Document 2

TSE Explanatory Materials (2)

(Revision of Listing Rules Regarding Minority Shareholder Protection)

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October 2, 2026

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Mandatory Disclosure of Minority Shareholder Approval Rates, etc. and Revision of Independence Criteria

- Following discussions in this study group, in July 2026, disclosing minority shareholder approval rates, etc. was made mandatory and independence criteria were revised (to be phased in starting from annual general meetings (AGMs) for the fiscal year ending December 2026)

Mandatory disclosure of minority shareholder approval rates, etc.

- **It was made mandatory** for **companies with shareholders owning 40% or more of voting rights** to disclose **minority shareholder approval rates for resolutions for director appointments (limited to those proposed by the company)** and to take measures regarding **opposing votes, such as engaging in dialogue with minority shareholders**

Companies with shareholders owning 40% or more of voting rights

Analyze minority shareholder approval rates, etc.

- Analyze minority shareholder approval rates for resolutions for director appointments (limited to those proposed by the company)

⇒ **Disclose without delay after the AGM**

Companies with appointment resolutions that failed to gain more than 50% approval from minority shareholders

Engage in dialogue with minority shareholders

- Engage in dialogue with minority shareholders to understand reasons for opposing votes

Discuss and implement measures

- At board of directors' meetings, discuss the necessity of additional measures and details of those to be taken based on feedback received from dialogue with minority shareholders, and then implement these

⇒ **Disclose no later than six months after the AGM**

Revision of independence criteria

- In light of concerns about conflicts of interest, independence criteria were revised as follows

I. **Major shareholders of listed companies** or **executives, etc. of entities for which the listed company is a major shareholder shall not be deemed independent**

II. **Executives, etc. of entities with cross-shareholdings relationships** are not uniformly deemed not independent, but **disclosure of relevant circumstances** is required

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Ref.: Sample Disclosure Forms (Excerpts)

The number of votes for and against and the number of abstentions by minority shareholders, as well as the approval rate for director appointment proposals (those proposed by the Company)

Name of candidate	Approval	Opposition	Abstention	Approval Rate (%)
Name				
Name				
Name				

＜State notes regarding the aggregation and calculation methods for the above numbers of votes for and against and the numbers of abstentions, as well as the approval rates (if a portion of the voting rights of minority shareholders attending the AGM was not included in the count, including the reason for this).＞

Note: The approval rate is calculated by using, as the denominator, the number of voting rights held by minority shareholders present at the meeting who were entitled to exercise voting rights, and, as the numerator, the number of voting rights held by those minority shareholders who indicated their approval.
In addition, as the Company was able to confirm an approval rate exceeding 50% by tallying the voting rights (for which approval or opposition was verifiable) of minority shareholders who exercised their voting rights in advance and a portion of the minority shareholders who attended the meeting, the Company did not tally the voting rights of the remaining minority shareholders.

Shareholders excluded from the category of minority shareholder

＜ Example of a parent company ＞

(As of MM, DD, YYYY)

Name	Relationship with the Company	Rate of voting rights held (%)		
		Voting rights directly held	Voting rights subject to aggregation	Total
YYYYYY Co., Ltd.	Parent company	51.00	4.00	55.00

＜Provide a summary of any shareholders included in the aggregation.＞

Note: The shares held by XX Company, a subsidiary of the parent company, are included in the aggregation.

(...)

＜Example of a major shareholder who holds 40% or more of the voting rights with close relatives＞

(As of MM DD, YYYY)

Name	Relationship with the Company	Rate of voting rights held (%)		
		Voting rights directly held	Voting rights subject to aggregation	Total
Ichiro Kono	Major shareholder	20.00	25.00	45.00

＜Provide a summary of any shareholders included in the aggregation.＞

Note: The shares held by XX Company, the asset management company of Mr. Kono (20.00%), by Hanako Kono, the spouse of Mr. Kono (4.00%), and by their two children (1.00% in total), are included in the aggregation.

(...)

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Ref.: Views Expressed Through Public Comments (1)

- 38 comments were received from mainly Japanese and overseas institutional investors during the public comment period held from March 27 to April 26, 2026
  - While **many institutional investors expressed support for the revisions**, some called for **rules to be expanded further** regarding mainly the disclosure of approval rates for resolutions for director appointments (to cover more companies and proposals, and to lower the threshold (more than 50%) for opposing votes that triggers the requirement for dialogue with investors)
  - While listed companies understood the need for dialogue with minority shareholders, they expressed **concern over excessive pressure from shareholders focusing on the short term** and **the burden on administrative processes of compiling approval rates**.

In support of the revisions

- We regard these revisions as **highly significant in that they support management** at listed subsidiaries and companies with quasi-controlling shareholders **in making decisions independent of the intentions of parent companies and quasi-controlling shareholders, and encourage efforts to enhance the corporate value of their own companies.**
- Although more than ten years have passed since dialogue between companies and shareholders began to be promoted through the Corporate Governance Code and other frameworks, there are many **companies that remain reluctant about dialogue, or for which dialogue alone is insufficient to bring about change, due to their stable shareholder base.** In this regard, it is highly meaningful for TSE to focus on shareholder composition and **encourage director appointments that take into account a majority of the minority (MoM) perspective,** as in these revisions.

Expanding the scope of companies to which the rules apply

- TSE should consider applying the rules to **companies with shareholders owning 30% or more of voting rights. This would align with international practice, as countries such as the United Kingdom, Singapore, Germany and France recognize 30% as the threshold for effectively being in control.**
- In practice, **any shareholder with over 20% ownership** is typically **able to exert significant influence over the affiliate's business operations, capital allocation, and governance decisions.** Given the large number of Japanese companies with a major shareholder owning between 20% and 50% of voting rights, we believe the rules should **apply to companies with a major shareholder holding 20% or more of voting rights.**

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Ref.: Views Expressed Through Public Comments (2)

Expanding the proposals to which the rules apply

- From the standpoint of protecting minority shareholders' interests, it would be preferable not to limit this requirement to company-proposed resolutions for director appointments, but to **apply the same disclosure rules to all resolutions, including shareholder proposals that receive a certain level of approval from minority shareholders.**

Lowering the threshold (50% or more) for opposing votes that triggers the requirement for dialogue

- **The threshold for minority shareholder opposition** should be lowered **from 50% to 20%,** so as to better reflect **actual voting patterns in Japan and international best practices.**

Concern about excessive pressure from shareholders focusing on the short term

- We understand that when the board identifies the concerns of minority shareholders through dialogue or other means and considers necessary measures, this contributes to the enhancement of corporate value over the medium to long term. At the same time, **we are concerned that shareholders focusing on the short term may exploit the rules to put one-sided pressure on companies, rather than following them for their intended purpose.**

Considering the administrative burden

- **Approaches should be aligned as much as possible with Extraordinary Reports,** regarding breakdowns by proposal, denominators, what shareholders are excluded from the minority shareholder category, and the **handling of and disclosure format for** votes for and against, abstentions, and unexercised voting rights.

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Future Actions

Following up on revisions to rules

- These revisions will be phased in starting from AGMs for fiscal years ending on or after December 1, 2026. **After the new rules take effect, TSE will conduct follow-up assessments starting in fall 2027 to see how companies are responding regarding information disclosure and dialogue with investors**
  - ➢ Although we received public comments calling for expanding the scope of companies and proposals to which the rules apply, we will first **focus on verifying whether the original rule revisions are functioning effectively**

Considering additional measures

- Taking into account company responses and market stakeholder views, we will continue to examine **measures necessary for encouraging effective dialogue between companies and investors**

  Note: Institutional investors have also expressed the following requests and concerns:

  - ✓ To conduct effective engagement activities under the new rules, we would like a **clear picture of which companies mandatory disclosure applies to**
  - ✓ **To ensure that information disclosure on company responses to opposing votes does not become boilerplate**, we would like TSE to follow up on it and give appropriate guidance

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