidiary company, due to the relationship in terms of investment, personnel, funds, technology, transactions, etc., the relevant other company, etc. that is not a subsidiary company." (Article 8, Paragraph 5 of the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements)
10% to less than 20%	Major shareholders	<ul style="list-style-type: none"> "a major shareholder (meaning a shareholder that holds voting rights exceeding 10 percent of the voting rights held by all the shareholders, etc. in the shareholder's own name or the name of another person" (Article 163, Paragraph 1 of the Financial Instruments and Exchange Act)
5% to less than 10%	Large shareholders	<ul style="list-style-type: none"> "A holder... whose ownership ratio of share certificates, etc. with respect to the relevant share certificates, etc. exceeds five percent" (Article 27-23, Paragraph 1 of the Financial Instruments and Exchange Act)

Consideration of the Appropriate Listing Rules for Minority Shareholder Protection

- In order to ensure appropriate minority shareholder protection in light of potential conflicts of interest involving CEMRs, it may be appropriate to reconsider **the listing rules related to the protection of minority shareholders (hereinafter referred to as "general shareholders")** applicable to LAs.
 - ✓ For example, from the perspective of ensuring sufficient predictability for investors' investment decisions, consideration could be given to **establishing disclosure rules for minority shareholder protection** applicable to LAs, as well as **certain procedural regulations for transactions with OACs**.
 - In doing so, consideration would need to be given **to the differences from listed subsidiaries**, as well as **the fact that the degree of influence exercised by OACs varies among LAs**.
 - ✓ **Even if the scope is expanded, the current disclosure rules should also be streamlined, including through the elimination of duplication among various disclosure documents**, so as not to impose an excessive burden on listed companies.
- Furthermore, consideration should be given to establishing a similar framework, as necessary, for owner-managed companies in which the founding family or similar parties are major shareholders (which are not in an equity method relationship).