

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

Minutes of the Tenth Meeting

Date: Friday, October 2, 2026, 11:00 – 12:20

Location: Tokyo Stock Exchange, 15F Special Conference Room

Attendees: See member list

Watanabe, Director, Listing Department, TSE:

We would now like to hold the 10th 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.

Mr. Harada is absent today. The Financial Services Agency and the Ministry of Justice are participating online as observers.

Since it's lunchtime, we've prepared boxed lunches. Please feel free to enjoy it whenever you like.

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.

In previous study group sessions, we have primarily discussed parent-subsidary listings, but this term, we would like to focus our discussion on equity method relationships.

Today, we would like to present an overview of the current status of equity method companies, the results of the survey regarding disclosures on group management, and the current system for protecting minority shareholders, and then I hope we can discuss our future course of action.

In addition, regarding the review of the listing system concerning the protection of minority shareholders—a topic discussed at last year's study group meeting—we would like to take this opportunity to report once again on the details of the recent regulatory amendments.

We have distributed a list of members to everyone. Mr. Harada from NIPPON STEEL will be joining us in place of Mr. Ouchi. Mr. Harada is unable to attend today due to a scheduling conflict, but we have included his written statement at the end of the materials, so please feel free to refer to it as needed.

Watanabe, Director, Listing Department, TSE:

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

First, we will explain Document 1, “Current Situation Around Equity Method Relationships and Future Initiatives.”

Yamawaki, Senior Manager, Listing Department, TSE:

I will now explain Document 1, “Current Situation Around Equity Method Relationships and Future Initiatives.”

Please see page two.

To date, our study group has primarily focused on discussions and initiatives related to group management and the protection of minority shareholders in companies with parent-subsidary relationships.

On the other hand, a recent survey on the status of consideration on group management policies revealed that, particularly among companies in equity method relationships, while many feel the need to address this issue, a significant number are struggling because concrete consideration has not progressed.

Furthermore, regarding the protection of minority shareholders, the appropriate structure of listing regulations concerning the protection of minority shareholders in companies in equity method relationships has long been a topic of discussion.

In light of these circumstances, we intend to focus on companies in equity method relationships during this term and further deepen our discussions and deliberations.

Before delving into the specific issues, we present several facts on pages three and following regarding the current status of companies in equity method relationships.

First, page four shows the trends in the number and percentage of listed companies with major shareholders holding 20% or more but less than 50% of the shares. This number has continued to rise gradually, and as of July 2026, it has exceeded 1,000 companies.

Page five shows the trend in the number of listed subsidiaries for reference.

As you are aware, while the Tokyo Stock Exchange by no means opposes the structure of parent-subsidary listings, discussions are underway regarding the appropriate allocation of management resources—primarily at the parent company level—and efforts are being made to review business portfolios and other related matters. Against this backdrop, the number of listed subsidiaries has recently declined to approximately 180.

Page six shows the number of companies that disclose having other associated companies that significantly influence their own policy decisions—so-called listed affiliates.

Earlier, I mentioned that there are about 1,000 listed companies with major shareholders holding between 20% and 50% of their shares. Among the 1,000 companies, there are approximately 400 that, although more than 20% of their shares are held by owner-managed entities such as asset management companies, are not classified as other associated companies because it is deemed that this ownership does not exert a significant influence on the company’s decision-making.

Therefore, our understanding is that there are approximately 600 companies whose capital ties with other firms are structured in a way that is closer to that of a corporate group. For your reference, we’ve also included information on market segments, market capitalization, and industry sectors. A wide range of companies are listed under such capital structures, without any particular bias toward specific sectors or categories.

Starting on page seven, we have compiled data focusing exclusively on listed affiliates with a fiscal year-end of March 31, showing the relationships between these listed affiliates and their holding companies, which are classified as other associated companies. The first point is the capital relationship.

As shown in the graph on the left, while the largest number of companies have ownership ratios in the 20% range held by other associated companies, the ratios are generally dispersed.

Furthermore, as shown in the graph on the right, 64% of the other associated companies, the holding side, are listed on the Tokyo Stock Exchange, and most of them are listed on the Prime Market. From the perspective of promoting group-wide management, it will also be important to engage with the upstream affiliates. From that perspective, 64% of companies are actively managing their operations with an eye on the cost of capital and stock prices, and can be said to be companies from which we expect them to consider issues such as the appropriate allocation of management resources.

Page eight covers business relationships.

As shown in the graph on the left, 68% of listed affiliates have disclosed that they have significant business relationships with other associated companies.

We've also included the breakdown by ownership percentage on the right. It is evident that many companies have business relationships with other associated companies, regardless of the level of ownership in those companies.

Furthermore, when broken down by whether the company is publicly listed, 80% of listed affiliates have a business relationship with other associated companies, if those are listed companies. On the other hand, in other associated companies are unlisted—perhaps because some of those include asset management firms, funds, and the like—the majority of affiliates have no business relationship with them.

Page nine describes interpersonal relationships.

Specifically, we investigated the percentage of companies where individuals seconded from other associated companies also serve as directors of listed companies. As shown in the graph on the left, 56% of listed affiliates have disclosed such concurrent director positions.

We have also included breakdowns by ownership percentage and by whether the company is listed or not on the right-hand side. A lot of companies have individuals that hold concurrent positions, regardless of their ownership stake or whether the company is listed or unlisted.

In addition, as noted in the second point of the introductory paragraph, a certain number of companies voluntarily disclose information regarding situations such as directors holding concurrent positions as auditors or employees on secondment.

On page 10, we have included the results of a cross-analysis of business and personal relationships for your reference. The results showed that 86% of companies have at least one of these relationships.

On page 11, for your reference, we have reprinted the status of governance-related contract signings at listed affiliates, which we have previously introduced in our study group meetings. I will spare you the explanation.

That concludes our presentation of the facts; pages 12 and onward cover the specific points of discussion.

First, regarding the review and disclosure of group management.

Please turn to page 13. In December 2023, with a view to enhancing the Group's corporate value and other considerations, we requested that companies re-examine and disclose the rationale for adopting capital structures such as parent-subsidary relationships and equity method relationships. Given that three years have passed since then, we recently conducted another survey targeting companies in parent-subsidary relationships and those in equity method relationships to gather information on the status of their reviews and other matters.

As a result, we received responses from 111 parent and subsidiary companies and 208 companies in equity method relationships.

Page 14 and following contain an analysis of the survey results. First, I'd like to discuss the status of the review and disclosure.

What came as a bit of a pleasant surprise to us was that it appeared not only companies in parent-subsidary relationships—where disclosure of group management is mandatory—but also companies in equity method relationships, where disclosure is merely recommended, recognized the need to consider this issue.

Regardless of the form, the largest number of companies responded that they had determined the current form to be optimal and were explaining this to investors.

On the other hand, among companies in equity method relationships, a greater proportion—compared to companies in parent-subsidary relationships—acknowledged that their current capital structure may not be optimal and that it needs to be reevaluated in the future.

Page 15 details the specific progress made in the review process at companies that indicated they needed to reconsider the matter.

In most cases, the discussions were led by the parent company or other associated companies—that is, the upstream affiliates. However, among companies in equity method relationships, as indicated by the red box in the graph, there were also many responses stating, "We are aware of issues but have not started specific considerations."

Page 16 discusses the reasons why the review is not progressing—in other words, the challenges companies are facing.

As shown in the graph on the left, many of the companies that responded that they needed to reconsider the matter are aware of certain challenges they face in doing so. Specifically, common issues cited included how to facilitate communication and move forward among parent-subsidary companies or other associated and affiliated companies; how to balance the disclosure of management strategies with the management of confidential information; and a shortage of the personnel and resources needed for these deliberations. We'll be discussing the companies' specific comments starting on the next page and beyond, so I'd like to explain them to you.

First, page 17 covers topics related to communication.

We have heard comments from upstream affiliates that it is difficult to move discussions forward, given the need to consider the independence of their subsidiaries and affiliates. We hear from downstream affiliates that they have no insight into the deliberations taking place at parent companies or other associated companies, and that there is no forum for discussion between the two companies.

In addition to communication challenges, as noted on page 18, discussions regarding capital strategies and business restructuring often involve highly confidential information. Consequently, we hear concerns about striking a balance between providing investors with comprehensive explanations and managing information

securely, as well as concerns—primarily from listed affiliates—regarding a shortage of personnel and systems responsible for these discussions and disclosures.

Pages 19 and following discuss expectations for the Tokyo Stock Exchange regarding management and disclosure practices, such as group management.

In this survey, we received requests from a wide range of companies for guidelines summarizing key perspectives—such as those important for gaining positive evaluation from the market (investors)—to serve as a reference when considering and disclosing group management and related matters, as well as for examples of specific disclosures.

As outlined on page 20, with regard to parent-subsidary companies, last year we compiled and published a report on investor perspectives regarding parent-subsidary listings, as well as examples of companies that have actually received positive evaluations from investors. In this survey, there were also requests to expand the content specifically focused on companies in equity method relationships.

In addition, as noted on page 21, some companies expressed concern that there is a growing sentiment calling for the blanket dissolution or review of parent-subsidary relationships and equity-method accounting relationships.

On page 22, we once again present the main comments received from investors regarding companies in equity method relationships.

While there are equity method relationships that are strategically valuable, there are also many cases where the purpose and significance of continuing to hold shares from the perspective of enhancing corporate value are not necessarily clear; consequently, there have been calls for ongoing evaluation and review.

Furthermore, particularly for upstream affiliates, it is expected that they will examine the significance of holding as part of the appropriate allocation of resources aimed at enhancing corporate value. In addition, as noted on page 23, there were also comments urging upstream affiliates, as major shareholders, to promote the growth of their listed affiliates.

In light of these results, page 24 outlines the first item for discussion: our future policy regarding the promotion of group management initiatives.

Specifically, we would like to support companies and other organizations that recognize the need but have not yet made significant progress in their consideration. Going forward, we plan to conduct interviews with institutional investors and other stakeholders, compile key points for consideration and disclosure regarding group management taking account of the investors' perspective—including examples of practices that investors actually value—and publish this information as a reference for future discussions. We would like to structure this in a way that enables other associated companies—particularly upstream affiliates—to take the lead in these discussions.

On the other hand, as noted in the concerns raised earlier by listed companies, since this does not negate the equity method relationship itself, we intend to communicate carefully—for example, by emphasizing that point when outlining key points.

We would appreciate any feedback you may have regarding these policies and the process for conducting these discussions.

Pages 25 and onward cover the protection of minority shareholders.

On page 26, we have included a summary of the discussions held by our research group. The discussion began in response to the emergence of conflicts of interest at companies with controlling shareholders. In December 2023, we also called for enhanced disclosure regarding the protection of minority shareholders, in addition to considerations related to group management.

On the other hand, since the guidelines merely recommend disclosure, there is room for improvement in both the number of companies disclosing information and the content of their disclosures. Against this backdrop, even in the immediate present, we have seen instances involving companies in equity method relationships that raise concerns from the perspective of protecting minority shareholders.

Page 27 provides an overview of the current listing rules regarding the protection of minority shareholders.

The Tokyo Stock Exchange requires listed subsidiaries and other listed companies with a large number of minority shareholders to disclose measures for protecting minority shareholders in transactions with their parent companies. In addition, for particularly significant transactions that require timely disclosure, we have established certain procedural requirements, such as obtaining opinions confirming that the transactions will not be detrimental to minority shareholders.

On the other hand, many of these systems apply to companies with a controlling shareholder—such as a parent company—that holds a majority stake; although the scope of some of these systems has been expanded in recent years, disclosure requirements and procedural regulations for listed affiliates remain limited.

We have included some reference materials starting on page 28. Here is an overview of the current disclosure system.

We require listed subsidiaries and other entities to disclose measures to protect minority shareholders in transactions with the parent company, as well as their policies and measures regarding the overall governance structure and ensuring independence of listed subsidiaries.

On the other hand, as a result of the gradual expansion of the system, there are also challenges such as the fragmentation of disclosure documents and some overlap in content between the Corporate Governance Code and other documents.

Page 29 presents an international comparison of procedural regulations.

The Tokyo Stock Exchange has established procedural regulations regarding significant transactions with controlling shareholders, including requirements to obtain opinions and ensure adequate disclosure. On the other hand, in major overseas markets, transactions with major shareholders—not limited to controlling shareholders but including those holding 10% or more of the voting rights—are classified as related-party transactions and are subject to procedural regulations set by the stock exchange; such transactions require approval from minority shareholders and the submission of written opinions.

In Japan as well, the Companies Act and the Financial Instruments and Exchange Act require the disclosure of related-party transactions; however, unlike transactions involving conflicts of interest by directors, there are no procedural safeguards provided for by law.

Page 30 provides, for your reference, an overview of the appointment status of independent directors at listed affiliates.

Appointments are also progressing at listed affiliates, with 70% of these companies having appointed independent directors who make up at least one-third of their board. Furthermore, as can be seen from the

breakdown by ownership percentage on the right, the appointment process is proceeding regardless of the ownership percentage of other associated companies.

Page 31 discusses the expansion last year of the scope of conduct subject to procedural regulations in situations involving a particularly high risk of conflicts of interest, such as management buyouts (MBOs) and delistings through conversion to wholly-owned subsidiaries. I will omit the explanation of this point.

Page 32 provides a table, for your reference, showing the various thresholds used in laws and regulations regarding control and similar matters. I will also omit an explanation of this section.

Finally, on page 33, the second item for discussion is our policy regarding the protection of minority shareholders, or, more accurately, the protection of general shareholders in the case of companies in equity method relationships.

This issue has come up in previous study group meetings as well. We intend to reexamine the structure of the listing system to ensure that the interests of general shareholders are adequately protected in companies in equity method relationships.

Specifically, from the perspective of ensuring predictability for investors, we would appreciate your views on whether a disclosure system should be established for listed affiliates and whether certain procedural regulations should be put in place. In that regard, I would appreciate your thoughts on the differences in characteristics compared to listed subsidiaries, as well as the fact that even among listed affiliates, the nature of the relationships varies—with subtle differences in those relationships.

Furthermore, even if the scope is expanded, we plan to review the current disclosure system—including measures such as eliminating duplication in various documents—to ensure that listed companies are not subjected to an excessive burden.

Furthermore, regarding the issue of minority shareholder protection, we recognize that concerns regarding corporate governance and the protection of minority shareholders exist not only in corporate groups but also in companies—such as owner-managed businesses—where major shareholders hold 20% or more of the voting rights. We would also like to consider establishing a similar system for this matter, as necessary.

That's all from me. Please feel free to share your thoughts from either perspective; we would appreciate hearing your opinions.

Watanabe, Director, Listing Department, TSE:

Now, we would be happy to receive your comments.

Kikuchi, Member:

I'd like to make a couple of points.

First, let's look at the key points regarding the review and disclosure of group management. I agree with the approach of summarizing opinions based on feedback from investors and users. However, I think we should be cautious about being too specific in outlining a particular direction, such as stating, "This is the kind of disclosure we would like to see."

As mentioned in the explanation, I think there are significant differences in understanding on the corporate side, and I imagine there are also quite significant differences in perspective on the user side. Therefore, I think the first step should be to summarize both sides' opinions in order to get everyone on the same page.

In addition, an explanation was provided regarding duplicate disclosures. With regard to group management, I believe there is significant overlap with the discussion on business portfolios found in the Interpretive Guidance for Principle 4.1 of the recently revised Corporate Governance Code.

Therefore, taking into account the revisions to the Corporate Governance Code, we should avoid going into excessive detail—such as specifying exactly what should be disclosed in specific situations. On the other hand, since there appears to be a discrepancy between the perspectives of companies and investors, I believe it would be best to take a proactive approach to clarifying that gap.

Next, I do think the issue of differences in relationships is certainly a major problem. You’ve summarized the ownership ratios, business relationships, and personal connections, but I think the discussion would become clearer if you could also include the perspective of contracts.

In the annual securities reports for the fiscal year ended March 2026, examples of disclosures regarding such contractual relationships have begun to appear. Looking at these disclosures, there are cases where, even if there is no parent-subsidary relationship in terms of ownership percentages, the contracts reveal a relationship that is similar to a parent-subsidary relationship. Therefore, I believe that if you include the perspective of contracts, the differences will be organized with more accurate reflection of the actual situation.

I’d like to say just one more thing before I conclude: While this may not be the direct focus of this study group, I believe the issue of overlapping disclosure media is also becoming a growing concern.

Particularly regarding group management, as I mentioned earlier that there may be some overlap with the Corporate Governance Code, there is also the question of whether such information should be disclosed in the corporate governance report or in the securities report. Therefore, I think it would be good if we could also discuss, in parallel, which medium would be most appropriate for disclosure.

Kanda, Member:

Thank you very much. I’d like to make about three points, including my thoughts on the matter.

First, regarding the future direction outlined on pages 24 and 33, I believe this general direction is good.

First, the phrase “minority shareholder protection” appears throughout the document. While this is certainly not incorrect, when considering ownership stakes ranging from 20% to 50%, it feels a bit odd to refer to the remaining 80% as minority shareholders when, for example, there is a shareholder who holds 20% of the voting rights. I think it would be best to use the term “general shareholders” to avoid any misunderstandings.

Second, the biggest mystery to me is why there are as many as 1,000 publicly traded companies with shareholders holding 20% to 50% of their shares. I think this might be a characteristic of Japan, but I'm not sure.

Have these shareholders been present since the company went public, or did they join later? Earlier, it was explained that while the number of parent-subsidary listings is declining, the number of cases involving a 20% to 50% ownership stake has been increasing. I don’t need a detailed investigation into the specific history of each company, but if you could share any general trends—even just a broad overview—at some point in the future, I would appreciate it.

Third, even when we talk about relationships that hold 20% to 50% of the voting rights, I believe there are some companies that should be considered within the context of group management and others that should not.

For example, according to page seven, of the 402 listed affiliates that reported their financial results as of the end of March, 64% have upstream affiliates that are also listed; I believe this group of companies can be categorized as operating under so-called group management. On the other hand, there are some companies that are exceptions to this rule. As indicated by the asterisk on page 33, I believe this likely includes cases such as those managed by asset management companies or temporarily held by funds.

As for such companies, I think the approach indicated by the asterisk on page 33 is appropriate; however, I believe it was mentioned that cases where there are absolutely no business or personal ties are quite rare. I think such actual conditions are important, particularly in the case of asset management companies. Not all companies are managed as part of a corporate group, so in that sense, I think the approach marked with an asterisk on page 33 is appropriate.

Also, regarding the disclosure of information on group management, based on today's explanation—and this may be a misunderstanding on my part—I felt that the focus was limited to vertical relationships, such as Company A holding shares in Company B. For example, if Company A holds shares in Companies B and C, since the entire group is managed as a single entity, the issue is not limited to the relationship between Company A and Company B. There is also a business relationship between Company B and Company C, as well as a relationship within the corporate group. Therefore, when we talk about group management, I believe we need a perspective that considers not only the vertical relationship between Company A and Company B but also the horizontal relationships.

Kato, Member:

Thank you for your explanation.

Regarding the future policy outlined on page 24, I agree with the direction of promoting the review and disclosure of group management. I understand that there are many companies that are actually conducting reviews and disclosures regarding group management, and that many of them are struggling with how to disclose this information in a way that will gain the understanding of the capital markets.

I believe that the fundamental starting point for this study group was the discrepancy between the perspectives of investors and those of management regarding these issues in group management. Therefore, if such a request is actually made by the companies' side, I believe it is extremely important to move forward with our consideration of how to respond—while taking care to avoid a boilerplate response.

However, looking at the survey results on page 13, I got the impression that there were slightly fewer responses from listed companies in equity method relationships. It occurred to me that there might be some companies that aren't even aware they're operating as part of a group, or that they don't recognize the need to gain the capital markets' understanding of group management.

For that reason, I think it may be very important to convey a message to companies, starting with why such consideration and disclosure are necessary.

Regarding the second point—the listing regulations concerning the protection of minority shareholders—as Mr. Kanda mentioned, it is true that they may not actually be “minority shareholders,” and I, too, think that “general shareholders” might be a more appropriate term.

To begin with, there are many provisions in the listing rules designed to protect general shareholders, but I get the impression that most of them were created with companies having a widely dispersed shareholder base in mind. Therefore, if there are major shareholders, issues may arise that cannot be addressed by the existing mechanisms alone, and I believe there will be a growing need to protect general shareholders through alternative means.

A prime example of this is the issue of parent-subsidary listings, but I believe we must constantly consider whether mechanisms designed to protect general shareholders will function effectively in other areas as well.

I understand that the recent tightening of independence requirements for independent directors was based on the same line of thinking—namely, that independence cannot function as a mechanism to protect general shareholders unless it ensures independence from major shareholders.

Considering this as an extension of the institutional framework established to date, I believe it is extremely important to examine whether the listing regulations regarding the protection of general shareholders function appropriately even in cases involving equity method accounting, and to consider what conditions are necessary to ensure they do so.

Kuronuma, Member:

After reviewing this survey, I shared the same impression as Mr. Kato: despite the fact that many companies have affiliated companies, the response rate to the survey was not very high, which suggests that many companies may not actually be very interested in this issue.

On the other hand, since there are companies that recognize the challenges but don't know what to do about them, I can understand the rationale behind considering and implementing support measures.

That said, I do have some doubts as to whether it is sufficient to target only those companies that feel the need to consider this. A significant proportion of companies have business or personal ties with one another, and while that's fine if they don't operate as a group, I believe it's important that this situation, at the very least, be disclosed to general shareholders.

Next, I'd like to discuss disclosure systems and procedural regulations related to the protection of general shareholders.

If the regulations referred to here refer to the disclosure system and procedural regulations described on page 27, then—since the disclosure system applies not only to companies with controlling shareholders but also to companies with equity method companies—I am in favor of proceeding with this review.

On the other hand, regarding procedural requirements, while it goes without saying that procedures must be followed in the event of significant transactions—such as making a company a wholly owned subsidiary—one question that arises is whether, in cases where day-to-day transactions are conducted with a controlling shareholder, it is sufficient to seek an opinion from an independent party just once, or whether ongoing monitoring is also required.

Furthermore, if the application of the procedural regulations envisaged here is limited to significant transactions, I feel that, in the case of companies with affiliated companies, there may actually be very few instances where this applies. I felt that whether this system, which applies to only a very small number of companies, is sufficient—and whether we need to do anything more—is an issue that should be considered going forward.

Goto, Member:

As we've discussed in previous sessions—including the case of listed subsidiaries—companies initially acquire shares or establish a company for a specific purpose; however, shareholding ratios subsequently change due to the circumstances of various stakeholders, and I believe there are many different scenarios regarding the structure of shareholdings. As noted in the materials, it is a fact that there are many companies in Japan that are in equity method relationship. This may reflect how stakeholders are engaged, market expectations, and patterns of corporate behavior, which vary by country and market.

Since we are a publicly traded company, we also receive requests from our shareholders for share buybacks and dividend increases. While this is certainly a valid request, lenders and credit investors also expect companies to utilize leverage while working to improve their financial health and credit ratings. While there are various counterarguments, for example, if a company uses no leverage at all, its corporate value is unlikely to increase; on the other hand, if it uses excessive leverage, this will naturally have a negative impact on credit investors. It is important to strike this balance while ensuring appropriate disclosure, and I believe that the fact that the appropriate level of disclosure varies by country and market is part of what makes each one unique.

If we take demands for Western-style share buybacks and dividend increases to their logical conclusion, it boils down to the question of whether we should even run the business at all. The same applies to stock holdings: after considering the upside and costs associated with holding a stock from multiple perspectives, there are cases where it makes sense to continue holding the stock, and others where it is determined that there is no longer a need to hold it.

The challenge is that even if a company believes it may no longer need to hold a particular stock, as long as it is a publicly traded stock, it cannot comment on the matter to the market in advance. Some retail investors may wonder why the company is commenting on a situation where it seems there is little rationale for that company to continue holding a certain stock. Operating companies are facing the reality that they cannot comment on certain matters simply because they are publicly traded.

Despite these challenges, I believe we should seek to determine the optimal level of disclosure from the perspective of fair disclosure. I, too, strongly support the proactive disclosure of necessary information, and listed companies must, of course, address this issue. Precisely because their current approach is insufficient in some respects, I believe discussions like this one should be even more vigorous, and I consider them to be meaningful.

Furthermore, we on the companies' side would appreciate it if you could recognize and understand that the departments responsible for disclosure face various constraints and challenges, as I just mentioned.

Sampei, Member:

Thank you very much for compiling the document. I'd like to share a couple of thoughts.

I found the data on page eight very interesting. While the percentage of companies with business relationships decreases as the ownership ratio increases, among companies with an ownership ratio of 15% to less than 20%, the percentage of those with business relationships reaches 80%. As Mr. Goto mentioned, I get the sense that there are still quite a few cases where shares were originally acquired for some specific purpose, but where it is no longer necessary to hold them.

Similarly, on page nine, a greater number of companies with ownership stakes between 15% and less than 20% reported having directors holding concurrent positions than companies with ownership stakes between 30% and less than 50%. Even on page 10, 98% of companies with a shareholding ratio of 15% to less than 20% responded that they have business or personal ties. Given this situation, it is intuitively difficult to understand why the ownership structure is as it is, and it is hard to come up with a rational explanation; therefore, I strongly feel that there is a need for disclosure.

The survey results on page 16 indicate that while there is communication between the parent company and other associated companies on one hand, and subsidiaries and affiliated companies on the other, there are challenges with that communication itself. In particular, page 17 reveals that there is a lack of shared understanding and insufficient opportunities for discussion, resulting in a situation where, despite the

existence of ownership relationships, no discussions are taking place. There is a wide gap between the expectation that there must be some reason or exchange behind it and the reality of the situation.

Regarding the points raised on page 24, I agree that you organize and disclose key considerations and disclosure points related to group management, as well as the points of interest to investors, and I also support conducting interviews with investors.

However, simply asking questions and letting people say what they want may result in a lack of cohesion overall. Once again, many members suggested that you should organize the key points. So, I think it might be a good idea to organize your main points before the interview, even if they're a little rough around the edges.

For example, from the perspective of investor attention and expectations, it is necessary to clarify the purpose and significance of shareholdings, the ownership ratio and its rationale (such as the degree of management control, internal group controls, cases of minimal involvement, or situations where a small number of shares are held but management remains independent), the differences in risk for the holding party corresponding to differences in relationships, the impact on the governance of the company being held, and the differences in the perspective of protecting general investors in the quasi-controlled company. In my own experience working with many foreign and Japanese companies, I've found that there are valid reasons for how things should be at each stage.

The perspective of contributing to corporate value is also important, and I've come to realize that there are quite a few people within companies who have a serious misunderstanding about this. When it comes to equity method income or loss, companies sometimes explain that investors will be pleased because it increases EPS. However, I think investors often don't place much importance on that kind of "add-on" EPS.

For example, when valuing a company using the DCF method, investors do not take such gains or losses into account, and they do not factor into the company's valuation. However, companies' perceptions may differ significantly from this. I think that if you clarify these points first, you'll be able to obtain more meaningful and in-depth responses during the interviews.

Next, from a slightly different perspective—as Mr. Kikuchi pointed out earlier—disclosures regarding significant contracts and other matters are no longer omitted from annual reports for the fiscal year ended March 2026, and the Financial Services Agency is expected to place particular emphasis on this aspect during its review of the annual reports.

Thanks to the surveys conducted by the Tokyo Stock Exchange to date, we know that even companies with a shareholding ratio of less than 50% enter some form of contractual arrangement regarding the appointment of directors. I would very much like you to follow up on whether such companies are disclosing these matters as significant contracts or similar items in their securities reports. This may be an issue that the Financial Services Agency and the Tokyo Stock Exchange should address collaboratively.

Of course, we don't expect you to name specific companies and point out whether or not they have disclosed; statistical data are sufficient. In other words, I would like you to make it widely known that there are still companies that have not disclosed this information, even though it is known that a certain relationship exists, and to ensure that people are made fully aware of the need to pay closer attention to this issue.

In this regard, one example I've come across recently is the case of Leoplace 21, which is currently the subject of a tender offer. It was precisely through the disclosure of these new, significant contracts and other information that the true nature of the situation became apparent for the first time.

Specifically, the contract grants a certain shareholder—who holds at least 10% of the shares—the right to appoint an executive officer to oversee renovations, leasing, and other matters. Even though they aren't

officers under the Companies Act, I was surprised that such nomination rights would be granted to a shareholder who holds only 10% of the stock. Precisely because more companies are disclosing information transparently, there are many things we're learning for the first time. First of all, I think the priority is to carefully assess the current situation.

I also agree with the direction proposed for point two. However, the most important factor for investors in evaluating a target company and engaging in constructive dialogue is identifying who the key decision-makers are within that company. Is that key person more than just a nominal officer, and does he or she actually have decision-making authority? Which shareholders is that person focusing on—that is, are they looking at the general shareholder base as a whole, or only at specific major shareholders? For investors who carefully analyze fundamentals, this is the most important information.

However, as things stand, even shareholders holding about 10% of the stock—who are thought to be general shareholders—may exert significant influence over key figures through the special relationships mentioned above, making the situation highly opaque.

If we know this is the case, we'll treat it as a problem, but even if we don't have specific details, if we suspect something might be wrong, we'll apply a discount to the valuation. I believe this is an undesirable situation for Japan from the perspective of the overall valuation of the capital markets and economic efficiency. I don't think we should allow a situation to continue where investors discount a company's value due to uncertainty, and that valuation isn't reflected even though the capital markets are trying to function efficiently.

However, regarding point two, I believe it is more important to first clarify what the current situation is, rather than immediately deciding exactly what to do and how to do it.

Having reviewed numerous cases, I've found that some companies provide clear explanations as to why they make a particular company a wholly owned subsidiary, why they choose the subsidiary structure rather than a department, and why they classify other associated companies as entities in which they hold a 20% voting stake. Such companies have explanations that make perfect sense.

However, there are quite a few companies that are not like that. There are many cases where, even after saying, "We'll look into that difference" or "We'll take this issue back to our team for consideration," no answer is forthcoming even after they've taken it back. I think the best approach would be to first organize the information in light of this situation to get a clear picture of the overall picture, and then conduct interviews to further refine it.

Kansaku, Member:

Thank you for your explanation. I'd like to share three thoughts and comments.

The first point is the issue with differences in relationships. Companies accounted for under the equity method include a variety of types with different characteristics, and there have been various opinions on this matter, including those expressed by Mr. Sampei. First, I believe the primary task should be to further advance the disclosures we have recommended thus far in order to gain a clear understanding of the actual conditions at companies accounted for under the equity method.

Furthermore, I believe that among the companies accounted for using the equity method, there may be some that, in reality, have relationships similar to those between a parent company and its subsidiaries. Once such categories have been identified to a certain extent, I believe it will be easier to move on to a discussion of the extent to which the various requirements and rules imposed on parent and subsidiary companies should be extended to certain categories of equity method companies. In that regard, I believe how we assess the contractual relationship that Mr. Kikuchi pointed out is a very important issue.

Furthermore, when executives are seconded, I believe it is also important to consider what positions they hold and what responsibilities they have. Given the circumstances to date, this is a very difficult issue to consider. However, I believe that if we organize our thoughts based on these points, we will be able to identify categories where, even with differences, rules similar to those applied to parent and subsidiary companies should be applied or adapted.

The second point—which overlaps with Mr. Kanda’s observation—concerns the presence of shareholders holding between 20% and 50% of the shares, viewed from a perspective different from that of group management. It seems to me that such shareholders could pose new risks—particularly from the perspective of conflicts of interest—as they may seek to pursue private benefits. Therefore, I believe it would be desirable to consider some kind of framework for these types of cases as well.

The third point concerns issues related to duplication and organization of disclosures. As is currently being discussed by the Financial Services Agency’s Disclosure Working Group, I believe there is a significant amount of overlap in disclosure items, leading to a situation where it is unclear what information should be disclosed and where. This is also relevant to our current discussion: Under the revised Corporate Governance Code, listed companies—even those with a lower capital position within their group—are required to provide explanations regarding their management strategies and the allocation of management resources.

This relates to securities reports and disclosures under the Companies Act: Regarding relationships between related parties, I would like you to conduct a comprehensive review of the benefits and drawbacks of disclosure—taking into account the ongoing discussions on the consolidation of disclosure requirements, as well as the disclosure of non-financial information and the introduction of a guarantee system. I believe the disclosure burden on upstream affiliates has increased significantly at present, so I would greatly appreciate it if you could minimize duplication and streamline the process as much as possible.

Takei, Member:

I always refer to the company holding the shares as Company P and the company whose shares are held as Company S, and I will continue to use these terms—Company P and Company S—in my discussion today.

The first section discussed the rationale behind Company P’s holding of Company S shares and the issue of disclosure. Essentially, as Mr. Kikuchi pointed out, this is also a matter of business portfolio strategy, and I understand it to be a discussion of how holding of Company S shares are positioned within Company P’s business portfolio.

Furthermore, the materials for this meeting state that you do not rule out the possibility of Company P holding 20% or more of Company S’s voting rights, and I believe this point is truly important. As you can see from pages 21 and 22 of today’s materials, various opinions have been presented. However, I believe there are two points we should pay particular attention to when requesting that Company P make improvements or provide disclosures.

First, as Mr. Goto mentioned earlier, there is the issue that some of Company P’s shareholders are trying to get Company P to say things it cannot say, such as the policy regarding the sale of listed shares.

The second concern is that investors might effectively impose a value judgment—namely, that it is unreasonable for Company P to hold shares in Company S for such reasons. For example, on page 22, we find the opinion that “Instead of holding shares in Company S, a business partnership would be sufficient.” However, arguments such as “this should be handled through a business alliance,” “it’s unreasonable to hold more than 20%,” or “you shouldn’t hold shares just to allow Company P to earn equity method income” are based on specific value judgments. If a disclosure request involving such value judgments is made, Company P may interpret it as a message that it should not—or must not—hold shares in Company S, which could result

in de facto pressure or a chilling effect. I think we need to be fully aware that, no matter what the Tokyo Stock Exchange's intentions or stance may be when designing a system, there is a possibility that the recipients will interpret it in such a way.

Therefore, if you are to seek disclosure in order to understand the actual situation, I believe it is essential to ensure that value judgments are not incorporated into the design of the system. As stated in the materials, I believe you should clearly incorporate the idea that you do not, in principle, object to Company P holding more than 20% of Company S's shares.

In reality, I believe there is a rational basis for Company P to hold more than 20% of Company S's shares, and that this would also increase Company S's corporate value. Considering various forms of synergy, and assuming that such synergy exists, I believe that Japan is currently in a sort of intermediate state, as represented by the 1,000 companies mentioned earlier.

It is not necessarily wrong to own stocks. In Japan, in particular, it is not common for class shares to be listed as they are in Europe and the United States. In light of this, as Mr. Goto mentioned earlier, I believe there is an aspect of pursuing economic rationality within the balance of various synergies between Company P and Company S. That said, if investors in Company P believe this is unreasonable, I think they should simply reflect that judgment in their own investment decisions—whether or not to hold Company P stock.

I believe the point mentioned in the second part refers to Company S's stance on protecting general shareholders. In this regard as well—it's not exactly a clear-cut situation—we need to carefully examine whether Company S's general shareholders are truly being sacrificed, even though Company P does not actually control the company. That said, as indicated in the materials, if other countries are requesting a review of the transactions between Company P and Company S from the perspective of independence at a slightly lower percentage, I believe there is room for consideration in that regard.

On the other hand, as Mr. Sampei pointed out, if there is a tendency for trading volume to decrease as Company P's stake in Company S increases, one might question whether this really warrants such a big deal. As mentioned earlier in the discussion of the term minority shareholder, the extent to which it is necessary to emphasize a victim narrative—such as “Company S's general shareholders are being victimized by Company P”—in the context of equity-method accounting relationships may differ from that in parent-subsidary relationships.

However, the impact of Company P is likely not limited to business relations alone, and since the Tokyo Stock Exchange explained earlier that Company S also has its own concerns and needs as a listed company, I think it would be best to proceed with assessing the actual situation.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

Next, we will explain Document 2, “Revision of Listing Rules Regarding Minority Shareholder Protection.”

Yokoyama, Manager, Listing Department, TSE:

I will now explain Document 2. Regarding the review of the listing rules concerning the protection of minority shareholders—a topic that was also discussed in our study group—we completed the amendment of the relevant regulations in July of this year. This is a summary of that.

Page two provides an overview of the system review.

First, regarding the mandatory disclosure of the percentage of minority shareholders in favor of a proposal, our position remains unchanged from the direction discussed. For companies with shareholders holding 40% or more of the voting rights, it is mandatory to analyze and disclose, as part of timely disclosure, the percentage of votes in favor of the company's proposal for the election of directors.

Second, regarding the review of the independence criteria, our position remains unchanged from what was discussed. It now denies the independence of executives of major shareholders and of executives at companies in which a listed company is a major shareholder. On the other hand, we do not categorically deny the independence of executive officers in cross-shareholdings relationships; rather, we require disclosure of such circumstances.

On page three, we have included a sample disclosure form for your reference, so I will omit the explanation.

On pages four and five, we have included the comments received during the public comment period for your reference.

While many institutional investors expressed support for the review, there were also comments calling for the scope of the review—including the companies and proposals covered—to be expanded, such as by disclosing the percentage of votes in favor, particularly regarding proposals for the appointment of board members.

While listed companies acknowledged the need for dialogue with minority shareholders, some also expressed concerns about excessive pressure from short-term-oriented shareholders and requested consideration for the administrative burden involved in tallying the percentage of votes in favor.

Taking these comments into account, we have outlined our future policy on page six.

Based on the situation following the implementation, we plan to conduct a follow-up starting next fall. Although some comments submitted during the public comment period called for expanding the scope to include additional companies and proposals, we do not plan to revise the rules immediately; rather, we intend to first assess whether the measures included in this revision are functioning effectively.

Regarding the status of the dialogue, we received feedback from institutional investors expressing a desire to comprehensively identify the companies subject to the disclosure requirements, as well as requests for appropriate guidance to ensure that disclosures do not become boilerplate. Taking these comments into account, we will consider the necessary follow-up measures.

Watanabe, Director, Listing Department, TSE:

If you have any comments or observations regarding these matters, we would appreciate hearing your thoughts.

Sampei, Member:

Thank you for your explanation.

As stated in the Future Action section on page six, I believe it is important to first conduct a follow-up after the system review. While there may be calls from investors for additional measures, I don't think this is the time to rush into implementing them. Instead, I believe it's important to carefully monitor the situation—including whether the disclosures have become boilerplate—before taking any further action.

Kanda, Member:

Thank you very much.

I also think the direction outlined on page six—particularly the plan to follow up on the first half—is a good one.

That said, and while I apologize for repeating a similar observation related to the topic discussed earlier, the fact that as many as 1,000 of the 3,700 listed companies have major shareholders holding 20% to 50% of their voting rights remains a mystery to me, and I don't really understand the reality of the situation.

As Mr. Takei said, I agree that we shouldn't make value judgments. However, I suspect that this may, to some extent, serve as a substitute for what are known as class shares with different voting rights. The framework for classes of shares with different voting rights has already been established, and there are established practices in place under that framework. However, I think it is very difficult to determine which is preferable: control through shares with different voting rights or a relationship in which one party holds 20% to 50% of the voting rights.

Therefore, while I do not believe an immediate review is necessary, might it not be worth considering—after first conducting a thorough investigation of the current situation—reexamining the issue of shares with different voting rights? In particular, I thought that perhaps the time has come to reexamine cases where classified stock is utilized from the time of listing—as opposed to cases where voting rights are granted after the listing.

Kikuchi, Member:

This isn't specifically regarding Document 2, but I'd like to make one additional comment regarding the presentation as a whole.

There are companies that hold a very large number of equity method companies, and I believe some of them hold more than 100 such companies. However, when you look at how many listed companies are included, you'll find that while some companies have only a limited number, others hold quite a large number, so I think there's a difference here as well. Even if there are many companies accounted for using the equity method, it shouldn't be a major issue—for example, in cases where many of them are joint ventures.

I believe it might be helpful to take stock of the current situation regarding these equity method companies as a starting point for future discussions.

Takei, Member:

I would like to make two points regarding the discussion in Document 2.

The first point concerns shareholdings of 20% or more. It is currently said that it is important to ensure that governance is substantive, and that a purely formal approach should be avoided. Among the potential pitfalls that could arise in this context, I believe it would be dangerous if the notion that “you shouldn't hold stocks that aren't generating immediate, short-term returns” were to gain traction.

There are various reasons for holding shares, and doing so can help stabilize business relationships, build long-term trust, and strengthen the business foundation—including the supply chain. In particular, growth investments in recent years have included a significant number of infrastructure-related projects, which cannot be sustained without a medium- to long-term relationship of trust.

In such situations, I think it's quite dangerous to take a purely formalistic stance, such as, “You shouldn't hold onto this because it isn't generating immediate profits.” While contractual relationships such as business

alliances are important, there are certainly relationships that are stabilized not by a contract but by a capital tie.

If we do not give sufficient consideration to these realities and instead pay too much heed to voices from the capital markets that seek to deny such ownership relationships, I believe we may become increasingly short-sighted, and corporate governance may become merely a formality. I think we should be careful not to fall into a stereotypical line of reasoning that focuses solely on short-term profitability.

The second point concerns the analysis of the opposition votes for which the rule was recently changed.

While there are cases where a certain number of opposition votes result from institutional investors exercising their voting rights in a perfunctory manner, it is a stereotypical view to assume that a company is necessarily at fault simply because there are many opposition votes. I believe there is also the issue that institutional investors have not changed their practice of exercising voting rights in a perfunctory manner.

In that regard, I believe the survey conducted by the Tokyo Stock Exchange in August to gain a better understanding of investors' perspectives was extremely valuable, and I hope you will continue this initiative in the future.

From the companies' perspective, there are limits to how much they can improve the level of detail provided to investors in various respects; and since institutional investors would likely want to avoid being criticized for being too formal, I think this will serve as an opportunity for them to proactively consider what changes they need to make to avoid being labeled as formal. I believe that continuing these efforts will create a virtuous cycle for both companies and institutional investors and will enhance the effectiveness of the measures based on the recent ratio of opposing votes, so I hope you will continue to implement them.

Sampei, Member:

If this discussion is being interpreted to mean that investors want opaque relationships—such as those under the equity method—to be eliminated, and prefer that companies either hold 100% ownership or none at all, then I believe that interpretation has taken on a life of its own.

On the other hand, I'm currently working directly within publicly traded companies, providing specific advice on management. That said, when it comes to whether companies truly consider their current capital structure to be 100% ideal, I don't think that's necessarily the case.

For example, using the terminology Mr. Takei used earlier, if we refer to Company P and Company S, and Company P is a very large company while Company S is considerably smaller, Company S stands to gain significant benefits from being able to leverage Company P's sales resources, distribution channels, international offices, personnel, and networks. This is because, without access to such talent and networks on its own, it may be unable to grow even if its products are good. In that sense, from Company S's perspective, it is grateful that holding shares helps maintain a strong relationship.

On the other hand, from Company P's perspective, the potential profit isn't very large. There are cases where it's not actually clear whether that capital relationship is truly necessary, or where the balance between the two companies is not exactly the same. Once Company S has grown to the point where it can operate independently, there will no longer be a need to maintain the capital relationship, and it will be acceptable to dissolve it.

Therefore, even in cases where a relationship has continued somewhat by inertia based on past circumstances, I think there may be instances where, after reevaluating the rationale for maintaining it through such discussions, one might conclude that it's time to end it. In fact, for operating companies, this might actually

be a positive development, in that it helps them sort out issues they've been vaguely grappling with up until now.

Of course, some companies may have a strong desire to maintain their current ownership structure, while others may be unsure whether things should really stay as they are and want to move the discussion forward by seeking a different perspective from outside the company. Therefore, I think it's best not to approach this issue only from the perspective of either investors or companies.

Goto, Member:

I learned a lot today by hearing everyone's opinions.

I believe that if we take this discussion to its logical conclusion, the issue of classes of shares with different voting rights will inevitably arise as a trade-off. Japan's market is fundamentally based on common stock, and discussions center on control rights in proportion to shareholdings. It is often said that the equity method is rarely used in Europe and the United States, and one reason for this is the existence of classes of stock with different voting rights.

Given this structure, they are evaluating not only the right to economic distribution but also the value of control itself. Thinking it through, I realized that there are always trade-offs in this debate, and that any discussion of the nature of equity method accounting will inevitably lead to a discussion of classes of voting stock.

Watanabe, Director, Listing Department, TSE:

Thank you very much. With that, we'll conclude today's meeting.

[END]