



# New Listing Guidebook

**PRIME**

Tokyo Stock Exchange

2022

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# Introduction

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This guidebook describes relevant criteria for listing examination concerning listing on Prime Market and the contents thereof for persons related to the listing including companies which consider listing.

Generally, a company can benefit from listing its stock including smooth and diversified fund raising, enhanced credit quality, and company profile. On the other hand, listing of stock means that the company will be a choice of investments by a large number of investors, including individual investors.

Thus Tokyo Stock Exchange, Inc. requires a company which applies for listing to meet certain eligibility when listing its shares from the perspective of investor protection, and will implement the examination of listing application in accordance with the criteria for listing examination.

A company which considers listing is encouraged to obtain a sufficient understanding of listing examination criteria and carry out preparation for listing. We are very grateful if this guidebook contributes to deepening the understanding of relevant aspects of listing examination and will be useful for you.

If contents of this guidebook are changed following the amendments to regulations and rules after the issuance of this guidebook, we will update “New Listing Guidebook” available in the homepage of TSE.

April 2022  
Tokyo Stock Exchange, Inc.

## Legend:

Regulations: Securities Listing Regulations

Rules: Enforcement Rules for Securities Listing Regulations

Guidelines: Guidelines Concerning Listing Examination, etc.

### **Information window relating to listing eligibility of new listing applicants**

If you identify any window dressing or other issues which may have significant effect on listing eligibility concerning a company filing listing application with TSE, please provide such information to information window mentioned below. We would use information given for improvement to listing examination. If TSE determines that any information provided would be necessary for the purpose of listing examination, TSE may inquire related parties about the contents thereof. TSE is committed to apply utmost attention to the use of information so that the information provider would not be identified. However, please note that an applicant may be able to presume that investigation has been started because of such information.

[https://form.jpx.co.jp/webapp/form/18913\\_lzbb\\_9/index.do](https://form.jpx.co.jp/webapp/form/18913_lzbb_9/index.do)

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# I About Listing

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## 1. Benefits of Listing

By listing on Tokyo Stock Exchange (TSE)'s Prime Market your company can:

### (1) Smooth and Diversified Fundraising

Once listed on Standard Market, your company will have access to direct finance, including publicly offering stock or issuing share options, corporate bonds with share options. Our highly liquid market can bring more efficient and diverse fund-raising capacity for your company to grow further.

### (2) Enhance Corporate Value

Going public means that a company will be recognized as a socially responsible company and will gain the status of a company with future growth potential as well as higher degree of trust and confidence of customers, trading partners and financial institutions. Coverage by media, including market news of newspapers, will allow your company to enhance its corporate and product reputation in Japan. An improved corporate reputation also aids listed companies in retaining and attracting excellent human resources.

### (3) Improve its Internal Management System and Enhance the Employees' Motivation

Corporate disclosure will allow investors and other third parties to examine your company's corporate management. Therefore, your company has an obligation to continue to improve and strengthen its management system as well as its internal management. Becoming a public company will also help boost the morale of the officers and employees of the company.

Please keep in mind that since the shares issued by a listed company will be a choice of investment by a large number of public investors, going public also involves taking on new social responsibilities and duties for the purpose of investor protection. Your company will be required, among other things, to disclose earnings information and corporate details in an appropriate and timely manner.



## 2 Mechanism for Initial Listing

### (1) Mechanism for Initial Listing

Listing of stock is effected on the basis of application filed by a company issuing the stock (hereinafter referred to as an “applicant”). When the stock is listed, it will be an investment choice for a large number of general investors. Thus, TSE (Note) will examine whether an applicant is eligible for listing on TSE from the perspective of investor protection. TSE has developed and set forth various regulations and rules for initial listing. The listing examination will be conducted based on them.

Various rules concerning initial listing comprise “Securities Listing Regulations,” “Enforcement Rules for Securities Listing Regulations” and “Guidelines for Listing Examinations, etc.”

The standards for listing examination specified by various rules provide for “Formal Requirements” which specify quantitative requirements for the number of shareholders, amount of profit, etc. and standards for “Substantive Examination Standards” which represent the qualitative criteria for assessing disclosure systems, corporate governance practices and so on. Please refer to “II Formal Requirements” and “III Listing Examination,” respectively, in this guidebook.

As a result of listing examination, when an applicant is determined to meet the eligibility for listing, TSE will approve and announce the listing of the applicant. Subsequently the applicant will be listed through the process of public offering or secondary offering.

(Note) Actual examination will be conducted by JPXR to which the role of examination is delegated by TSE.

### (2) Composition of Market

TSE operates four markets of Standard Market, Prime Market, Growth Market and the TOKYO PRO Market.

#### 1) Standard Market

Standard Market is fit for companies that maintain a certain level of market capitalization (liquidity) required of choice of investments on a public market, satisfy fundamental level of governance practices and are committed to sustainable growth and mid- and long-term enhancement of corporate value.

#### 2) Prime Market

The Prime Market is fit for companies that maintain a size of market capitalization (liquidity) in which many institutional investors indicate interest in choosing appropriate investments, have higher level of governance practices in place, and are committed to sustainable growth and mid- and long-term enhancement of corporate value driven by constructive discussions with investors.

#### 3) Growth Market

Growth Market is fit for companies that are exposed to a relatively high risks from the perspective of historical business performances while obtaining a certain level of market evaluation as they make timely and appropriate disclosures of business plans

to realize high growth potential and its progress. Thus TSE requires applicants to demonstrate “high growth potential”. The securities company acting as the lead underwriter will assess and determine whether the applicant has high growth potential based on its business models and business environments.

\* For listing on Standard Market, Growth Market and Tokyo Pro Market, please refer to “Standard Market”, “Growth Market” and “Tokyo Pro Market,” respectively, included in New Listing Guidebook.

Furthermore, any company which successfully lists its stock can alter its listed market according to the stage of business development and growth after initial listing as follows.



For any alteration of markets to Prime Market, an applicant is required to file a new application form and newly receive relevant examination. Respective examination will be carried out in line with application for initial listing on Standard Market. For more information, please refer to VIII “Alteration of Markets.”

### 3 Parties Involved in Listing and Their Roles

Various related parties including securities companies will be involved in applying for listing. Their primary roles are as follows:

#### (1) Securities Companies

There are a number of roles of a securities company before listing. At the stage of preparation for listing, the securities company will provide advice to the applicant on capital policy and internal systems and also carry out the examination of the corporate details of the applicant to determine whether the securities company can perform the required listing procedures for the listing and underwrite the public offering and sales (underwriting examination). When the securities company decides to underwrite the public offering and secondary distributions, it has to implement a series of tasks according to the listing schedule. Even after the applicant successfully lists their shares on Prime Market, it will assist the applicant in various aspects, including raising secondary funds and investors relation or IR activities.

The securities companies that assist the applicant in carrying out various tasks for listing procedures are called an “underwriter”. (If the securities company is a TSE’s member, it is also called a “trading participant”) The main underwriter among them is called the “lead underwriter (lead trading participant)”. A securities company which enters into a prime contract for underwriting for public offering, etc. with the applicant is called the “principal underwriter (principal trading participant)”. Furthermore, a lead underwriter is required to submit to TSE its “Sponsor’s Letter of Recommendation.”

#### (2) Certified Public Accountants (Auditing Firms) (CPAs)

Certified public accountants (auditing firms) express their audit opinion on the applicant’s financial statements to be submitted to TSE, in compliance with the Regulations. They will also advise the applicant on its accounting practices and internal managements.

For the purpose of Regulations, the applicant is required to attach an audit report to financial statements and consolidated financial statements for each of business years ended within years whose amount of profit shall be examined, as prescribed in Financial Instruments and Exchange Act.

#### (3) Shareholder Services Agent

A shareholder services agent is an entity which is required to be appointed in order to implement smooth services related to shareholders. Their services include preparation of shareholders’ list, and handling of various rights granted to shareholders including voting rights and dividend payments to shareholders. The applicant is required to outsource services related to shareholders to a shareholder service agent or to receive preliminary consent to the acceptance of services provided to shareholders from a shareholder service agent by the date when the listing application is filed (please refer to section 9 “Establishment of a Shareholder Services Agent” at II Formal Requirements).

## 4 Schedule from the listing approval to the listing



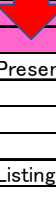
In general, the following steps will be taken when listing on Standard Market. The following provides the overview of steps

[Model schedule from listing application entry to listing approval]

<First half>

X month			(X+1) month		
1	Wed		1	Sat	
2	Thu		2	Sun	
3	Fri		3	Mon	
4	Sat		4	Tue	
5	Sun		5	Wed	
6	Mon		6	Thu	
7	Tue		7	Fri	
8	Wed		8	Sat	
9	Thu		9	Sun	
10	Fri		10	Mon	Sending of the first round of questions
11	Sat		11	Tue	
12	Sun		12	Wed	
13	Mon	Holiday	13	Thu	
14	Tue		14	Fri	
15	Wed		15	Sat	
16	Thu	Listing application entry	16	Sun	
17	Fri		17	Mon	
18	Sat		18	Tue	
19	Sun		19	Wed	
20	Mon		20	Thu	Date for submission of responses to the first round of questions
21	Tue		21	Fri	
22	Wed		22	Sat	
23	Thu	Preliminary confirmation, schedule adjustment	23	Sun	
24	Fri		24	Mon	
25	Sat		25	Tue	First round of interview
26	Sun		26	Wed	
27	Mon		27	Thu	Sending of the second round of questions
28	Tue		28	Fri	
29	Wed		29	Sat	
30	Thu	Listing application, receipt of documents pertaining to application, interview	30	Sun	
31	Fri				

## &lt;Second half&gt;

(X+2) month			(X+3) month		
1	Mon		1	Thu	Third round of interview
2	Tue		2	Fri	3 Business days 
3	Wed	Physical inspection	3	Sat	
4	Thu		4	Sun	
5	Fri		5	Mon	
6	Sat		6	Tue	
7	Sun		7	Wed	
8	Mon		8	Thu	
9	Tue	Date for submission of responses to the second round of questions	9	Fri	
10	Wed		10	Sat	3 Business days 
11	Thu		11	Sun	
12	Fri	Second round of interview	12	Mon	
13	Sat		13	Tue	
14	Sun		14	Wed	
15	Mon		15	Thu	
16	Tue		16	Fri	
17	Wed	Sending of the third round of questions	17	Sat	3 Business days 
18	Thu		18	Sun	
19	Fri		19	Mon	
20	Sat		20	Tue	
21	Sun		21	Wed	
22	Mon		22	Thu	
23	Tue		23	Fri	
24	Wed		24	Sat	
25	Thu		25	Sun	
26	Fri		26	Mon	Presentation by president
27	Sat		27	Tue	
28	Sun		28	Wed	
29	Mon	Date for submission of responses to the third round of questions	29	Thu	
30	Tue		30	Fri	Listing approval
31	Wed				

- (Note 1) For finance schedule following the listing approval, please refer to [Model schedule from the listing approval to the listing] at the end of Chapter I.
- (Note 2) Sponsor's Letter of Recommendation (prepared by lead underwriter) must be submitted to TSE at least three business days prior to the listing approval date.

## (1) Before the Listing Application

The applicant may proceed with the preparation process for the filing of application is primarily responsible for this preparation with necessary assistance and advice offered by the applicant's lead underwriter and audit firms. Should you have any questions regarding examination standards before you file the application, please contact New Listings of TSE or the Listing Examination Division of JPXR either directly or via your lead underwriter before the listing application (Note 1).

When all the required preparation work is complete, the lead underwriter makes an entry for the listing application at least two weeks prior to the listing application (for the purpose of the entry, the lead underwriter sends e-mail to TSE with attached the "Listing Application Entry Sheet" including the descriptions of the trade name of the applicant; contact of the lead underwriter; expected listing schedule (listing application date, listing approval date, listing date) and other necessary matters (Note 2)(Note 3).

- (Note 1) TSE will express its view on your questions in consideration of facts and circumstances disclosed to TSE at the time of consultation. Therefore, if any fact not disclosed at the time of consultation emerges or changes in conditions of the applicant or environments surrounding the applicant including any revision of the criteria for listing subsequent to the consultation take place, some views derived from the listing examination would likely be different from the views expressed by TSE at the time of consultation.
- (Note 2) If TSE (i.e., New Listings of TSE or the Listing Examination Division of JPXR) is concerned that some significant issues may take place in the context of substantive listing examination criteria before the listing application, TSE believes that the applicant must stand ready to clearly address these issues before the listing application.
- (Note 3) The entry sheet should be accompanied by the consolidated financial statements for the preceding two fiscal years (when no consolidated financial statements are prepared, financial statements data) in Microsoft Word format(\*).
- (Note 4) If there was any non-compliance with Oath Statement detected during the new listing examination in the past, TSE may determine that the Applicant ensure a significant period of time for its operations before it re-applies for listing.

\* Microsoft Word is registered trademarks or trademarks of Microsoft Corporation in the US and other countries.

## (2) Preliminary Review

When JPXR is satisfied with the explanations of the lead underwriter of matters related to 1) appropriate instructions and advice on going public, 2) no ties or relationship with any anti-social or criminal organization and 3) listing schedule, JPXR will accept the listing application.

In the meantime, at the stage of preliminary review, the applicant is requested to submit relevant draft copies of pages addressing questions asked for various explanatory materials at the time of acceptance of listing application via the lead underwriter before the interview at the time of listing application.

### 1) Report related to the Contents of Instructions on Going Public and Underwriting Examination

The lead underwriter reviews any matters considered during the process of instructions on going public or underwriting examination carried out by the lead underwriter by the time of listing application on the basis of the descriptions (draft permitted) included in the "Report Related to the Contents of Instructions on Going Public and Underwriting Examination." Practically, the lead underwriter is requested

to discuss the matters especially considered in light of factors specific to the applicant such as lines and category of business and growth stage of the company and any other matters on which the lead underwriter focused its considerations (e.g., design and implementation of significant internal management systems, adoption of special accounting treatments, existence of material breach of laws and regulations) on the basis of the descriptions included in this report.

If the lead underwriter does not submit “Sponsor’s Letter of Recommendation” at the listing application date and there are any issues for which confirmation has not been completed (for example, the lead underwriter is at the stage of review or improvement of system put in place for new listing application), the lead underwriter is required to explain the nature of issues, the confirmation made to date and expected completion date of confirmation.

JPXR may request the lead underwriter to explain the reasons why it commenced its instructions on going public and the timing thereof (the background why the lead underwriter began contacting the applicant and its timing), going public, the background for which the lead underwriter contacted the applicant and its timing.

## 2) Ties with Criminal and Extremist Elements

In evaluating where there any ties with criminal organizations, JPXR will review the following points on the basis of “Draft of Sponsor’s Letter of Confirmation,” prepared by the lead underwriter, and the “Draft of Declaration of No Ties with Criminal Organizations” prepared by the applicant to the effect that the applicant has no ties with any criminal organizations (attached separately).

- a. Scope of related persons for whom the lead underwriter checked their personal records and backgrounds and attributes (board members, executive officers, corporate auditors, shareholders and trading partners); Or contents if the lead underwriter considered the background for founding the listing applicant and its customers, suppliers and other trading partners, and industry and trading conventions specific to the applicant; and
- b. Contents and nature of investigations to ensure that the applicant has no ties with any criminal and extremist elements (including the contents of investigations of assessments of any customers, suppliers and other trading partners with listing applicant, if any)

## 3) Review of Listing Schedule

In consideration of listing schedule described in the listing application entry sheet, TSE will indicate the proposed examination schedule for relevant listing application date, interview date and so on.

The lead underwriter is encouraged to appropriately develop and adjust a schedule which will not lead to any irregularities in consideration of routine and ordinary businesses of the applicant.

(Note 1) The standard duration of an examination period is three months. However, a period for preparation of response documents may be set different from the model schedule and interview process may be adjusted in consideration of the size of the applicant group, seasonal peaks, and normal business operations. As a result of adjustments, the overall examination period may change (in case of application by non-listed company, if 60 business days or more are not available for the examination period from the listing application to the completion of the examination of Part I due to national holidays and others, please inform TSE to the effect beforehand. The applicant is also requested to develop sufficiently flexible examination schedule to address overseas field inspection, if any.

Standard examination period is based on the assumption that no particular cases would be identified during the examination process. However, if any issues are identified or if new facts yet to be detected are revealed on the applicant, for example, through the provision of information from external parties such as in media reports, the duration of the examination may be extended. If a change in the schedule results in the determination of listing date beyond the date of final accounts (generally, it is presumed to be the

date of general regular meeting of shareholders), the procedures for re-application will be triggered.

- (Note 2) For any applicants expected to significantly influence the market or investors, at the Board of Directors, the Listing Examination Division of JPXR will make the conclusion on the listing after making several rounds of discussions. For example, such applicants include: Privatized enterprise applicants; Applicants adopting any scheme requiring considerations in terms of the corporate governance such as the use of class stocks with voting rights; Re-listing applicant; Applicants concerned with compliance as a company of the applicant group or the management of the applicant committed serious incident or breach of laws and regulations in the past; Other applicants requiring considerations for other issues; or Applicants with the market capitalization of 100 billion yen or more expected at the time of listing. For such companies, a large number of various issues must be discussed and confirmed at the listing examination. Therefore, TSE would request such applicants to take one month or more in addition to standard listing examination period.
- (Note 3) If the applicant identifies any issues requiring relevant adjustments concerning schedule including cases in (Note 1) and (Note 2) above or encounters any uncertain cases, please consult the lead underwriter and then contact TSE via the lead underwriter in advance.
- (Note 4) However, if for some reasons, such as the lead underwriter's examination process on applicant's revenue outlook taking longer than expected, the timing of application may be close to the end of the fiscal year, the application may be allowed where the listing date is scheduled after the end of the fiscal year, but the application is required to be made within the fiscal year in which the listing application is filed.. The preliminary release of earnings for application year needs to be appropriately included in "Part I" documents; and

### (3) Listing Application

Listing application can be divided in normal application and preliminary application. Although some procedures, for example, those related to documents to be submitted may differ between them, the nature of examination is the same.

#### 1) Normal application

In principle, the listing application should be made after the regular general shareholders' meeting for the previous year. At the time of application, for the applicant, officers in charge of listing application, persons to be contact, and for the lead underwriter, officers responsible for listing will be present in carrying out relevant application procedures. At the meeting for listing application between TSE officers, the applicant, and the underwriter, TSE will accept documents to be filed for the purpose of listing application and examination officers will brief the applicant on the prospective listing examination and overview of listing examination as well as practical procedures for examination (written schedule and examination items will also be provided).

Then the applicant is requested to explain the reasons for listing application, business lines, business environment and prospective growth plan. Then the examination officers will make additional questions with reference to the explanation. Actual questions are as follows:

#### 【Questions at the time of acceptance of application】

- a. Reasons, etc. for Listing Application
  - ▶ The applicant is required to specifically describe the reasons for filing listing application (including purpose and expected effect).
- b. History and nature of business
  - ▶ The applicant is required to specifically discuss the nature of business and business model. In explaining them, you are encouraged to apply presentation



materials, IR documents, company brochures and physical products, which you may use in order to present your products and services from time to time.

- ▶ The applicant is required to describe the background, purpose, and history to date (including how business models have been developed). Please use IR materials, "Part I" and "Part II" in making relevant explanations.
  - ▶ For changes in major businesses from establishment to date, please make relevant explanation using "Part II" etc. highlighting specific events with significant impact on your group
- c. Status of industry
- ▶ Please explain the market size (if possible), market conditions and recent developments and future prospectus of the industry.
  - ▶ Please explain the characteristics of the applicant compared to peers (if any).
- d. The status of officers and large shareholders
- ▶ For the current incumbent officers, the applicant is required to describe the background for their appointment, while explaining their previous careers and the reasons why they have been requested to serve as officers, using "various explanatory data concerning the applicant".
  - ▶ The applicant is required to describe the background and reasons why large shareholders decided to invest in the applicant by using "Part I" and "Part II".

## 2) Preliminary application

Preliminary application is a system developed to address some inconveniences from the concentration of listing applications. Preliminary application may be made prospectively from three months prior to the end of the fiscal year preceding the listing application, and a relevant examination is carried out on the basis of materials required for the preliminary application (including preliminary application form for listing securities, draft of materials required for normal application and others). Then, listing application will be re-filed when the accounts for the preceding fiscal year are finalized after the completion of regular general meeting of shareholders (after the submission of securities report in case of listed companies on other markets or making continuous disclosures consistently).

When a preliminary application is made, the standard examination period will be determined based on the period from the preliminary application date to desired listing approval date.

## (4) Listing Examination

Actual listing examination will be implemented as follows:

### 1) Interview

Examination officers will determine whether the application meets the listing criteria while obtaining the understanding of the nature of the applicant based on the documents submitted at the time of listing application (in particular, "various explanatory data concerning applicant").

If there are any issues uncertain to understand only from the application documents, or requiring the confirmation of details, the examination officers may make relevant inquiries and the applicant prepares responses to them, based on which the examination will be carried out. The frequency of interviews will be three times excluding the interview at the time of listing application. If TSE deems it necessary to assess more details even after the third round of interviews is completed, TSE may conduct an additional interview.

## 2) Field Inspection (physical inspection)

Typically, examination officers will visit headquarter, plants, stores, laboratories, offices and other of the applicant to accurately obtain the understanding of the nature of its businesses and confirm accounting procedures by reviewing relevant accounting vouchers, evidences and others, as appropriately.

## 3) Attending e-learning courses

Officers and directors of a listed company are required to provide insights on a wide variety of matters on company management. Especially, they are requested to attend e-learning courses to help them deepen their understanding of the issues to which they have to pay close attention during the examination period for a listing application. They include the duties and attitudes of mind entailed in listing, the need to develop and appropriately operate a management system meeting all the requirements of a listed company, suitable attitude towards corporate governance as a listed company, and preventive measures against insider trading, communication of information and issuance of trading recommendations.

## 4) Interviews with Certified Public Accountants (CPAs)

Interviews will be carried out with certified public accountants that carry out audit of the applicant to understand the background to their engagement as auditors, communications between company management and company auditors, and the internal control, management, and disclosure systems. The interviews will be conducted only with the Certified Public Accountants. Timing of execution of the interviews will not be notified to an applicant and a lead underwriter.

## 5) Interviews with the President (CEO), the Company auditors and independent directors/auditors

For the purpose of meetings with the president (CEO), the examiners will visit the applicant and meet the president (representative director, chief executives). During the interviews the examiners will ask the following issues: The overview of the company and industry; What vision does the president as the management have on the operation and management of the company; Measures to address investors (shareholders) when it becomes a listed company (including IR activities); A policy, a current organizational framework and a management status regarding corporate governance and compliance of an applicant; and Systems to disclose operating results and ensure control of internal information. During the interviews with company auditors, the examiners will, in principle, ask full time company auditors of the status of audits they perform and any challenges faced by the applicant.

In addition, during the interviews with independent directors/auditors, the examiners will, in principle, ask them of the following:

Policies, present status and implementation conditions for the corporate governance practices of the applicant; Management's awareness of compliance issues; Status of development and improvement of environments for independent directors/auditors to execute their duties (provision of information, sufficient time to review, etc.); How they assess the existence of transactions involving the management and check and balance system over the transactions; and How they recognize the roles and functions, etc. expected of them after the listing. When the examiners find it necessary to have interviews with other officers on any specific matter, they may have interviews with such other officers. In addition, if an applicant has accounting advisors, the examiners may have interviews about the development and operation of accounting organization of the applicant and the status of involvement thereof in them. If the applicant has large shareholders or a parent company, the examiners will make relevant interviews with such large shareholders or the parent company in the context of measures to ensure the effectiveness of governance practices and the future policy to hold shares of the applicant.

A six business day interval will be provided between the interview (final round) and the meetings with the president and company auditors and independent directors.

## 6) Presentation by the President

TSE will ask the president (representative directors, chief executives) to visit JPXR and make a presentation on the company in terms of the characteristics, management policies, and business plans, etc. of the company. Then TSE will decide to proceed with the final determination of the listing based on the result of questions and answers session regarding them. In addition, the officers of JPXR will ask some questions concerning the presentation and explain the issues the applicant should consider and the requirements that it should satisfy as a listed company. As issues to be considered and requested to address may include those related to the disclosure system and corporate governance, TSE will request the “officer charged with information handling” and full time corporate auditors of the applicant (Note) to attend the presentation.

(Note) Listed companies are required to select and appoint an “officer charged with information handling” from among directors, executives or those in a similar capacity, and register them with TSE.

The officer charged with information handling shall be responsible for reports in response to inquiries by TSE and other communication in relation to the disclosure of corporate information. In practice, the officer will be the point of contact with TSE and also be responsible for internal management and disclosure of material information.

## 7) Items yet to be Reported (items to be inquired)

If there are any changes in descriptions of submitted documents including Part II submitted or responses to inquiries at the interviews or the applicant discovers any items to be newly described after the listing application is made, the applicant is required to report them as promptly as possible. For such reports to cover all relevant items, the examination officers will make necessary inquiries as to whether there are any items yet to be reported.

If any confirmation or investigation of facts and circumstances or assessment by specialists are required in making responses to such inquiries, the applicant is required to submit the responses after necessary confirmation, investigation or assessment is completed. In addition, if the applicant discovers any new items to be reported by the listing date, the applicant shall report such items at the point they are discovered.

If the applicant fails to make relevant reports, the applicant will be subject to the measures to ensure the effectiveness if the applicant is determined to be in-compliance with the written oath statement. For more information, please refer to IX “Measures to Ensure Effectiveness of the Examination of New Listing.”

## (5) After TSE's Listing Approval

### 1) Announcements on Listing Approval

TSE will announce the approval of the listing of the applicant on Standard Market through its website and other media (TSE will inform the applicant of approval of listing after completion of internal procedures of TSE before the announcement thereof). And if public offering or secondary distribution for listing is made, listing will be effected after about one month thereafter, and if public offering or secondary distribution is not effected, listing will be made after one week of thorough dissemination of the announcement.

For the period until the listing date arrives at, the applicant needs to submit documents continuously required and when the applicant recognizes any items to newly report in the context of inquiries, the applicant shall make the reports at that time. Furthermore, after the announcement of listing approval, TSE will cancel the listing if any of listing examination criteria are breached (Note), for example, because of the suspension of public offering or sales.

(Note) Such breach may include any changes in the determination concerning the satisfaction of substantive examination criteria as the composition or ratio of shareholders expected to be at the time of listing significantly changes, in addition to the non-fulfillment of formal requirements.

### 2) Meetings with Listing Department of TSE and Market Surveillance and Compliance Department of JPXR

Between the approval and the actual listing, the TSE Listing Department will meet officers responsible for the information management and those responsible for communications with TSE in relation to timely disclosure, etc. following listing and explain various procedures in terms of timely disclosures and earnings announcements.

In order to prevent any insider trading, the Market Surveillance and Compliance Department of JPXR will explain the regulations on prevention of insider trading.

### 3) Public Offering or Secondary Distribution

TSE will assess whether the company meets criteria for liquidity (number of shareholders, criteria for tradable shares) through the public offering or secondary distribution. In addition TSE ensures that for a company before listing, public offering or public offering and sales have been carried out according to various rules set forth for public offering and sales, etc.

### 4) Listing

The Listing Agreement entered into by and between the company and TSE requires the company to comply with various rules set forth for timely disclosures, etc. effective from the listing day.

On the listing date, the recent financial information, etc. will be disclosed through the TDnet as the "Earnings Release" (including the contents of future forecast information (information related to the forecast for company's future performance results and financial position; the same shall apply hereinafter) if it is disclosed). A listing ceremony will also be held where TSE will present the company with a listing certificate and other items to commemorate the listing.

## (6) Follow-ups after Listing

Given that a newly listed company is required to continuously carry out appropriate business activities after listing, TSE will continue to follow up on the business activities of the listed company for approximately one year after listing. Such follow-ups will mainly focus on the matters requested by TSE to be addressed during the process of listing examination.

In practice, TSE will continuously follow up material business activities after listing and the status quo of matters requested by TSE to be addressed during the process of listing examination on the basis of timely disclosures. If necessary and appropriate, TSE will make inquiries and interviews with the listed company and the lead underwriter.

As a result of the follow-ups, if TSE detects any inappropriate business activities after listing or some issues identified to be corrected in the listing examination remain uncorrected, TSE will require improvements and corrections of such matters.

In response to such requirements, the listed company should provide a written response outlining the prospective corrective measures.

[Material business activities after listing (examples)]

- Resignation of chief executive officer (such as president)
- Corporate reorganization through mergers and other transactions (stock swap, share transfer, merger and company split-up)
- Material business partnership or its termination
- Changes in the parent company, changes in controlling shareholders (excluding the parent company) or changes in other related companies

[Issues detected during the examination process, to be addressed by the applicant (examples)]

- Appropriate operation of internal management system improved during the examination period
- Gradual decrease and elimination of transactions with related parties, which should eventually be eliminated

[Timely disclosures after listing (examples)]

- Revision of future prospective information including earnings forecast
- Modifications and/or reviews of business plan and mid-term management plan presented at the listing examination.

Listed companies are encouraged to review and update the contents of the securities report, as appropriate, after listing in consideration of external and internal environments surrounding them.

As a part of TSE's follow-ups after listing, it will ensure that listed companies have appropriately reviewed and updated the securities reports filed after listing, especially the "Risks, etc. associated with business" section in consideration of their specific conditions and environment.

[Model schedule from the listing approval to the listing]

(Note) The above merely illustrates a model schedule and actual financing schedules (pre-marketing period or book building period, board meeting to determine terms and conditions or timing of securities registration statement) may differ from one applicant to another.

(1) Examples of public offering and secondary distribution (non-listed company)

(Y) month			(Y+1) month		
1	Sun		1	Wed	
2	Mon	Listing approval, resolution at the Board of Directors to issue new shares, filing of Securities Registration Statement (filing with the Financial Services Agency by the applicant)	2	Thu	
3	Tue		3	Fri	
4	Wed		4	Sat	
5	Thu		5	Sun	
6	Fri		6	Mon	Payment date and date when new shares take effect
7	Sat		7	Tue	Listing date
8	Sun		8	Wed	
9	Mon		9	Thu	
10	Tue		10	Fri	
11	Wed		11	Sat	
12	Thu		12	Sun	
13	Fri		13	Mon	
14	Sat		14	Tue	
15	Sun		15	Wed	
16	Mon	Holiday	16	Thu	
17	Tue	Meeting of the Board of Directors to determine provisional terms and conditions (payment amounts under Companies Act)	17	Fri	
18	Wed	Filing of (primary) Amended Registration Statement (filing with the Financial Services Agency by the applicant)	18	Sat	
19	Thu		19	Sun	
20	Fri		20	Mon	
21	Sat		21	Tue	
22	Sun		22	Wed	
23	Mon		23	Thu	
24	Tue		24	Fri	
25	Wed		25	Sat	
26	Thu	Determination of issue price and underwriting price	26	Sun	
27	Fri	Filing of (secondary) Amended Registration Statement (filing with the Financial Services Agency by the applicant)	27	Mon	
28	Sat		28	Tue	
29	Sun		29	Wed	
30	Mon	Date when the registration statement to take effect	30	Thu	
31	Tue		31	Fri	

## (2) Examples of public offering and secondary distribution (listed company)

(Y) month				
1	Sun			
2	Mon	Listing approval, resolution at the Board of Directors to issue new shares, filing of Securities Registration Statement (filing with the Financial Services Agency by the applicant)		
3	Tue	<div>Premarketing period ≥ Business days</div>	<div>More than 15 days</div>	
4	Wed			
5	Thu			
6	Fri			
7	Sat			
8	Sun			
9	Mon			
10	Tue			
11	Wed			
12	Thu			
13	Fri			
14	Sat			
15	Sun			
16	Mon			Holiday
17	Tue			Meeting of the Board of Directors to determine provisional terms and conditions (payment amounts under Companies Act) Filing of Amended Registration Statement (filing with the Financial Services Agency by the applicant)
18	Wed			
19	Thu	Date when the registration statement to take effect		
20	Fri	<div>Subscription period ≤ 4 BDs</div>	<div></div>	
21	Sat			
22	Sun			
23	Mon			
24	Tue			
25	Wed			
26	Thu			Payment date and date when new shares take effect
27	Fri			Listing date
28	Sat			
29	Sun			
30	Mon			
31	Tue			

(Note) Period from the submission of securities registration statement to date when the statement takes effect shall be seven days (period could be extended to 30 days as appropriate).

## (3) Cases where public offering or secondary distribution is not made (listed company)

(Y) month		
1	Sun	
2	Mon	Listing approval
3	Tue	
4	Wed	
5	Thu	
6	Fri	
7	Sat	
8	Sun	
9	Mon	Listing day
10	Tue	
11	Wed	
12	Thu	
13	Fri	
14	Sat	
15	Sun	
16	Mon	Holiday
17	Tue	
18	Wed	
19	Thu	
20	Fri	
21	Sat	
22	Sun	
23	Mon	
24	Tue	
25	Wed	
26	Thu	
27	Fri	
28	Sat	
29	Sun	
30	Mon	
31	Tue	

(Note) In case of a listed company, we will take one week for a period from listing approval to thorough dissemination of listing (Day after one week corresponding to the listing approval date will, in principle, be the listing day. If the date is a holiday, the date will be deferred to the next business day). Also, there are two or more holidays between the listing approval date and listing day, the listing day will be deferred so that the alteration date will be the fifth day from the listing approval date.

In addition, if a non-listed company lists its stocks without making public offering or secondary distribution, a period of about one month would be necessary because of various procedures associated with electronic share certificate system.



## III Formal Requirements (relating to Rule 211 of the Regulations)

In making a listing application, the applicant shall meet the requirements of Rule 211 of the Regulations and should not meet the requirements for non-acceptance or cancellation of the application included in various rules developed by TSE concerning public offering or secondary distribution, etc. before listing (see “V Acquisition or Transfer of Stocks Before Listing and Allocation of Offered Stocks by Third-Party Allotment” and “VI Public Offering or Secondary Distribution, etc. Before Listing”).

This paragraph discusses the requirements of each item of Rule 211 of the Regulations (hereinafter “Formal Requirements”). The following provides the overview of steps

JPXR will assess the satisfaction of formal requirements based on data submitted by the applicant at the time of listing application and other occasions. In addition, even when the applicant satisfies the formal requirements at initial listing, and if the level of satisfaction is similar to that of satisfaction of listing maintenance criteria, JPXR may assess the applicant’s relevant policies such that the applicant would not breach the listing maintenance criteria soon after listing.

### List of formal requirements

Item	Criteria
1) Number of shareholders (Expected at the time of listing)	800 shareholders or more
2) Number of tradable shares (Expected at the time of listing)	a. Over 20,000 units or more of tradable shares b. Market capitalization of tradable shares: 10,000 million yen or more (In principle the amount derived by multiplying the expected value of public offering, etc. related to listing by the expected number of tradable shares at the time of listing) c. Percentage of tradable shares of the listed stocks: 35% or more
3) Market capitalization (Expected at the time of listing)	¥25,000 million or more (In principle the amount derived by multiplying the expected value of public offering, etc. related to listing by the expected number of tradable shares at the time of listing)

4) Amount of net assets (Expected at the time of listing)	The consolidated amount of net assets must be ¥5,000 million or more. Non-consolidated net assets must be positive.
5) Amount of profits (For market capitalization, the amount expected at the time of listing)	a. The total amount of profit for the last two years shall be ¥25,000 million or more. b. The amount of sales for the last one year is ¥10,000 million and the market capitalization is expected to reach ¥100,000 million yen; and
6) Number of consecutive years of conducting business	The business activities have been continuously carried out by setting up a board of directors since a day before the day which is three (3) years prior to the end of a business year immediately prior to the business year containing the initial
7) False statement or adverse opinion, etc."	a. Securities report, etc. for business year which ended in the last two years contains no "false statement". b. Audit opinion on financial statements, etc. for business year which ended in the last two years (excluding the last year) contains an "unqualified opinion" or a "qualified opinion with exceptive items" c. Audit opinion on financial statements for the business year which ended in the last year shall, in principle, contain "unqualified opinion". d. Where a stock, etc. pertaining to an initial listing applicant is listed on any other financial instruments exchange in Japan, such stock, etc. shall not fall under the following (a) and (b): (a)The internal control report pertaining to the business year ending in the last year contains the fact that "appraisal results cannot be provided" ; and (b)The internal control audit report regarding the internal control report pertaining to a business year ending in the last year contains the fact that "no opinion is provided".
8) Audit by a listed company audit firm	The financial statements, etc. for each business year or consolidated accounting year ending in the last two (2) years as well as the quarterly financial statements, etc. for a quarterly accounting period in the business year or for a quarterly consolidated accounting period in the consolidated accounting year ending in the last year have undergone audit or quarterly review equivalent to that in the provisions of Article 193-2 of the Act by a listed company audit firm (including audit firms registered in the list of associate registered audit firms based on the Registration System for Listed Company Audit Firms of The Japanese Institute of Certified Public Accountants (limited to those which have undergone quality control reviews by The Japanese Institute of Certified Public Accountants)) (excluding

	those deemed inappropriate by the Exchange).
9) Establishment of a shareholder services agent	Shareholder services have been entrusted to an institution specified by the Enforcement Rules as the applicant's shareholder services agent, or an informal consent of undertaking the entrustment of such shareholder services from the shareholder services agent has been received.
10) Share Unit	The Share Unit shall be expected to be 100 shares.
11) Classes of stocks, etc.	<p>In the case that a stock, etc. pertaining to the initial listing application, such stock, etc. shall be, as a general rule, any of stocks referred to in the following a. through c. a. In the case of a company issuing only one class of stock with voting rights, said stock with voting rights;</p> <p>b. In the case of a company issuing multiple classes of stock with voting rights, a class of stock with voting rights whose value of rights, etc. to receive economic benefits is higher than any other class of stock; or</p> <p>c. Stock with no voting rights</p>
12) Restrictions on transfer of shares	Transfer of shares pertaining to an initial listing application is not restricted or it is expected that there will be no restriction by the time of listing.
13) Handling by the designated book-entry transfer institution	The relevant issue is subject to the book-entry transfer operation of the designated book-entry transfer institution, or is likely to be so by the time of listing.
14) Expected implementation of merger, etc.	<p>The merger, etc. shall not fall under the following a. and b.</p> <p>a. Where a merger, demerger, making other company a subsidiary or making a subsidiary a non-subsidiary or transfer of a business to or from other entity is scheduled to be carried out on or after the initial listing application day and within two (2) years from the end of the most recent business year before such day, and, in addition, where the Exchange deems that an initial listing applicant will cease to be a substantial surviving company by such an act; and</p> <p>b. Where a merger in which an initial listing applicant becomes a dissolution company, a stock swap or a stock transfer whereby it becomes a wholly-owned subsidiary of another company is expected to be carried out within two (2) years from the end of the business year immediately prior to the business year containing the initial listing application day (except cases where such acts are scheduled to be carried</p>

out before the listing day).

The following discusses each item of formal requirements.

## 1. Number of shareholders (Rule 211, Item 1 of the Regulations)

The number of shareholders is expected to reach 800 or more by the time of listing;  
(Rule 211, Item 1 of the Regulations)

The number of shareholders (meaning the number of entities who own at least a unit of the stock, etc.; the same shall apply hereinafter) is expected to reach 800 or more by the time of listing; (Note 2).

The effect of this criterion for the number of shareholders is that the shares of the applicant shall be owned by a certain number of diversified shareholders. The number of shareholders required by this criterion is to be counted on the number of shareholders recorded in the shareholders' list as of the immediate preceding record date (Note 3). Since the objective of this criterion is to ensure smooth distribution and fair pricing of stocks after listing, it will be sufficient to satisfy this criterion by the time of listing even when it is not met as of the immediate preceding record date.

- (Note 1) One trading unit represents the number of shares comprising one Share Unit when an applicant provides for the number of shares per Share Unit, and it represents one share if the applicant does determine the number of shares comprising one Share Unit.
- (Note 2) If the applicant issues any depository receipts (DRs) denoting rights, etc. attached to stock certificates and other similar instruments, the number of holders who hold DRs denoting rights equivalent to those attached to stock certificates comprising one trading unit or more can be included in counting the number of shareholders.
- (Note 3) "Record date" means the record date prescribed by the Company Act of Japan or Act on Preferred Equity Contribution of Japan and the base date when the convocation notice of the general shareholders' meeting is issued by a book-entry transfer institution prescribed by Rule 2, Paragraph 2 of the Act on Book-Entry Transfer of Corporate Bonds, Shares, etc. (hereinafter referred to as the "Book-Entry Transfer Act") pursuant to Rule 151, Paragraph 1 or Paragraph 8 of the same Act (including cases where Rule 235 of the same Act applies mutatis mutandis)(the same shall apply hereinafter).
- (Note 4) Unless the applicant accurately understands the latest status of shareholders as of the record date, etc., the number of shareholders may be determined based on the number of shareholders as of the immediately preceding record date when the status of shareholders was fully understood.

In addition, if the applicant buys back treasury shares according to the resolution on the acquisition of treasury shares or the applicant resolves at its board meeting to dispose of its treasury shares owned by the applicant (\*), the number of shareholders is determined as follows:

- \* Resolution authorizing the disposal, etc. of treasury stocks includes the resolution specified in Articles 199, Paragraph 1 of the Companies Act concerning the disposal of treasury stocks (including the decision of the board of directors in case of companies with audit committee system and the decision of executives in case of companies with nomination committee system) or the resolutions specified in Article 749, Paragraph 1, Item 2 of the Companies Act when the applicant delivers its treasury shares as cash, etc. in Article 795, Paragraph 1 (including the resolution of the board of directors on the terms of absorption and merger-type arrangement, absorption and split-type arrangement or share exchange arrangement if the requirements of Article 796, Paragraph 1 or Paragraph 2 of the Companies Act do not require such resolutions (including the decision of the board of directors in case of companies with audit committee system and the decision of executives in case of companies with nomination committee system)).

Or the resolution refers to the one as prescribed in Article 816-3, Paragraph 1 of the Companies Act where the applicant delivers treasury stocks for consideration provided in Article 774-3, Paragraph 1, Item 3 of the Companies Act (including the resolution of the board of directors on the nature of share delivery plan (including the decision of the board of directors in case of companies with audit committee system and the decision of executives in case of companies with nomination committee system); the same shall apply hereinafter).

### **1) Applicant purchases its own stocks**

The number of shareholders which is reduced as a result of purchase of its own stocks shall be reduced from the number of shareholders as of the immediate preceding record date.

The number of shareholders to be reduced is determined as follows:

#### **<An applicant is a non-listed company>**

The number of sellers pertaining to the resolution authorizing acquisition of own stocks (excluding sellers who are certain not to sell any of their holding stocks, etc. in response to the offer of said purchase).

#### **<An applicant is a listed company>**

The number of shareholders to be reduced is basically determined as if the number of stocks held by shareholders holding the smallest number of stocks was reduced first. This is typically carried out as follows.

- The number of shareholders determined by dividing the “number of its own stocks purchased” by the “average number per shareholder of shares classified into the smallest trading unit category as per the table which shows the number of shareholders for respective trading units.

However, in cases where the number of own stocks purchased equals or exceeds

the number of shares held by the shareholders classified into the smallest trading unit section, add the number of shareholders classified into the next smallest trading unit section and repeat until the total shares held by them exceeds the number of treasury shares bought back, then count the number of shareholders up to the sections just before exceeding the number of treasury shares bought back (a). Next determine the number of shareholders obtained by dividing the number of shares derived by deducting the number of in (a) from the number of treasury shares bought back, by the average number of shares held per shareholder in the section exceeding the number of treasury shares bought back (b). The number of shareholders to be reduced will be the total of shareholders in (a) and (b).

- When a tender offer bid (TOB) is effected and if the number of shareholders who sold shares can be confirmed based on the TOB report, the number of shareholders reduced through the TOB

Examples: Case where the numbers of shareholders classified into respective sections of trading units are as follows:

Sections	The status of stocks								Shares comprising less than one trading unit
	1,000 – Shares comprising over one trading unit	500 – Shares comprising over one trading unit	100 – Shares comprising over one trading unit	50 – Shares comprising over one trading unit	10 – Shares comprising over one trading unit	Over 5 trading units or more	Over 1 trading units or more	Total	
Number of shareholders	7 shareholders	3 –	35 –	43 –	86 –	63 –	3,164 –	3,401 –	
Number of shares held	Unit 24,055	1,847 –	7,837 –	2,762 –	1,760 –	388 –	3,862 –	42,511 –	399 –

Example 1: The number of treasury shares acquired is equivalent to the number of shares comprising 2,000 trading units:

The number of shareholders to be reduced through the acquisition of treasury shares = 2,000 units ÷ (3,862 units ÷ 3,164 people)

= 1,638.5 shareholders

\* 1,639 shareholders (rounded up)

Example 2: The number of treasury shares acquired is equivalent to the number of shares comprising 4,500 trading units:

The number of shareholders to be reduced through the acquisition of treasury shares = 3,164 people + 63 people +

{(4,500 units - 3,862 units - 388 units) ÷ (1,760 units ÷ 86 people)}

= 3,227 people + {250 units ÷ (1,760 units ÷ 86 people)}

= 3,227 people + 12.2 people

\* 3,240 shareholders (rounded up)

As indicated above, on the basis of the criteria for the number of shareholders, the number of shareholders which is theoretically reduced is treated as the “number of shareholders to be reduced through the acquisition of treasury shares” if the applicant acquires treasury shares after the latest record date.

## **2) An applicant makes a resolution authorizing disposal, etc. of treasury stocks held**

In cases where a resolution authorizing disposal, etc. of treasury stocks held relates to the transfer thereof to specified entities, the number of such persons shall be added to the number of shareholders as of the record date as if they held the treasury stocks.

(Reference) Formula for determining the number of shareholders

- Total number of shareholders holding shares comprising one trading unit or more
- ) the number of shareholders to be reduced when treasury shares are acquired based on a resolution to acquire treasury shares
  - +) the number of shareholders expected to increase when the resolution is made that the shares acquired will be transferred to specified entities

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The number of shareholders



## 2. Number of Tradable Shares (Rule 211, Item 2 of the Regulations)

The following a. through c. must be satisfied:

- a. The number of tradable shares is expected to reach 20,000 units or more by the time of listing;
- b. The market capitalization of the tradable shares as of the listing day is expected to reach 10,000 million yen or more; and
- c. The number of tradable shares is expected to reach 350% or more of the shares of the listed stock, etc. by the time of listing.

*(Rule 211, Item 2 of the Regulations)*

Tradable shares represent the shares of securities excluding stocks whose ownership is almost fixed and which are unlikely to be publicly traded such as securities owned by large shareholders and executive officers and treasury shares held by the applicant.

The criteria for the tradable shares require that a certain number of shares must be available for active public trading in order to ensure smooth trading of stocks and form fair stock prices after listing and is ensured and at the same time the number of shares whose ownership is almost fixed and which are not expected to be available for active public trading shall be constrained to a certain level or less.

With respect to this criterion, the number of tradable shares will, in principle, be determined based on the number of shares available for active public trading as of most recent record date, consistent with the criteria for the number of shareholders (for details, please refer to the section below). Even if the applicant does not meet the criteria, the satisfaction thereof by the time of listing would suffice.

Specifically the following (1) through (3) must be satisfied:

### (1) Calculation of the number of tradable shares

The number of tradable shares is expected to reach at least 20,000 units by the time of listing;

#### ► Calculation of the number of tradable shares

The number of tradable shares shall be determined as the difference between the total number of shares outstanding of the applicant as of the immediately preceding record date and the aggregated number of shares of stock certificates which are not traded actively.

(Note) When the applicant resolved at its board meeting to authorize the retirement, etc. of treasury stocks held by the applicant, such treasury stocks are deemed to have been retired and they would be deducted from the treasury stocks held

after the retirement even if they are yet to be cancelled.

### **<Number of shares of stock certificates which are not actively traded>**

The applicant aggregates the numbers of shares of stock certificates which TSE determines are not traded actively. In practice, the number of shares held by the persons mentioned below will be aggregated.

Meanwhile, the numbers of shares held by the same persons should not be counted twice (Note1).

- Applicant (treasury shares owned by the applicant) (Notes 2, 3, 4, and 5)
- Executives of the applicant (referring to the Board of Directors, accounting advisors ((including employees of an accounting advisor who are in charge of accounting advice if the accounting advisor is a corporation), company auditors, and executive officers (including governor, auditor, and a person who can be regarded as equivalent thereto), including the shareholding association of directors and officers)
- Spouse and relatives by blood within the second degree of kinship of an officer of the applicant (Note 6)
- Company for which spouses and relatives by blood within the second degree of kinship of officers of the applicant hold the majority of voting rights held by all the shareholders (Note 6)
- Related companies of the applicant (related companies defined in Rule 8, Paragraph 8 of the Regulations on Terminology, Forms and Methods of Preparation of Financial Statements (hereinafter referred to as the "Regulation of Financial Statements")) and their executives (Note 6)
- Japanese commercial banks, insurance companies, business corporations and others (Notes 7, 8, 9 and 10)
- Shareholders or associations holding 10% or more of the number of securities (Note 11)

(Note 1) Suppose that President A who is an officer of the applicant holds 20% of shares eligible for listing application. When the number of shares held by A is added to Statements (of shares held by officers of the applicant," it will not be added to the number of shares held by "shareholders or associations holding 10% or more of the number of securities."

(Note 2) The treasury shares to be excluded from the tradable shares represent the treasury shares currently held by the applicant. Even if resolutions to acquire treasury shares (resolutions prescribed in Rule 156, Paragraph 1 of the Companies Act concerning the acquisition of treasury shares (including cases where the Rule would be applicable by rewording pursuant to Rule 165, Paragraph 3 of the same act; the same shall apply hereinafter)) have been made, those which are not currently held by the applicant cannot be included in the number of treasury shares.

(Note 3) When the applicant has resolved at its board meeting to authorize the disposal of treasury stocks held by the applicant, the number of stocks subject to the resolution authorizing the disposal, etc. of treasury stocks would be treated as

if the applicant did not hold them. Even if they are not disposed of, the applicant deducts the number of stocks subject to the resolution from the number of treasury stocks held.

(Note 4) When the applicant resolved at its board meeting to authorize the disposal, etc. of treasury stocks held by the applicant after the recent record date and the resolution was intended to transfer treasury stocks to some specified entities, the number of treasury stocks is to be calculated as if such specified entities held the treasury stocks. Therefore, when the transfer according to the resolution is made to the persons who hold the stocks which TSE determines are not actively traded, the number of stocks to be transferred will be included in the number of stocks which are not actively traded.

(Note 5) When the applicant resolved at its board meeting to authorize the retirement, etc. of treasury stocks held by the applicant, such treasury stocks are deemed to have been retired and they would be deducted from the treasury stocks held after the retirement even if they are yet to be cancelled.

(Reference) Formula for determining the number of treasury stocks held by the applicant

The number of treasury stocks held (limited to those currently held)

- ) The number of treasury stocks pertaining to the resolution authorizing the disposal, etc.
- ) The number of treasury stocks pertaining to the resolution authorizing the retirement, etc.

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The number of treasury stocks held by the applicant

(Note 6) For example, if the applicant faces some difficulties in obtaining the accurate understanding of stocks which are not traded actively as the applicant is not able to contact relevant relatives of executives, in some cases the applicant may be relieved of additional investigation by reporting to TSE the extent and reasons why the understanding is not obtained. So please consult TSE via the lead underwriter.

(Note 7) Commercial banks refer to city banks or regional banks and do not include trust and banking corporations (including trust units), shinkin banks, credit association, include city banks, labor credit association, agricultural financial institutions, government-related financial institutions, securities finance companies and other similar institutions.

(Note 8) Insurance companies refer to life insurance companies defined in Article 2, Paragraph 3 of Insurance Business Act (No.105 of 1995) and non-life insurance companies defined in Paragraph 4 of the same article.

(Note 9) Business corporations and other similar entities refer to all corporations other than financial institutions and financial instruments trading companies and include, for example, legal entities such as incorporated foundations and incorporate schools (any unincorporated entities such as investment limited partnership are not included in business corporations).

(Note 10) Shares held by domestic commercial banks, insurance companies and business corporations, which are clearly held for pure investments purposes, and TSE deems appropriate in consideration of trading conditions, may be treated as tradable shares (excluding cases where 10% or more are held). JPXR will assess holding purposes, actual trading results within five years and others based on relevant "report on shareholding status" in the form required by TSE in which shareholders describe their actual trading results for recent five years and holding purposes, in addition to substantial shareholding report and any amended report submitted for recent five years. In assessing, JPXR may inquire of shareholders preparing substantial shareholding report about the relationship with the applicant and future holding policies. In addition TSE will not require any actual trading results in cases where the applicant is not listed on any financial instruments exchanges including TSE. Consistent with this, TSE will not require shareholders at initial listing to provide actual trading results for five years following initial listing.

(Note 11) Of the securities held by the persons who hold more than 10%, the following are excluded from the number of stocks not actively traded. In such cases, the applicant is required to submit written documents certifying that such shares are currently held by the persons below (e.g., for any securities embedded into investment trust or pension trust, written documents reflecting such embeddedness). Employee share ownership plans shall not be included in the number of tradable shares when its percentage exceeds 10% and shall be treated as shares which are not actively traded.

- – Securities included in an investment trust or pension trust and other securities included in a trust that is organized for the purpose of investment management of trust assets by an investment advisor or a bank engaging in the trust business, or an entity deemed equivalent thereto who is authorized to manage investments of the trust assets under a discretionary investment contract or other contracts, or pursuant to provisions of law;
- – Securities held in the course of its business by an entity that engages in business operations related to custody of assets of an investment corporation or foreign investment corporation;
- – Securities held by a securities finance company or a financial instruments firm that pertain to margin trading
- – Securities in the account of a depository pertaining to depository receipts (including registered holders of the depository); or
- – Other securities substantially held by entities other than an entity that holds 10% or more of the total number of said security that are deemed appropriate;

In addition, some securities which TSE deems are not appropriate to be included in tradable shares may be included in the number of stock certificates which are not traded actively.

## (2) Market capitalization of tradable shares

The market capitalization of the tradable shares on the listing day is expected to reach at least 10,000 million yen; and

### ► Calculation of Market Capitalization of Tradable Shares

The market capitalization is determined by multiplying the number of tradable shares (same as the number of tradable shares in (1) above) by the share price. The following prices are used as stock prices for the determination of market capitalization.

#### <An applicant is a non-listed company>

Item		Governing regulations	Share price to be used
Calculation of the market capitalization of tradable shares	Public offering or secondary distribution	(Rule 226, Item 2 of the Regulations)	Expected prices of public offering or secondary distribution “Expected issue price” pertaining to listing represent the prices used as a basis for the determination of the sum of issue prices (so-called expected issue price) of stocks described in the Securities Registration Statement.
	Public offering or secondary distribution No		Evaluated price of stock certificates deemed reasonable by TSE Appraisal value of stock

#### <An applicant is a listed company>

Item		Governing regulations	Share price to be used
Calculation of the market capitalization of tradable shares	Public offering or secondary distribution	(Rule 226, Item 2 of the Regulations)	Price in a or b, whichever is lower a. Expected price of public offering or secondary distribution b. Lowest price for one month before two business days prior to listing approval day (Note)
	Public offering or secondary distribution No		Lowest price for one month before two business days prior to listing approval day (Note)

(Note) The lowest price refers to the lowest price of daily closing prices of stock certificates at the trading session of financial instruments exchange in Japan (this is not included in case such closing price does not exist). Therefore, this will

not include quoted prices or off-session prices, or transaction prices of off-market and the lowest price during trading hours.

### (3) Tradable shares as a percentage of listed stock certificates

The number of tradable shares is expected to reach at least 35% of the shares of the listed stock, etc. by the time of listing;

#### ► Calculation of tradable shares as a percentage of listed stock certificates

The percentage is determined by dividing the number of tradable shares (same as the number in (1) above) by the number of shares for which the listing application is filed.

(Note) The number of shares pertaining to the listing application represents the total number of issued shares outstanding of the applicant expected on the listing date. It is determined adding or deducting expected changes in the number of shares by the time of listing to or from the total number of issued shares outstanding as of the immediately preceding record date.

(Reference) Calculation of the number of tradable shares

1) Number of shares related to listing application

Total number of issued shares outstanding as of the immediately preceding record date  
= 12,325,000 shares (A) (100 shares comprising one Share Unit)

2) Number of shares which are not actively traded

(i) Treasury shares held

Number of shares	100,000
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(ii) Large shareholders holding 10% or more (not adding the underlined parts)

(In share)

Name	Attributes	Number of shares held (ratio)	Reasons for not adding
α Bank Trust and banking companies (trust unit)	Japanese commercial bank	1,972,000 (16.0%) 1,848,750 (15.0%)	←As added in 3) ←It is an investment trust unit (*)
A Employee share ownership plans	Representative director and president	1,479,000 (12.0%) 1,355,750 (11.0%)	←As added in (iii)

\* Data certifying that it is an investment trust unit needs to be submitted separately.

(iii) Shares that are specified as securities not traded actively in Execution Rules for Securities Listing Regulations (\*)

(In share)

Name	Attributes	Number of shares held (ratio)
α Bank	Japanese commercial bank	1,972,000 (16.0%)
A	Representative director and president	1,479,000 (12.0%)
B	Senior managing director	123,250 (1.0%)
C	Wife of A	61,625 (0.5%)
β Limited Liability Company (*)	Company where A holds the majority of voting rights	61,625 (0.5%)
Total		3,697,500 (30.0%)

\* For more information concerning relevant shareholders and others, please see “(1) Number of stock certificates which are not actively traded”.

$$= (i)100,000 \text{ shares} + (ii)355,750 \text{ shares} + (iii)3,697,500 \text{ shares} \\ = (B) 5,153,250 \text{ shares}$$

3) Calculation of the number of tradable shares

- Number of tradable shares (trading units) (A)-(b)  
 $(A) 12,325,000 \text{ shares} - (B) 5,153,250 \text{ shares} = 7,171,750 \text{ shares} \Rightarrow$   
 (Rounding off the number of shares less than those comprising one trading unit)
- Ratio of tradable shares  $\{(A)-(B)\} \div (A) \times 100$   
 $((A) 12,325,000 \text{ shares} - (B) 5,153,250 \text{ shares}) \div (A) 12,325,000 \text{ shares} \times 100$   
 $= 7,171,750 \text{ shares} \div 12,325,000 \text{ shares} \times 100 = 58.1886... \Rightarrow 58.18\%$

«Increase in the number of shareholders and tradable shares: public offering or secondary distribution and others»

The satisfaction of the criteria for the number of shareholders and those for tradable shares are assessed based on the expected conditions at the listing date, rather than at the time of listing application.

Therefore, though an applicant does not meet these criteria at the immediately preceding base date, etc., a listing application will be accepted if the applicant is expected to meet them by listing day.

In this case, increase in the number of shareholders and tradable shares may be achieved by public offering or secondary distribution before listing.

In cases where the number of shareholders does not reach 800, tradable shares do not constitute 2 trading units or accounts for 35% or more of listed stock certificates or the market capitalization of tradable shares does not represent 10,000 million yen or

more as of the immediately preceding record date, the applicant needs to effect public offering or secondary offering, or off-floor distribution (referring to off-floor distribution where the volume of trading is restricted down to 50 trading units traded by a company listed on other financial instruments exchange) so that they will be met by the time of listing.

- (Note 1) When the applicant intends to meet the criteria for the number of shareholders or tradable shares by effecting public offering or secondary distribution, or off-floor distribution made at other financial instruments exchange after the approval date of listing, the applicant is required to submit “Scheduled Plan for Public Offering or Secondary Distribution” before effecting such offering or distribution and “Notice of Execution of Public Offering or Secondary Distribution, etc.” or “Table of Share ownership Distribution of Stock Certificates after Execution of Limited Distribution” immediately after effecting such offering or distribution.
- (Note 2) In cases where a company listed on a financial instruments exchange in Japan meets the criteria for the number of shareholders and tradable shares by public offering or secondary distribution effected before the approval of listing or effecting off-floor distribution on other financial instruments exchange in Japan, the applicant is required to submit to TSE “Notice of Execution of Public Offering or Secondary Distribution, etc.” or “Table of Share Ownership Distribution of Stock Certificates after Execution of Limited Distribution”.
- (Note 3) For a non-trading participant financial instruments firm or a foreign securities broker, the applicant may only describe the volume underwriter or traded by the non-trading participant financial instruments firm or a foreign securities broker with which the applicant has entered into a contract specifying the report of actual conditions of such public offering (secondary distribution) in “Scheduled Plan for Public Offering or Secondary Distribution” or “Notice of Execution of Public Offering or Secondary Distribution, etc.”
- (Note 4) TSE will not consider any changes in the number of shareholders and tradable shares associated with “secondary distribution through over allotment” at the time of public offering or secondary distribution (additional secondary distribution to address the movements of demand at the time of public offering or secondary distribution) implemented after the approval day of listing and matters related to such transactions (syndicated covered trading, green shoe option).
- (Note 5) Since it may be difficult for the applicant to clarify the number of shares to be allotted to Japanese commercial banks, insurance companies, business corporations and other corporations before the public offering or secondary distribution, shares related to public offering or secondary distribution are accounted for as tradable shares. However, if the level of such public offering or secondary distribution is likely to result in the breach the listing maintenance criteria after listing, TSE may inquire relevant underwriters of the policy on their distribution.

Furthermore, if an applicant that effected or plans to effect public offering, secondary distribution or others acquires treasury shares based on the resolution at the general



meeting of shareholders, the objective of respective transaction must be reasonable as the public offering and secondary distribution, and the acquisition of treasury shares may give rise to conflict of interest. In addition, even if they are determined to be reasonable, the acquisition of treasury shares may lead to in-compliance with the prevention of insider trading, so the applicant is encouraged to sufficiently pay attention to the timing and method of the acquisition of treasury shares.

(Note) If an applicant does not implement public offering or secondary distribution through book building or competitive bid (excluding a company listed on other financial instruments exchange), TSE requires the applicant to obtain the agreement from shareholders in advance to the effect that shareholders would release a certain number of stocks to be sold (so-called “over-allotted shares”) in determining the first agreed-on prices after listing. This aims to mitigate temporary imbalance of demand and supply in trading to set the first agreed-upon prices after listing and the number of shares to be released would be determined dependent on the number of listed stocks.

► Exceptions relating to initial listing with substantial public offering or secondary distribution

TSE provides for relevant mitigation measures to achieve the level where the public offering or secondary distribution of shares are smoothly absorbed in light of the demand and supply conditions of markets. (Rule 715 of the Regulations)

Specifically, when the size of public offering or secondary distribution of shares at the time of initial listing is expected to be 100 billion yen or more, the applicant is required to submit “Plan to meet the criteria for the ratio of tradable shares” so that the tradable shares as a percentage of all the stocks are expected to be 10% or more by the time of listing. “Plan documents to meet the criteria for the ratio of tradable shares” must, in principle, include specific plan to meet the criteria for the ratio of tradable shares within five years following the listing and the expected timing of implementation of individual actions included in the plan.

In addition, the plan documents submitted will be available for public inspection from the date of initial listing, and the applicant is required to disclose the progress (including significant changes in the plan, if any) of the plans contemplated in the plan documents at least once a fiscal year until the ratio of tradable shares reaches 35% or more.

### 3. Market Capitalization (Rule 211, Item 3 of the Regulations)

The market capitalization as of the listing day is expected to reach 25,000 million yen or more; and

*(Rule 211, Item 3 of the Regulations)*

The market capitalization as of the listing day needs to reach at least 25,000 million yen; and

#### ► Calculation of Market Capitalization

Market capitalization is determined by the amount derived by the expected number of stock certificates, etc. expected to be listed at the time of listing, multiplied by relevant stock prices, added by the market capitalization of all other shares issued by the applicant (limited to those listed or continuously traded on a financial instruments exchange in Japan or foreign financial instruments exchanges).

The following prices are used for the determination of market capitalization.

<An applicant is a non-listed company>

Item		Governing regulations	Share price to be used
Market capitalization	Public offering or secondary distribution required	(Rule 226, Item 3 of the Regulations)	Expected price of public offering or secondary distribution “Expected issue price” pertaining to listing represent the prices used as a basis for the determination of the sum of issue prices (so-called expected issue price) of stocks described in the Securities Registration Statement.
	Public offering or secondary distribution; not applicable		Evaluated price of stock certificates deemed reasonable by TSE

<An applicant is a listed company>

Item		Governing regulations	Share price to be used
Market capitalization	Public offering or secondary distribution required	(Rule 226, Item 3 of the Regulations)	Price in a or b, whichever is lower a. Expected price of public offering or secondary distribution b. Lowest price for one month before two business days prior to listing approval day (Note 1)
	Public offering or secondary distribution not applicable		Lowest price for one month before two business days prior to listing approval day (Note 1)

(Note 1) The lowest price refers to the lowest price of daily closing prices of stock certificates at the trading session of financial instruments exchange in Japan (it is not included in case such closing price does not exist).

(Note 2) For treasury stocks held by the applicant, when the applicant resolved at the Board of Directors to retire its treasury stocks, the calculation would be made as if such treasury stocks related to the resolution were retired. (Rule 212, Paragraph 1, Item 2 of the Rules)

## 4. Amount of Net Assets (Rule 211, Item 4 of the Regulations)

The value of net assets on the listing day is expected to be 5,000 million yen or more.  
(Rule 211, Item 4 of the Regulations)

II

The value of net assets as of the listing day needs to be expected to be 5,000 million yen or more; and JPXR will examine the following “amounts of net assets on the listing day.

- a. When an applicant files a “quarterly financial statements for initial listing application” or a copy thereof for the period after the beginning of application year, JPXR will examine the amount of net assets at the end of immediately preceding quarterly period (Note 1) described in the recent “quarterly financial statements for initial listing application” or a copy thereof. When the applicant does not prepare any consolidated quarterly financial statements, JPXR will examine the values on the quarterly balance sheet (on a non-consolidated basis) (Note 2).

In addition it is required that the amount of net assets determined on the basis of quarterly balance sheets (on a non-consolidated basis) (Note 2) should not be negative.

- b. In cases other than a. above, JPXR will examine the amount of net assets as of the end of the previous year described in the “Securities Report for Initial Listing Application.” (Note 3). When the applicant does not prepare any consolidated financial statements, JPXR will examine the values on the balance sheet (on a non-consolidated basis) (Note 4).

In addition it is required that the amount of net assets determined on the basis of quarterly balance sheets (on a non-consolidated basis) (Note 4) should not be negative.

Even when the amount of net assets does not meet the criterion, the applicant may subject the amount of net assets added by expected cash inflows or actual cash inflows arising from the public offering before listing to the examination. In this case, the applicant is required to submit to TSE a “Statement of Net Assets” in the form required by JPXR including the descriptions of the “amount of net assets as of the end of the immediately preceding quarterly period or the previous year,” “expected cash inflows arising from public offering” and “amount of net assets subject to the examination.”

(Note 1) This value represents the value determined by deducting the values of non-controlling interests stated in the section of Net Assets from the amount determined by adding reserves, etc., prescribed in Article 60, Paragraph 1 of the Quarterly Consolidated Financial Statements, etc. Rules, to the total amount in the section of Net Assets in a quarterly consolidated balance sheet

prepared under the same rules.

- (Note 2) This value represents the value determined by adding reserves prescribed in Article 53, Paragraph 1 of the Quarterly Financial Statements, etc. Rules, to the total amount in the section of Net Assets in a quarterly balance sheet prepared under the same rules.
- (Note 3) This value represents the value determined by deducting the values of non-controlling interests stated in the section of Net Assets from the amount determined by adding reserves, etc. prescribed in Article 45-2, Paragraph 2 of the Consolidated Financial Statements, etc. Rules, to the total amount in the section of Net Assets in a consolidated balance sheet prepared under the same rules.
- (Note 4) This value represents the value determined by adding reserves, etc. prescribed in Article 54-3, Paragraph 1 of the Financial Statements, etc. Rules, to the total amount in the section of Net Assets in the balance sheet prepared under the same rules.
- (Note 5) If an applicant is an IFRS compliant company, it shall be the amount equivalent to the amount of net assets determined on the basis of quarterly consolidated balance sheets or consolidated balance sheets.

## 5. Amount of Profits or Sales(Rule 211, Item 5 of the Regulations)

The following a. or b. must be satisfied:

- a. The total amount of profits in the last two (2) years shall be at least 2,500 million yen;
- b. The amount of sales in the last one year is 10,000 million yen or more and the market capitalization as of the listing day is expected to reach at least 100,000 million yen.

*(Rule 211, Item 5 of the Regulations)*

The following requirements a and b must be satisfied:

- a. The total amount of profits in the last two (2) years shall be at least 2,500 million yen; (hereinafter referred to as “profit criterion”)
- b. The amount of sales in the last one year is 10,000 million yen or more and the market capitalization as of the listing day is expected to reach at least 100,000 million yen (hereinafter referred to as “sales criteria”).

### <In case of profit criterion>

(Reproduced)

- a. The total amount (Note 2) of profit for the last two years (Note 1) shall be at least ¥ 2,500 million.

In the context of this criterion, the amount of profit determined based on the consolidated income statement or consolidated statement of profit and loss and comprehensive income (hereinafter referred to as the “consolidated income statement, etc.”) will be subject to the examination (if there is any period subject to the examination where no consolidated financial statements have been prepared, the amount of profit determined on the income statement (on a non-consolidated basis) will be subject to the examination)

For the purpose of this paragraph, the “amount of profits” represents the amount determined by adding or deducting the amount presented according to Article 65, Paragraph 3 of the Consolidated Financial Statements, etc. Rules (so-called profit or loss arising from non-controlling interests) to or from the ordinary income or ordinary loss presented according to Article 61 of the same rules (in case of separate income statement, it represents ordinary income or ordinary loss presented according to Article 95 of the same rules) (Note 3).

Meanwhile the “amount of profits” will be determined as follows:

- In cases of a company listed on another financial instruments exchange in Japan or company making continuous disclosures

In determining the amount of profit for the year before the previous year, “consolidated financial statements or financial statements for the previous year” included in the Securities Registration Statement or Securities Report filed in the past will be used, rather than “comparative information included in the consolidated financial statements or financial statements for the previous year” described in the “Securities Report for Initial Listing Application (Part I)” (hereinafter referred to as “Part I” in this paragraph).

In this case, audit report issued by certified public accountants or audit firm shall be attached to the consolidated financial statements or financial statements for the year preceding the previous fiscal year.

- In case of a newly listed company

Since “Part I” includes the descriptions of consolidated financial statements or financial statements for the last two years immediately preceding year and immediately preceding the previous year to which the accounting policies for the immediately preceding year have been applied, in determining the “amount of profit”, in principle, these consolidated financial statements or financial statements for these two years shall be used.

<Diagram: Consolidated financial statements or financial statements to be used in determining the “amount of profit”>

	In cases of a listed company or company making consistent disclosures		In cases of IPO	
The year preceding the previous year	Comparative information (Three years before application)	Financial statements for the year preceding the previous year		
Accounting policies		A		
The previous year	Comparative information (The year before the previous year)	Financial statements for the year preceding the previous year	Financial statements for the year before the previous year	Financial statements for the previous year
Accounting policies	B	B	B (Note 4)	B

\*A; accounting standard for the year preceding the previous year

\* In determining the amount of profit, the highlighted financial statements will be used.  
(Note 1) Application year starts from the end of the previous year immediately

preceding the year to which listing application belongs. For example, for a company where the previous year ends March 31, 20X2, the “recent two years” would mean two years from April 1, 20X0 through March 31, 20X2. The same applies to the counting from the start of “last” year.

- (Note 2) If the amount of profit is negative, such negative amount should be added. For example, if the amounts of profit for the recent two years stands at ¥ (500) million and ¥ 3,000 million, respectively, the amount of profit for the recent two years would be ¥2,500 million (¥ (500) million + ¥ 2,500 million).
- (Note 3) If a company voluntarily applies IFRS, it should be the amount equivalent to the amount of profit determined (which is calculated on the basis of the amount of profit before tax) based on the consolidated income statement.
- (Note 4) In cases of IPO, the “Part I” documents include the consolidated financial statements or financial statements for the year preceding the previous year and the previous year, to which the accounting policies for the previous year have applied, as shown in the diagram. For the purpose of determining the “amount of profit” for the year preceding the previous year, the applicant might use the consolidated financial statements or financial statements for the year preceding the previous year, to which the accounting policies for the year preceding the previous year applied (including documents TSE deems appropriate as they are similar to them in nature), rather than the consolidated financial statements or financial statements for the year preceding the previous year, to which the accounting standards for the previous year applied. In such cases, the applicant is required to submit a statement by which the certified public accountants or audit firm has expressed its audit opinion or opinion on audited reports or financial values, etc.
- (Note 5) In the event that the amount of profits may be affected by the audit opinion of audit firm or certified public accountants, the amount of profit adjusted based on such opinion would be subjected to the examination, except for cases where the non-adjusted amount is acknowledged to be appropriate because of amendments to business accounting standards made based on justifiable reasons.
- (Note 6) When the amount of profits for the period subject to the examination cannot be determined simply by adding the amount for each period as the applicant has changed the length (balance sheet date) of the fiscal year during the last two years, the amount of profit for the period subject to the examination would be determined by proportionately dividing the amounts of profit in the consolidated income statement or income statement, or quarterly consolidated income statement or quarterly income statement by the number of months. For example, if a company whose fiscal year ends on November 30 each year changes its balance sheet date to March 31, 20X1 after finalizing accounts as of November 30, 20X0, and files a listing application making the year ended March 31, 20X2 the immediately preceding business year, the amount of profits shall be determined as follows:
- Determination of annual amount of profits in cases where the length of fiscal year (balance sheet date) has been changed

Change of balance sheet date



Consolidated accounting year	Year ended November 30, 20X0				Year ended March 31, 20X1	Year ended March 31, 20X2 (immediately preceding business year)
Months	12 months				4 months	12 months
"Amount of profits"	¥600 million				¥(500) million	¥20,000 million
	1Q ¥(500) million	2Q ¥(300) million	3Q ¥600 million	4Q ¥800 million		

		"Amount of profit"	
		April 20X0 to March 20X1	April 20X1 to March 20X2
		12 months (Eight months *) + (four months)	12 months
		(¥1,200 million *) + (¥(500) million) = ¥700 million	¥2,000 million
		Amount of profit = (¥700 million) + (¥2,000 million) = ¥2,700 million	

\* In this case, the amount of profits shall be determined based on the consolidated income statement or quarterly consolidated financial statements, as follows

[Calculation in the case above]

Ordinary income in quarterly (first quarter) consolidated financial statements	: ¥(500) million (a)	⇒1Q amount of profit : a = ¥(500) million
Ordinary income in quarterly (second quarter) consolidated financial statements	: ¥(800) million (b)	⇒2Q amount of profit : b – a = ¥(300) million
Ordinary income in quarterly (third quarter) consolidated financial statements	: ¥(200) million (c)	⇒3Q amount of profit : c – b = ¥600 million
Ordinary income in consolidated income statement	: ¥600 million (d)	⇒4Q amount of profit : d – c = ¥800 million

Amount of profit for eight months

$$(2Q \text{ profit}) \times 2/3 + (3Q \text{ profit}) + (4Q \text{ profit}) = (\text{¥}(300) \text{ million}) \times 2/3 + (\text{¥}600 \text{ million}) + (\text{¥}800 \text{ million}) = \text{¥}1,200 \text{ million}$$

### <In case of sales criterion>

(Reproduced)

b. The amount of sales in the last one year is 10,000 million yen or more and the market capitalization as of the listing day is expected to reach at least 100,000 million yen.

(Note 1) For the determination of market capitalization, please refer to "Calculation of market capitalization" in "3 Market Capitalization".

(Note 2) The amount of sales is the one included in the consolidated income statement (income statement if there is a period of the examination period in which an application is not required to prepare consolidated financial statements).

(Note 3) When the amount of sales for the period subject to the examination cannot be determined simply by adding the amount for each period as the applicant has changed the length (balance sheet date) of the fiscal year, the amount of sales for the period subject to the examination would be determined by

proportionately dividing the amount of sales in the consolidated income statement or income statement, or quarterly consolidated income statement or quarterly income statement by the number of months.

(Note 4) In the event that the amount of sales may be affected by the audit opinion of audit firm or certified public accountants, the amount of sales adjusted based on such opinion would be subjected to the examination, except for cases where adjustment to sales is acknowledged to be appropriate because of amendments to business accounting standards based on justifiable reasons.

(Note 5) When an applicant is demutualized into a joint stock company and if the period subject to the examination includes any period before the demutualization, with respect to the period before the demutualization, the amount equivalent to the amount of profit determined based on the consolidated income statements for each consolidated fiscal year of the mutual company and the amount of sales stated in the income statements for each consolidated fiscal period of the mutual company will be used for the purpose of the examination.

► Handling of a company whose rehabilitation is supported by Regional Economy Vitalization Corporation of Japan (REVIC)

TSE has provided for the following exceptions to the criteria for the amount of profit or market capitalization for the purpose of standards for the listing examination as Regional Economy Vitalization Corporation of Japan (REVIC) was established. (Rule 707 of the Regulations, Rule 719 of the Rules)

- Companies eligible for the exceptions

Companies to which REVIC has decided to provide rehabilitation support (Note 1) (hereinafter referred to as the “supported company”) will be eligible for the exceptional treatment (Note 2).

(Note 1) Support decision prescribed in Article 25, Paragraph 4 of the Act Concerning Regional Economy Vitalization Corporation of Japan (REVIC) (Law No. 63 of 2009).

(Note 2) The exceptional treatment excludes any company for which the support decision is subsequently revoked after REVIC decided to provide support or the decision to acquire any debts of the company is not made (this decision refers to the decision to acquire debts as prescribed in Article 31, Paragraph 1 of the Act Concerning Regional Economy Vitalization Corporation of Japan).

- Conditions for application

The exceptions are provided when stock issued by a supported company is delisted on TSE after REVIC has decided to provide support, and if the company files an initial listing application for the stock by making the business year commencing within five years from the date when REVIC announces the decision to acquire the debts of the company as the immediately preceding year.

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In filing an initial listing application, the criteria for “amount of profit or sales

capitalization” would be satisfied if either a. or b. below is met:

- a. The amount of profit for the last one year shall be at least ¥1,250 million.
- b. The amount of profit for the last one year shall be at least ¥1,000 million.

## 6. The number of consecutive years of doing business (Rule 211, Item 6 of the Regulations (Rule 205, Item 3 of the Regulations))

The applicant has conducted the business activities, setting up a board of directors from at least three years before the initial listing application day.

*(Rule 211, Item 6 of the Regulations (Rule 205, Item 3 of the Regulations))*

The applicant is required to have continuously conducted major business at the application date of listing for three years or more, setting up a board of directors from at least three years counting from the initial listing application day (\*).

\* For example, when an initial listing application date is April 1, 20X4, the corresponding date of three years ago is April 2, 20X1, so the applicant is required to have set up the Board of Directors before such date.

## 7. False Statement or Adverse Opinion (Rule 211, Item 6 of the Regulations (Rule 205, Item 3 of the Regulations))

### 1) False statement

- a. No false statement shall be made in a Securities Report, etc. containing or making reference to financial statements, etc., interim financial statements, etc., or quarterly financial statements, etc. pertaining to the audit report, the interim audit report, or the quarterly review report for each of the last two years.

*(Rule 211, Item 6 of the Regulations (Rule 205, Item 6 of the Regulations))*

No false statement (Note 1) shall be made in a Securities Report, etc. (Note 2) containing or making reference to financial statements, etc. (Note 3) for each business year or each consolidated accounting year ended within the recent two years.

In addition, no false statement shall be made in quarterly financial statements, etc. (Note 4) for the quarterly periods in each business year and quarterly consolidated financial statements for the quarterly consolidated periods in each consolidated accounting year which ended during the last two years.

(Note 1) Financial statements, etc. refer to financial statements and consolidated financial statements.

(Note 2) Securities reports, etc. include the following:

- Securities registration statement and attachments thereto and reference documents related thereto;
- Shelf registration statement and attachments thereto and reference documents related thereto;
- Supplementary documents to the shelf registration statement and attachments thereto and reference documents related thereto;
- Securities report and attachments thereto;
- Half-year report
- Quarterly report; and
- Prospectus

(Note 3) "False statement" represents statements included in securities reports, etc. whose correction is deemed to be material when a correction order, order for the payment of penalty or accusation is issued by the Prime Minister or the applicant issues an amended registration statement.

(Note 4) Quarterly financial statements, etc. refer to quarterly financial statements and quarterly consolidated financial statements (including interim financial statements, etc. for specified business companies).

## 2) Adverse opinion, etc.

- b. The audit report attached to financial statements, etc. for each business year or each consolidated accounting year which ended in the last two (2) years (excluding an audit report attached to financial statements, etc. for a business year and a consolidated accounting year which ended in the last year) contains an "unqualified opinion" or a "qualified opinion with exceptions" of certified public accountants, etc.; provided, however, that the same shall not apply to cases where the Enforcement Rules so specify; and

*(Rule 211, Item 6 of the Regulations (Rule 205, Item 6 of the Regulations))*

- c. The audit report attached to financial statements, etc. for the business year and consolidated accounting year which ended in the last year and a quarterly review report attached to quarterly financial statements, etc. for a quarterly accounting period in the business year which ended in the last year and a consolidated quarterly accounting period in the consolidated accounting year contain an "unqualified opinion" or an "unqualified conclusion" (in cases of a specified business company, including an "opinion that the interim financial statements, etc. provide useful information") of certified public accountants, etc.; provided, however, that the same shall not apply to the cases specified by the Enforcement Rules.

*(Rule 211, Item 6 of the Regulations (Rule 205, Item 6 of the Regulations))*

An audit opinion expressed by audit firm shall, in principle, meet the following

requirements:

- The audit report attached to financial statements, etc. for each business year and each consolidated accounting year ended in the last two years (excluding an audit report attached to financial statements, etc. for the business year or the consolidated business year ended in the last year) shall contain an "unqualified opinion" or a "qualified opinion with exceptive items" of certified public accountants, etc.
- The audit report attached to financial statements, etc. for a business year and consolidated accounting year ended in the last year contains "qualified opinion" and the quarterly review report attached quarterly financial statements, etc. for quarterly accounting period in a business year and consolidated quarterly accounting period in a consolidated business year ended in the last year contains "unqualified conclusion" (in the case of specified business companies, including "opinion to the effect that interim financial statements, etc. include useful information").

This is because the examination of the amount of profit, etc. shall be made on the basis of financial statements, etc. prepared in accordance with fair accounting treatment, etc. This is also because the applicant is required to address all accounting issues under the instructions of audit firm in particular in the immediately preceding fiscal year.

Meanwhile, if additional information is included in the audit report that there is a serious doubt on a corporate continuity though an audit opinion represents an "unqualified opinion," for the purpose of examination, an applicant is required to eliminate any serious event, etc. giving rise to any concern with a corporate continuity, as represented by the elimination of the additional information on a corporate continuity in the quarterly review report, etc. during the so-called business year as Rule 213 of the Securities Listing Regulations requires that a corporate continuity corporate continuity should be examined. In addition even if any "adverse opinion" etc. is included in the report for the business year before the previous year or consolidated accounting year due to a reason associated with a corporate continuity (including "qualified opinion with exceptive items" for the business year and consolidated accounting year which ends during the recent one year), the filing of listing application is possible. In such cases, JPXR will review the background, etc. for the inclusion of such adverse opinion during the course of examination.

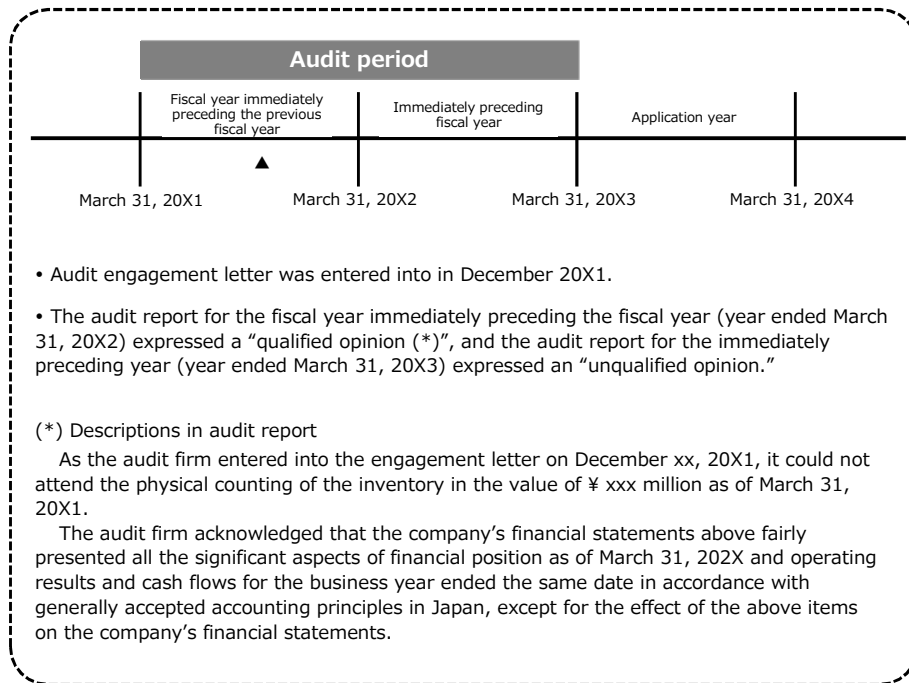
Table: Overview of requirements for listing application related to audit opinion

		Audit report
For the recent two years	First year	Unqualified opinion or Qualified opinion with exceptive items (Note 1) (Note 2)
	For the last year	Unqualified opinion (Note 3) (Note 4)
	The previous year	Unqualified opinion (Note 4)

(Note 1) For example, since an audit engagement letter was entered into after the beginning of the year before the preceding the previous year, the verification

of adequacy of opening balances was difficult or sufficient time required for audit was not taken. Even if, as a result, the audit report for the year before the previous year expressed a “qualified opinion with exceptive items,” a listing application would be allowed.

Example: Successful listing in case of a “qualified opinion with exceptive items” expressed in the audit report, etc. for the fiscal year immediately preceding the previous fiscal year



- (Note 2) Even when the audit report expresses the disclaimer of opinion due to any events beyond the control of the applicant such as natural disaster or contains “adverse opinion,” the application would be allowed.
- (Note 3) If auditors express a “qualified opinion with exceptive items” or “qualified opinion with exceptive items” only because of any reasons associate with comparative information, the application would be allowed.
- (Note 4) Even if auditors do not express a “qualified opinion” or “unqualified conclusion” only because of any reasons associate with comparative information, the application would be allowed.
- (Note 5) Even in case of initial listing on TSE of company listed on another market or non-listed company making consistent disclosures preparing quarterly report, the quarterly review report shall contain “unqualified conclusion”.

### 3) Internal control report, etc.

- d. Where a stock, etc. pertaining to an initial listing applicant is listed on any other financial instruments exchange in Japan, such stock, etc. shall not fall under the following (a) and (b):
- (a) The internal control report pertaining to the business year ending in the last

year contains the fact that "appraisal results cannot be provided" contained in; and

- (b) The internal control audit report regarding the internal control report pertaining to a business year ending in the last year contains the fact that "no opinion is provided".

*(Rule 211, Item 6 of the Regulations (Rule 205, Item 6 of the Regulations))*

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For the interpretation of "internal control pertaining to financial report," where a stock, etc. pertaining to an initial listing applicant is listed on any other financial instruments exchange in Japan, such stock, etc. shall not fall under the following (a) and (b):

- a. The internal control report pertaining to the business year ending in the last year contains the fact that "appraisal results cannot be provided"; and
- b. The internal control audit report regarding an internal management report pertaining to a business year ended in the last year contains the fact that "no opinion is provided". (\*)

\* This shall not apply to cases where the audit certificate is exempted over the period for which the applicant is allowed to elect to apply the exemption from the audit certificate over the internal control report.



## 8. Audit by a Listed Company Audit Firm (Rule 211, Item 6 of the Regulations (Rule 205, Item of the Regulations))

The financial statements, etc. for each business year or consolidated accounting year ending in the last two (2) years as well as the quarterly financial statements, etc. for a quarterly accounting period in the business year or for a quarterly consolidated accounting period in the consolidated accounting year ending in the last year have undergone audit or quarterly review equivalent to that in the provisions of Article 193-2 of the Act by a listed company audit firm (including audit firms registered in the list of associate registered audit firms based on the Registration System for Listed Company Audit Firms of The Japanese Institute of Certified Public Accountants (limited to those which have undergone quality control reviews by The Japanese Institute of Certified Public Accountants)) (excluding those deemed inappropriate by the Exchange)

*(Rule 211, Item 6 of the Regulations (Rule 205, Item 7 of the Regulations))*

The financial statements, etc. for each business year or consolidated accounting year ending in the last two (2) years as well as the quarterly financial statements, etc. for a quarterly accounting period in the business year or for a quarterly consolidated accounting period in the consolidated accounting year ending in the last year need to have undergone audit or quarterly review equivalent to that in the provisions of Article 193-2 of the Act by a listed company audit firm (including audit firms registered in the list of associate registered audit firms based on the Registration System for Listed Company Audit Firms of The Japanese Institute of Certified Public Accountants (limited to those which have undergone quality control reviews by The Japanese Institute of Certified Public Accountants)) (excluding those deemed inappropriate by the Exchange).

Globalization of capital markets and business activities, sophistication of IT used by companies, and adoption of international accounting standards, significant amendments to accounting and auditing standards or exposed embellishments of large companies have significantly changed the practices of CPAs. Thus reliability of audits performed by CPAs as independent auditors over financial statements, etc. issued by companies must be further enhanced.

Given evolving circumstances surrounding companies, accounting and audits, a more organized audit system than ever is required. It is not desirable that the same firms, leaders or partners are engaged in the audits of the same company for a long time from the perspective of independence.

Therefore, TSE requires an initial listing applicant to receive the audits of listed company audit firms (including audit firms which are registered in the quasi-registered firms list (limited only to those which have received the Quality Control Review of JICPA)) and to have joint audits performed by audit firms and several CPAs.

In addition, in order to ensure an enhanced audit system and independence, TSE has encouraged the Committee on Listed Company Audit Firms to select audit firms or joint CPA offices as independent auditors, whose organizations have been registered as an audit firm or joint CPA office with an organization-level audit system properly designed and implemented.

Meanwhile, TSE has not set the requirements for continuous audits within the criteria, and the timing of the conclusion of audit engagement letters is left to the decision of audit firms, etc.

## 9. Establishment of a shareholder services agent: (Rule 211, Item 6 of the Regulations (Rule 205, Item 8 of the Regulations))

Shareholder services have been entrusted to an institution specified by the Enforcement Rules as the applicant's shareholder services agent, or an informal consent of undertaking the entrustment of such shareholder services from the shareholder services agent has been received.

*(Rule 211, Item 6 of the Regulations (Rule 205, Item 8 of the Regulations))*

Shareholder services are required to be entrusted to shareholder services agent approved by TSE, or an informal consent of accepting the entrustment of such shareholder services from the shareholder services agent has been received by the date of listing application.

(Note) Shareholder service agents approved by TSE include trust and banking companies, Tokyo Securities Transfer Co., Ltd., Japan Securities Agent, Inc., and IR Japan, Inc.

## 10. Share Unit (Rule 211, Item 6 of the Regulations (Rule 205, Item 9 of the Regulations))

The Share Unit shall be expected to be 100 shares at the time of listing; provided, however, that the same shall not apply to the cases specified by the Enforcement Rules.

*(Rule 211, Item 6 of the Regulations (Rule 205, Item 9 of the Regulations))*

The Share Unit shall be expected to be 100 shares at the time of listing; provided, however, that the same shall not apply to the cases specified by the Enforcement Rules (Note 1)

With a view to enhancing conveniences for market participants including investors, TSE aims to eventually align the number of shares comprising one trading unit for all the listed companies (Note2) to 100 shares. In this regard, TSE encourages initial listing applicants to initially set the trading unit (the number of share per Share Unit) at 100 shares.

In practice, at the time of listing application, JPXR will check the adoption of the number of shares unit per Share Unit and the number on the basis of the rules prescribed in the Articles of Incorporation and listing application documents including certificates of registered items. When the applicant does not adopt any trading unit system or it applies a trading unit system where the number of shares comprising one trading unit is not 100 shares at the time of listing application, TSE will require the applicant to adopt a trading unit system or change the number of shares comprising one trading unit (Note 3).

Even if the applicant has listed its shares on other financial instruments exchanges in Japan, the number of shares comprising one trading unit must be 100 shares.

(Note 1) The cases specified by the Enforcement Rules include cases where a large number of holders of fractional Share Units are expected to occur at the time of listing as in the case when a mutual company is demutualized into a stock corporation,

(Note 2) Trading on financial instruments exchanges is effected in the integral multiple of the unit determined for each company. This unit is referred to as the trading unit. Usually, the trading unit relates to the number of shares comprising one Share Unit system in cases of companies which have adopted a Share Unit system, while it is one share in cases of those which have not adopted the system.

(Note 3) The applicant is required to amend documents associated with the listing application including the Articles of Incorporation, certificates of registered items, various internal rules and "Part I" documents with respect to the

adoption of a trading unit system and submit them during the period for the listing examination.

(Note 4) Procedures required to adopt the number of shares per Share Unit system and change the number of shares per Share Unit are as summarized in the table below:

Table: Procedures required for changing the number of shares comprising one trading unit to 100 shares

Handling of the number of shares per Share Unit	How to implement procedures			
Only increase and setting	Special resolution at the general meeting of shareholders			
Increase and setting effected concurrently with share split	Split ratio equals or exceeds increase or setting ratio of the number of shares comprising one Share Unit	No increase in the total number of issued shares outstanding is required.	Resolution of the Board of Directors Required	
		Necessary	Two or more classes of stock have been issued	Special resolution at the general meeting of shareholders
			Not made	Resolution of the Board of Directors Required
		Below the above	Special resolution at the general meeting of shareholders	
Only decrease	Resolution of the Board of Directors Required			
Decrease effected concurrent with the share consolidation	Special resolution at the general meeting of shareholders			

## 11. Classes of Stocks (Rule 211, Item 6 of the Regulations (Rule 205, Item 10 of the Regulations))

Domestic stock certificates pertaining to the initial listing application shall be, as a general rule, any of stocks referenced in the following a. through c. In this case, for stock certificates, etc. mentioned in b below, there are no other classes of stocks to be issued other than such stock certificates, etc. in listing application.

- a. In the case of a company issuing one class of stock with voting rights, said stock with voting rights;
- b. In the case of a company issuing multiple classes of stock with voting rights, a class of stock with voting rights whose value of rights, etc. to receive economic benefits including claim for surplus dividend pertaining to the number of shares that enables exercise of one voting right at a general shareholders meeting with regard to important matters including selection and dismissal of board members is higher than any other class of stock; or
- c. Stock with no voting rights

*(Rule 211, Item 6 of the Regulations (Rule 205, Item 10 of the Regulations))*

Domestic stock certificates pertaining to the initial listing application shall be, as a general rule, any of stocks referenced in the following a. through c.

- a. In the case of a company issuing one class of stock with voting rights, said stock with voting rights;
- b. In the case of a company issuing multiple classes of stock with voting rights, a class of stock with voting rights whose value of rights, etc. to receive economic benefits including claim for surplus dividend pertaining to the number of shares that enables exercise of one voting right at a general shareholders meeting with regard to important matters including selection and dismissal of board members is higher than any other class of stock; or
- c. Stock with no voting rights

(Note) In case of stock certificates, etc. mentioned in b above, there are no securities for which any listing application is made.

## 12. Restriction on Transfer of Shares(Rule 211, Item 6 of the Regulations (Rule 205, Item 11 of the Regulations))

Transfer of shares pertaining to an initial listing application is not restricted or it is expected that there will be no restriction by the time of listing;

*(Rule 211, Item 6 of the Regulations (Rule 205, Item 11 of the Regulations))*

A company may impose restrictions on transfer shares of stocks in the Articles of Incorporation. However, financial instruments exchanges provide open marketplaces where a large number of public investors can participate freely. Therefore, restrictions on transfer of stocks associated with any trading are not fit for the system of such exchanges. Therefore it is required that the applicant has not imposed or is not expected to impose any restrictions on the transfer of shares for which the listing application is made.

So any applicant which has imposed certain restrictions on transfer of stocks for which the listing application is made will be required to revise the Articles of Incorporation and submit the certificate of revised registered items reflecting such revised items during the examination period.

(Note) An exception to this criterion would be provided when the transfer of shares of stocks is restricted by virtue of laws such as the Broadcasting Act or Aviation Act and if such restrictions may not hamper trading on markets operated by TSE.

## 13. Handling by the Designated Book-Entry Transfer Institution (Rule 211, Item 6 of the Regulations (Rule 205, Item 12 of the Regulations))

The relevant issue is subject to the book-entry transfer operation of the designated book-entry transfer institution, or is likely to be so by the time of listing.

*(Rule 211, Item 6 of the Regulations (Rule 205, Item 12 of the Regulations))*

The relevant issue is subject to the book-entry transfer operation of the designated book-entry transfer institution, or is likely to be so by the time of listing. The designated depository institution under the Book-Entry Transfer Act is the Japan Securities Depository Center, Inc. (hereinafter referred to as "JASDEC").

Therefore it is required that the stocks of an applicant have already been handled by JASDEC or are expected to be handled by JASDEC by the time of listing.

An applicant is required to dematerialize its stock certificates, such that they are eligible for the book-entry transfer of JASDEC. So, if the applicant has issued materialized stocks and has not completed the procedures for the dematerialization of stock certificates, the applicant shall complete the procedures by the end of examination period. After the listing approval (listing approval date, in principle), the applicant is required to submit consent in the form designated by JASDEC to the effect that the applicant agrees that JASDEC will handle its listed stock.

#### 14. Expected Implementation of Merger, etc.(Rule 211, Item 6 of the Regulations (Rule 205, Item 13 of the Regulations))

The merger, etc. shall not fall under the following a. and b.

- a. Where a merger (excluding a merger between an initial listing applicant and its subsidiary or a merger between subsidiaries of an initial listing applicant, and a merger falling under Rule 208, Item (1) or Item (2)), demerger (excluding a demerger between an initial listing applicant and its subsidiary or a demerger between subsidiaries of an initial listing applicant), making other company a subsidiary or making a subsidiary a non-subsidiary or transfer of a business to or from other entity (excluding transfer of a business between an initial listing applicant and its subsidiary or between subsidiaries of an initial listing applicant) is scheduled to be carried out on or after the initial listing application day and within two (2) years from the end of the most recent business year before such day, (including where a subsidiary of an initial listing applicant has carried out or plans to carry out a merger, demerger and transfer of a business to or from other entity) and, in addition, where the Exchange deems that an initial listing applicant will cease to be a substantial surviving company by such an act; provided, however, that the same shall not apply where the Enforcement Rules so specify; and.
- b. An applicant expects to effect a merger in which the applicant will be dissolved, or stock swap or transfer of shares which turns the applicant into a wholly owned subsidiary of another company within two years from the end of the previous year r (excluding cases expected before the listing date).

*(Rule 211, Item 6 of the Regulations (Rule 205, Item 13 of the Regulations))*

A merger needs to be the one which does not meet a and b below:

Item	Criteria
a. Merger, demerger, turning a company into a subsidiary, or turning a subsidiary into non-subsidiary company, receipt or transfer of business (hereinafter referred to as "merger, etc.")	Where any one of the following is scheduled to be carried out on or after the initial listing application day and within two (2) years from the end of the most recent business year before such day, and, in addition, where the Exchange deems that an initial listing applicant will cease to be a substantial surviving company by such an act. - Merger (Note) - Demerger (Note) - Turning another company into a subsidiary or a subsidiary into a non-subsidiary company (ceasing to be a parent company of another company) - Receipt or transfer of business
b. Merger, stock swap or share transfer	Where a merger in which an initial listing applicant becomes a dissolution company, a stock swap or a stock transfer whereby it becomes a wholly-owned subsidiary of another company is expected to be carried out within two (2) years from the end of the business year immediately prior to the business year containing the initial listing application day (except cases where such acts are scheduled to be carried out before the listing day).

(Note) Including cases where a subsidiary of an applicant has made or is expected to make such transactions. The following discusses each item of formal requirements.

**a. Merger, demerger, turning a company into a subsidiary, or turning a subsidiary into non-subsidiary company, receipt or transfer of business**

If it is expected that a merger (Note 1) will take place within two years (Note 2) from the end of the previous year, such that an applicant would substantively cease to be a surviving company, the nature, financial conditions and management performance of the applicant would dramatically change because of such act.

In such cases, TSE will not accept the listing application because it will be difficult to capture the nature of the company after such act.

(Note 1) Since this two years period does not include the "period from the beginning of application year to the initial listing application date," listing application would be possible.

(Note 2) Demerger excludes one where the applicant takes over a business from a listed company (limited to cases where a business taken over from the listed company constitutes a main business of the applicant).



Even when a listing application would be accepted as the merger, etc. effected by an applicant would not meet any one of the transactions mentioned above, JPXR may separately require the applicant to submit additional data when JPXR determines that such merger, etc. would give rise to significant influence. For more information, please refer to "VIII Handling of Reorganization for the Purpose of Examination".

**b. Merger, stock swap or share transfer**

A listed company may be delisted when the listed company is dissolved or it effects stock swap or share transfer to make the listed company a 100% subsidiary of another company.

Thus, since it would not be desirable to permit any company expected to be delisted at the time of listing application to list its stock, TSE would not accept any listing application if the applicant intends to effect a merger where the listed company is dissolved or it effects stock swap or share transfer to make the listed company a 100% subsidiary of another company within two years from the end of business year immediately preceding initial listing day

(Note) However, listing application would be possible if an applicant intends to effect such corporate reorganization before listing day.

## III Listing Examination (relating to Rule 213 of the Regulations)

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Listing examination should be implemented for the corporate group of applicant (Note) meeting formal requirements (Rule 211 of the Regulations based on the requirements of Rule 213 of the Regulations (hereinafter referred to as "Substantive Examination Criteria").

(Note) It refers to the applicant, its subsidiaries and associates.

Substantive Examination Criteria provide for five eligibility requirements and the "Guidelines Concerning Listing Examination, etc." prescribe specific aspects based on which each eligibility criterion is assessed to be satisfied.

In due course of examination, JPXR will examine whether the applicant meets the criteria based on descriptions included in disclosure draft of "Securities Report for Initial Application (Part I)", "Various Explanatory Data Concerning the Applicant" and "Matters Relating to Business Plan and Growth Potential" as main items for the examination and also through relevant interviews with the applicant.

In addition, even if the corporate group of applicant is determined to meet the criteria, JPXR may require the applicant to become more desirable company as a listed company.

The following explain the relevant requirements associated with the Substantive Examination Criteria and focus of listing examination.

## List of Substantive Criteria

Rule 213 of the Securities Listing Regulations	III 2 to 6 of Guidelines Concerning Listing Examination, etc. (Summary)
<p>1. Corporate Continuity and Profitability</p> <p>A business is operated continuously and a stable revenue base is present;</p>	<p>(1) The business plan of corporate group of an initial listing applicant is appropriately drawn up in light of its business model, business environment, risk factors, etc.</p> <p>(2) The corporate group of an initial listing applicant is reasonably expected to be able to maintain a stable profit in the future;</p> <p>(3) Management activities of the corporate group of an initial listing applicant are recognized to be able to be carried out stably and continuously.</p>
<p>2. Soundness of Corporate Management</p> <p>A business is carried out fairly and faithfully;</p>	<p>(1) The corporate group of an initial listing applicant is recognized not to give or receive profits wrongfully through a trading act or any other management activities with relevant parties and other specific entities.</p> <p>(2) The mutual relationship of relatives of officers, auditors, or executive officers of an initial listing applicant, its composition, actual working situation or the state of concurrent posts as officers and employees, etc. with any other company, etc. are recognized not to impair the fair, faithful and full execution of duties or the implementation of effective auditing as officers of such initial listing applicant.</p> <p>(3) (Where an initial listing applicant has a parent company, etc.), management activities of the corporate group of an initial listing applicant are recognized to be carried out independently from such parent company, etc.</p>
<p>3. Effectiveness of Corporate Governance and Internal Management System of an Enterprise</p> <p>Corporate governance and internal management system are properly prepared and functioning;</p>	<p>(1) The system to ensure the appropriate execution of duties of officers of the corporate group of an initial listing applicant is recognized to be appropriately prepared and operated.</p> <p>(2) The internal management system is recognized to be reasonably developed and appropriately operated to carry out effective management activities.</p> <p>(3) Necessary personnel are deemed to be secured in order to carry out stable and continuous execution of management activities of the corporate group of an initial listing applicant and to maintain its appropriate internal management system.</p> <p>(4) A listing applicant adopts accounting treatment standards adaptable to its actual situation and in addition, necessary accounting body is recognized as being prepared and operated appropriately.</p> <p>(5) It is deemed that an effective system to comply with laws and regulations, etc. concerning management activities in the corporate group of an initial listing applicant is prepared and operated.</p>
<p>4. Appropriateness of Disclosure of Corporate Information, etc.</p>	<p>(1) The corporate group of an initial listing applicant is deemed to be able to properly manage corporate information of facts, etc. which will have a material effect on management and to disclose it to investors in a timely and appropriate manner. Moreover, its system for the preemptive prevention of insider trading, etc. is deemed to be developed and operated appropriately.</p>

<p>The applicant is in a status where disclosure of the corporate information, etc. may be carried out in an appropriate manner.</p>	<p>(2) Documents for the disclosure of corporate information have been prepared in accordance with laws and regulations, and have prominently described any items (when the corporate group of initial listing applicant is expected not to recognize stable profit because of investment activities to enhance mid- and long-term enterprise value, including relevant matters related to such investment activities) which may potentially have significant effect on investment decisions of investors, items to be considered as risk factors and items to be regarded as significant premises for business activities, in an understandable manner.</p> <p>(3) The corporate group of an initial listing applicant does not make distorted information disclosure on the actual state of the corporate group of the initial listing applicant by carrying out a trading act with its relevant party or any other specific entity or adjusting share ownership ratios, etc.</p> <p>(4) (Where a listing applicant has a parent company, etc.), the corporate group of an initial listing applicant is in a status where disclosure of the corporate information, etc. may be carried out in a timely and appropriate manner.</p>
<p>5. Other Matters Deemed Necessary by the Exchange from the Viewpoint of the Public Interest or the Protection of Investors.</p>	<p>(1) The contents of the rights of shareholders and the state of their exercise are deemed appropriate from the viewpoints of the public interest or the protection of investors.</p> <p>(2) The corporate group of an initial listing applicant does not have an ongoing lawsuit or dispute, etc. which may have a material effect on management activities and business results.</p> <p>(3) The corporate group of an initial listing applicant is recognized to develop an internal system to prevent criminal and extremist elements from being involved in management activities, and making efforts to prevent such involvement and their actual state is recognized as appropriate from the viewpoints of the public interest or the protection of investors.</p> <p>(4) When domestic stocks pertaining to initial listing application are stocks with no voting rights (limited to cases where there are no types of stocks other than the domestic stocks for which the listing application is made) or stocks with less voting rights, they must satisfy each item enumerated in Guidelines III, 6. (4).</p> <p>(5) When domestic stocks pertaining to initial listing application are stocks with no voting rights (limited to cases where there are no types of stocks other than the domestic stocks for which the listing application is made) or stocks with a small number of voting rights, they must satisfy each item enumerated in Guidelines III. 6. (5).</p> <p>(6) It is deemed appropriate from the viewpoints of the public interest or the protection of investors.</p>

# 1 Corporate Continuity and Profitability

## (Rule 213, Paragraph 1, Item 1 of the Regulations)

- (1) The business plan of corporate group of an initial listing applicant is deemed to have appropriately been drawn up in light of its business model, business environment, risk factors, etc.

*(Guidelines III 2.(1))*

### Requirements of criterion and focus of examination

In examination on the basis of these criteria, JPXR will assess whether the business plan of applicant which is filed with JPXR has been prepared in due course of process.

In practice, the examiners will gain in-depth understanding of characteristics (strength and weakness) of business model and profit generating structure of the applicant with reference to, but not limited to, factors in prior years which gave rise to changes in operating results. Then they will mainly assess whether the business plan exhaustively reflects various factors to be reflected in developing businesses going forward (industry environments and status of peer companies, market size and market prices at the market where the applicant operates, trend in demands for products and services, trends in raw materials market, etc., status of major customers, suppliers and other business partners, and status of law and regulations). In such cases, JPXR will assess that each of the plans has consistently been developed, including income plans, sales plans, procurement plans, capital investment plans, human resources plans and financing plans, and also assess whether such plans do not constitute any plans which are unlikely to generate any profit even looking at them from the long-term perspective.

- (2) The corporate group of an initial listing applicant is reasonably expected to be able to maintain a stable profit in the future;

*(Guidelines III 2. (2) )*

### Requirements of criterion and focus of examination

For the purpose of examination on the basis of the criteria, JPXR will evaluate whether an applicant is reasonably expected to recognize stable profit for a certain period of time following listing in consideration of the state of management activities and the business plan of the corporate group (Notes 1 and 2).

(Note 1) An applicant is required to maintain the market capitalization level of ¥25,000 million as a basis of abundant liquidity by which various institutional investors may regard the applicant as a safe choice of investment, and “stable profit” means the profit deemed to be stable in the context of such level.

(Note 2) The view underlying this criterion is to confirm the profitability of main business of applicant, and “profit” to be confirmed shall be ordinary income.

When the performance, revenue and profit of the corporate group of initial listing applicant improves on a stable basis, JPXR will evaluate whether the business plan has been developed appropriately (no examination of any points other than those referred to in Guidelines III, 2 (1) will be made).

On the other hand, when the performance, revenue and profit of corporate group of applicant is deteriorating and the amount of market capitalization expected at the time of listing is small, JPXR will assess the basis for continuous recognition of stable profit following listing. When it is difficult to evaluate the basis, JPXR may be required to assess the prospect of operating results on the basis of historical experiences during the application period.

In the meantime, if a stable profit cannot be recognized temporarily because of investments to enhance mid- and long-term enterprise value in research and development activities, maintaining and strengthening facilities, sales activities, etc., JPXR will confirm the nature of investments (contents of investments, their amount and aim of investments to enhance the enterprise value), trends of performance results of the applicant as a whole based on the nature of investments, future investment plan (including views concerning changes in investment policies tailored to the progress of business and the judgment whether to continue investments, etc.).

In consideration of the contents, JPXR will confirm that if the effect of such activities is excluded, a stable amount of profits of corporate group of initial listing applicant is reasonably expected to be recognized, and that the size and period of such investment activities will not affect the corporate continuity.

When profits and losses significantly fluctuate due to special events or reasons, JPXR will conduct the evaluation including consideration of such events.

- (3) Management activities (meaning business activities, and investment activities and financial activities; the same shall apply hereinafter) of the corporate group of an initial listing applicant are recognized to be able to be carried out stably and continuously in light of matters including those enumerated in the following a. to d.
- a Business activities of the corporate group of an initial listing applicant are in a state enumerated in the following (a) and (b):
    - (a) Business activities are able to be conducted stably and continuously in light of purchases, production and sales, actual results of transactions with customers and suppliers, characteristics and demand trends for manufactured products and services, and the state of performance of any other business (excluding the viewpoint of the structure of the corporate group); and
    - (b) The structure of the corporate group is no serious obstacle to continuous business activities;.

*(Guidelines III 2.(3) )*

#### *Requirements of criterion and focus of examination*

While the criteria with respect to (1) and (2) above represent those for examining prospectus for performance mainly characterized by profit and loss, as well as cash flows, the examination on the basis of criteria in (3) above will focus on actual status of corporate management including the evaluation as to whether the management activities of the corporate group of applicant will be carried out stably after listing. For the status of subsidiary, etc., JPXR will make the examination in consideration of significance of its effect on the corporate group.

The following outlines how JPXR examines these issues.

First, JPXR will assess the nature and status of business activities of the corporate group of applicant, represented by procurement, production and sales (in this paragraph, manufacturing industry is referred to as an example; naturally items to be examined will differ, depending on the category and lines of business).

For purchases, the examination point is that the applicant can procure necessary items of relevant quality and volume in a timely manner.

For production, the examination point is that the applicant has in place organizations and systems where it can produce products in quantity which may not hamper continuous sales activities and in quality which should not impair the confidence of customers in products. When the applicant outsources a part of production activities, JPXR will naturally evaluate whether the applicant has selected a good outsourced entity.

With respect to sales, the examination point is that the relationship with major customers has been well maintained or there are no ailing companies in customers. If the business relationship with a customer is deteriorating, JPXR will more closely examine how the curtailment or termination of business with the customer will affect the corporate group of applicant or how it can compensate for losses arising from such situation. JPXR will also assess the existence of any factors which significantly impede the continuous operations of business after listing

It is regarded as an important matter that purchase, production and sales activities should not be carried out in isolation, but should be carried out as a whole in a consistent and aligned manner.

For the purpose of examination of these issues, the conditions of and competition within the industry where the corporate group of applicant operates are also considered to be material.

Therefore, JPXR will examine the business environments surrounding the corporate group and whether the marketability of products are not declining, as well as the products of the applicant group are characterized such that they may continue to evoke relevant demands. Even when the market in which the applicant operates is expanding, if its market share declines, JPXR will assess the factors which giving rise to such decline, future prospectus and how the applicant actually addresses such situations.

The following are also regarded as examination points.

► Development policies for business offices and current status

In cases where the applicant carries out business represented by operation of several shops, a key point in this case is that the applicant will be able to continuously open shops on the basis of the development of shop opening policies and the satisfaction of requirements for shop opening.

► Status of contracts which are significant in terms of management

JPXR will examine the existence of material contracts for the business management, including franchise contract and royalty contract, and whether such contracts are certain to be maintained and renewed.

► Legal disputes, litigation cases and breach of laws and regulations, etc.

JPXR will assess whether a legal case will not impair the reputation of products, etc. and whether there is any case which adversely affects business activities.

► Risk management

JPXR will assess whether the applicant has in place systems to ensure the continuation of business and recovery in the event of occurrence of any accident or disaster.

For corporate group structure, for example, if there is a special structure as a Chinese company lists its stock overseas subject to restriction on foreign investment between an applicant and a Chinese company which belongs to the corporate group, JPXR will examine whether such relationship will prevent the performance of continuous business activities.

- b. Investment activities such as capital investment and business investment, etc. of the corporate group of the initial listing applicant do not hinder the continuity of management activities in light of the trend and future outlook, etc. for its investment;
- c. Financial activities such as fund-raising, etc. of the corporate group of the initial listing applicant do not hinder the continuity of management activities in light of the trend and future outlook, etc. of its financial state; and

*(Guidelines III 2.(3) )*

### *Requirements of criterion and focus of examination*

In examining the continuity of management activities of the corporate group, points relate to the status of investment activities and financial activities, underlying the continuity of business activities.

For investment activities, JPXR will assess whether the applicant has appropriately developed investment plan for capital expenditures and investments in research and development activities which are required to maintain competitive power in business and address future expansion of business, as well as whether the applicant has made sufficient and necessary consideration of cash flow plan and investment recovery plan in making investment in a new business. In particular, if a stable profit cannot be recognized temporarily because of investments to enhance mid- and long-term enterprise value, JPXR will confirm whether the size and period of investment activities affect the corporate continuity based on future cash flow plans.

With respect to financial activities, JPXR will assess the availability and prospectus for necessary funds to realize business expansion and business expansion on the basis of the financial conditions of the corporate group of the applicant.

In addition, when the borrowing is expected to continue to increase because of capital expenditures going forward, JPXR will assess whether financial conditions which significantly affect the continuation of business are unlikely to deteriorate significantly on the basis of trends in the industry, business relationship between the applicant and banks, and fundraising plan including capital increase through public offering after listing.

In addition when the applicant increases its capital concurrent with initial listing, JPXR will also assess the nature of the actual investment plan backed by funds raised and the prospectus for the recovery of such investments

- d. With respect to the matters which are the basis of the main business activities of the corporate group of the initial listing applicant, there are no issues that will hinder the continuity of such business activities (they refer to permission, authorization, licenses or registration or sales agent or dealer agreement or manufacturing agreement relating to major businesses or manufactured products; the same shall apply hereinafter).

*(Guidelines III 2.(3) )*

### *Requirements of criterion and focus of examination*

For the purpose of the examination on the basis of this criterion, if the business of the applicant requires any permit or authorization, etc., JPXR will assess whether the applicant is in a position to continuously renew such permit or authorization.

The term “the matters which constitute the premise underlying main business activities” refer to “permission, authorization, license, or registration pertaining to main businesses or manufactured goods and commodities or sales agent agreements or manufacturing agreements.”



When a main business of the corporate group relates to industry categories which require permission, authorization, license or registration of administrative agencies, etc., or largely depends on selling agent agreement or production entrustment agreement with a specific business partner, it is expected that the business will not be able to continue in the event that they are terminated or canceled.

Therefore, JPXR will assess whether such event leading to cancellation or termination thereof has not emerged.

In addition, JPXR requests the applicant to submit the statements which describe the following and assess the matters which become the premise of main lines of business on the basis of descriptions therein.

- Matters which constitute the premise underlying the main business activities of the corporate group of the applicant;
- Effective period of permission, etc. and the validity when it is specified by laws and regulations or contract;
- Events leading to cancellation or termination of licenses, etc. when they are specified by laws and regulations, or contracts;
- For the matters which constitute the premise underlying main business activities of the corporate group of applicant, the statement that no factors which hamper the continuation thereof have taken place and that any occurrence of such factors would have significant impact on business activities.

Meanwhile, if there are no matters which constitute the premises of major activities, the applicant is required to state such fact.

## 2 Soundness of Corporate Management (Rule 213, Paragraph 1, Item 2 of the Regulations)

JPXR will examine whether the applicant and its corporate group fairly and faithfully carry out their businesses.

Specifically, JPXR will evaluate whether the applicant meets the criteria below.

- (1) The corporate group of an initial listing applicant is recognized, as a general rule, not to give or enjoy profit wrongfully through a trading act or any other management activities with relevant parties (Note 1) or other specific entities (Note 2) (including provision and receipt of indirect transaction act and free services; the same shall apply hereinafter) (Note 3) for the reason of the matters referred to in the following a. and b.:
  - a Where a transaction has occurred between the corporate group of an initial listing applicant and its relevant parties or any other specific entities, and such transaction has rationality of continuing the transaction, and trading terms including trading prices are clearly not disadvantageous to the corporate group of an initial listing applicant; and
  - b Benefits of the corporate group of an initial listing applicant are not lost wrongfully because related parties and any other specific entities of the corporate group of an initial listing applicant give priority to their own benefits;

*(Guidelines III 3.(1) )*

- (Note 1) "related party" means any "related party" mentioned in Article 8, Paragraph 17 of the Financial Statements Rules.
- (Note 2) "Other specified entities" refer to any person who have a strong relationship with the corporate group of the applicant in terms of human and financial resources, though they are not within the scope of related parties (hereinafter collectively referred to "related party, etc.")
- (Note 3) "Transactional acts" refer to operational transactions, financing transaction, lease transactions of real estate, transactions associated with the use of industrial property rights. They include cases where the corporate group of the applicant has carried out transactional acts indirectly rather than direct transactional acts and where the corporate group merely provides services as its business without charging any proper consideration.

### *Requirements of criterion and focus of examination*

Since transactions with related parties represent a transaction with a person having a special relationship with the applicant corporate group, it is concerned that the applicant is forced to enter into transactions which are primarily unnecessary or the terms and conditions of the transaction may be distorted. Therefore such transactions could be alleged to be transactions for which the applicant is required to exercise a high degree of caution.

On the other hand, there are cases where it is reasonable to continue transactions with related parties after listing because the applicant finds it difficult to identify an alternative partner as transactions have continuously been carried out, starting at the time before the preparation of the listing or as the applicant cannot identify any partner who shows more favorable terms and conditions of transactions. In such cases, JPXR will assess the necessity of the transactions for the purpose of its business and the adequacy of the terms and conditions thereof.

The focus herein is that even though the terms and conditions of the transaction are judged to be appropriate compared to those with any third party, if the transactional act does not have any reasonability (necessity of business) by itself, such transaction is determined to be the undue grant of benefits.

However, if the corporate group of applicant significantly increases its influence over group companies of the applicant including related parties, etc. by receiving benefits attributable to the corporate group, such receipt may be determined to be a wrong receipt of benefits.

In making the listing examination on the basis of this criterion, one factor to determine whether a transactional act represents an act to grant undue benefits relates to whether the individual managers of the applicant could explain the transactional act as a proper act when they first consider benefits to the company, rather than benefits to such individuals.

Especially in cases of a company controlled solely by its owner, the ownership and management are identical when it is a non-listed company. This situation does not give rise to any problem unless we especially consider whether a transactional act is a necessary act to the company or to the owner as an individual. However in cases of a listed company which has a large number of public investors, it is required to sharply distinguish the assets belonging to the company from those to the owner, etc., and all transactions are required to be implemented for the benefit of shareholders, including general shareholders.

In light of the above, when the applicant has entered into any related party transaction, the applicant must make organization-level reassessment as to whether there is reasonableness in continuing the transaction and whether the terms and conditions of the transaction are adequate.

In the meantime, where no related party transaction has taken place or the reasonability of existing transactions or appropriateness of the terms and conditions are recognized, JPXR will assess whether the applicant has proper knowledge on related party transactions (recognizing that they are transactions for which the applicant is required to exercise a high degree of caution) and has in place a check and balance system such that any transaction lacking in reasonableness or having inappropriate terms and conditions would not be entered into.

By the way, for any transaction involving the management (e.g., any business acquired or planned through the efforts of the management in itself, or any project whose necessary matters are exceptionally determined by the management), any internal check is unlikely to be properly applied, which may result in some frauds. Therefore, JPXR will assess whether an appropriate system has been developed and operated where such project will be considered at the corporate level and appropriate check and balance functions will be applied properly, and whether or not any transactions actually carried out are inappropriate one.

- (2) The mutual relationship of relatives of officers (where an accounting advisor is a corporation, including its employees who should carry out its office duties; the same shall apply hereinafter) of an initial listing applicant, auditors or executive officers (including governors and inspectors and any other entities corresponding to these; the same shall apply hereinafter), its composition, actual situation of providing services or the state of concurrent posts as officers and employees, etc. with any other company, etc. are recognized not to impair the fair, faithful and full execution of duties or the implementation of effective auditing as officers of such initial listing applicant. In this case, if a spouse, a blood relative within the second degree of kinship, or a relative by affinity within the same degree of kinship of a board member, an accounting advisor, an executive officer of an initial listing applicant, or a person equivalent thereto takes a position as an auditor, an audit and supervisory committee member, a member of an audit committee, or any other positions equivalent thereto, it shall be deemed to impair the implementation of an effective auditing;  
(Guidelines III 3. (2) )

III

### *Requirements of criterion and focus of examination*

For the purpose of examination on the basis of this criterion, JPXR will assess whether the status of officers of applicant is not to impair faithful and sufficient execution of duties. This criterion might be infringed if the decision making of applicant is highly likely to be distorted because of biased composition of officers of applicant (because family members or relatives of the management account for a large portion of the Board of Directors) or because of any decision favorable to a specific interest group, or if a flexible and fair decision in the due course of ordinary business is highly likely to be impeded, including the decision on the holding of meeting of the Board of Directors of applicant, as officers of the applicant concurrently hold positions of directors or officers of another company.

The following outline how JPXR will assess these issues.

First, since it is assumed that for a company for which family members or relatives of the management account for a large portion of the Board of Directors, the influence thereof over the company would be strong, JPXR will assess whether the interest of officers from family members or relatives of the management would be preferred to that of company as a whole in consideration of the background for the election thereof and the status of related party transactions therewith. Especially in case where the family members or relatives of the management who serve as officers account for the majority of the Board of Directors), JPXR will more closely examine resolutions made by the Board of Directors as their influence over the company is strong.

For company auditors or the committee of company auditors, in considering their functions, it is desirable to avoid the assignment of any family members to such capacities. Especially in the event that any spouse or blood relative of a second degree of directors, officers, or accounting advisors ((where an accounting advisor is a corporation, including its employees who should carry out its office duties), auditors, or executive officers (including governors and inspectors and any other entities corresponding to these) are appointed to the offices of company auditors or members of the committee of company auditors, such appointment will be determined to be a self-audit, giving rise to situations where the effective implementation of audit would be impaired.

Next, if any executive of the applicant concurrently holds the position of officer at another company, JPXR will assess whether such officers execute their required

supervision duties properly in consideration of attendances at the board meetings of the applicant and for full-time officers, assess whether the mobility of the execution of their duties has not been impaired.

If the applicant has any business relationship with such another company, JPXR will assess in the listing examination whether the applicant has in place any governance system to exercise checks and balances on any such business relationship, and whether or not the applicant is forced to make any onerous decisions in consideration of the procedures for the determination of the terms and conditions of the transaction. If JPXR affirms the relevant systems and implementation, it may determine that such concurrent holding of positions could be permitted.

In addition, in cases where an applicant has an parent company, etc. (so called "subsidiary listing") and the decisions on management policies or execution of duties are significantly influenced by the parent company, etc. as the total number of officers who concurrently holds other positions and directors seconded from the parent company, etc. accounts for the majority of the Board of Directors (in case of a company with committee system, including each committee) or because of the resolution requirements specified in the Articles of Incorporation, JPXR will more closely examine this point in order to protect minority interests.

In considering the composition of executive offices or concurrent holding of positions, the applicant should fully recognize the importance of corporate governance inherent in a listed company and address them from the perspective of enhancement of management efficiency, establishment of business ethics and ensuring effective check function in the context of management.

Though rare, officers or employees of the parent company, etc. may have made equity contributions to the applicant or the applicant may have granted some stock acquisition rights to officers or employees thereof. Any capital contribution by officers or employees of the parent company, etc. who are not involved in the management of the applicant may lack in clarified ownership of management responsibility or reasonableness and necessity for granting incentives. Thus JPXR will more carefully examine these issues.

- When the applicant has a parent company, etc. (Note):

(3) Where an initial listing applicant has a parent company, etc. (excluding cases where such applicant is expected to cease to have the parent company, etc. by the end of the first business year after listing), management activities of the corporate group of an initial listing applicant are recognized to have independence from such parent company, etc. for the reason of the matters referred to in the following a. to c. or any other matters:

*(Guidelines III 3. (3) )*

#### Requirements of criterion and focus of examination

Where an applicant has a parent company, etc. (i.e., in the case of a “subsidiary listing”), the relationship is assumed to entail potential conflicts between the interests of the parent company, etc. and the minority interests of the applicant. In examining a “subsidiary listing” JPXR will therefore evaluate whether the applicant meet the following criteria in a to c below for the independence from the parent company, etc. because of the requirements that the rights and benefits of the minority interests of the applicant should not be impaired

With respect to a “subsidiary listing,” the parent company, etc. may hold a large percentage of the voting rights of the applicant after the listing. Likewise, some of the officers and employees of the parent company, etc. may concurrently hold positions as directors and employees of the subsidiary. Under these circumstances, the applicant will not be permitted ideally to make decisions at its discretion. Substantively, it is not desired for the purpose of governance of a listed company that specific parent company, etc. has significant influence over an applicant. Rather, it would be preferable for the applicant to have the discretion to develop and transform its operations and management system in consideration of the environments and characteristics of its business by taking relevant measures to reduce the ratio of capital contributions of the parent company, etc. of the parent company, etc. and reduce the number of officers, etc. who concurrently serve in similar positions in the parent company, etc. in future.

Listing of a subsidiary which is substantially a part of parent company or core subsidiary (accounting for significant portion of enterprise value of the parent corporate group) may not be regarded as a new choice of investments on financial instruments markets, and also as the parent company is considered to double generate gains from the initial listing, JPXR will examine this issue more carefully. (See “Reference data” Communication, etc.: Interpretation of listing of company having a parent company.

On the other hand, in cases where an applicant has already been listed on another financial instruments exchange, the applicant does not necessarily intend to double generate gains from initial listing, the degree of concern above may be considered to be lower. In such cases JPXR is certain to assess the conditions of listing on another financial instruments exchange.

Furthermore, a portion of the applicant of the enterprise value of the parent corporate group may significantly increase due to changes in performance results of the parent company or growth of the applicant. In such cases, JPXR will not make any judgment only based on temporary changes in performance results, but it will comprehensively judge the portion of enterprise value accounted for by the applicant in consideration of historical changes in performance results or future income prospectus.

(Note) A “parent company” means a parent company of an applicant prescribed in

Rule 8, Paragraph 3 of the Financial Statements, etc. Rules. On the other hand, a "parent company, etc." means a "parent company" or other affiliated companies or a parent company of other affiliated companies, as described in Rule 8, Paragraph 17, Item 4 of the same rules; provided, however, that these will not apply to cases where the applicant is not expected to have a parent company, etc. due to a public offering or sale effected prior to the listing by the last day of the first business year ending after the listing.

- a. In light of the relationship between the business line of the corporate group of an initial listing applicant and that of the corporate group of the parent company, etc. (excluding the corporate group of an initial listing applicant; the same shall apply hereinafter.), the state of business adjustment made by the corporate group of the parent company, etc. and its possibility and any other matters, an initial listing applicant is not recognized to be substantially a business division of such parent company, etc.;

*(Guidelines III 3. (3) )*

### *Requirements of criterion and focus of examination*

When an applicant was established through a divestiture of one business of the parent company, etc., it is likely that the activities of the applicant merely relate to the performance of a part of business activities of the parent company and the business activities of the applicant have been directed by the parent company, etc., where the applicant cannot make any decisions on business activities at its discretion.

The applicant may also find it difficult to determine management policies or operation policies at its discretion which are necessary in continuously and freely carrying out its businesses because of the management policies of the parent company, etc. on related companies.

In such cases, earnings which should be returned to the shareholders of the applicant are likely to be infringed on at the discretion of the parent company, etc., and the applicant is deemed to constitute only a business division of the parent company, etc. Such companies are not appropriate as independent investment choices offered to investors.

Therefore in determining whether the applicant constitutes a business division of the parent company, etc., JPXR will assess the following points and determine that the applicant has capabilities to carry out its business activities at its discretion, the parent company, etc. has not impeded free business activities or the management judgment of the applicant and such likelihood is remote in the near future.

The positions of officers of the applicant concurrently held by those at the corporate group of the parent company, etc. are unlikely to impede the applicant's own decisions;

- The common business operations of the applicant have been carried out under the applicant's own decisions and they are not necessarily directed by the parent company, etc.;
- There are no rules or procedures which require the prior approval of the parent company, etc. on the decision making of the applicant;
- The applicant has its own capabilities, technologies or know-how to implement the market research, developments, design and planning for products; \* and
- The applicant has been carrying out price negotiations, new customer exploration, and activities to expand sales to existing customers by itself. \*

Furthermore, if a company which carries out similar content of business of the

applicant exists in the corporate group of the parent company, etc., it is expected that the parent company, etc. may leverage its controlling position to restrict or coordinate the business activities of the applicant as the parent company, etc. strives to prefer the earnings of the group as a whole to the earnings of the applicant. In such cases, in consideration of the positions of each group company on the basis of the content and characteristics of the businesses (operating segments, customers and distribution channels) (the background for competitions among group companies, if any), the reasons why the applicant implements management independent of the parent company, etc. and the business coordination made by the parent company, etc., JPXR will assess whether the applicant secures sufficient independence from the parent company, etc. such that it may not be susceptible to undue business coordination of the parent company, etc.

In the event that it is concerned that the applicant constitutes a “business division” of the parent company, etc., and the shareholding ratio of the parent company, etc. to the applicant is high, JPXR will assess this point by confirming the intention of the applicant to reduce the shareholding ratio of the parent company, etc.

<View when an applicant recognizes sales arising from the parent company, etc.>

When an applicant recognizes sales arising from its parent company, etc., it is assumed that there would be a close tie between the applicant and the parent company, etc. In practice, JPXR will assess whether the applicant has not discretionally depended on the parent company, etc. for the purpose of business by carefully evaluating functions the applicant plays in the business.

TSE may determine that the applicant constitutes a business division of the parent company, etc., for example, when the applicant recognizes sales as it provides services for which the parent company, etc. becomes an end user under the instructions thereof; or when the applicant recognizes sales as it receives orders from the parent company, etc. on a preference basis, rather than making sales efforts by itself. On the other hand, even when the applicant recognizes sales arising from the parent company, etc., JPXR may determine that the applicant does not constitute a business department or division of the parent company, etc. if the applicant carries out sales activities to users based on proprietary technologies or know how or the parent etc. merely serves as a contact in form (providing transaction account) due to the relationship with the customers.

In addition, though the applicant recognizes sales arising from entities other than the parent company, etc., JPXR may determine that the applicant constitutes a business department or division of the parent company, etc. unless the applicant has proprietary technologies or know how or if it is determined that the applicant totally depends on the parent company, etc., for example, where it comprehensively depends on the parent company, etc. for business activities.

<View when an applicant is determined to partially constitute a business division>

Even when some of the businesses of applicant are determined to constitute a business department or division of the parent company, etc., if others are determined not to constitute a business department or division (the applicant has an independent business) and they generate relatively large revenue and are expected to maintain its continuity and have growth potential, JPXR will make examination in comprehensive consideration.

<View when there is a lease transaction of real estate>

In the following cases, JPXR will determine whether an applicant constitutes a business department or division based on a degree of dependence on the parent company, etc. with respect to each relationship (ratio and amount, etc.) and on materiality of business activities:



- The applicant rents a real estate from the parent company, etc.;
- The applicant has made borrowings from the parent company, etc.;
- The applicant has received financial guarantee of the parent company, etc. with respect to borrowings or loans from external entities, or
- The applicant has received some secondment from the parent company, etc.

When an applicant made borrowing directly from the parent company, etc. or received financial guarantee of external loans from the parent company, etc. after the beginning of the previous year, and if some borrowing or financial guarantee remains outstanding, it is expected that the applicant has no capability to raise funds by itself. In such cases, JPXR will carefully assess whether the applicant constitutes a department or division (Note).

(Note) In cases where there is a cash management system (CMS) in the corporate group of the parent company, etc., if there are a relatively large number of companies which use its services (borrowers and lenders) and the CMS holds a large value of funds, it is considered that the CMS has substantively played the same role as financial institutions. In such cases, if the applicant made borrowing from the CMS, the applicant's capability to raise funds may not be questioned, compared to the direct borrowing from the parent company, etc. Therefore, JPXR will flexibly assess the conditions of borrowing after the beginning of the previous year when the applicant's own capability to raise funds are not questioned as the applicant demonstrates the capability to borrow funds from external financial institutions.

- b The corporate group of an initial listing applicant or that of a parent company, etc. as a general rule, does not coerce or induce a trading act which becomes disadvantageous to such parent company, etc. or the corporate group of such initial listing applicant, such as transactions under markedly different terms from those of normal transactions (for example prevailing market price; the same shall apply hereinafter) in principle; and

*(Guidelines III 3. (3) )*

### *Requirements of criterion and focus of examination*

It is likely that transactions between the applicant and the parent company, etc. may be carried out under terms and conditions significantly different from those at arm's length as more arbitrary determination of the terms and conditions for the transactions compared to those carried out with third parties may take place.

In such cases, it is likely that the interests of shareholders of the applicant or parent company, etc. may have been impaired by such transactions, and if transactions are coerced by the parent company, etc., under terms and conditions significantly different from those at arm's length, appropriate of independence as a listed company may not be ensured.

Thus the objective of this criterion is to make sure that transactions with the parent company, etc. shall be made at arm's length.

In assessing "terms and conditions at arm's length" JPXR will compare the transactions with other transactions or review the process for determining the terms and conditions of transactions. For example, JPXR will make relevant comparison with "other transactions at arm's length" for business transactions, while JPXR compares "prevailing market interest rate" for financing transactions and "how to determine guarantee rate" for financial guarantees. For lease transactions of properties, JPXR will check the lease payments for neighboring lease properties and "real estate

appraised values” if appropriate. For fees to use brands, JPXR will assess the terms of others belonging to the corporate group of parent company, etc.” or check “how to determine fees for use of brands.” In addition, JPXR will consider historical changes in terms and conditions of transactions.

- c The state of receiving seconded persons of the corporate group of an initial listing applicant is recognized not to excessively depend on the parent company, etc. and not hinder continuing management activities.

*(Guidelines III 3. (3) )*

### Requirements of criterion and focus of examination

For the purpose of the examination on the basis of this criterion, JPXR will assess whether the corporate group of the applicant can secure necessary personnel in carrying out its business activities independent of the corporate group of the parent company, etc.

If the corporate group of the applicant has accepted any seconded persons from the corporate group of the parent company, etc., JPXR will assess whether the assignments to the seconded persons have not impeded the independence of the management of the corporate group. If the seconded persons are assigned to the positions of officers or general managers who manage departments exposed to the influence of the parent company, etc. from the perspective of independence, JPXR will be concerned with such situations from the perspective of independence from the parent company, etc. However if such seconded persons are assigned to any department which has nothing to do with the determination of management policies or transactions with the parent company, etc., JPXR may permit such situations in consideration of their effect on controlling power.

In addition it is important that the status of seconded persons from the parent company, etc. does not affect the going concern of the corporate group of the applicant as the replacement of the seconded persons is ensured when the seconded persons contract is terminated. It is likely that the status of seconded persons may adversely affect the continuation of the businesses of the corporate group of the applicant when the businesses highly depend on the special knowledge or know how of the seconded persons. However, if any replacement of such seconded persons is available by recruitment outside or elevation of employees inside, JPXR may conclude that such situations may not adversely affect the continuation of businesses.

### 3 Effectiveness of Corporate Governance and Internal Management System of an Enterprise (Rule 213, Paragraph 1, Item 3 of the Regulations)

- (1) The system to ensure the appropriate execution of duties of officers of the corporate group of an initial listing applicant is recognized to be reasonably developed and operated in light of matters including those referred to in the following a. and b.:
- a. An initial listing applicant has an organizational plan and an officer composition which is able to effectively conduct checking and auditing concerning the execution of duties of officers of the corporate group of an initial listing applicant.
- A listing examination in such a case shall be conducted in consideration of the state of compliance with matters prescribed in the provisions of Rules 436-2 through 439 of the Regulations; and
- b. Checking and auditing the execution of duties of officers for efficient management is carried out and functions effectively in the corporate group of an initial listing applicant.

(Guidelines III 4. (1) )

#### *Requirements of criterion and focus of examination*

When a company goes public by publicly offering its stocks, the company is required to ensure and maintain the capability to generate profit, ensure soundness of its management and to design and implement appropriate disclosure practices. So the company must have in place appropriate mechanisms for corporate governance practices. In addition, a listed company on Prime Market is expected to achieve higher degree of governance practices tailored to the concept underlying Prime Market.

For the purpose of examination on basis of this criterion, JPXR will evaluate whether the corporate group of applicant has designed appropriate corporate governance systems and implemented them effectively, mainly focusing on the design of organs and composition of officers. In practice, JPXR will confirm the background and reasons for the adoption of current systems and the composition of officers in consideration of basic concept on corporate governance practices (Note 1).

- (Note 1) For the purpose of the examination of the corporate governance systems of the applicant, the applicant is required to submit the "Report Concerning Corporate Governance"(draft) and JPXR will assess the contents described in the report. For the procedures for the descriptions in the report, please refer to the TSE website in the "Download Documents to be Submitted by Initial Listing Applicant"  
(<https://www.jpx.co.jp/equities/listing-on-tse/documents/index.html>)

In addition, with respect to the Board of Auditors (,Audit Committee or Audit and Supervisory Committee) and Independent Directors, given the importance of roles it plays in terms of corporate governance, JPXR will assess the nature of daily auditing work and its efforts through interviews with full-time company auditors and Independent Directors.

Meanwhile corporate governance systems may differ from one entity to another depending on size and the circumstances surrounding the entity. On the other hand, some organs are required to be formed to ensure a corporate governance system suitable for publicly traded companies.

Regulations on "Corporate Code of Conduct" specify the code of conduct with which listed companies should comply. An applicant company is also required to establish

organs and enact initiatives as provided in Rules 436-2 to 439 of the Regulations. (Notes 2, 3, 4 and 5)

(Table) Overview of Rule 436-2 to 439 of the Regulations)

Item	Governing regulations	Descriptions
Securing Independent Director(s) / Auditor(s)	(Rule 436 of the Regulations)	Securing one of more of independent director(s) / auditor(s) to protect general investors (Note 2) (Note 3)
Explanation of Reason for Compliance or Non-Compliance with Corporate Governance Code	(Rule 436-3 of the Regulations)	Explaining reasons for such compliance or non-compliance in the "Report Concerning Corporate Governance Code" in accordance with the following categories: a. Domestic companies listed on Standard Market or Prime Market General Principles, Principles, and Supplementary Principle; b. Domestic companies listed on Growth Market General principles
Organs of listed domestic companies	Rule 437 of the Regulations	Set up a body referred to in each of the following items: a. A board of directors; b. A board of company auditors, an audit and supervisory committee or A board of auditors, an audit and supervisory committee, or a nomination committee and other committees; and c. Accounting auditors;
Securing independent director (s) / auditor (s)	Rule 437-2 of the Regulations)	Securing one or more independent director (s) / auditor (s)
Certified Public Accountants, etc.	Rule 438 of the Regulations	An issuer of a listed domestic stock shall appoint its accounting auditors as certified public accountants, etc. who carry out audit certification, etc. of financial statements, etc. or quarterly financial statements, etc. contained in a securities report or a quarterly report.
Development of System and Structure Necessary to Ensure Appropriateness of Business	Rule 439 of the Regulations	Deciding the development of a system and structure necessary to ensure that the execution of duties of directors, officers or administration directors of such listed domestic company comply with laws and regulations and the articles of incorporation, and any other systems necessary to ensure the appropriateness of business of the domestic company and business of the corporate group composed of said domestic company and its subsidiaries, as well as appropriately creating and operating such system and structure.

Furthermore, the Corporate Governance Code (hereinafter referred to as the "Code") specifies for the requirements of listed companies in the context of "Code of Corporate Conduct" that listed companies shall respect the intent and spirit of the attached "Corporate Governance Code" and make efforts to enhance their corporate

governance (Rule 445-3 of the Regulations). In addition, the Code also requires the applicant to explain reasons for such compliance or non-compliance with each principle of the Code in the report concerning the corporate governance (Rule 436-3 of the Regulations). During the course of listing examination, JPXR will examine the descriptions in the Corporate Governance Report (draft) (existence of the descriptions of reasons for such compliance or non-compliance with each principle of the Code and existence of descriptions of disclosure items based on each principle of the Code, including the descriptions required of only Prime Market listed companies), submitted at the time of the listing application.

(Note 2) The applicant is required to elect necessary independent directors/auditors prescribed in Rule 436-2 of the Regulations by the date of listing and submit to TSE the "Registration Statement of Independent directors/auditors" with the description of the status of election of independent directors/auditors. The registration statement will be available for public inspection (Rule 436-2 of the Rules). The descriptions concerning independent directors/auditors must also be included in the "Corporate Governance Report." (Rule 211, Paragraph 4, Item 6 of the Rules).

(Note 3) Independent directors/auditors prescribed in Rule 436-2 of the Regulations must be appointed from outside directors or outside auditors who are unlikely to give rise to any conflict of interest with general shareholders. When any one of the independence criteria enumerated in a to d below (Guidelines III 5, (3) 2 relating to the listing management, etc.) is met, the registration as an independent officer will not be allowed. So if the applicant is otherwise concerned with the satisfaction of these criteria, the applicant is encouraged to consult JPXR beforehand via the lead underwriters.

- a. Any entity which makes the company a major trading partner or executives of the entity, or major trading partner of the company or executives of the trading partner;
- b. Consultant, accounting, or legal professionals who receive a large amount of cash or other properties from the company, in addition to the remunerations for officers (the persons who receive such properties meet the definition of association such as union, the persons who belong to the association);
- c. Any person who has recently met either a or b above
- c-2 Any person who met either of (a) or (b) below within 10 years before the appointment;
  - (a) Executives of the parent of the company (including directors who are not executives and including company auditors if an outside auditor is designated as an independent officer);
  - (b) Executives of the brother company of the company; or
- d. Any relative of persons mentioned in (a) to (f) below (excluding cases where it is not important):
  - (a) Person mentioned in a to item 2 of c above;
  - (b) Accounting advisor of the company (limited to the case where the outside auditor is designated as an independent officer; including employees of an accounting advisors who are in charge of accounting advice if the accounting advisor is a corporation; the same shall apply hereinafter);
  - (c) Executives of the subsidiary of the company (including directors or accounting advisors who are not executives if an outside auditor is designated as an independent officer);
  - (d) Executives of the parent of the company (including directors who are not executives and including company auditors if an outside

- auditor is designated as an independent officer);
- (e) Executives of the brother company of the company; or
- (f) Any person who has recently been the person in (b) or (c) above or an executive of the company (any director who is not an executive if an outside auditor is designated as an independent officer)

- (2) The internal management system is recognized to be reasonably developed and appropriately operated for an initial listing applicant and its corporate group to carry out effective management activities for the reason of the matters referred to in the following a. and b.:
- a A necessary managerial and administrative body (including various internal rules; the same shall apply hereinafter) is properly developed and appropriately operated to ensure efficiency of management activities and internal check-and-balance functions of the corporate group of an initial listing applicant; and
  - b An internal auditing system of the corporate group of an initial listing applicant is reasonably developed and appropriately operated;
- (Guidelines III 4. (2) )*

## III

### Requirements of criterion and focus of examination

For the purpose of the examination on the basis of this criterion, JPXR will assess whether the corporate group of the applicant has sufficiently designed and implemented management organization such that the corporate group as a listed company could appropriately and consistently perform its management activities, as well as whether the group has developed and taken appropriate measures to prevent incidents, fraud and errors to some extent while carrying out efficient management activities.

The following outline how JPXR will assess these issues.

The focus points of the examination on the basis of these criteria relate to the status of implementation of internal management over the management control organizations, development of various internal rules, accounting practices, budget control and internal audit, etc.

First, for the management control organizations and design and implementation of internal regulations, JPXR will evaluate whether the requirements of various internal rules, etc., and practical method and status of management control are appropriate in conjunction with the lines and types of business of the corporate group of the applicant.

Practically, for purchases, the applicant has in place systems to reduce or stabilize procurement costs, procedures to maintain assets such as raw materials at an adequate level. For sales, the applicant can appropriately assess the management conditions of customers, manage trades receivable from customers and manage assets such as products at an adequate level. Another key point of the examination is whether organizations and regulations enable check and balance functions to appropriately operate to prevent any fraud and error.

In addition, JPXR will evaluate the implementation thereof based on the flow chart for accounting works. Moreover, if any inconsistency between internal rules and practices, internal rules must be amended to be consistent with practices when they are appropriate while practices must be improved to comply with internal rules.

Moreover, for the status of budget control, JPXR will evaluate whether the applicant has developed consolidated and separate budgets on an organically and reasonable basis.

In evaluating this issue, the point is that various budgets have been prepared for appropriate period and unit (distinction of annual, half-year, and quarterly, segments by lines of business, business divisions and products handled), in consideration of actual conditions of corporate group of applicant. JPXR will also evaluate whether such budgets are of quality such that they could be published for investors after listing.

For the budget control, JPXR will evaluate whether the applicant appropriately analyzes the differences between budgets and actual results on a consolidated and separate basis, and has in place systems to address any impediments to timely disclosures and whether budgets are useful for effective judgments of management or reflected in subsequent business activities or budget compilation.

Furthermore, JPXR will review the internal audit system to check the status of organizational operations and compliance with internal regulations and the state of implementation. In this respect JPXR will consider that the applicant has developed the system for internal audit to be implemented on a fair and independent basis. If the applicant has special organizations for internal audit, JPXR will evaluate whether the special organizations do not belong to any specific departments. When the applicant has no special organizations for the internal audit and has assigned any staff members responsible for internal audit, JPXR will evaluate whether the internal audit on the department to which such staff members belong does not constitute any self-audit practices.

On the other hand, when internal management operations are outsourced to any third party, it is considered that fairness and independence have been ensured. In such cases, JPXR will assess whether the applicant does not leave all the decisions to the outsourced party and is proactively involved in internal management operations and whether the president is fully aware of the importance of such internal management operations. For example, the applicant is expected to carry out major works including the development of an audit plan and contents. However in cases where the applicant may have to comprehensively outsource internal audit practices including such works due to the know how the outsourcer has or due to limited resources of the applicant, the applicant is required to be principally involved in the internal audit practices such that highly effective internal audits can be implemented by proactively communicating the current status of the company, the substance of business, and any identified issues with the outsourcer in an appropriate manner.

(3) Necessary personnel are recognized to be competent to carry out stable and continuing execution of management activities of the corporate group of an initial listing applicant and to maintain its internal management system;

*(Guidelines III 4. (3) )*

#### Requirements of criterion and focus of examination

For the purpose of the examination on the basis of this criterion, JPXR will assess whether the corporate group of the applicant can secure necessary personnel in carrying out its business activities independent of the corporate group of the parent company, etc.

The following outline how JPXR will assess these issues.

First, JPXR will assess whether the applicant has employed necessary personnel to operate businesses on the basis of recent changes in employees (status of employment through recruitment of new employees and retirement). In this case, if a large number of employees have retired due to their own reasons, JPXR will assess the background and reasons for the retirement of so many employees and determine

whether such retirement would impede business operations going forward.

An additional focus point of the examination is whether the corporate group of the applicant has assigned personnel necessary to ensure the sufficient implementation of check and balance functions. When employees concurrently hold several positions across the company or in several capacities in silos across different functions in a department, JPXR will assess whether holding of such several positions may impede the effective check and balance practices.

In the following cases, check and balance functions indicate that some concerns with the execution of duties may arise. So it will not be acknowledged that check and balance functions are properly functioning.

- The representative director and president, etc. is responsible for a specific department or division and no checking functions work substantively.
- As the representative director, etc. is concurrently responsible for several departments or divisions, the execution of duties primarily performed by the representative director, etc. has been impeded.

Next, if the applicant accepts any seconded persons from external organizations, JPXR will confirm the reasons why the applicant accepts such secondment, and assess whether such secondment would be accepted voluntarily in accordance with human resource policies. Voluntary third parties including a company which seconds employees to the applicant (for example, parent company, etc. of the applicant or large customers or suppliers, financial institutions) may dispatch seconded persons to the applicant at its own discretion with a view to controlling the corporate group of the applicant. In such cases JPXR may carefully evaluate whether the applicant performs its business operations independently on the basis of the number of such seconded persons and positions they hold.

In addition, if seconded persons account for a large number of officers of the corporate group of applicant, JPXR will mainly assess whether relevant replacement thereof could be secured from the viewpoint of continuity of the corporate group of applicant.

The examination also includes the assessment of the following issues.

► Status of labor union

The operation of applicant has not been impeded because of labor disputes with labor unions.

► Employee education and training

When some operation of business requires special qualification or special knowledge and skills, the applicant has in place education and training systems to foster competent personnel.

- (4) The corporate group of an initial listing applicant adopts accounting treatment standards adaptable to its actual situation and, in addition, a necessary accounting body is recognized as being prepared and operated appropriately; and

*(Guidelines III 4.(4) )*

### *Requirements of criterion and focus of examination*

For the purpose of examination on the basis of this criterion, JPXR will assess whether the applicant has appropriately performed routine practices including accounting treatment which constitutes the basis for the appropriate preparation of disclosure package and whether the applicant has in place accounting organizations



to make appropriate accounting treatment.

The following outline how JPXR will assess these issues.

Mainly focusing on relevant flow chart, JPXR will carry out this examination.

First, JPXR will evaluate whether the applicant has implemented accounting treatment in accordance with accounting standards or procedures included in its accounting regulations, etc. While checking some samples from accounting books, if it is found out that actual practices deviate from the regulations, JPXR staff visit the applicant to reiterate the similar assessments and proceeds with the examination with reference to views of applicant's accounting auditors.

In addition, JPXR will confirm that accounting standards are responsive to actual conditions of applicant and that the application thereof is not arbitrary.

For accounting organizations, JPXR will evaluate whether relevant check and balance functions work properly as the accounting department and financial department are appropriately separated, and whether the accounting practices do not excessively depend on experiences and skills of certain individuals. In addition, in case of a company with a committee of accounting advisors, JPXR will have interviews with certain accounting advisors, as appropriate, in order to ensure that the design and operation of accounting organization does not excessively depend on them. In addition, in case of a company with a committee of accounting advisors, JPXR will have interviews with certain accounting advisors, as appropriate, in order to ensure that the design and operation of accounting organization does not excessively depend on them.

The applicant is also required to make necessary preparations for the internal control reporting system to be applied after listing. The applicant must develop the preparation plans in consideration of size, business line, and the timing of listing application and have a system in place to submit internal management reports after listing.

- (5) It is recognized that an effective system to comply with laws and regulations, etc. concerning management activities in the corporate group of an initial listing applicant is prepared and operated appropriately, and that no material breach of laws and regulations has recently been made, and no act which is likely to become a material breach of laws and regulations in the future is being carried out.

(Guidelines III 4. (5) )

#### Requirements of criterion and focus of examination

For the purpose of examination on the basis of this criterion, JPXR will assess whether the corporate group of the applicant has in place systems to ensure the compliance practices (abiding by laws and regulations) in order to perform its management activities.

JPXR will first confirm the laws and regulations related to the management activities of the corporate group of the applicant and the administrative instructions issued by competent ministries and agencies. Then JPXR will evaluate that the items subject to the internal audit and items audited by the company auditors have properly included the items required by laws and regulations

Meanwhile, if the applicant committed a breach of laws and regulations in the past, according to the seriousness JPXR will carefully evaluate the status of remedies of legal defects associated with such breach and the design and implementation of

systems to prevent any reiteration of such event.(Note)

(Note) JPXR formulated “Principles for Preventing Corporate Scandals” that are a set of principles-based guidelines that encourage each listed company to take creative approaches in implementing each principle and to establish effective measures that reflect the company’s individual situation, and “Principles for Responding to Corporate Scandals” as a guiding principle to inform listed companies the behavior that they should take when corporate scandals are happened. These principals show a set of response- and conduct-related principles that listed companies are expected to follow when addressing scandals. The principles are intended to help listed companies facing problems restore their credibility quickly and recover their corporate value steadily. Unlike laws, regulations, and stock exchange rules, these Principles do not bind all listed companies to specific constraints. However, there might be an opportunity that these principals will be beneficial. Please be noted that both Principals are published on the guidebook as an appendix.

## 4 Appropriateness of the Disclosure of Corporate Information, etc. (Rule 213, Paragraph 1, Item 4 of the Regulations)

- (1) The corporate group of an initial listing applicant is recognized to properly manage corporate information of facts, etc. which will have a material effect on management and to disclose it to investors in a timely and appropriate manner, Moreover its system for the preemptive prevention of insider trading is recognized to be developed and operated appropriately.

*(Guidelines III 5.(1) )*

### *Requirements of criterion and focus of examination*

For the purpose of the examination on the basis of this criterion, JPXR will assess whether an applicant can, in a timely and appropriate manner, disclose company information that may significantly affect investment decisions of investors after listing, as well as whether the applicant has systems in place for appropriately managing information until it is disclosed in order to prevent any insider trading, information dissemination, and trade recommendation practices (hereinafter “insider trading, etc.”).

The following outline how JPXR will assess these issues.

For the purpose of this criterion, the key points of the examination relate to the management of monthly budgets and actual results. JPXR will evaluate how soon the applicant could accurately grasp the operating results.

For the management on a monthly basis, methods and their degree of precision may vary depending on lines and sizes of businesses and their sizes of the corporate group of the applicant. At least, the applicant is required to develop systems where it can appropriately identify the need to revise any announced performance forecast and it can appropriately determine what revisions should be made, if any.

In its Securities Listing Regulations, TSE requires that the applicant must fully recognize that timely and accurate disclosures of company information to investors would lay down the foundation for the sound financial instruments exchanges and the applicant strives to perform operations with integrity by making thorough disclosures of accurate and fair company information from the perspective of investors. Thus, JPXR will evaluate whether the applicant has in place systems to comply with the rules on timely disclosures including preliminary release of earnings after listing and address other demands.

Next, with respect to the prevention of insider trading, etc., JPX-R will assess the following issues:

- Whether the applicant has adopted regulations on the management of insider information or prevention of insider trading;
- Whether the requirements of such regulations are appropriate in the context of laws and regulations;
- Whether the applicant has provided or expects to provide sufficient education and training to officers and employees in terms of the prevention of insider trading, etc. and is committed to such continuous advocacy practices after listing; and,
- Whether officers and persons charged with the prevention of insider trading, etc. or with information control are sufficiently aware of the significance of

regulations on insider trading, etc. Furthermore, if the applicant has already listed its stock on another financial instruments exchange, JPXR will also assess whether the applicant has in place appropriate systems to check the trading of its own shares by persons related to the applicant at the time of pre-notification of such trading.

The cases of accusation and requirements of payment of penalties and fines associated with some breaches of laws and regulations such as insider trading, etc. by related persons including officers and employees of the applicant have recently increased. Any acts in the breach of laws and regulations such as insider trading, etc. by an officer or employee will significantly impair the reputation of the applicant and reduce confidence in the financial instruments markets as whole. As such, the applicant is encouraged to pay further attention to the prevention of these incidents.

In addition, in carrying out examination based on these criteria, JPXR will also review the development of system in consideration of fair disclosure rules and security environments to ensure security of information available for website before the expected time of issuance of corporate information. For considerations in ensuring security environments, please see "Reference Data: Considerations in making corporate information available via website, etc."

- (2) Documents pertaining to disclosure of corporate information, out of the initial listing application documents, are recognized to be prepared in compliance with laws and regulations, etc., and appropriately contain the following items enumerated in the following a. and b. and other matters:
- a Matters which may significantly affect the investment decisions of investors, including significant matters concerning financial position and financial results, officers, large shareholders, related companies, etc. of the initial listing applicant and its corporate group (if the corporate group of initial listing applicant is expected not to recognize a stable profit temporarily because of investments to enhance mid- and long-term enterprise value, including matters concerning such investment activities); and
  - b Matters referred to in the following (a) to (d) pertaining to the matters which are the premises of main business activities of the corporate group of an initial listing applicant:
    - (a) Details of the matters which are the premises of the main business activities of the corporate group of an initial listing applicant;
    - (b) Where the validity period of permission and authorization, etc. and any other time limit is specified by laws and regulations or contract, etc., such time limit;
    - (c) Where cancellation, rescission, and any other event of permission and authorization, etc. are stipulated by laws and regulations or a contract, etc., such fact; and
    - (d) The effect that there is no factor which hinders their continuity concerning the matters which are the premises of the main business activities of the corporate group of an initial listing applicant, and if there is such factor, the effect that it will have a material effect on business activities;

*(Guidelines III 5.(2) )*

### *Requirements of criterion and focus of examination*

For the purpose of the examination on the basis of this criterion, JPXR will assess whether the applicant has fairly prepared disclosure documents on which investors base their investment decision in accordance with relevant laws and regulations, and other rules (Cabinet Office Order on Disclosure of Corporate Affairs) and whether the descriptions in the disclosure documents reflect the actual conditions of the applicant

in a faithful and understandable manner, such that they would not mislead investors.

The following outline how JPXR will assess these issues.

For the purpose of the examination in this section, JPXR will make assessment mainly on the basis of "Securities Report for Initial Listing Applicant (Part I)."

First, JPXR will evaluate whether Part I documents have appropriately been prepared in accordance with laws and regulations, and other rules and whether there are any differences in descriptions or presentation methods from those of the documents prepared by other peer companies. If any errors are acknowledged to have been made in the descriptions, the applicant is required to correct such errors. The applicant will be ineligible for listing if the errors are significant, errors were intentionally made by the applicant or the procedures for correcting errors in or preparing the disclosure documents of the applicant are highly unlikely to be improved. When the form of some descriptions is different from that of other peer companies, JPXR may request the applicant to make them more understandable from the perspective of comparability with others through the consultation with accounting auditors of applicant.

The applicant is required to describe the following at the sections of "Nature of business" or "Business risks, etc." in "Securities Report for Initial Listing Applicant (Part I)."

- When there are some matters constituting premises underlying business activities of the corporate group of the applicant (e.g., permission, authorization, license or registration, selling agent agreements or production entrustment agreements in relation to main businesses or products), their descriptions;
- Effective period of permission, etc. and the validity when it is specified by laws and regulations or contracts;
- Events leading to cancellation or termination of licenses, etc. when they are specified by laws and regulations, or contracts;
- Statement that no events giving rise to significant adverse effect on the assumptions of corporate continuity have taken place, or
- Statement that the occurrence of such events would have significant adverse effect on the business activities.

JPXR then confirms that the descriptions included in the Disclosure materials are clearly understandable in the context of the business activities of the corporate group of the listing applicant and in no way mislead the readers. Disclosure materials are intended for use by a variety of investors for the purpose of investment decision. As such, it would be inappropriate to provide any descriptions that may be difficult to understand at a glance due the use of unduly abstract expressions or technical terminology or ambiguous meanings left open to a reader's interpretation. If JPXR finds such a description, it will request the applicant to amend the description during the examination process. Furthermore, JPXR may request the applicant to have disclosure systems in place to avoid such descriptions, if appropriate.

When an applicant has a parent company, etc., it is likely that the applicant will be influenced by the parent company through the business relationship with it in various ways after listing. Thus in addition to information on the corporate profile of the applicant, information on the parent company, etc. would be useful for the investment decisions made by investors who invest in the applicant. Thus, the applicant is required to describe the business relationships with the parent company, etc. according to the degree of materiality of influence over the applicant at the sections of "State of Related Companies" or "Business risks, etc." in "Securities Report for Initial Listing Applicant (Part I)."

In actual examination JPXR will assess whether the descriptions therein concerning the following issues are appropriately included:

- With respect to business relationships, the nature, amount, terms and conditions thereof and the policy for determining such terms and conditions;
- In case of concurrent holding of positions, names and positions of officers who concurrently hold other positions and the reasons for such concurrent holding,
- In cases of acceptance of secondment, the number of seconded persons, their positions in the applicant and notion concerning the stable employment of employees in order to ensure stable business operations. Meanwhile, if there is any company in the corporate group of the parent company, etc. which carries out businesses similar to those carried out by the applicant, JPXR will assess the descriptions of the roles and position of the applicant in the corporate group of the parent company, etc. Furthermore, JPXR will assess whether relevant reports concerning corporate governance includes appropriate descriptions of concepts and measures to ensure necessary independence from the parent from the perspective of protection of minority shareholders (when the parent is a listed company, the parent is required to disclose the meaning to the parent of holding a listed subsidiary and policies to ensure effectiveness of governance system of the listed parent, considering the concepts and policies of group management

The applicant is required to prepare the disclosure data in a sincere and proactive manner and JPXR will assess such preparation in the course of examination.

- Cases where the corporate group of initial listing applicant is expected not to recognize stable profit because of investment activities to enhance mid- and long-term enterprise value

If a stable profit cannot be recognized temporarily because of investments to enhance mid- and long-term enterprise value in research and development activities, maintaining and strengthening facilities, sales activities, etc., the applicant is required to appropriately disclose the contents of such investments (items in which investments are made, their amounts and aim of investments to enhance the enterprise value), investment policies and future investment plan (including views concerning changes in investment policies tailored to the progress of business and the judgment whether to continue investments, etc.), and specific contents concerning overall performance movements and future prospectus prospect associated with such investments in "Part I" and other relevant documents.

- (3) The corporate group of an initial listing applicant does not make distorted information disclosure on the actual state of the corporate group of the initial listing applicant by carrying out a trading act with its relevant party or any other specific entity or adjusting share ownership ratios, etc.; and

*(Guidelines III 5.(3) )*

## Requirements of criterion and focus of examination

For the purpose of the examination on the basis of this criterion, JPXR will assess whether no transactions with or equity contributions to any company under the patronage of the corporate group have taken place such that the company information of the applicant would intentionally be distorted.

The following outline how JPXR will assess these issues.

First, no matter when unusual descriptions are detected with respect to various transactions during the business activities of the applicant or anomalies in entries in lines items on financial statements are recognized, JPXR will further examine the details. If any transactions have apparently been conducted only to make the financial statements of the applicant look better, the applicant would not meet this criterion.

With respect to coordination of equity contributions, JPXR will first evaluate the equity composition of the corporate group of the applicant. In this case, when 100% contribution is not made by the group, or there are any investors in the applicant other than the group, JPXR will check the background or reasons for such contribution by any entity other than the group. If the result reveals that the reason for the contribution is not clear and the contribution is made only to circumvent the consolidation requirements for the applicant, JPXR may require the applicant to improve the equity composition of the group so that the conditions of the corporate group of the applicant may be disclosed appropriately.

► When an applicant has a parent company, etc.

- (4) Where an initial listing applicant has a parent company, etc. (excluding where it will cease to have a parent company, etc. by the end date of a business year which ends first after listing), any one of the following a. or b. shall be met on the condition that disclosure of such parent company, etc. is valid:
- a A stock, etc. issued by a parent company, etc. of an initial listing applicant (where there are multiple parent companies, etc., a company which is deemed to have the greatest influence on the initial listing applicant, or where their influence is deemed to be the same, it means one of such companies; the same shall apply hereinafter in these a. and b.) is listed on a domestic financial instruments exchange (including where a stock, etc. issued by such parent company, etc. is listed or continuously traded on such foreign financial instruments exchange, etc., and the state of disclosure on corporate affairs in a country in which such parent company, etc. or such foreign financial instruments exchange, etc. is located is not deemed to conspicuously lack investor protection); and
  - b. An initial listing applicant can appropriately grasp company information such as facts concerning the parent company, etc. which has a material effect on its management (excluding a parent company, etc. which falls under the preceding a.), and the initial listing applicant pledges in writing that such parent company, etc. agrees to its disclosure of company information which has a material effect on its management, out of such company information concerning the parent company, etc., to investors in an appropriate manner.

(Guidelines III 5.(4) )

### Requirements of criterion and focus of examination

It is likely that the applicant will be influenced by the parent company through the business relationship with it in various ways after listing. Thus in addition to the information of corporate profile of the applicant, information on parent company, etc. would be useful for investment decisions made by investors who invest in the applicant.

This criterion requires that the applicant be in a position to disclose information of the parent company, etc. in the listing of the applicant.

The parent company, etc. to which this criterion applies refers to companies of the "parent companies, etc." which are acknowledged to have the most significant influence over the applicant. If the degree of influence is identical among such

companies, one of them could be identified as the parent company.

In determining the company which exercises the most significant influence over the applicant, the determination will be based on the positions of the applicant and parent companies in the corporate group, and relationships between the applicant and parent companies in terms of equity contributions, financing, personnel, technologies and transactions.

► Matters related to controlling shareholders and financial information of non-listed parent company, etc.

An applicant who has a parent company, controlling shareholders (excluding the parent company) and other related companies (hereinafter referred to as "controlling shareholders, etc.") is required to submit the "Matters related to controlling shareholders, etc."

(Note 1)

When the applicant has a parent company, etc., which is a non-listed company, the applicant is required to submit the documents describing the financial information related to the immediately preceding settlement of accounts of the parent company for the business year or half-year accounting period (Note 2) or consolidated accounting period or half-year consolidated accounting period (Note 2) (hereinafter referred to as the "financial information of non-listed parent company, etc." in addition to "Matters related to controlling shareholders" at the time of listing application (Note 3). However, if it is likely that the applicant will not have any controlling shareholders or parent companies at the end of the business year first coming after the listing, the applicant is not required to submit any of them. For requirements requiring the submission (including the definitions, etc. of "controlling shareholders, etc." or "non-listed parent company, etc."), and procedures for describing submitted documents and their formats, please refer to "Matters Related to Controlling Shareholders, etc." in "A Documents to be Submitted, etc. Pertaining to Initial Listing Application", "Financial Information of a Non-Listed Parent Company."

(Note 1) If any change in descriptions takes place during the listing examination, the applicant is requested to update the contents and re-submit them.

(Note 2) When the parent company, etc. is an entity which files quarterly financial statements, the half-year period represents the period totaling relevant quarterly periods.

(Note 3) When a non-listed parent company, etc. is an entity which files quarterly financial statements, and if the earnings information of the parent company, etc. is updated during the examination period, the applicant is required to re-submit the financial information of a non-listed parent company, etc.



## 5 Other Matters Deemed Necessary by the Exchange from the Viewpoint of the Public Interest or the Protection of Investors (Rule 213, Paragraph 1, Item 5 of the Securities Listing Regulation)

- (1) The contents of the rights of shareholders or holders of foreign stock depositary receipts, etc. and the state of their exercise are deemed appropriate from the viewpoints of the public interest or the protection of investors, in light of matters including those referred to in the following a. and b.:
- a The contents of the rights of shareholders or holders of foreign stock depositary receipts, etc. and their exercise are not unreasonably restricted; and
  - b Where an initial listing applicant has introduced a takeover defense measure, the initial listing applicant complies with the matters referred to in each item of Rule 440 of the Regulations;

*(Guidelines III 6.(1) )*

### Requirements of criterion and focus of examination

If an applicant has issued shares of class stock other than common shares for which listing application is filed, it is assumed that some classes of shares may significantly restrict the rights of equity holders of common shares or the exercise thereof, JPXR will carefully examine the nature of such shares of class stock and any expected effect thereof on the rights of equity holders of common shares and the status of disclosures thereof.

For takeover defense measures, various issues shall be considered for the protection of investors. For more information, see "Overview of listing system related to introduction, etc. of takeover defense measure" included in "Guidebook for Timely Disclosure of Company Information" published by TSE. When an applicant is considering the introduction of takeover defense measure, please consult TSE beforehand.

- (2) The corporate group of an initial listing applicant does not have an ongoing lawsuit or dispute, etc. which may have a material effect on management activities and business results;

*(Guidelines III 6. (2) )*

### Requirements of criterion and focus of examination

For the purpose of the examination on the basis of this criterion, JPXR will assess the existence of any legal action or dispute which may potentially have significant adverse influence of business activities or business results.

If the corporate group of the applicant has an actual active or pending legal case or dispute, which may potentially have a significantly adverse effect on management activities or business results, the applicant is not deemed to be an appropriate investment choice offered to investors. Thus, JPXR will evaluate the nature of the legal case or dispute and its effect on operating results, etc. Thus, JPXR will evaluate the nature of the legal case or dispute and its effect on business results, etc.

- (3) The corporate group of an initial listing applicant is recognized to develop an internal system to prevent criminal and extremist elements from being involved in management activities, and making efforts to prevent such involvement and their actual state is recognized as appropriate from the viewpoints of the public interest or the protection of investors;

(Guidelines III 6. (3) )

### *Requirements of criterion and focus of examination*

If any anti-social organization including organized criminal organizations or a group of persons equivalent to them (hereinafter “anti-social force”) is involved in the management activities of the corporate group of the applicant, the applicant is deemed to be not qualified for the listing.

The involvement in this context is not limited to the cases where the anti-social force is directly involved in the management activities of the corporate group of the applicant. This includes cases where it is involved, in effect, in the management activities, for example when a group company, officers, those equivalent to officers, major shareholders, or major trading partners of the applicant (hereinafter referred to as the “applicant group company or related person”) represent criminal and extremist elements, when the applicant group company or related persons cooperates or contributes to the survival and operation of an criminal and extremist element by providing financing, when an applicant group company or related persons intentionally maintain contact with criminal and extremist elements. In such cases the applicant is not qualified for listing.

JPXR will assess any involvement of anti-social force in the management activities on the basis of “Confirmation statement showing that the applicant has no ties with any anti-social force” (hereinafter referred to as the “Confirmation statement”) prepared by the applicant. The form of Confirmation statement explicitly provides for the scope and items to which relevant responses are automatically required by the applicant. However, this does not automatically mean that any items out of the scope of Confirmation statement will not be subject to the examination and JPXR may additionally assess any items out of the scope in consideration of the degree of implications thereof.

In order to prevent any involvement of anti-social force in the management activities, the applicant is required to develop and provide systems necessary to preclude any organized criminal organizations, etc. by itself. For that purpose, the applicant must regularly monitor the circumstances of the applicant group company and related persons and the conditions under which the management activities are carried out and implement due process when establishing a new business relationship. In designing and implementing such systems the applicant is encouraged to do so in consideration of the “Guideline as to How Companies Prevent Damage from Criminal and Extremist Elements” (Cabinet Meeting on Anti-Crime Measures on June 19, 2007).

For the purpose of the examination of the above item, JPXR will assess the system of the corporate group of the applicant to preclude criminal and extremist elements in consideration of the above viewpoints and determine whether the nature of system is appropriate (whether there is no involvement in management activities of the corporate group of the applicant) from the perspective of public interest and investor protection.

Recently it is alleged that some criminal and extremist elements which strive to be involved in the company group of an applicant have emerged utilizing connections with any person having a close relationship with any organized criminal entity or cooperating in its activities. Thus cases where a person concerned with such a

relationship is involved in the company group of the applicant shall be subject to the examination of JPXR.

- (4) Where a domestic stock, etc. pertaining to an initial listing application are shares without voting rights (limited to cases where no initial listing application is made for an issue(s) other than such domestic stock, etc.) or shares with a small number of voting rights (meaning those referred to in Sub-item b. of Rule 205 of the Regulations), all of the following a. to h. shall be met:

(Guidelines III 6.(4) )

### Requirements of criterion and focus of examination

Share classes of stock with voting rights can be utilized to maintain the controlling right of a company with less percentage of equity contributions than usual cases and such shares are likely to distort corporate governance. Therefore, they may not always be desirable. However, free design of shares of classified stocks is permitted by laws and fundraising using such classified stocks have actually been effected. Furthermore, they would provide a variety of investment choices to investors. So JPXR has allowed classified stocks with a small number of voting rights, etc. (\*) which respect the rights of shareholders to be listed on TSE marketplaces.

Meanwhile, in order to ensure the continued sound use of the schemes for class stocks with voting rights, TSE will carefully determine the listing of each class stock in comprehensive consideration of individual incidents.

(\*) This means classified stocks with a small number of voting rights and those with no voting rights.

Given that the listing system for shares of classified stock with a small number of voting rights, etc. is different from the listing system for common shares in terms of actual examination standards and other issues, in this section, we first outline the categories of shares of classified stocks with a small number of voting rights, etc. which are eligible for listing and formal requirements followed by the method to decide the section where listing is effected, then provide explanation concerning actual criteria (a to f above) and frequently asked questions and answers (Classified Stock Q&A) in terms of overall listing system for shares of classified stock with a small number of voting rights, etc.

#### (1) Classified stocks with voting rights eligible for listing

TSE has limited the listing of shares of classified stock in conjunction with understandability of investors or for the purpose of investor protection.

For the time being, in order to avoid confusion arising from misunderstanding of classes of listed stocks, JPXR will not allow an identical company to list several classes of shares with voting rights (both of common shares and non-voting shares could be listed concurrently).

#### (Reference) Shares of classified stocks with voting rights eligible for listing

	Listed company	Non-listed company	
		Single listing	Listing concurrent with common stocks
Stocks with a small number of voting rights	×	○	×
Stocks with a large number of voting rights	×	×	×
Non-voting shares (Note 1)	○ (Note 2)	○	○ (Note 2)

- (Note 1) Non-voting shares subject to the listing system for classified stocks with voting rights represent participating preference shares or non-voting stocks with preference dividends (participating preference shares refer to shares of classified stocks with preference dividends for which the shareholders thereof may also receive dividends from residual distributable value together with common shareholders after receiving preference dividends). Meanwhile, JPXR will examine non-participating preference shares of non-voting shares in consideration of listing system for preference shares as prescribed in Part III of the Securities Listing Regulations.
- (Note 2) For listing common shares concurrent with non-voting shares and listing non-voting shares of a listed company, JPXR will conduct listing examination in accordance with Guidelines III. 6. (5).
- (Note 3) With respect to the category of markets, when a company has listed both common shares and non-voting shares concurrently, shares of class stock with voting rights are assigned to the same market as the common shares. When a company only lists classified stock with voting rights, the market section will be decided on the basis of criteria applied to listing of common shares.

(2) Formal requirements for classified stocks with a small number of voting rights, etc.

Formal requirements for classified stocks with a small number of voting rights, etc. are, in principle, similar to those for listing examination of common stocks (see “II Formal Requirements”). They require each stock for which listing application is filed to meet relevant requirements. Meanwhile, since a criterion for market capitalization relates to formal requirements related to companies, the market capitalization will be determined by aggregating the market capitalization of each stock for which listing application is filed (if there is another stock for which listing application is filed concurrently, including the market capitalization of such other stock) and the market capitalization of other stocks issued by the applicant ( limited to those listed or continuously traded on a financial instruments exchange in Japan and in foreign countries).

(3) Contents of listing examination for stocks, etc. with a small number of voting rights, etc.

Where a domestic stock, etc. pertaining to an initial listing application are shares without voting rights (limited to cases where no initial listing application is made for an issue(s) other than such domestic stock, etc.) or shares with a small number of voting rights (meaning those referred to in Item 9-2, Sub-item b. of Rule 205 of the Regulations), all of the following a. to h. shall be met.

- a. It shall be deemed that a condition where a specific individual who has shares, etc. with a large number of voting rights (see Note below) may continue to be involved in management needs to be secured, etc., from a viewpoint of common interests of shareholders, and that the scheme is not unduly beneficial to shareholders with a large number of shares, etc., but appropriate. In this case, the judgment whether it is appropriate or not shall be made in line with needs of the following items referred to in the following (a) to (c) and other items;

(Guidelines III 6.(4) )

### *Requirements of criterion and focus of examination*

For the purpose of this criterion, JPXR will examine whether the use of stocks with a large number of voting rights is necessary from the perspective of the common interest of shareholders (necessity) and whether the scheme for the shares of class stock with voting rights is deemed to be appropriate on the basis of the need to use stocks with a large number of voting rights, etc. (appropriateness).

With respect to the necessity, JPXR will examine whether it is necessary to ensure a situation where a specified entity may continue to be involved in management by using stocks with a large number of voting rights, etc. from the perspective of the common interest of shareholders. In practice, JPXR will assess whether for the purpose of execution of business plan, the continuous involvement of any person with essential special capability as representative director and president and like (executive management) may result in common profits of shareholders or the concentration of voting rights to specified shareholders may be difficult in the context of common shares. In addition, JPXR will focus on the following issues in the course of examination, and assess as to whether special capability of management is necessary to execute business plans (\*).

(\*) For typical examples of listing by issuing of issuance and listing of multiple classified stocks with voting rights, the executive management who is an inventor of relevant technology and the founder of the company may hold shares with a large number of voting rights, and this guideline has been developed based on such case.

- How is the executive management, for example, involved in and influence business development, R&D, recruitment, etc.?
- Is the basis for the necessity practically explainable in light of the historical achievement of the executive management or actual performance results of the applicant?
- Will such necessity go beyond the current period and remain relevant in the future?
- In addition to the executive management, does the applicant as a company recognize the need of the Board of Directors and Board of Company Auditors?

Meanwhile, the examination does not automatically preclude the need arising from any viewpoints other than those mentioned above, and if the necessity is acknowledged from other viewpoints, JPXR will review the necessity. However, JPXR does not expect that the need will arise solely for a reason that the stability of management through a family based management is necessary from the perspective of the common interests of shareholders.

In addition, for the purpose of examination of the need, JPXR will assess the reasons why the concentration of voting rights on specified shareholders would be difficult in the case of common shares. In practice, JPXR will examine whether the fund raising would be required for the execution of the business plan, and may lead to a dilution of the voting rights. A threshold for the future dilution of voting rights

may include cases where the shareholding ratio of shareholders, etc. with a large number of voting rights will be below 50% which is necessary to enable a stable appointment of directors taking into account of relevant financing plans would be regarded as a certain measure for future dilution. Even in the case of low fund raising needs, the need of concentration of stocks to CEO is acknowledged if the shareholding ratio of holders of stocks with a large number of voting rights, etc. is below 50% at the time of listing. Even if a vast amount of funds needs to be procured and future dilution is expected, such necessity is not expected to exist, for example, in cases where shareholders of stocks with a large number of voting rights are uncertain to accept newly issued shares for increase in equity or the main purpose of investments relates to future M&A transactions.

For suitability, JPXR will confirm that a scheme of classified shares with voting rights will not result in inappropriate benefits to shareholders of stocks with a large number of voting rights in consideration of the necessity for the use of stocks, etc. with a large number of voting rights and will be suitable. In this case, the judgment whether it is appropriate or not shall be made in line with needs of the following items referred to in the following (a) to (c) and other items;

- (a) If such judgment is no longer necessary, the scheme of shares without voting rights or those with a small number of voting rights is likely to be dissolved;

*(Guidelines III 6.(4) )*

For the purpose of this criterion, the applicant is required to adopt measures to prevent the scheme for non-voting shares or for a small number of voting rights from being continuously applied on an unconditional basis, if the need to use the scheme of shares with a large number of voting rights, etc. ceases to exist.

If continuous involvement of a specified individual generates need for the introduction of scheme, JPXR will confirm that the scheme is dissolved when the person retires from the board and ceases to be involved in the management. In practice, when a specified person retires from the board. The applicant is expected to carry out procedures for confirming the intent of shareholders to continue the scheme, in addition to the measures to dissolve the scheme. If the applicant develops procedures to confirm shareholders' intent with respect to the continuation of the scheme, the applicant is also required to develop such procedures to regularly confirm shareholders' intent after the need for the scheme ceases to exist. It is deemed to be appropriate to include the descriptions thereof in the Articles of Incorporation, etc.

Even if a particular corporation holds shares with a large number of voting rights, etc., JPXR will also assess whether the scheme is not the one which allows the corporation to continue to hold them on an unconditional basis when the need ceases to exist.

- (b) If a company is controlled with an extremely small ratio of capital contribution, the articles of incorporation, etc. appropriately stipulate that a scheme of shares without voting rights or a small number of voting rights is expected to be dissolved; and

*(Guidelines III 6.(4) )*

For the purpose of this criterion, an applicant is required to have designed and implemented measures to prevent a company from being controlled with an extremely small ratio of capital contribution.

Practically, the enactment of breakthrough provisions (scheme where if a person who holds a certain level of shares emerges, the mechanism for class stock with voting rights would be dissolved) or sunset provisions (when certain conditions are satisfied, a measure to dissolve the scheme) could be considered.

An applicant should consider the criteria triggering breakthrough provisions or sunset provisions in consideration of the need to use the scheme of class stock with voting rights or shares with a large number of voting rights, and the state of controlling shareholders.

In addition, the applicant is required to appropriately include breakthrough provisions and sunset provisions in the Articles of Incorporation, etc.

- (c) Where domestic stocks, etc. pertaining to the initial listing application are shares with a small number of voting rights, the articles of incorporation, etc. appropriately stipulate that, as a general rule, shares with a large number of voting rights (they refer to shares other than those with a small number of voting rights; the same shall apply hereinafter) shall be converted to shares with a small number of voting rights when they are transferred, etc.

*(Guidelines III 6.(4) )*

Investors in stocks with a small number of voting rights are assumed to have done so on the basis that a particular person in management holds unlisted stocks with a large number of voting rights.

Therefore, the Articles of Incorporation, etc. is required to appropriately state that when stocks with a large number of voting rights, etc. are transferred and the shareholders thereof change, in principle, stocks with a large number of voting rights held by the person shall promptly be converted to stocks with a small number of voting rights (listed stocks).

- b It shall be deemed that the main purpose of using shares with a large number of voting rights is not to secure positions of directors, etc. of the initial listing applicant or not to use such shares as a takeover defense measure;

(Guidelines III 6.(4) )

### *Requirements of criterion and focus of examination*

JPXR anticipates that the use of stocks with a large number of voting rights, etc. is generally necessary from the perspective of the common interest of shareholders. If an applicant indicates a purpose for the use of stocks with a large number of voting rights that differs from the perspective of necessity, JPXR will not question such purpose.

However, the applicant may use stocks with a large number of voting rights, etc. as a means to maintain the state of the company controlled with smaller than usual ratio of capital contribution, with effect of a takeover defense measure. So if the applicant has adopted the scheme of stocks with a large number of voting rights, etc. in order to preserve the positions of the applicant as the board members or mainly as a takeover defense measure, JPXR will not permit the listing.

Therefore, if the applicant states a different purpose together with the necessity, JPXR will assess during the examination whether such purpose lacks reasonableness including the lack of substance.

- c It shall be deemed that the purpose, necessity, and scheme of using shares with a large number of voting rights, etc., are appropriately described in the initial listing application documents pertaining to details of disclosed corporate information;

(Guidelines III 6.(4) )

### *Requirements of criterion and focus of examination*

When an applicant is using stocks with a large number of voting rights, etc., the purpose, necessity, and scheme of using shares with a large number of voting rights, etc., are deemed to be significant factors for investment decisions, the applicant is required to make appropriate disclosure.

JPXR will assess whether disclosures concerning the purpose of the use of stocks with a large number of voting rights, etc. as well as the need of continuous involvement of a particular person in the management from the perspective of the common interest of shareholders (the necessity), have been made in a manner that enables investors to understand the nature thereof. Though JPXR anticipates that the use of stocks with a large number of voting rights will be necessary from the perspective of common interests of shareholders, in such cases the description of the purpose of the use may overlap with that for the necessity. The applicant may include specific descriptions concerning the purpose of use as well as the necessity in "Risks Associated with Business, etc." or "Distributions of Ownership of Shares" in Part I, Securities Report for the Initial Listing Application or "Shares to be Newly Issued" in the Securities Registration Statement.

JPXR will examine whether, for the scheme, the nature of each class stock has been disclosed in an exhaustive and appropriate manner, including the dissolution provisions pertaining to breakthrough provisions or sunset provisions. Descriptions should be included in "Risks Associated with Business, etc." or "Distributions of Ownership of Shares" in "Securities Report for Initial Listing Application" (Part I) or in "Shares to be Newly Issued" in the Securities Registration Statement".



- d Where a shareholder of a stock, etc. with a large number of voting rights is not a director, etc. of the initial listing applicant, the following (a) and (b) shall be met;

*(Guidelines III 6.(4) )*

#### *Requirements of criterion and focus of examination*

This criterion is required to be met when the shareholders, etc. of stocks with a large number of voting rights are not directors, etc. of initial listing applicant.

For a typical example of listing through the issuance of class stock with voting rights, JPXR considers cases where representative director and president or directors who are co-founders hold stocks with a large number of voting rights. However, a person who is not in such capacities may hold stocks with a large number of voting rights, etc. and additional requirements shall apply to such cases. In practice, JPXR will assess such cases by examining the items mentioned in (a) and (b) below.

- (a) Where it is deemed that the purpose or policy of exercise of voting rights of a shareholder with shares with a large number of voting rights is not clearly inappropriate in light of necessity of such exercise, and shall be appropriately described in the initial listing application documents pertaining to details of disclosed corporate information; and

*(Guidelines III 6.(4) )*

In cases where shareholders holding stocks with a large number of voting rights are not directors, etc., such shareholders with intention different from those of directors may maintain controlling rights with a small ratio of capital contribution, so JPXR will examine whether the exercise of voting rights by shareholders of stocks with a large number of voting rights, etc. will be made in accordance with the necessity thereof. In practice, JPXR will assess purposes and policies for which shareholders of shares with a large number of voting rights will exercise the voting rights and the necessity thereof, and examine them considering whether the exercise will not provide undue benefits to holders of stocks, etc. with a large number of voting rights.

In addition, JPXR will examine that the purposes and policies of the exercise of voting rights by shareholders of stocks with a large number of voting rights, etc. are appropriately disclosed in a manner facilitating understanding by investors. Their descriptions should be included in "Risks Associated with Business, etc." or "Distributions of Ownership of Shares" in Part I, Securities Report for the Initial Listing Application.

- (b) Where a corporate group of an initial listing applicant has, as a general rule, no relationships with a shareholder with a large number of voting rights (limited to cases where such shareholder is a parent company, etc. of the initial listing applicant) of shares, etc. in terms of business, personnel, and transactions

*(Guidelines III 6.(4) )*

The use of stocks, etc. with a large number of voting rights by corporations (including parent companies, etc.) may lead to some difficulties in achieving or maintaining the prescribed objectives because of future possible changes in management policies or the composition of large shareholders, etc. Therefore the use thereof may give rise to higher uncertainty of the scheme of classified stocks relative to the use by natural persons.

Furthermore, the use of stocks, etc. with a large number of voting rights by parent company, etc. may create stronger concern with conflict of interest listing of subsidiary using stocks, etc. with a large number of voting rights by the parent company, etc. compared to the typical listing of a subsidiary, thereby distorting corporate governance to a greater extent. Therefore it would be difficult to assume that the use of stocks, etc. would provide benefits common to shareholders. In principle, such use would not be permitted.

However in particular cases where the use would contribute to benefits common to shareholders and the use meet this criterion, it would be allowed.

In consideration of the above, this criterion is required to be met when shareholders of stocks, etc. with a large number of voting rights are parent companies, etc. (in case of so-called "subsidiary listing"), and in examining a listing of subsidiary, the criterion requires that the applicant shall meet the requirements of Guidelines III 3. (3) with respect to ensuring independence from the parent company, etc.

In general, the management of parent company, etc. is required to fulfill its stewardship in order to increase the profit of the parent company, etc. So compared to the control held by individual shareholders, the conflict of interest would be more likely to be sharper. Therefore this criterion requires the strict independence of the subsidiary from the parent, etc. In addition, if the use of stocks, etc. with a large number of voting rights is made for the purpose of listing a subsidiary, control would be maintained by a smaller ratio of capital contribution compared to the case where the use of stocks, etc. with a large number of voting rights is not applied. Significant imbalance between capital contribution and control may take place. Therefore such situations more clearly impair the interests of minority interests of the listing applicant. As a result, this criterion places more weight on the aspect of independence of the applicant relative to typical listing of a subsidiary.

In light of the above, the criterion requires the following:

- The substance of business of the applicant does not interact with that of the parent, etc.;
- There are no concurrent holdings by employees of the parent, etc. of the executive positions of the applicant or no secondment of officers from the parent, etc.; and
- The applicant has no business relationship with the parent, etc.

- e Where conflicts of interest arise between shareholders of different classes, protection measures are deemed to be able to be taken so that shareholders of a domestic stock, etc. pertaining to such initial listing application are not unreasonably suffer damaged;

(Guidelines III 6.(4) )

### *Requirements of criterion and focus of examination*

When an applicant issues class stock with voting rights, such issuance requires the resolution at the class shareholders' meeting in accordance with Article 322, Paragraph 1 of the Companies Act as it is feared that a conflict of interest among shareholders of different class of stock may take place with respect to some matters which may have significant impact on the nature of their rights.

However, the applicant may provide in its Articles of Incorporation that no resolution at the class shareholders' meeting will be required (Article 332, Paragraphs 2 and 3 of the Companies Act). In such a case, the applicant is required to undertake any measures to prevent the interests of holders of stocks with less voting rights from being damaged for the purpose of shareholders of shares of class stocks with less voting rights, etc.

The applicant is required to undertake necessary measures in consideration of the following issues, though actual measures may vary depending on the conditions of the company or class of stock.

- When some changes in proportionate rights arising from share consolidation and split or free allotment of shares or share options warrants take place, the applicant takes measures to treat each of class shareholders equally by providing in the Articles of Incorporation that a share split is effected for each class of shares on a same class and ratio basis.
- When any reorganization of a company may take place where the issuer of classified stocks with voting rights would become an extinguished company, a merger contract, etc. may include provisions that consideration given to shareholders of each class can be freely determined, which may damage the interests of class shareholders. The applicant shall develop measures not to damage the interests of shareholders of stocks, etc. with a small number of voting rights. For example, if the reorganization is authorized at the general meeting of shareholders for which stocks with a large number of voting rights could be acquired by the applicant, the applicant is required to include a clause beforehand in the Articles of Incorporation that all stocks with a large number of voting rights should be converted to stocks with a small number of voting rights, or does not include the clause in the Articles of Incorporation that no resolutions of general meeting of class shareholders are required.

- f Where the issuer of a domestic stock, etc. pertaining to such initial listing application carries out a transaction with an entity referred to in the following (a) to (c) (including transactions, out of transactions carried out between an entity referred to in the following (a) to (c) and said issuer on behalf of a third party and those between such issuer and the third party, where an entity referred to in the following (a) to (c) has a material effect on said issuer concerning such transactions), protection measures for minority shareholders are deemed to be expected to be able to be taken
- (a) A parent company;
  - (b) The controlling shareholders (excluding a parent company) and their close relatives; and
  - (c) The company referenced in the preceding (b) that holds the majority of the voting rights, etc. on its own account and a subsidiary of such company, etc.;
- (Guidelines III 6.(4) )*

### *Requirements of criterion and focus of examination*

At a company which uses stocks with a large number of voting rights, etc. a smaller ratio of capital contribution may create and maintain the state of control.

Therefore in order to prevent any damages represented by the conflict of interests for any transactions between controlling shareholders and the company, in case of any transactions between the controlling shareholders and the company, the company is required to consult the adequacy of transactions with independent directors or independence committee and submit the assessment of adequacy to shareholders of stocks with a small number of voting rights and should be able to develop measures to protect minority interests.

Even if an applicant does not have any controlling shareholder at the time of initial listing applicant, in order to protect the minority interests in case of transactions expected to be carried out with controlling shareholders after listing, the applicant is required to submit "a document assuring that the applicant will take relevant measures to protect minority interests in case of transactions with controlling shareholders if the applicant has controlling shareholders after listing" (Rule 204, paragraph 1, item 29 of the Regulations). In addition, any cases where the rights of shareholders will not be respected due to any conditions of transaction with controlling shareholders may meet criteria for reasons and events for delisting.

Meanwhile, since JPX-R requires all listed companies to disclose in the Corporate Governance Report relevant measures such that any transaction with controlling shareholders may not be carried by the management arbitrarily, any company listing stocks with a small number of voting rights shall be required to disclose the same in the Corporate Governance Report.

#### ► What is a controlling shareholder?

A controlling shareholder refers to a major shareholder who accounts for the majority of the voting rights of applicant when combining voting rights of parent company prescribed in Article 8, Paragraph 3 of the Financial Statements, etc. Rules, those on its own accounts and those held by parties mentioned in (1) and (2) below:

- (1) Close family members of the major shareholders (family member within one degree of consanguinity)
- (2) A company, etc. (this refers to company, designated corporation, association and other similar entities) for which such major shareholder and party mentioned in (1) above account for the majority of voting rights on its own account and a subsidiary of such company

- g Where a domestic stock, etc. pertaining to such initial listing application have preferential contents concerning dividends from retained earnings, estimated profits for two (2) years after the end date of the business year immediately prior to the business year containing the listing application date and a distributable amount as of the end date of the business year immediately prior to the business year containing the listing application date are, as a general rule, deemed to be good, and it is expected that the issuer of such domestic stock, etc. will record enough profits to carry out dividends from retained earnings pertaining to such domestic stock, etc.; and

(Guidelines III 6.(4) )

#### *Requirements of criterion and focus of examination*

When it is provided that preference dividends are delivered to stocks with less voting rights, etc., JPXR will examine whether the applicant can practically recognize profit to the extent that such preference dividends can be practically distributed. During the usual course of examination, JPXR will assess the profitability of an applicant, and more substantial profit will be required to be expected in relevant profit plans.

In addition, when no preference dividends are paid to stocks with less voting rights, etc., the development of mechanism to revive voting rights until the preference dividends are paid would be desirable. Currently, the listing examination requires that the voting rights should be revived unless preference dividends are paid for two years or more.

- h Benefits of shareholders and investors are deemed to be highly unlikely to be infringed.

(Guidelines III 6.(4) )

#### *Requirements of criterion and focus of examination*

JPXR will comprehensively evaluate the scheme for stocks with voting rights, etc. with focus on whether the scheme respects the rights of holders of stocks with a small number of voting rights, etc. in consideration of the issuance purpose or corporate governance practices, in addition to the matters mentioned in a to g above.

## Frequently Asked Questions and Answers Concerning Listing System for Classified Stocks with Voting Rights

**Q1:** What are non-voting stocks?

**A1:** Non-voting stocks represent stocks whose voting rights are restricted in terms of material issues including the election and removal of directors.

**Q2:** How are stocks with a large number of voting rights and a small number of voting rights defined?

**A2:** Stocks with a small number of voting rights represent stocks whose holders have higher value of rights to claim dividend or surplus associated with the number of shares which entitle the holder to exercise one voting right on material matters such as election or removal of directors at the general shareholders' meeting or higher value of rights to receive other economic benefits than holders of other classes of stocks.

That is, stocks with a small number of voting rights refer to those whose voting rights are smaller in terms of voting rights relative to economic benefits (i.e., factors for share price formation), so they mean stocks granting less voting rights for their capital contribution.

In practice, while the number of shares comprising a Share Unit which allows shareholders to exercise voting rights is 50, for shares with a small number of voting rights, the number of shares for a Share Unit would be

**Q3:** Are we to be permitted to list classified stocks with voting rights which require that the ratio of voting rights should be below a certain level as conditions for the exercise of voting rights (voting right restriction plan)?

**A3:** With respect to voting right restriction plan, some have argued that it would constitute a breach of shareholder equality principle (Article 109, Paragraph 1 of the Companies Act) or discretionary grant of different types of voting rights to individual shareholders (Paragraph 2 of the same Article). Furthermore in conjunction with the treatment of cases where the number of stocks of class which are restricted on the matters for which the voting rights could be exercised accounts for a half or more of all the issued shares outstanding (relating to Article 115 of the Companies Act), JPXR will not currently permit such shares to be listed as legal stability can not be assured..

**Q4:** In order to prevent prices of non-voting stocks from remaining sluggish, we have designed voting rights so that economic benefits arising therefrom would always be high in terms of dividends or residual asset rights. In such cases are we permitted to list the stock?

**A4:** It would be desirable that equal treatment would be made among different classes of stocks in terms of the nature of voting rights and matters other than preference dividends (residual property rights) in order for investors to gain easy understanding thereof.

Moreover, in some cases, the prices of non-voting stocks may be significantly higher than those of common stocks by making economic benefits associated with non-voting stocks larger, for example, in terms of dividends. In such cases the company could be controlled and maintained by substantively less capital contributions. As potential non-compliance with Article 115 of the Companies Act (issuance of non-voting stocks shall be limited to one half or less of the total number of issued stocks outstanding) may arise, the applicant is required to carefully address such situations.

Q5: you list non-voting stocks, you need to avoid any situations which potentially constitute incompliance with Article 115 of the Companies Act (limiting the issuance of non-voting stocks to a half of the issued shares outstanding). For example, even when an applicant holds a relatively large number of common shares as treasury stocks, is the listing of non-voting rights possible by issuing non-voting stocks which account for less than a half of the issued stocks outstanding?

A5: When you list non-voting stocks, you need to avoid any situations which potentially constitute incompliance with Article 115 of the Companies Act (limiting the issuance of non-voting stocks to a half of the issued shares outstanding).

Therefore, in cases where an applicant holds a relatively large number of common stocks as treasury stocks, controlling shareholders can strive to maintain the control of company by holding a relatively small number of stocks. So the applicant is encouraged to carefully address such cases.

Q6: When we go private through MBO or EBO, can we re-list our stock by introducing classified stock with voting rights?

A6: If a company which has listed its common stocks goes private through MBO or EBO and applies for listing by adopting the scheme for classified stocks with voting rights, JPXR will carefully assess the situation, taking into account the soundness of the objective of use of market, in order to protect investors.

For interpretation for the application for re-listing of a company which has gone private through MBO, please refer to “(5)It is deemed appropriate from the viewpoints of the public interest or the protection of investors”(Guidelines II 6.(6)) concerning“5 Other matters deemed necessary by the Exchange from the viewpoint of the public interest or the protection of investors”).

Q7: Will the necessity from the perspective of the common interest of shareholders be acknowledged even for companies with no particular historical business record, such as those that have just started R&D?

A7: As the listing of stocks with a small number of voting rights may give rise to certain disadvantages such as restrictions on the transfer of controlling rights or a distorted corporate governance, the basis for the necessity from the perspective of the common interests of shareholders must be practically explainable in consideration of the historical achievements of management and the business record of the applicant. Therefore, since it may be challenging for companies with no particular business record to explain the basis for the necessity, JPXR does not assume that the use of stocks with a large number of voting rights would be needed from the perspective of the

Q8: For the necessity from the perspective of the common interest of shareholders, will the listing be allowed in cases where owner family holds stocks with a large number of voting stocks as a property preservation company becomes a shareholder?

A8: JPXR does not assume that there will be the necessity for collecting voting rights for the owner family only because a stable management deems to contribute to the common interests of shareholders.

Q9: Are there any quantitative thresholds for triggering any breakthrough provisions?

A9: There are no specified quantitative thresholds for enacting the breakthrough provisions.

No bright line for triggering breakthrough provisions has been set up. In consideration of the intent of Article 115 of the Companies Act (limiting the issuance of non-voting stocks to a half of the issued stocks outstanding), when non-voting stocks as a percentage of issued stocks outstanding becomes 75%, relevant breakthrough provisions might be triggered. However, when further protection of shareholders of classified stocks is required considering the nature of classified stocks with voting rights, the necessity of using stocks, etc. with a large number of voting rights or the state of controlling shareholders, JPXR may determine that the applicant should set the percentage to 75% or less of issued stocks outstanding for the criteria for triggering the breakthrough provisions.

Q10: It is required to have a provision that when stocks with a large number of voting rights are transferred, they should, in principle, be converted to those with a small number of voting rights. However, in what cases is such conversion clause not required because it is supposed that changes in stocks with a large number of voting rights are not included in the transfer?

A10: When stocks with a large number of voting rights are transferred to new shareholders who do not have such necessity, it should be provided that stocks with a large number of voting rights should be converted to those with a small number of voting rights.

Therefore, for cases where stocks with a large number of voting rights held by some shareholders are transferred to other shareholders who usually hold shares a large number of shares, relevant necessity may possibly be recognized and conditions for such conversion may not apply to such cases. In the meantime, in cases where a company preserving property holds shares with a large number of voting rights, it is expected that beneficial owners of stocks with a large number of voting rights may change without any transfer thereof as shareholders of such property preserving company change. The applicant is required to carefully address such cases as it is likely that such changes may not meet the premises of investments of investors investing in classified stocks.

Q11: Are no conversion provisions to be required when a transfer, etc. of shares with a large number of voting rights takes place on the basis of inheritance?

A11: It is extremely a limited case to recognize exceptions to transfer provisions on the basis of inheritance. An applicant is required to fully explain the reasons for not establishing conversion provisions and TSE will carefully address such situations.



**Q12:** When a company has listed shares with less voting rights, the company is required to set forth the provisions requiring the conversion to shares with less voting rights when a transfer of shares with more voting rights takes place. What measures should be undertaken when a non-listed company lists shares of non-voting stock separately?

**A12:** Even in case where a non-listed company lists non-voting stocks separately, the fact that non-listed common shares are transferred and controlling rights change does not meet the premises of investments in non-voting stocks and creates departure from the purpose of introduction classified stock scheme. When listing non-voting stocks, the applicant is required to implement measures in full consideration of shareholders of non-voting stocks, which may include grant of rights to acquire common stocks to non-voting stocks as a part of consideration.

**Q13:** In case where a company retains a vast amount of reserve and it would be highly unlikely to face difficulties in continuously paying any dividends on a long term basis, is the company required to develop any mechanism where voting rights revive if preference dividends are not paid for two years?

**A13:** Notwithstanding the provisions for preference dividends, non-payment of preference dividends may impair the rights of holders of stocks with a small number of voting rights, etc. So it is required to protect holders of stocks with a small number of voting rights, etc. by reviving voting rights unless preference dividends are paid despite sufficient reserves. Therefore, the company is required to develop a mechanism where voting rights would be revived if no preference dividends are paid for two years.

In the meantime, the company should fully explain the need to raise funds using classified stocks when the company has sufficient surplus enough to pay preference dividends.

**Q14:** For an initial listing, are the holders of stocks with a large number of voting rights, etc. allowed to sell them?

**A14:** JPXR assumes a case where a company needs to maintain continuous involvement of specified persons in the management by collecting voting rights for such specified persons from the perspective of common interests of shareholders. But selling of stocks by shareholders, etc. of stocks with a large number of voting rights may reduce the ratio of their voting rights, which is not naturally deemed to be consistent with the necessity. On the other hand, JPXR believes that the secondary distribution at the time of initial listing would be implemented in order to strike a balance among obtaining founder gains, individual financial needs, funds required to be raised by the applicant at the time of initial listing and ensuring liquidity after listing. Therefore, JPXR would not automatically deny selling by shareholders of stocks with a large number of voting rights, but would assess whether the purpose of secondary distribution is not significantly unreasonable based on the necessity of the use of stocks with a large number of voting rights, etc.

Q15: When we are considering listing of stocks, etc. with a small number of voting rights, what other issues should we consider in practices?

A15: When you are considering listing of stocks, etc. with a small number of voting rights, you are encouraged to consult JPXR in advance through the lead underwriter.

Q16: Is it possible for a company to alter the scheme for classified stocks with voting rights after listing thereof?

A16: Cases where a scheme of classified stocks with voting rights ceases to respect the rights of shareholders as the scheme is altered or is not satisfied after listing may meet the criteria for delisting.

- (5) It is deemed appropriate from the viewpoints of the public interest or the protection of investors.

*(Guidelines III 6. (6) )*

### *Requirements of criterion and focus of examination*

When the purpose or substance of business of an applicant creates any incompliance with public interest and good moral or laws and regulations, it is not appropriate to offer the applicant as an investment choice.

In addition, JPXR will assess any matters which are considered to be necessary in order to contribute to public interest and to protect investors. For example, JPXR will assess the following:

- ▶ When a company in the process of rehabilitation files an application for the listing, JPXR will examine whether constraints on the rights of shareholders under the rehabilitation plan, and improvement and operation of management organization would cause any problem for the protection of investors.
- ▶ An applicant is appropriately required to behave as a new participant in financial instruments market such that they will contribute to the sound development of the market. Thus, if the applicant as a whole carries out any incompliance with the Financial Instruments Exchange Act, the applicant is determined to be inappropriate for an investment choice.
- ▶ In cases where a company that has gone private through a management buy-out (MBO) files an application for re-listing, JPXR will examine the re-listing application from the following perspectives.

#### *[Thought on re-listing after an MBO]*

An MBO (management buy-out) represents a transaction where the management of a listed company purchases shares from its shareholders and thereby makes the company go private. By definition, an MBO makes a company that has completed its roles as a listed company exit from the market. From another perspective, an MBO enhances the enterprise value of a company by flexibly improving the management. On another level, it provides shareholders with a valuable opportunity to acquire a premium over the shares they hold.

As such, an MBO has played an important role in sustaining an active capital market, and a large number of MBO transactions have been successfully effected in Japan.

Some of the MBO transactions which aimed to enhance enterprise value by the improvement of management might consider an exit from the market from the beginning of MBO, contemplating re-listing. Thus MBO and re-listing would be implemented as a series of transactions.

On the other hand, an MBO generally differs from a TBO, in that an MBO gives a rise to conflict of interest between the shareholders and the management that the shareholders have entrusted with management capacity, and that an MBO puts the management in a more favorable position than shareholders in terms of access to information. The management implementing an MBO transaction is therefore required to ensure the adequacy of allocation of premium and the reasonableness of the implementation of the MBO by applying fair procedures, and make sufficient disclosures thereof.

In cases where a company that was delisted through an MBO is re-listed, plans developed at the time of MBO are clearly expected to diverge from the progress of plans and relevance between the MBO and re-listing or adequacy of allocation of

premium and reasonableness of implementation of MBO may be questioned.

In cases where a company that was delisted through the implementation of an MBO in the past files a re-listing application, JPXR will conduct an additional listing examination separately on the investors' protection practices in order to maintain trust and confidence in the market, in addition to typical examination procedures,

[Perspective of the listing examination]

1) Relevance between an MBO and re-listing

- An MBO and re-listing represent separate transactions, and strong relevance between them may not always be observed.

For the purpose of a listing examination, JPXR will examine the identity and continuity of parties involved in the MBO and re-listing (management, shareholders) and the length of time from the MBO to the re-listing.

2) Adequacy of premium allocation and reasonableness of the implementation of an MBO

- It would be impracticable to primarily and objectively test the adequacy of the premium allocation and reasonableness of the implementation of an MBO. In cases where the procedures on which investors base their decisions have been fairly applied and the MBO has been effected, a majority of shareholders can be assumed to have been persuaded to enter into transactions, and adequacy of premium allocation and reasonableness of the implementation of an MBO will be unlikely to be questioned.

⇒ The listing examination will confirm compliance with MBO instructions included in MBO procedures.

- Even if there is any divergence between the plan at the time of the MBO and the progress after the MBO at the time of re-listing, when a reasonable explanation of reasons for such divergence is given, it is unlikely that JPXR would question the adequacy of the premium allocation and reasonableness of the implementation of the MBO.

⇒ For the purpose of listing examination, JPX-R will assess whether the explanation of the difference is given sufficiently and persuasively.

[Application to listing examination]

For the purpose of listing examination, JPXR will make an assessment based on the perspectives of 1) and 2) above and examine whether the relevance between the MBO and re-listing isn't high and whether the adequacy of the premium allocation and reasonableness of the implementation of MBO are low.

Then, in light of the system for corporate governance practices and the explanation and disclosure of facts and circumstances with regard to the re-listing, JPXR will comprehensively determine the approval of the re-listing.

## IV Listing Examination Q&A

This Q&A addresses practical items to be confirmed with respect to “V Checklists Before Applying for Listing on Growth Market”.

### 1. Corporate Continuity and Profitability

#### (1) Items for which Profit Level is Assessed

**Q1:** In principle, we use ordinary income when we assess the level of profitability. Though ordinary income is recognized, how does JPXR treat the situations where accounts other than ordinary income incur losses?

**A1:** For the purpose of examination for profitability, JPXR will, in principle, assess the profitability of main businesses of initial listing applicant.

Therefore, when the applicant recognizes ordinary income by compensating for operating losses by non-operating income which does not directly arise from main businesses, including dividend income, JPXR does not determine that the applicant has stably generated profits. On the other hand, for example, in case of wholesale businesses where ordinary income is recognized by compensating for operating loss by non-operating revenue, JPXR may determine that the applicant will stably generate profit despite operating loss as its business model thereof indicates that non-operating revenue is constantly recognized as discount of costs for procurement occurs every year.

In addition, though an applicant recognizes ordinary income, if some extraordinary losses are expected to be recognized because of the abolishment of some shops every year or continuous payments of compensation for damages related to legal cases, JPXR may make examination in consideration of effect of such operating losses.

#### (2) Profit Level after Listing

**Q2:** Formal requirements provide that an applicant is required to recognize the amount of sales of ¥10,000 million for the immediately preceding year or the total ordinary income of ¥2,500 million or more for the last two years. In confirming whether the applicant is reasonably expected to recognize stable profits going forward, for the purpose of examination how does JPXR assess the situations where business results of the applicant after the listing application year are below such thresholds?

**A2:** Although substantive criteria require that “the applicant is reasonably expected to recognize stable profits going forward”, the criteria would not be breached immediately even if the amount of sales of the initial listing applicant for each of years after the application year is below ¥10,000 million or the total amount of profit for the last two years is below ¥2,500 million.

If in consideration of management activities or business plan of the applicant JPXR determines that the matters described in the “Requirements of criterion and focus of examination” are sufficient during the course of examination, the applicant could meet the criterion.

### (3) Confirmation of Progress of Performance during the Period in which the Application is Filed

**Q3:** What aspects does JPXR assess in examining actual progress of performance during the application year in addition to the assessment as to whether the performance has bottomed out in the context of profitability?

**A3:** JPXR will assess the progress of operating results in order to evaluate the control over budgeting. In practice, JPXR will request the applicant to discuss the systems in place to analyze the departure of actual results from the budgets, and approaches to revise if any revision of future performance forecast is necessary and the timing thereof by using actual data during interviews, etc. with JPXR.

### (4) Application of “Accounting Standards for Accounting Changes and Correction of Errors”

**Q4:** We retrospectively applied new accounting policies with reference to the “Accounting Standards for Accounting Changes and Correction of Errors” and as a result, prior operating results significantly deteriorated compared to those before the application. Please outline the points which JPXR considers for the purpose of examination.

**A4:** For the purpose of the examination on the basis of the criterion “Corporate Continuity and Profitability,” JPXR will assess the profitability of main businesses of the applicant as to “whether an applicant is reasonably expected to recognize stable profit going forward.”

Therefore, in the event that prior operating results significantly deteriorate as a result of retrospective application of accounting changes, such factors alone would not affect the listing examination.

### (5) In Cases of a Large Amount of Goodwill or Borrowings Recognized

**Q5:** In the event a large amount of goodwill or borrowings has been recognized from the acquisition, etc. of a business or company, how would it be judged for the purpose of examination?

**A5:** In cases where a large amount of goodwill is recognized, the profit will significantly decrease if some or all of goodwill recognized is impaired after the listing. If the amount of goodwill exceeds the net assets, the total amount of liabilities may exceed that of assets. These circumstances will significantly affect the going concern assumption of the business. In such a case, JPXR will examine the reasonableness of the business plan and conditions of the testing of goodwill for

impairment and comprehensively assess whether the listing should be approved.

In cases where a large amount of borrowings is recognized, the borrowings are likely to have a significant effect on the going concern assumption of the business when the applicant delays the payment after the listing or is not able to pay the debts depending on financing conditions as the applicant fails to comply with financial covenants and is required to pay a debt fully at one time. In such a case, JPXR will, for example, examine the following points and comprehensively determine whether the listing should be approved:

- Whether negative pledge or financial covenants are provided. If so, the nature thereof and probability of breach of covenants.
- Whether the borrowings have been properly paid or payments are expected to properly continue after listing (\*)

\* JPXR will, for example, examine whether the amount of borrowings and payment schedule for the borrowings have been reasonably established based on the business model or industry trend or cash flow conditions, or whether the payments have been stably made based on a payment schedule so established.

In addition, in cases where any provisions which significantly restrict the freedom of management of a listed company have been provided under loan agreements, etc. entered into between an applicant and a lender such that the approval of the lender is required in advance for any amendment to a significant provision in Articles of Incorporation or issuance of securities, the applicant will be required to modify the agreement or remove any related provisions.

An applicant is required to appropriately include descriptions of such matters in the section "Business Risks, etc." included in "Part I."

## 2. Soundness of Corporate Management

### (1) Transactions, etc. with Related Parties, etc.

**Q6:** When some sales or real estate related transactions have been entered into between the applicant and any related party, how does JPXR evaluate such transactions for the purpose of the examination?

**A6:** In case of existence of any transactions with related parties, JPXR will evaluate the reasonableness of transactions (necessity for business), adequacy of transactional terms and conditions, and fairness of disclosures of transactions. If any inappropriateness is identified, JPXR will more carefully perform the examination.

For example, the following are identified as inappropriate cases.

(Cases where the reasonableness of transactions (necessity for business) is not recognized)

- The applicant leases property from a related party not within its business plan and operating strategy (e.g., in case of retail businesses, lease of shop consistently making losses);
- The applicant has entered into some transactions via a related party, but the reasonableness of involvement of the related party (necessity for business) is not recognized; or
- The applicant has entered into financial transactions in a large amount with a related party.

(Cases where the adequacy of transactional terms and conditions is not recognized)

- The applicant has provided a related party the free rent of vacant spaces in the building owned by the applicant for the purpose of individual business;
- When the applicant sells a corporate property to a related party, the applicant sold the property at a significantly low price despite the large difference between the market value and the book value (market value is significantly below the book value); or
- In commencing or renewing transactions, the applicant has not implemented sufficient research into the adequacy of transactional terms and conditions such as comparison of various quotations (in case of operational transactions) and lease terms of similar properties (lease transactions of real estate).

(Cases where the fairness of disclosures is not sufficient)

- Despite the fact that the applicant has leased a property from a related party, the applicant tried to circumvent the disclosure thereof by entering into the lease with the real estate broker.

When an event does not constitute an operational transaction, it is feared that the



event gives rise to the provision of undue benefits via other management activities consistent with cases below and JPXR will carefully examine these issues.

- A company is deemed to have purchased a vast amount of artistic Rules such as paintings to satisfy individual hobbies or preferences of officers of the company; or
- It is deemed that properties purchased by the company (including real estate, company car, boat, airplane, golf course membership, etc.) have been used for personal purposes of specified officers, etc. of the company.

**Q7:** The applicant has entered into an advisor agreement with a related party and paid advisor fees to them. How does JPXR assess such situations for the purpose of the listing examination?

**A7:** The important point is that transactions with related parties should be truly justified when considering the interest of the company first.

In cases where a related party is requested to serve as an advisor (needed for the purpose of business), JPX-R will examine the reasonableness of the request in consideration of the roles expected of the advisor and actual performance of those roles. As a result, an applicant is required to terminate any transaction for which reasonable explanations are not given sufficiently.

JPXR will then examine whether the advisor fee would be adequate based on the roles expected of the advisor or the actual performance of those roles by confirming the method and basis for determining the advisor fee and its absolute amount (\*). As a result, an applicant is required to revise the advisor fee for any transaction that has not been reasonably explained.

For the execution of an advisor agreement or the determination of an advisor fee, the details should preferably be determined through a consultation involving independent directors rather than the decision of some management personnel.

In addition, even if a request to a related party to serve as an advisor (need for the purpose of business) or the adequacy of an advisory fee can be reasonably explained for the purpose of a listing examination, the necessity of executing the advisory agreement or the roles required of the advisor would change in response to the evolving circumstances of the applicant or related party entering into the advisory agreement. Therefore, the applicant is required to have a mechanism in place to review and address such a change on a timely basis.

\* One of the thresholds is to compare the compensations of directors, etc. required to fulfill legal responsibilities with the compensations of advisors. In cases where a director holds a position of advisor after retirement, it would be useful to compare the compensation as a director with the current compensation as an advisor.

**Q8:** Systems to check and balance the related party transactions are required to be established. How will JPXR make examinations in relation to these issues?

**A8:** A degree of such systems to be designed and implemented may differ depending on policies for related party transactions, existence of related party transactions and status of related parties, etc. JPXR will comprehensively evaluate these issues by assessing the method to identify, consider and follow up related party transactions.

For example, when the applicant has developed policies to permit some related party transactions and related party transactions have practically taken place, the applicant is encouraged to have addressed the following issues.

- Can the applicant identify any related party transaction before entering into it?
- Has the applicant verified the adequacy of transaction or the terms and conditions of transaction by means of the resolution at the Board of Directors or reporting thereto or by checks of independent directors/auditors or company auditors before entering into such transactions?
- Has the applicant periodically verified the adequacy (necessity for business) and the terms and conditions of continuous transactions with related parties as the Board of Directors discusses the adequacy thereof at the meeting for closing of accounts or the applicant include them within the scope of audits by company auditors?
- Has the applicant ensured that such procedures could be applicable consistently after listing as the regulations and manuals (Regulations on the Board of Directors, Regulations on the Committee of Company Auditors, Regulations on Request for Approval, Compliance Regulations and other sub-manuals) provide for necessary procedures?

On the other hand, if an actual (or expected) related party transaction takes place as a part of activities of general consumers or constitutes a transaction with a major shareholder (who is not a parent company, etc.) and similar transactions have been entered into with many other companies, subsequent assessment mentioned in A9 would be sufficient.

This is illustrated in the context of the implications associated with related party transactions. So, if JPXR can confirm any check and balance systems in terms of related party transactions, they would not give rise to any problems in this respect. The applicant is encouraged to design and implement the systems in consideration of actual status of the applicant.

**Q9:** We have developed company policies which would not permit any related party transactions. Under these circumstances, do we have to design and implement such mechanism?

**A9:** A company has developed policies which would not permit any related party transactions, no such transactions have actually been entered into and it is highly unlikely that such transactions would take place on the basis of status of related

parties, etc. In such cases, if the company consistently applies the procedures which have been implemented to review the items to be described in the Securities Report (subsequent procedures including separate inquiry to officers, confirmation of related parties against the list of trading partners), such consistent application would not give rise to any problem in this respect. However, there is possibility that a related party transaction may consequentially prove to have taken place. In such cases, the company is required to appropriately follow up the transactions by reporting them to the Board of Directors or having them examined by company auditors.

## (2) Transactions involving the management

**Q10:** If there is any transaction involving the management, how do the examiners assess the transaction? Reference to “any business acquired or planned through the efforts of the management in itself, or any project whose necessary matters are exceptionally determined by the management” is made in this. What transactions do they actually mean?

**A10:** The examiners will not consider any transaction involving the management itself during the course of their assessment. However, appropriate check and balance functions are unlikely to internally apply to such transaction. As such, the transaction may result in some frauds. Therefore, the examiners will assess whether an appropriate system has been developed and operated where such project will be considered at the corporate level and appropriate check and balance functions will be applied properly, and whether or not any transaction involving the management, which was actually carried out, is an inappropriate one. If such assessment highlights that there is any inappropriate element in the transaction, the examiners will carefully examine the listing application. Any transaction which took place in the last two years and during the period for the application is expected will be subject to the assessment.

Projects which may meet the reference to “any business acquired or planned through the efforts of CEO and others, or any project whose necessary matters are exceptionally determined by the management” may include the following:

- Transactions: the management discover customers through its own relationship, negotiate the terms and conditions and finally succeed in the acquisition;
- Transactions: the management specifically develop the plan for the operation of shop or outlet and the plan is implemented;
- Transactions, where general managers or those in similar position usually perform any procedures for the credit grant or conclusion of agreement and decide on them, the management will exceptionally make such decision;
- Transactions: where the request for approval regarding the grant of credit or conclusion of the agreement is dissented and rejected before the request is submitted to the management, the request is exceptionally submitted to the management, who is finally approves it; or
- Transactions: Though they are not entered into by the company in normal cases, the company enters into the transactions as the management is involved.

### (3) Agreement among shareholders

**Q11:** We have entered into a contract with specified large shareholders including 1 provisions concerning a pre-approval of significant item (large capital expenditure project) or grant of rights to appoint relevant officers. How does JPXR assess such situations for the purpose of the listing examination?

**A11:** Such contract needs to be canceled before the application mainly because the contract is likely to impair the rights of other shareholders.

### (4) Handling of Core Subsidiary

**Q12:** What basis does JPXR apply in evaluating whether “a subsidiary substantially constitutes an integral part of the parent company?”

**A12:** For example, JPXR will evaluate this issue on the basis of similarities of business domain of the parent company and the applicant or effects generated by synergies arising from the business relationship between the parent and the applicant. In such cases, in cases where, though the business model adopted by the applicant differs from that of the parent company, the applicant is determined to play an important role to realize the business model of the parent company, JPXR is likely to determine that the applicant substantially constitutes an integral part of the parent company.

### (5) Shareholding of the Parent Company as a Percentage of the Total Shareholders’ Equity

**Q13:** There is a requirement that “JPXR will assess this point by confirming the intention of the applicant to reduce the shareholding ratio of the parent company, etc.” In practice, what points will JPXR examine?

**A13:** When it is concerned that the applicant constitutes a department or division of the parent company and the applicant must be consolidated by the parent because its shareholding ratio is high, it is determined that the probability that the decision making of the applicant would be affected by the parent company. This would give rise to a problem in that the likelihood that the business activities of the applicant would be restricted or influenced by the parent company would be higher. Accordingly, JPXR will evaluate whether a degree of influences of the parent company over the management decisions of applicant would be mitigated as the applicant expects to reduce the shareholding ratio of the parent company or eliminate concurrent holding of positions at the parent company.

## (6) Competition Arising from the Performance of Similar Businesses

**Q14:** When there are companies in the corporate group of the parent company, etc. which perform businesses similar to those carried out by us, how does JPXR evaluate such situations for the purpose of the examination?

**A14:** It may be assumed that the parent company, etc. leverages its controlling power to restrict or coordinate the business activities of the applicant. JPXR will assess whether the applicant ensures sufficient independence from the parent company, etc. such that the applicant would not be exposed to undue business coordination of the parent company, etc. in consideration of the reasons for the occurrence of competition between the parent company, etc. and the applicant, the reasons for performing businesses independent of the parent company, etc., the nature of business coordination and management of subsidiaries of the parent, and the possibility of impeding the independence of the applicant in the future.

**Q15:** There is a requirement that “JPXR will assess whether the applicant ensures sufficient independence from the parent company, etc. such that the applicant would not be exposed to undue business coordination of the parent company, etc. in consideration of the reasons for the occurrence of competition with the parent company, etc. and the applicant, the reasons for performing businesses independent of the parent company, etc. and the nature of business coordination.” In practice, which cases would give rise to problems in this context?

**A15:** Incidents identified as examples of cases where independence may be endangered as the business activities of the applicant are restricted or coordinated by the parent company, etc. would include the following cases:

- It is determined that the applicant is forced by the parent company, etc. to manage a loss making shop in the area where the applicant competes with the parent company, etc.;
- The sales of new products of the applicant are restricted or the timing of launch is changed at the sole discretion of the parent company, etc.
- Though the applicant receives orders which the parent company, etc. cannot handle, many of such orders are not profitable or the parent company, etc. generates undue profit;
- Managers or a large number of employees for the business of departments or divisions which compete with the parent company, etc. are seconded from the parent company, etc.

## (7) Real Estate Transactions with the Parent Company, etc.

**Q16:** With respect to the lease of property from the parent company, etc., it is stated that “JPXR will determine whether an applicant constitutes a business department or division based on the degree of dependence on the parent company, etc. with respect to each relationship (ratio and amount, etc.) and on the materiality of business activities.” How will JPXR assess the dependence or materiality of business activities for the purpose of the examination?

**A16:** For example, if the applicant is a company which has developed its business by operating businesses in a large number of areas nationwide and has leased property for each area from the parent company, etc., it is likely that a degree of dependence on the parent company, etc. is low  
However, if the property leased from the parent company, etc. at a specific area is much more material for the purpose of the business than those leased at other areas, JPXR will more carefully evaluate the lease transaction.

## (8) Acceptance of Secondment from the Parent Company, etc.

**Q17:** There is a requirement that “If the seconded persons are assigned to positions of officers or general managers who manage departments exposed to the influence of the parent company, etc., JPXR will be concerned with such situations from the perspective of independence.” In practice, who meets the definition of officers or general managers who manage departments susceptible to the influence of the parent company, etc.?

**A17:** If seconded persons from the parent company, etc. are assigned to positions of officers, etc. who manage sales departments of the applicant which has recognized a vast amount of sales from the parent company, etc., the seconded persons and the parent company, etc. may mutually determine the selling prices or transaction amounts of the applicant. In such cases, they would be highly likely to be regarded as officers or general managers having influence over the applicant. The same would apply to cases where the seconded persons are assigned to positions of officers, etc. who manage departments or divisions which may have significant influence over the decision making for the management of the applicant, including the management planning department.

## (9) When a LBO (Leveraged Buy-Out) is effected

**Q18:** When a large amount of goodwill and borrowings is recognized as a result of a leveraged buy-out (LBO)? How will such situations be assessed for listing examination purpose?

**A18:** LBO itself is one of approaches applied to acquisition of a company, and LBO will not be questioned. However a large amount of goodwill and borrowings of an applicant arising from LBO may increase financial risks, which are not desirable to shareholders after listing. If an applicant fails to reduce financial risks or

consistently improve enterprise value after LBO, parties involved in LBO will be alleged to have placed priority on their own interests and passed risks onto shareholders after listing, such situation will be questioned from the aspect of soundness of company management.

Consistent with the above, if any shareholders involved in LBO remains at the applicant as management, JPXR assesses whether the applicant can provide and improve governance system tailored to the conditions of applicant. Such system includes appointment of independent directors and auditors which can sufficiently implement check functions, and establishment of nomination and compensation committee where independent outside directors would account for the majority of the Board of Directors.

Also, when an applicant has recognized a large amount of goodwill and borrowings as a result of LBO, JPXR will assess whether financial risks arising from goodwill and borrowings have been reduced correspondingly in consideration of progress of businesses after LBO and actual implementation of measures to improve enterprise value.

In addition, JPXR will assess the view on risk taking when shareholders involved in LBO sell a large number of shares at the time of initial listing. JPXR will also consider the period from the implementation of LBO to listing.

Based on these results, JPXR will comprehensively determine the appropriateness of listing.

An applicant is required to appropriately include descriptions of notion on reduction of financial risks and enhanced enterprise value after listing in “Part I.”

## (10) Payout, etc. of a Large Amount of Dividends

**Q19:** If a large amount of dividends has been paid or treasury stocks have been acquired, how does listing examination treat them?

**A19:** As long as dividend payments or acquisition of treasury shares (collectively referred to as “dividends, etc.”) are made consistent with the procedures in the Companies Act, they will not be questioned. However, if before listing, an applicant paid out a large amount of dividends, etc. significantly exceeding dividend payout ratio expected after listing, it may significantly affect the investment plans or financial strategy after listing. Therefore, judgment in such cases should anticipate the management plan after listing.

Based on this notion, if an applicant paid out a large amount of dividends before listing, JPXR will assess the reasons why such payment was made (basis for the timing and amount, consistency with management plan after listing) and procedures to determine them. Especially, in cases where as an applicant has controlling shareholders, influences of specified large shareholders are strong and relevant discussions have not been made in anticipation of governance system after listing such as appointment of independent outside directors, JPXR will

carefully assess such cases from the viewpoint of soundness of management as they might be regarded as excessively passing risks onto shareholders after listing.

Also, the applicant is required to include appropriate descriptions of reasons for dividend payments, etc. and dividend payout ratio after listing in "Part I."

An applicant is required to appropriately include descriptions of such matters in the section "Business Risks, etc." included in "Part I."

If the applicant has made a large amount of borrowings to make the payment of such dividends, etc., JPXR will make relevant judgment for listing examination comprehensively together with other issues to be confirmed concerning financial risks (including the contents of Q 5 and Q18).



### 3. Effectiveness of Corporate Governance and Internal Management System of an Enterprise

#### (1) Board of Directors

**Q20:** The attendance of outsider directors at the meetings of the Board of Directors is infrequent. How will JPXR evaluate such situation for the purpose of the examination?

**A20:** Attendance at the meetings of the Board of Directors where directors participate in the decision making of material matters for the business and receive necessary report is considered to be important duties of directors. Thus if attendance of some directors at the board meetings is infrequent, it is determined that the governance of the applicant has not functioned well. JPXR will more carefully evaluate such situation.

#### (2) Company Auditors

**Q21:** We currently do not have a board of auditors. When is the latest date by which we must establish a board of auditors?

**A21:** In the "Code of Corporate Conduct" of the Securities Listing Regulations, establishing a board of auditors is set forth under "Matters To Be Observed". Therefore, the applicant needs to set up a board of auditors, however, there is no specified date to do so. However, the applicant would be subject to a substantive examination which confirms whether the board of auditors is functioning properly. As such, it would be desirable for an applicant to apply after providing a certain operational period for the board of auditors.

#### (3) Independent Directors/Auditors

**Q22:** When is the latest date by which we must elect independent directors/auditors? Also, are there any matters to consider?

**A22:** Independent directors/auditors must be elected by listing day. Thus JPXR will check the status of election of independent directors/auditors during the process of examination.

By the way, in examining the applicant where the significance of independent directors/auditors is relatively higher as specified large shareholders may apply strong influence, JPXR may assess whether relevant corporate governance anticipated after listing functions effectively.

**Q23:** It is required that outside directors or auditors who would be registered as independent directors/auditors should be persons who will not give rise to any conflict of interest with general shareholders. What should we consider in choosing persons who would be registered as independent directors/auditors?

**A23:** In choosing persons who would be registered as independent directors/auditors, it is required in principle that they do not meet any one of the events mentioned in Guidelines III 5, (3) 2. Corporate Governance Report

For considerations in electing independent directors/auditors, please refer to the section “Practical Considerations in Electing Independent Officer” in the “Company Information Timely Disclosure Guidebook” issued by TSE.

The information is also posted on TSE’s website.

(<https://www.jpx.co.jp/equities/listing-on-tse/documents/index.html>)

When you are concerned with the satisfaction of requirements for independent directors/auditors in filing the listing application, please consult JPXR in advance via the lead underwriter.

**Q24:** The Corporate Governance Code requires that “A listed company should elect at least one third or more of directors as independent outside directors” (Principle 4-8). If we do not elect one third or more of directors as independent outside directors by the listing, how does it affect the listing examination?

**A24:** The Corporate Governance Code does not necessarily require a listed company to elect one third of directors as independent outside directors. Under the approach of “Comply or Explain,” the listed company may be given an option not to implement the election by describing the reasons for not electing them.

Non-election of one third or more of directors as independent outside directors by the time of listing does not constitute the on-compliance with requirements for the listing examination. However, unless the listing company elect at least one third or more of directors as independent outside directors, it is required to explain the reasons for not doing so in the Corporate Governance Report.

#### (4) Company with Board of Directors

**Q25:** We are considering listing of our stock in the form of pure holding company. Among companies under the patronage of our company, there is a company which has not formed the Board of Directors as it has only one director. Do we have to turn the company into a company with board of directors?

**A25:** It is not automatically required from the formal requirements that all the companies under patronage of a holding company should be companies with board of directors. JPXR will evaluate these situations on a case-by-case basis in consideration of the existence of reasonable reasons for not establishing the board of directors, on the basis of sizes of the company, positioning in the corporate group and the background for the foundation of the company.

## (5) Request for Approval and Decisions

**Q26:** If there are many incidents where transactions have been commenced before the requests for the approval of transactions are submitted and decisions are made, how does JPXR judge these situations?

**A26:** For the purpose of the examination, it is required from the perspective of a fair internal management system that requests for approval are appropriately prepared in accordance with regulations on work duties and appropriate decisions are made. Such incidents may give rise to concerns with the effectiveness of the request for approval and the decisions on the basis thereof. JPXR will more carefully assess the situations.

## (6) Budget Control

**Q27:** For the last several years, actual results have constantly deviated from budgets. How does JPXR judge these situations? How will JPXR assess these situations?

**A27:** In cases of constant deviation of actual results from budgets, it is likely that there would be some problems in terms of the budget development system (\*). JPXR will examine the budget development process (e.g., consistency among budget systems such as profit and loss budget and capital investment plan, etc., analysis of external environments and coordination with other departments and divisions), in depth.

When budget control has not been reasonably implemented at company level as some problems have arisen with respect to the development process, JPXR will more carefully assess these situations for the purpose of listing examination.

\* In cases where actual results are constantly below budgets, it is assumed that the feasible realization of budgets have not sufficiently discussed during the process of budget development and budgets have been prepared only expecting the desired performance to be reflected in the operating activities.

## (7) Acceptance of Secondment

**Q28:** Managers (general managers or authorized to make necessary decisions) responsible for significant departments (financial department or sales departments which carry out transactions with important customers) are seconded from external entities (financial institutions or large customers or suppliers)?  
How will JPXR judge these cases?

**A28:** When managers responsible for significant departments or divisions are seconded from other entities, JPXR will assess whether such secondment has not been forced (i.e., proprietary business management systems have not been impeded) and whether the replacement will readily be available by recruiting relevant persons or elevating internal staff members to such positions. When

JPXR determines that the applicant could address such situations by applying these approaches, JPXR may positively assess them for the purpose of the examination.

## (8) Departure of Practices from Relevant Regulations

**Q29:** There are cases where though a company has adopted shipment basis as the standards for recognizing sales, in actual practices, the shipment date has not been clearly identified or revenue arising from the sales has been recognized at the time of acceptance. How will JPXR judge these cases?

**A29:** For the purpose of the examination, JPXR will evaluate that accounting standards are appropriately developed and included in the company level regulations and the practices are implemented according to them. With respect to the cases in question, since there is departure of practices from regulations (inconsistency between the practices and the regulations), it is mandated that the applicant promptly addresses such departure by improving the requirements of regulations or improving practices. When the improvement is not readily available or there are significant errors which require the retrospective restatement of financial statements due to historical errors, JPXR will more carefully assess such situations.

## (9) Labor Relationship

**Q30:** We have been recommended to correct some issues identified by a competent labor standards supervision office during the previous year. How will JPXR judge these cases?

**A30:** For the purpose of the examination, JPXR will assess whether the applicant has in place effective systems to ensure the compliance with laws and regulations or has not committed material breach of laws and regulations. With respect to cases where the applicant is recommended to correct some deficiencies by the competent labor standards supervision office, it is assumed that there are some defects or weakness in internal systems to ensure the compliance with the laws and regulations concerning labor affairs at that time. JPXR will evaluate the nature of corrective recommendations and how the applicant has addressed such recommendations at company level, and how the applicant has improved the systems to prevent the reoccurrence of such incidents. JPXR will then make judgment on the basis of such evaluation.

Thus, historical corrective recommendations would not necessarily affect the evaluation immediately for the purpose of the examination.

## (10) Other Considerations for the Management

**Q31:** When a company outsources some aspects of management control functions (general affairs department or finance and accounting department), does JPXR find any problems in outsourcing it to a third party?

**A31:** In order to enhance the efficiency of managerial resources in the context of performance of administrative works, an increasing number of companies have now entrusted some works (so-called outsourcing) to third parties, and the number of companies which use outsourcing is now increasing.

The outsourcing practices used to be applied for simple works such as payroll calculation for the reduction of usual costs, but now circumstances have changed such that they are applied to more strategic situations with a view to intensively investing resources in the establishment of core competence (investing resources into strong and important business areas while utilizing outside resources for other areas).

For the purpose of the listing examination, JPXR would not immediately question the existence of outsourcing practices.

However, the applicant is required to develop the system to ensure the accuracy and confidentiality of the information in using outsourcing and to analyze the information from the outsourcer and disclose it at the responsibility of the chief information officer of the applicant. The applicant is required to assess the impact of and address the situations where the applicant will find it difficult to outsource relevant works in advance.

Depending on materiality of outsourced works, the applicant is required to describe the nature of outsourced works in "Business Risks, etc." of "Part I".

The assessment of whether the outsourced businesses are fairly managed may vary depending on the business line and organizational structures of the applicant and outsourced works.

So if the applicant considers the use of outsourcing, the applicant is encouraged to consult the lead underwriter or audit firm.

The following highlight the considerations in making any outsourcing:

a. The applicant is principally responsible for the outsourced works.

No matter what works are outsourced, the applicant is eventually responsible for the final decision to direct the business of the applicant including the decision making and strategy developments.

It is naturally assumed that the applicant is able to understand and analyze the contents of outsourced works and data obtained from the outsourcer. The applicant is also required to regularly assess the contents of the works performed by the outsourcer at its discretion.

b. Appropriate disclosures

In cases where the applicant outsources a part of works closely associated with statutory disclosures or timely disclosures of preliminary releases of earnings, the applicant should ensure the systems where such outsourcing would not impede any timely and appropriate disclosures.

c. Regulations on insider trading

In the event that the outsourcer may have access to information such as that associated with operating results before public announcement, the applicant is required to undertake necessary measures to prevent the leak of information, including the conclusion of a non-disclosure agreement.

d. Selection of appropriate outsourcer

The applicant is required to select reliable and experienced outsourcers such that the works outsourced to the outsourcer would be implemented and consistent. Also the applicant is to ensure the systems where an alternative outsourcer is available or the applicant can handle the outsourced works in the event that the applicant will be unable to request works to the outsourcer with which the applicant has entered into the outsourcing agreement.

## 4. Appropriateness of the Disclosure of Corporate Information, Risk Information, etc.

### (1) Revision of Future Forecast Information Including Performance Forecast

**Q32:** For the purpose of the examination, how do we have to address cases where we need to revise future performance forecast information including earnings forecast announced in order to ensure fair disclosures?

**A32:** Listed companies are required to disclose company information fairly and promptly. Thus no matter when future forecast information including earnings forecast needs to be revised, they shall disclose such revision promptly. For the purpose of the examination, in order to confirm that the applicant has developed appropriate disclosure systems, JPXR will assess the design and implementation of the internal systems for timely disclosures and disclosure flow when some items required to be disclosed arise.

In addition, for any company which lists its stock on another financial instruments exchange, JPXR will assess the historical status of disclosures. For example, though a company has resolved at the Board of Directors to revise future forecast information, the company has not immediately disclosed the revision. Since it is determined that the company has not satisfied the requirements for the fairness of timely disclosure, JPXR will more carefully assess the situation for the purpose of the examination.

### (2) Amendment to Disclosed Materials and Data

**Q33:** If we made some amendments to disclosed data in securities report, etc. in the past, how will JPXR assess such amendments for the purpose of the examination?

**A33:** When the applicant makes amendments to securities report, etc., JPXR will assess the conformity with the examination standards in consideration of factors leading to the amendments and the approaches to address such factors, in addition to particular amendments, the timing of amendments, the detection of items to be amended and the frequency of such amendments. JPXR will more carefully assess such amendments no matter when such amendments have taken place several times including the amendments in application year and no improvements to the disclosure system are perceived.

Meanwhile, for the purpose of examination of application for alteration of markets, if an applicant has been required to implement measures to ensure effectiveness for the recent five years, JPXR will assess whether improvement plans, etc. developed at the time of application thereof have been fulfilled appropriately in examining the appropriateness of disclosures of effectiveness of internal management system and company information.

### (3) Contents of descriptions included in the disclosure materials

**Q34:** What cases would be regarded as misleading with respect to the contents of descriptions included in the disclosure materials in Securities Report for Initial Listing Application (Part I)?

**A34:** The following cases may be considered misleading. The contents of descriptions included in the disclosure materials need to be tailored to faithfully represent the substance of the applicant.

- Cases where, for any business the applicant develops or is expected to develop going forward, the applicant describes the nature of business by using terms that relate to areas currently attracting strong investor interest, which would not have much relevance to the area of such business.
- Cases where a business that is still at an early stage is described as one of the applicant's key businesses, or where an applicant describes a business that is still only in the planning stages as a business that has already been developed.

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### (4) Acts which Distort the Disclosure of Actual Conditions

**Q35:** What cases are considered to distort the disclosures of actual conditions in transactional acts?

**A35:** If sales are significantly increasing at the time approaching the year end, i.e., so called "coercive selling" is concerned, or analysis of goods and products sold or customers is not clear, we may concern with the occurrence of so called "round trip transactions," or "fictitious transactions."

In such cases, the financial statements of the applicant will not faithfully reflect the actual conditions and present information quite different from what should have been disclosed. Since they mislead investors, and in addition the applicant is likely to be penalized because of breach of laws and regulations including false statement, JPXR will more carefully assess these situations.



## 5. Other Matters Deemed Necessary by the Exchange from the Viewpoint of the Public Interest or the Protection of Investors.

### (1) Change in shareholders before listing

**Q36:** In cases where a change in shareholders takes place before listing, what aspects does JPXR confirm for the purpose of the listing examination?

**A36:** In cases where any change in shareholders takes place before a listing, JPXR confirms the attributes of each shareholder, the reasons why the change has taken place, and the scheme to transfer the shares and determining the share prices before and after the Change. If, for example, JPXR is concerned with the share transfers at an unreasonable price or repeated changes in large shareholders, JPXR will confirm the circumstances on the assumption that some specific persons may have unduly benefited from the transfers. In light of this, JPXR will assess whether the transfers will adversely affect general shareholders after the listing.

An applicant is required to include appropriate descriptions of share transfers in the section "Risk Information pertaining to Business" included in "Part I."

## 6. Others

### (1) Internal Control Report over Financial Reporting

**Q37:** How will JPXR assess the approach to address internal control report system over financial reporting?

**A37:** When stock issued by the applicant is listed on another financial instruments exchange in Japan, it is required that (i) the internal control report for the business year which ends during the recent one year contains the statement that "assessment results will be refrained from being expresses," and (ii) the internal control audit report for the business year which ends during the recent one year contains the statement of "disclaimer of opinion." (\*) During the due course of examination, JPXR will evaluate the assessment system of internal management or matters identified as those required to be addressed during the assessment process.

\* This shall not apply to cases where the audit certificate is exempted over the period for which the applicant is allowed to elect to apply the exemption from the audit certificate over the internal control report.

On the other hand, for other non-listed companies, JPXR will evaluate the status of preparation therefor during the process of examination.

## (2) Use of Flow Chart for Other Purpose

**Q38:** For “administrative flow chart” included in “Part II” prepared for the internal management report system, may we use the flow charts for any other purpose?

**A38:** The applicant may use the flow charts developed for the internal control report system for any other purpose. However, the scope of flow charts required by “Administrative flow” of “Part II” documents may differ from that of the flow charts developed for internal control report system, so some insufficient component, if any, may have to be prepared separately.

## (3) Listing concurrent with convertible bonds with subscription warrants

**Q39:** We issued convertible bonds with subscription warrants. May we list them concurrent with common stocks?

**A39:** For an unlisted company, listing of convertible bonds with subscription warrants concurrent with common stocks will not be permitted in order to ensure fair price formation and protect investors, a non-listed company is required to avoid concurrent listing of two or more types of stock on the initial listing date. Therefore, the listing of convertible bonds with subscription warrants must be effected after some time passes since the day following the determination of initial price for initially listed stock. The “some time passes since the day following the determination of initial price for initially listed stock” will be decided in consideration of period required for thorough dissemination of the price to investors and for the preparation of securities companies.

# V Receipt or Transfer of Stocks, etc. Before Listing and Allotment, etc. of Offered Stocks through Third Party Allotment

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When a company, etc. not listed on another financial instruments exchange in Japan files an application for listing on TSE marketplace, for the purpose of ensuring the fairness of going public, TSE shall prevent any specified person from performing any acts resulting in gaining of short-term profit as a result of allotment of offered stocks or offered subscription warrants in a period in which it is highly probable for stocks to be listed. For such purpose, “Receipt or Transfer of Stocks, etc. Before Listing” and “Allotment, etc. of Offered Stocks through Third Party Allotment” provide for necessary requirements.

This chapter “V Receipt or Transfer of Stocks, etc. Before Listing and Allotment, etc. of Offered Stocks through Third Party Allotment” explains specific requirements.

## <Scope>

Regulations in this chapter shall apply to all the applicants except for any entity which falls within the category of the following:

- (1) An issuer of a domestic stock listed on any other domestic financial instruments exchange;
- (2) An applicant to whom the provisions for technical listing apply;
- (3) An issuer of domestic stock listed or continuously traded on a foreign financial instruments exchange;
- (4) An initial listing applicant who is a company to succeed to the business of a listed company, an issuer of stocks, etc. listed on any other financial instruments exchange in Japan, or an issuer of domestic stocks, etc. listed or continuously traded on a foreign financial instruments exchange, etc. through a shareholder-directed spin-off (limited to cases where the business to be succeeded by the initial listing applicant would become main business of the applicant) and intends to apply for listing prior to said shareholder-directed spin-off.
- (5) Foreign company

(Rule 222 of the Regulations, Rule 244 of the Rules)

# 1. Receipt or Transfer of Shares, etc. before Listing

## (1) Descriptions Concerning the Status of Changes in Shares before Listing

When special stakeholders, etc.(Note 1) received or transferred stocks or subscription warrants issued by an applicant (including the exercise of subscription warrants; hereinafter referred to as “change to shares, etc.”) during the period from the date corresponding to the end of two years immediately preceding the business year to which listing application date belongs (Note 2) to the date preceding the listing date, the applicant is required to describe change to the shares, etc. in “Information on Share Offering: Change to Shares of First Category Special Stakeholders” of “Part I” documents. In describing them, the basis for the determination of prices should be provided in an understandable way to investors with reference to “Exhibit 7 to Enforcement Rules for Securities Listing Regulations: Regarding Descriptions of Price Calculation Methods” and “Examples of Descriptions”. However, this shall not apply to cases where shares issued by the applicant have been listed on a specified financial instruments exchange market. Meanwhile, in describing the basis for price calculation, the applicant must consider that the descriptions would be easy for investors to understand with reference to “Appendix 7 “Descriptions of the Basis for Price Calculation” of Enforcement Rules for the Securities Listing Regulations”. However, this shall not apply to cases where shares issued by the applicant have been listed on a specified financial instruments exchange market.

(Rule 266 of the Rules)

(Note 1) A special stakeholder is special stakeholders mentioned in Article 1, Item 31 of the Cabinet Office Order on Disclosure of Corporate Affairs and specifically refers to the following:

- 1) Special stakeholders pertaining to an applicant
- 2) Ten (10) largest shareholders pertaining to the applicant;
- 3) Company having personnel relationship or capital relationship with an applicant and the officers thereof; or
- 4) Financial instruments business operator, etc. and the officers thereof, having personnel relationship or capital relationship with an applicant

(Note 2) For example, if the end of the year immediately preceding the year to which the listing application date belong is March 31, such date is April 1 of two years ago.

## (2) Retention, etc. of the Record of Changes in Ownership of Stocks, etc. Before Listing

The applicant shall retain the record about the description of the changes in ownership of stocks, etc. for a period of five (5) years from the listing day.

In addition, in cases where an applicant did not submit relevant records at the request of TSE and TSE determined, based on the examination of the record submitted, that the description of the changes in ownership of stocks, etc. provided pursuant to the provisions of the preceding rule was clearly inaccurate, TSE may publicize the corporate name of the initial listing applicant and the managing trading participant concerned and the fact that said description has been determined to be inaccurate.

(Rule 267 of the Rules)



## 2. Allotment of Offered Stocks through Third Party Allotment, etc. Before Listing

### (1) Regulations on Allotment of Offered Stocks by Third-Party Allotment, etc.

#### 1) Submission of documents certifying assurance pertaining to continuous holding

When an applicant has made an allotment of offered stocks through third party allotment after the day of one year ago corresponding to the end of business year immediately preceding the listing application day (Note 1) (Note2), both of the applicant and the party which received the allotment shall promise to meet items mentioned in 2) below and submit the document certifying such promise. When the applicant does not submit the copy of statement, TSE may not accept the listing applicant or may revoke the acceptance of the listing application. Whether such allotment has been effected will be determined based on the payment date for the offered stocks or the end of payment period (Note 2)

(Rule 268 of the Rules)

(Note 1) With respect to allotment of offered stocks prescribed in Article 199, Paragraph 1 of the Companies Act, this refers to a method other than allotment to shareholders.

(Note 2) (1) Cases where an applicant absorbs and merges another company, (2) any stocks issued when turning another company into a fully owned subsidiary through stock swap, or (3) stocks issued when an applicant is established by stock transfer, do not meet the definition of "allotment of offered stocks by third party allotment. However concerning the another company in (1) and (2) above or a company to which stocks are transferred in (3) above, TSE may require a written assurance concerning continuous holding of stocks of the applicant in consideration of the meaning of rules to prevent short time profit from being gained by a specified entity, if the applicant carries out the allotment of offered stocks by third party allotment after the date of one year ago corresponding to the last day of the previous year.

#### 2) Items requiring relevant assurance

Items requiring assurance are as follows: Actual documents certifying the assurance (assurance document) shall be prepared with reference to the form in "A Documents to Be Submitted Pertaining to Initial Listing Application."

(Rule 268, Paragraph 1 of the Rules)

##### i Continuous Holding

A person who received the allotment shall, as a general rule, continue to hold the stocks allotted to them (hereinafter referred to as the "allotted stocks") since the day on which the stocks are allotted until the day on which six (6) months have passed

since the listing day (if one year has not passed from the payment date or the end of payment period for the allotted shares as of the said date, the person is required to hold the shares until the one year period passes from the payment date or the end of payment period for the allotted shares). In this case, if a person who received the allotment acquires new stocks or subscription warrants as a result of stock split, gratis allotment of shares, or gratis allotment of subscription warrants with respect to the allotted stocks, or conversion of the allotted stocks to another class of stocks or subscription warrants, the person shall continue to hold such newly acquired stocks or subscription warrants (hereinafter referred to as the "newly acquired stocks, etc. pertaining to the allotted stocks") until the same day;

(Note) "Conversion" means a transaction where with respect to shares, a company acquires shares issued by the company and at the same time delivers other shares or stock acquisition rights in exchange for such acquisition while with respect to stock acquisition rights, a company acquires stock acquisition rights issued by the company and at the same time delivers other shares or subscription warrant in exchange for the acquisition.

#### ii Report to the Applicant when Transferring the Allotted Stocks

A person who received the allotment intending to transfer the allotted stocks or newly acquired stocks, etc. pertaining to the allotted stocks shall notify the applicant of the intended transfer in advance and report the result of the actual transfer to the applicant after the fact;

#### iii Submission of Report to TSE when Transferring the Allotted Stocks

In cases where a person who received the allotment transferred the allotted stocks or newly acquired stocks, etc. pertaining to the allotted stocks, the applicant shall submit to TSE a document containing the name and address of the transferor and the transferee, the number of stocks transferred, the date of transfer, the transfer price, the reason for transfer, and other necessary matters at the time of initial listing application, if such transfer was executed before the initial listing application day, or immediately after such transfer, if such transfer was executed on or after the initial listing application day;

#### iv Report by Applicant to TSE in Response to Inquiry of TSE about Ownership Status

In cases where TSE makes an inquiry about the holding status of the allotted stocks or newly acquired stocks, etc. pertaining to the allotted stocks as TSE deems it necessary, the applicant shall report the ownership status of the allotted stocks or newly acquired stocks, etc. pertaining to the allotted stocks to TSE without delay after confirming, as necessary, the holding status of the allotted stocks or newly acquired stocks, etc. pertaining to the allotted stocks with the person who received the allotment;



v Report by Person who Received Allotment to Applicant in Response to Inquiry on Holding Status

When a person who received the allotment received a request for confirmation concerning the holding status of the allotted stocks or newly acquired stocks, etc. pertaining to the allotted stocks from the applicant, the person shall report such holding status to the applicant immediately;

vi Agreement Concerning Availability for Public Inspection

A person who received the allotment shall agree that the contents of the confirmation letter pertaining to the continuous holding and the result of transfer of the allotted stocks or newly acquired stocks, etc. pertaining to the allotted stocks, if applicable, will be available for public inspection.

vii Other matters deemed necessary by TSE

### **3) Timing of submission of documents certifying assurance**

When an applicant made allotment of offered stocks before listing application date, the applicant shall submit to TSE documents certifying assurance on listing application date and when making the allotment after listing, the applicant must submit the document without any delay immediately after the allotment; provided, however, that the date of submission shall be no later than the day immediately preceding the day on which TSE approves the listing.

(Rule 268, Paragraph 2 of the Rules)

The document to be submitted to TSE shall be documents prepared by the representative of applicant to the effect that “the applicant certifies that it agreed with each person who received the allotment listed in a relevant attachment concerning the assurance certifying compliance with the requirements mentioned in each item of Paragraph 1, Rule 268 of Enforcement Rules for Securities Listing Regulations” displayed in “A Documents to be Submitted Pertaining to Initial Listing Application” and a list describing the names of such persons who received the allotment. The submission of all copies of documents certifying assurance of continuous holding individually entered into with person who received the allotment will also suffice.

### **4) Refuse to accept listing application or cancellation of acceptance**

In the event that any person who received the allotment of offered stocks through third party allotment has not made the holding according to assurance provided in 2) above, TSE shall either refuse to accept or cancel the acceptance of the initial listing application of such applicant. However, this provision shall not apply if a person who received the allotment is forced to transfer any allotted or acquired stocks as the applicant has encountered significant financial difficulties or the person meets an event which is regarded as unavoidable under socially accepted norms and it is deemed appropriate that the applicant does not hold them. For specific examples of cases which are acknowledged to be unavoidable under socially accepted norms, please refer to “Other cases which are acknowledged to be unavoidable”.

(Rule 269, Paragraph 1 of the Rules)



## 5) Others

In case where a person who received an allotment of offered stocks by third party allotment, etc. transfers such offered stocks during the period specified in the assurance, the applicant shall submit to TSE documents describing relevant matters and agree that such documents shall be available for public inspection. In cases where the transfer of offered or acquired stocks by third party allotment, etc. is made before listing application date, the applicant shall submit documents on the listing application date, and in cases where such transfer is made after listing application date, the applicant shall submit them immediately after the transfer.

In cases where TSE makes an inquiry about the holding status of offered stocks of a person who received an allotment of offered stocks by third party allotment, etc., the applicant shall report the holding status of the offered stocks. The applicant shall make such a report to TSE without any delay after confirming with the person who received the allotment about the allotted stocks or holding status of stocks acquired pertaining to the allotted stocks.

An applicant shall be subject to the provisions of the preceding two paragraphs for a period specified in the assurance even after it becomes a listed company.

(Rule 269, Paragraph 2, Item 4 of the Rules)

**Q1:** Is any disposal of treasury stocks through third party allotment, etc. during the restriction period, to be subject to the assurance pertaining to the continuous holding?

**A1:** Considering that the Companies Act requires that the procedures for the disposal of treasury shares shall be subject to the procedures similar to those of issuance of new shares, the disposal of treasury shares by third party allotment, etc. during the restriction period shall be subject to the assurance pertaining to continuous holding.

Meanwhile, a similar treatment applies to the disposal of treasury subscription warrants by third party allotment, etc. which are determined to have similar effect as the allotment of subscription warrants to be offered.

**Q2:** What is the final day when an actual allotment of offered stocks is made before listing?

**A2:** TSE requires the applicant to submit to TSE the document certifying assurance pertaining to the allotment of such offered shares by the date preceding the listing approval date under the Rules in order to examine the disclosures in “Pat I” and disclosure conditions and confirm the execution of assurance document pertaining to continuous holding, so no allotment shall be allowed where the execution of assurance document is made after listing approval date.

However, concerning any third party allotment made in parallel with public offering and secondary distribution at the time of initial listing (limited to cases where conditions are identical with issue prices at the time of the public offering and secondary distribution), it would be practicable if the applicant submits documents certifying the assurance of continuous holding of stocks expected to be allotted by the day preceding listing approval date.

**Q3:** What is the treatment for shares acquired associated with the allotted shares when such allotted shares are any stock split, gratis allotment of stocks, gratis allotment of subscription warrants or conversion to another class of stocks are made with respect to any allotted stocks the required period for continuous holding?

**A3:** For any allotted shares during the continuous holding period, if share split, gratis allotment of shares, allotment of subscription warrants or conversion into other classified stocks are made, are shares acquired pertaining to the allotted shares to be subject to the assurance certifying continuous holding.

Therefore, unless the applicant makes assurance of continuous holding of shares acquired pertaining to such allotted shares, please note that the listing application would not be accepted.

The continuous holding period for shares acquired pertaining to such allotted shares relates to the continuous holding period for the initially allotted shares.

**Q4:** When can the applicant and the person who received the allotment appropriately enter into an assurance document?

**A4:** As any person who received the allotment of shares offered through third party allotment is, in principle, required to hold them from the date of the allotment of such allotted shares until the date when six months pass from listing (if one year has not passed from the payment date or the end of payment period for the allotted shares as of the date, until the date when one year passes from such date or end of period), the applicant is, in principle, required to enter into the assurance document to the effect before the payment date or the end of payment period for the allotted shares.

Consistent with the above, when the applicant effects the allotment of subscription warrants by third party allotment, the assurance document must, in principle, be entered into before the allotment date as the obligation to hold them continuously takes effect on and after the allotment date.

**Q5:** Are there any matters we should consider in electronically entering into the assurance of continuous holding?

**A5:** Although procedures will not significantly change from those made in writing, both of an expected applicant and a person who receives the allotment should sufficiently understand the meaning and nature of assurance such that relevant system where assurance should be made based on the consent of both parties shall be structured.

**Q6:** Even for the allotment of shares of classes different from the class of shares to be listed (common shares) such as classified shares, do we need to enter into the assurance with the person who received the allotment?

**A6:** In principle, all shares including classified shares shall be within the scope of this system. However, assurance will not be required to be entered into for any classified shares (including subscription warrants) issued under scheme by which

any short term profit will not be available from listing of shares as they do not have conversion rights into common shares.

In the meantime, for any classified shares not requiring assurance document to be entered into, entering into assurance document will likely be required when the scheme is changed subsequently.



## - Where it is deemed unavoidable in light of socially accepted norms -

Cases where “it is deemed unavoidable in light of socially accepted norms” as prescribed in Rule 269, Paragraph 1, Item 2 of the Rules include, but not limited to, the following (similar treatment will apply to shares, etc. acquired associated with allotted shares).

Meanwhile, Rule 271, Paragraph 1, Item 2 will apply mutatis mutandis to cases where the allotment of subscription warrants has been effected through third party allotment.

1. Holders are acknowledged to be substantively identical before and after changes in allotted shares.

[Example 1] When a 100% owned new venture capital is established and the investment business is transferred to the venture capital;

[Example 2] Business is transferred when a 100% owned subsidiary is established when a company becomes a holding company

### <Conditions>

- A person who received the allotment of offered shares continues to hold them during the restriction period
- For allotted shares transferred, a person who received the allotment has made assurance certifying continuous holding until the date when six months pass after listing (if one year has not passed from the payment date or the end of payment period for the allotted shares as of the said date, the person is required to hold the shares until the one year period passes from the payment date or the end of payment period for the allotted shares).
- Transfer price is the same as the price at the time of allotment.

### <Documents to be examined>

- Assurance documents certifying continuous holding
- Document certifying the provisions of contract for transfer price of allotted shares

2. Cases where changes in shares allotted through transfer represent only formal changes where no changes in holders would take place

[Example 1] Transfer of allotted shares associated with withdrawal of employees from the employee share ownership plan

### <Conditions>

- A person who received the allotment of offered shares continues to hold them during the restriction period
- For allotted shares transferred, a person who received the allotment has made assurance certifying continuous holding until the date when six months pass after listing (if one year has not passed from the payment date or the end of payment period for the allotted shares as of the said date, the person is required to hold the shares until the one year period passes from the payment date or the end of payment period for the allotted shares).
- The reasons for the withdrawal relate to the retirement of employees.

<Documents to be examined>

- Assurance documents certifying continuous holding

[Example 2] Offered shares are formally transferred to trust banks, etc. to contribute offered shares through third party allotment to retirement benefits trust in order to compensate for unfunded portion of the employee pension fund.

<Conditions>

- A person who received the allotment of offered shares continues to hold them during the restriction period
- For allotted shares transferred, a person who received the allotment has made assurance certifying continuous holding until the date when six months pass after listing (if one year has not passed from the payment date or the end of payment period for the allotted shares as of the said date, the person is required to hold the shares until the one year period passes from the payment date or the end of payment period for the allotted shares).
- Revenue arising from the trust will only appropriated to the payment of contributions to the employee pension fund.
- In conjunction of the rights of shareholders, such shares are considered as if Company A substantively held them in that the disposition, repayment and exercise of voting rights attached thereto would be effected under the instruction of Company A.

<Documents to be examined>

- Assurance documents certifying continuous holding

2. Some unavoidable events are acknowledged such that no assurance certifying continuous holding of the allotted shares would be made at the time of allotment of offered shares.

[Example] For offered shares allotted through third party allotment in the past, the obligation to continuously hold them would subsequently arise as the timing of expected public offering has been accelerated.

<Conditions>

- No change in the allotted shares has not taken place since the payment period or the final day of payment period pertaining to the allotted shares.
- Assurance documents certifying continuous holding has been entered into promptly after the decision to accelerate the timing of public offering.

<Documents to be examined>

- ▶ Assurance documents certifying continuous holding
- ▶ Documents with joint signatures of the applicant and the person who received the allotment certifying that no transfer of allotted shares has been made. However, when the Articles of Incorporation of the applicant provide for the restrictions on

the transfer of allotted shares or when the person who receives the allotment does hold any certificates because of dematerialization of stock certificates, a document would be accepted that the applicant could assure that no transfer of the allotted shares has been made.

#### 4. Cases of shares with restricted transfer as share-based compensation

[Example] When a person who received the allotment meets the requirements for free acquisition of shares with restriction on transfer because of retirement, etc., an applicant provides free acquisition thereof to the person:

##### <Conditions>

- ▶ A person who received the allotment meets the requirements for free acquisition;
- ▶ An applicant provided free acquisition

##### <Documents to be examined>

- ▶ Documents indicating the nature of requirements for free acquisition
- ▶ Documents showing that the person who received the allotment meets the requirements for free acquisition

## (2) Regulations on allotment and holding of offered subscription warrants

For the allotment of offered subscription warrants by third party allotment (excluding “subscription warrants as stock option described in “(3) Regulations on Allotment and Holding of Subscription Warrants as Stock Option) after the day following the date of one year ago corresponding to the end of the year immediately preceding the listing application year (including the allotment of its own subscription warrants which may have the same effect as the allotment of offered subscription warrants), the regulations similar to those on the allotment of offered stocks by third party allotment would apply thereto (hereinafter subscription warrants allotted by third party allotment referred to as “allotted subscription warrants”).

The determination of whether the applicant carried out an allotment of offered subscription warrants shall be made using the allotment date as the base date.

(Rule 270, Paragraph 1 of the Rules)

**Q1:** Are we to be able to list our stock while offered subscription warrants have been allotted?

**A1:** Listing would be possible while offered subscription warrants have been allotted.

**Q2:** If some allotted subscription warrants are converted to another class of stocks, etc. or options are exercised during the continuous holding period, is the continuous holding period to be altered with respect to stocks and subscription warrants acquired through the conversion or exercise and stocks and subscription warrants acquired through stock split-up, free allotment of stocks and free

allotment of subscription warrants pertaining to such stocks (hereinafter referred to as “acquired stocks pertaining to allotted subscription warrants”), to be modified?

**A2:** When some allotted subscription warrants are converted to another class of shares or the options are exercised during the continuous holding period, the shares, etc. acquired associated with allotted subscription warrants require the assurance to continuously hold them. The continuous holding period for the shares, etc. acquired associated with allotted subscription warrants will relate to the continuous holding period for initial allotted subscription warrants and there will be no change in the continuous holding period.

**Q3:** If some offered subscription warrants allotted during the free period (before the date preceding the date of one year ago corresponding to the end of year immediately preceding listing application day) are converted to another class of stocks or the options are exercised, do we have to enter into any assurance to certify continuous holding pertaining to stocks acquired pertaining to the allotted subscription warrants?

**A3:** Even when some offered subscription warrants allotted during the free period are converted to another class of shares or the options on or after the date preceding the date of one year ago corresponding to the end of year immediately preceding the listing application day, no assurance of continuous holding is required.

### (3) Regulations on allotment and holding of subscription warrants as stock option

Those of offered subscription warrants by third party allotment after the date of one year ago corresponding to the end of year immediately preceding the listing application year which are subscription warrants as stock option defined in 1) and meet requirements in 2) and 3) are treated as follows:

#### 1) Subscription warrants as stock option

Subscription warrants as stock option refer to subscription warrants allotted by the applicant to its officers or employees (Note 1) as part of their compensation (Note 2), which meet the requirements of (a) and (b) below:

(Note 1) “Officers and employees, etc.” refer to “officers and employees of the applicant” and “officers and employees of a subsidiary of the applicant”. For the purpose of this paragraph, officers include an executive share ownership plan, directors, accounting advisors (including the members who execute duties for the applicant when accounting advisors constitute a juridical person), company auditors, executives (including counselors and auditors, other persons in similar capacity). Those cooperating to the applicant, such as legal advisors, accountants, advisors, or university professors, and others before the employment of the applicant do not constitute any “officer or employee.” And

contract employees do not also constitute any “officer or employee” in principle.

- (Note 2) The allotment thereof for the purpose of compensation includes cases where the applicant grants the amount equivalent to the value of issuance prices of subscription warrants to officers or employees and allots subscription warrants to them in exchange for their consideration, and other cases where they are allotted in exchange for their consideration.

The determination of whether the applicant carried out an allotment of offered subscription warrants shall be made using the allotment date as the base date.

- (Note 3) For any restricted stock unit (RSU) or performance share unit (PSU), which entitles a holder to receive the delivery of shares when certain conditions are satisfied, as it has the same nature as subscription warrants as stock option in that the holder could recognize gain on the listing of stock, TSE may require assurance on continuous holding consistent with regulations concerning subscription warrants as stock option.

In cases where it is allotted to those other than officers or employees, TSE may require assurance on continuous holding consistent with regulations on subscription warrants not as stock option.

(Rule 272, Paragraph 3 of the Rules)

## 2) Items requiring relevant assurance

Items requiring assurance are as follows: Actual documents certifying the assurance (assurance document) shall be prepared with reference to the form in “A Documents to Be Submitted Pertaining to Initial Listing Application.”

### i Continuous holding

A person who has received the subscription warrants as stock option shall, in principle, continue to hold them until the date preceding the listing day from the allotment of the subscription warrants or the exercise date of subscription warrants, whichever is earlier.

### ii Report to TSE when transferring allotted subscription warrants

If a person who received the allotment of subscription warrants as stock option transfers them, the applicant is required to submit to TSE a document describing the names and addresses of the person who made the transfer as well as the person who received the transfer, the number thereof, the date of transfer, prices and reasons for the transfer and other necessary matters at the time of listing application when the transfer is effected before the listing application date and immediately after the transfer when it is effected after the listing application date.

### iii Report by applicant to TSE in response to inquiry of TSE about holding status

When TSE makes inquiries about the holding status of subscription warrant as stock option as appropriate, the applicant confirms the holding status thereof with the person who has received the allotment and makes the report thereof to TSE without any delay.

### iv Report to applicant by the person who received the allotment in response to inquiry



by TSE about holding status

When a person who has received the allotment of subscription warrants as stock option receives an inquiry on the status of ownership thereof from the applicant, as prescribed in iii above, the person will immediately report the contents thereof to the applicant.

v Other matters deemed necessary by TSE

### 3) Timing of submission of documents certifying assurance

Where the applicant carried out an allotment of subscription warrants as stock option before the initial listing application date, the applicant shall submit to TSE the following documents, and when making the allotment after listing, the applicant must submit the documents without any delay immediately after the allotment. However, the date of submission shall be no later than the day immediately preceding the day on which TSE approves the listing.

(Rule 272, Paragraph 2 of the Rules)

(a) Assurance documents continuous holding

(Rule 272, Paragraph 1, Item 2 a of the Rules)

(b) Document certifying the relevant resolution of the board of directors (including a decision made by an executive officer in case of a company with an audit and supervisory committee) that contains matters related to the allotment of subscription warrants, including the fact that the subscription warrants are allotted by the applicant and intended to be acquired by its officers or employees, etc.

(Rule 272, Paragraph 1, Item 2 b of the Rules)

(c) Document certifying that a contract is concluded between the applicant and its officers or employees, etc. who have received an allotment of subscription warrants as stock option by the applicant, in which such officers or employees, etc. assure that they will, as a general rule, not transfer such subscription warrants or that the applicant imposes restriction on transfer of such subscription warrants.

(Rule 272, Paragraph 1, Item 2 c of the Rules)

Documents mentioned in (a) and (c) shall be documents prepared by the representative of applicant to the effect that "the applicant certifies that it agreed with each person who received the allotment listed in a relevant attachment concerning the assurance certifying compliance with the requirements mentioned in Rule 272, Paragraph 1, Item 1 and Item 2 c of Enforcement Rules for Securities Listing Regulations" displayed in "A Documents to be Submitted Pertaining to Initial Listing Application" and a list describing the names of such persons who received the allotment. The submission of all copies of documents certifying assurance of continuous holding individually entered into with persons who received the allotment will also suffice.

Also TSE expects that the applicant may submit a copy of minutes of meetings of the Board of Directors as part of documents mentioned in (b).



#### **4) Refuse to accept listing application or cancellation of acceptance**

In cases where a person who received an allotment of subscription warrants as stock option does not actually hold them consistent with the assurance (excluding cases TSE deems appropriate (Note) ), TSE shall either refuse to accept or cancel the acceptance of the related initial listing application.

(Note) They refer to cases where the person who had held subscription warrants as stock option based on the assurance transferred them, the applicant expired the subscription warrants promptly applying appropriate procedures and such subscription warrants as stock option have not been exercised.

(Rule 272, Paragraph 1 of the Rules)

#### **5) Regulations on stocks, etc. acquired through exercise, etc. of subscription warrants as stock options**

In cases where an applicant carried out a delivery of stocks or subscription warrants as stock option due to exercise or conversion thereof as prescribed in the preceding rule during a period from the day of one year ago corresponding to the end of business year immediately preceding the listing application day (limited to those pertaining to the subscription warrants allotted after the day of one year ago corresponding to the end of business year immediately preceding the listing application day), the applicant shall execute a written assurance concerning said stock or subscription warrants with the person who received the delivery with respect to the matters enumerated in each of the following items:

(Rule 273 of the Rules)

##### **(a) Documents to be Submitted and Timing of Submission**

- i In cases where the applicant has allotted the shares arising from the exercise or conversion of subscription warrants as stock option or delivered subscription warrants before the listing application date:

The following documents should be submitted on the listing application day.

- Assurance documents certifying continuous holding (note)
- Document certifying the relevant resolution of the general meeting of shareholders and the board of directors concerning the allotments of subscription warrants (including decisions made by the board of directors in case of a company with an audit and supervisory committee, and decisions of executive officers in case of a company with a nomination committee, etc.) that contains matters related to the allotment of subscription warrants; and
- With respect to the allotment of subscription warrants, document certifying the provisions of contract concluded between the applicant and the person who receives the subscription warrants in accordance with the relevant resolution of the general meeting of shareholders and the board of directors above

- ii In cases where the applicant has delivered shares arising from the exercise or conversion of subscription warrants as stock option;

The applicant shall submit said documents without delay after the delivery of

stocks or subscription warrants; provided, however, that the date of submission shall be no later than the day immediately preceding the listing day.

- Assurance documents certifying continuous holding (note)

(Note) When the applicant submitted the “Assurance documents certifying continuous holding” mentioned in a. 3) above on the listing application date, and made the effect of continuous holding available for public inspection, no submission is required.

(Rule 273, Paragraph 2, Item 2 of the Rules)

(b) Refuse to accept listing application or cancellation of acceptance

In the event that the applicant fails to submit the document specified in (a) above, TSE shall either refuse to accept or cancel the acceptance of the related initial listing application.

(Rule 273, Paragraph 4 of the Rules)

In cases where a person who received a delivery of stocks or subscription warrants does not actually hold the stocks or subscription warrants according to the assurance, TSE shall either refuse to accept or cancel the acceptance of the related initial listing application.

However, this provision shall not apply if the person meets any of the following and it is deemed appropriate that the person has not held them:

- Where the entity who received said delivery transfers stocks or subscription warrants delivered as a result of exercise or conversion of the subscription warrants to which the provisions of Rule 259, Paragraph 1 apply or stocks or subscription warrants acquired through stock split, gratis allotment of shares, gratis allotment of subscription warrants, etc. pertaining to such stocks due to significant difficulty in its business operations; and
- Where it is deemed unavoidable in light of socially accepted norms.

In cases where the person who has received the allotment of subscription warrants as stock option transfers the stocks, etc. acquired pertaining to the subscription warrants as stock option during the continuous holding period, the applicant shall submit documents describing necessary matters to TSE and agree with the availability thereof for the public inspection.

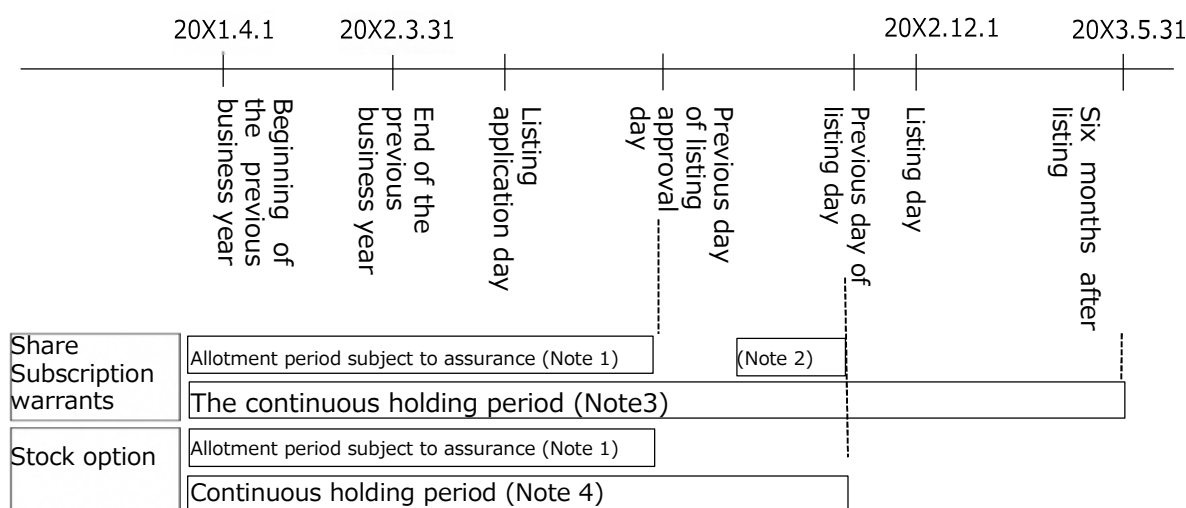
Also, when an applicant receives an inquiry about the holding status of stocks, etc. acquired pertaining to subscription warrants as stock option from TSE, the applicant confirms the holding status of stocks, etc. acquired pertaining to the subscription warrants with the person who received the allotment, as appropriate and report the holding status thereof to TSE.

(Rule 274 of the Rules)



**< Reference > Overview of regulations on capital increase by third party allotment before listing**

Sections	Allotment period subject to assurance	Continuous holding period	Documents to be Submitted
Shares	After the day of one year ago corresponding to the end of business year immediately preceding the listing application date	Six months or one year after listing day	Assurance documents certifying continuous holding
Subscription warrants			
Stock option		Until day preceding the listing day	In addition to the above, minutes of meeting of the Board of Directors concerning allotment and documents certifying transfer restraints



(Note 1) This will apply to subscription warrants as stock option which the applicant allotted after the day following the date of one year ago corresponding to the end of year immediately preceding the listing application day (including shares, etc. acquired associated with subscription warrants as stock option).

(Note 2) Concerning any third party allotment made in parallel with public offering and secondary distribution at the time of initial listing (limited to cases where conditions are identical with issue prices at the time of the public offering and secondary distribution), it would be practicable if the applicant submits documents certifying the assurance of continuous holding of stocks expected to be allotted by the day preceding listing approval date.

(Note 3) The continuous holding period relates to the period when six months pass after listing from the allotment date. By the way, if one year has not passed from the allotment date when six months pass from the listing day, the continuous holding period will be the period until one year passes from the allotment date.

(Note 4) The continuous holding period will be the period between the day preceding the listing day and the allotment date.

## (4) Descriptions of the status of allotment of offered stocks by third party allotment

### 1) Descriptions of the status of allotment of offered stocks, etc., by third party allotment.

In cases where the initial listing applicant carried out an allotment of offered stocks or subscription warrants by third party allotment, etc. (hereinafter referred to as "allotment of offered stocks, etc. by third party allotment") during a period from the date of two years ago corresponding to the end of business year immediately preceding the listing application day, the applicant shall describe the status of such allotment of offered stocks, etc. by third party allotment in "Stock information, 2 Overview of third party allotment, etc." of "Part I". Meanwhile, in describing the basis for price calculation, the applicant must consider that the descriptions would be easy for investors to understand with reference to "Appendix 7 "Descriptions of the Basis for Price Calculation" of Enforcement Rules for the Securities Listing Regulations". However, this provision shall not apply if stock certificates issued by the applicant are listed on Specified Financial Instruments Exchange Market.

(Rule 275, Paragraph 1 of the Rules)

### 2) Retention, etc. of the record of allotment status of offered stocks, etc. by third party allotment

The applicant shall retain the description of the Status of Allotment of Offered Stocks, etc. by Third-Party allotment, etc. provided pursuant to the provisions of the preceding rule for a period of five (5) years from the listing day.

The applicant shall respond to request for submission made by TSE as necessary with respect to the record.

In cases where an initial listing applicant refuses to respond to the request for submission, TSE may publicize the corporate name of such initial listing applicant and the fact that the initial listing applicant refuses to respond to such request for submission.

In addition, in cases where TSE determined, based on the examination of the record submitted, that the description of the changes in ownership of stocks, etc. provided pursuant to the provisions of the preceding rule was clearly inaccurate, TSE may publicize the corporate names of the initial listing applicant and the managing trading participant concerned and the fact that said description has been determined to be inaccurate.

(Rule 276 of the Rules)

## VI Public Offering or Secondary Distribution at the Time of Listing

### 1. Public Offering or Secondary Distribution at the Time of Listing

#### (1) Submission of Scheduled Plan for Public Offering or Secondary Distribution

In cases where an initial listing applicant makes a public offering or secondary distribution before listing, the initial listing applicant and the principal underwriting trading participant of the public offering, etc. before listing shall submit a duplicate of "Scheduled Plan of Public Offering or Secondary Offering" without any delay after the listing application.

(Note) A principal underwriting trading participant refers to a trading participant of TSE which is a financial instruments company or foreign financial instruments company entering into principal underwriting agreement for public offering, etc. before listing. If a trading participant of TSE does not enter into a principal underwriting agreement for public offering, etc., TSE deems a trading participant entering into an agreement for handling offering or secondary distribution for public offering before listing to be a principal underwriting trading participant.

(Rule 245 of the Rules)

#### (2) Procedures for Public Offering, etc. Before Listing

In cases where an applicant makes a public offering, etc. before listing, the applicant and the principal underwriting trading participant shall perform either of the procedures enumerated below:

- a. Book-building (research on the demand status of investors relating to public offering, etc. before listing, carried out in accordance with the Rules); or
- b. Public offering, etc. through competitive bidding (public offering, etc., before listing on a competitive bidding basis in accordance with the Rules).

(Rule 246 of the Rules)

### (3) Determination of Offering Price

#### a. Conducting a Book-building:

The applicant and the principal underwriting trading participant comprehensively consider the risks and demand forecast arising from the fluctuations of share prices during the period until the listing date on the basis of the status of investor demand grasped through the book-building and determine the prices of public offering, etc. before listing (hereinafter referred to as the “offering price”).

(Rule 247, Paragraph 1 of the Rules)

The following outline the practical procedures for book building.

Item	Criteria
Establishment of Guidelines (Rule 255 of the Rules)	<ul style="list-style-type: none"> <li>- For the purpose of appropriately grasping the status of investor demand pertaining to public offering (Note), etc. before listing, the principal underwriting trading participant shall establish guidelines concerning the method of book-building and conduct a book-building based on the guidelines.</li> <li>- The principal underwriting trading participant shall publicize the guidelines prescribed in the preceding paragraph in a written document in a manner deemed appropriate by TSE and notify TSE of the contents of the guidelines.</li> </ul>
Determination, etc. of the Tentatively Set Price Range for the Offering Price (Rule 256 of the Rules)	<ul style="list-style-type: none"> <li>- In conducting a book-building, the initial listing applicant and the principal underwriting trading participant shall determine the tentative conditions for the offering price (they refer to a range of prices indicated to investors in conducting relevant demands of investors) based on a comprehensive consideration of materials and opinions that are relevant to the determination of the offering price including financial condition and operating results of the initial listing applicant and opinion of entities with expertise and experience related to investment in securities.</li> <li>- In cases where the initial listing applicant and the principal underwriting trading participant determined a tentative conditions for offering price, the principal underwriting trading participant shall immediately issue the tentative conditions and the reasons, etc. for the determination of such conditions in a written document in a manner deemed appropriate by TSE and shall submit a copy of the written document to TSE.</li> </ul>

<p>Retention, etc. of the record of the survey on the status of demand (Rule 258 of the Rules)</p>	<ul style="list-style-type: none"> <li>- The principal underwriting trading participant shall retain the record of the status of demand grasped by a book-building pertaining to a public offering, etc. before listing for a period of five (5) years from the ending date of the subscription period for the public offering, etc. before listing.</li> <li>- The trading participant who is the principal underwriting trading participant among others shall retain the record of the result of aggregation of all the status of demand grasped by a book-building pertaining to a public offering, etc. before listing for a period of five (5) years from the ending date of the subscription period for the public offering, etc. before listing.</li> <li>- The principal underwriting trading participant shall respond to request for submission made by or inspection conducted by TSE as necessary with respect to the record.</li> </ul>
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(Note) The principal underwriting trading participant shall not include in the status of demand to be grasped by a book-building the demand enumerated in each of the following items and other demand that is clearly expected not to be eligible for receiving allocation in a public offering, etc. before listing:

(Rule 257 of the Rules)

## **b. Execution of Competitive Bidding**

The initial listing applicant and the principal underwriting trading participant who make a public offering, etc. through competitive bidding shall determine the offering price in comprehensive consideration of risks arising from the fluctuation of stock market prices during the period until the listing day and demand forecast, etc. based on the average winning prices in competitive bidding and other status of execution of competitive bidding.

(Rule 259 of the Rules)

## **c. Publication, etc. of offering price**

In cases where the initial listing applicant and the principal underwriting trading participant determined an offering price by book-building or competitive bidding, they shall immediately publicize the offering price and the reasons, etc. for the price determination in a written document in a manner deemed appropriate by TSE and shall submit a copy of the written document to TSE.

(Rule 247, Paragraph 2 of the Rules)



#### (4) Allocation pertaining to public offering, etc. before Listing

For the purpose of conducting allocation pertaining to a public offering, etc. before listing in a fair and just manner for many and unspecified entities, the principal underwriting trading participant shall establish guidelines for allocation method, restriction on allocation, etc. and carry out allocation based on the guidelines.

The principal underwriting trading participant shall publicize the guidelines prescribed in the preceding paragraph in a written document in a manner deemed appropriate by the Exchange and, where deemed necessary by the Exchange, notify TSE of the contents of the guidelines.

(Rule 248 of the Rules)

#### (5) Submission of notice of execution of public offering or secondary distribution, etc.

The principal underwriting trading participant shall submit a "Notice of Execution of Public Offering or Secondary Distribution" to TSE after the expiration of the subscription period for the public offering, etc. before listing (excluding holidays) within three (3) days (see Note 2 below) from the ending date of the subscription period for the public offering, etc. before listing, and notify the applicant of the result of said public offering, etc. before listing.

If there are two or more principal underwriting trading participants, the "Notice of Execution of Public Offering or Secondary Distribution" prescribed in the preceding paragraph may be submitted to the Exchange by only one trading participant representing the group of said principal underwriting trading participants.

The "Notice of Execution of Public Offering or Secondary Distribution" submitted to TSE shall be prepared based on entities to whom the calculation is substantially attributable regardless of the actual name of the account.

(Rule 250 of the Rules)

#### (6) Other

##### **a. Handling of conclusion of principal underwriting contract, etc. by a non-trading participant financial instruments firm, etc.**

In cases where a non-trading participant financial instruments firm or a foreign securities broker (foreign financial instruments companies or foreign banks operating financial instruments business) concludes a principal underwriting contract, etc. with respect to a public offering, etc. before listing, for the purpose of ensuring the fairness of the public offering, etc. before listing, the applicant shall conclude a contract, with the non-trading participant financial instruments firm or the foreign securities broker, that consists of terms deemed necessary by TSE with respect to the compliance with the intent of this chapter. In this case, with respect to the conclusion of such contract, the initial listing applicant who concluded such contract shall submit to TSE a copy of a document certifying the contract concluded between the initial listing applicant and the non-trading participant financial instruments firm or the foreign securities broker.

(Rule 251 of the Rules)

**b. Public offering, etc. before listing in cases where multiple initial listing applications are made simultaneously**

With respect to a public offering, etc. before listing made by an initial listing applicant who made multiple initial listing applications with TSE and with any other financial instruments exchange in Japan simultaneously, if a non-trading participant financial instruments firm that is a member or a trading participant of such other financial instruments exchange concludes a principal underwriting contract, etc., the initial listing applicant shall conclude a contract, with the non-trading participant financial instruments firm, that obligates the financial instruments firm to provide documents about said public offering, etc. before listing that are deemed necessary by TSE to the principal underwriting trading participant and other duties. In this case, the applicant who concluded such contract with a non-trading participant financial instruments firm shall submit to TSE a copy of a document certifying such contract.

(Rule 252 of the Rules)

**c. Designation, etc. of financial instruments exchange pertaining to public offering, etc. before listing**

Before listing an applicant who made multiple initial listing applications with TSE and with any other financial instruments exchange in Japan simultaneously and the principal underwriting trading participant shall designate one of the financial instruments exchanges in Japan with which the multiple initial listing applications were made simultaneously as the financial instruments exchange that is mainly responsible for handling administrative work related to public offering, etc. before listing and notify TSE of the designation.

(Rule 253 of the Rules)

**d. Measures against inappropriate public offering, etc. before listing**

In cases where TSE determines that a public offering, etc. before listing has not been made appropriately based on the result of the public offering, etc. before listing, TSE may cancel the acceptance of the initial listing application or take any other necessary measures.

(Rule 254 of the Rules).

## VII Handling of Corporate Reorganization Event

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When a business transferred to an applicant through a corporate reorganization by means of a merger, demerger, receipt of business, etc. constitutes a main business of the applicant or an applicant becomes a holding company through stock swap or stock transfer, etc., TSE requires the applicant to include relevant descriptions concerning the corporate reorganization as required by “a Handling of Corporate Reorganization, etc.” so that the corporate reorganization would not hinder the listing application of the applicant and TSE could perform listing examination on the basis of actual depictions of financial position and management results.

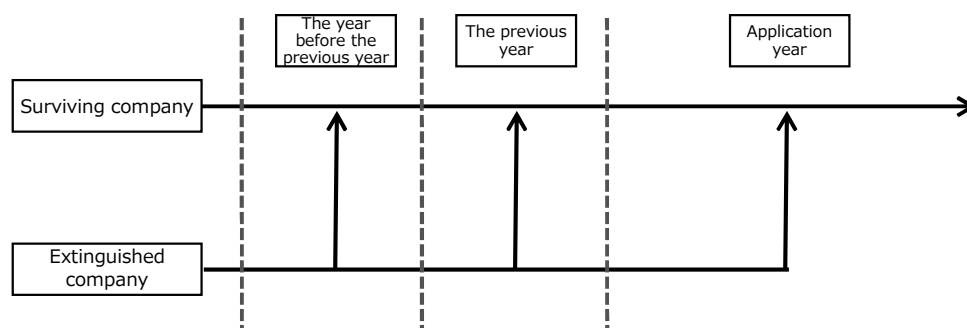
In addition, when an applicant effects a merger or demerger, or turns another company into its subsidiary or its subsidiary into non-subsidiary, or receives or transfers a business, such transaction may give rise to significant influence over the financial position or management results of the applicant. In such cases, comparison of financial positions and management results of the applicant before and after such transactions would be difficult. So TSE requires the applicant to submit the documents mentioned in “b. Documents Required to be Submitted When Significant Influence (note) Arises,” and makes them available for the public inspection.

(Note) “Significant impact” relates to cases where any of the total assets, amount of net assets, sales, operating income, ordinary income and current income before tax will be affected by 50% or more. In practice, for actual calculation method, please refer to “Exhibit1 Significant Impact” Pertaining to Merger, etc. of Initial Listing Applicant” of the “Enforcement Rules for the Securities Listing Regulations.”

The following illustrates matters to be examined in a way different from ordinary examinations due to the occurrence of a corporate reorganization event.

## a . Handling of corporate reorganization for the purpose of examination

## 1. Merger



Timing of merger (Note 1)		The year before the previous year	The previous year	Application year
Handling for the purpose of examination	"Number of consecutive years of conducting business"	The number of consecutive years of conducting business may be calculated by adding the period of activities of said business of main merging company (Rule 212, 3 (2) of the Rules)		
	"Amount of profits"	For years before the merger, the Amount of profits determined on the basis of consolidated income statement, etc. of main merging company (Note 3) will be examined. (Rule 212, 5 (6) of the Rules)		
	"Amount of sales"	For years before the merger, the amount of sales determined on the basis of consolidated income statement, etc. of main merging company (Note 3) will be examined. (Rule 226, 5 (4) of the Rules)		
	"Amount of net assets"	—		The amount of net assets determined on the basis of quarterly consolidated balance sheets or consolidated balance sheets will be examined. (Rule 212, 4 (1), and (6) of the Rules)
	"False statement or adverse opinion, etc."	For any period of the examination period which is before the merger, financial statements for each business year or each consolidated accounting year ended within the examination period of the main merging company and securities report describing or referring to such financial statements, etc. will be examined. (Rule 212, 6 (5) of the Rules)		
Documents to be Submitted, etc.	Documents to be Submitted	Financial statements, etc. of all the companies involved in the merger for each business year and consolidated accounting year ended within the examination period		
	Audit opinion, etc.	Required (limited to main merging company)		
	Availability for public inspection	Required		

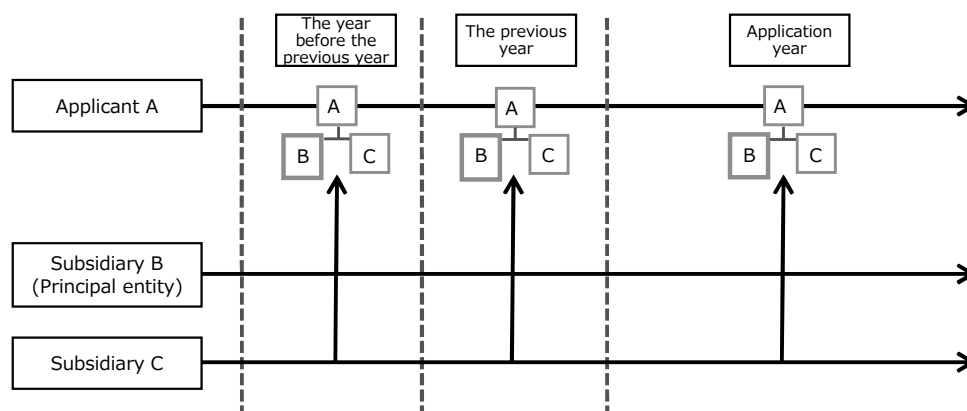
(Note 1) The merger includes the cases of merger effected by a subsidiary of the applicant and excludes the cases of merger between the applicant and its subsidiary or among subsidiaries of the applicant.

(Note 2) Main merging company is a company with the largest size of business of companies involved in a merger (when an initial listing applicant or a subsidiary of a listed company effects a merger, companies involved in the merger and initial listing applicant or listed company), regardless of surviving company or extinguished company. The size of business will be determined in consideration of the total amount of assets, amount of net

assets, sales, Amount of profits, etc. (Rule 2, 3 (3) of the Rules)

- (Note 3) For the periods during which the applicant is not required to prepare consolidated income statement, etc., the examination applies to the income statement.
- (Note 4) When a merger is effected for the recent two years or after the beginning of the application year and if the entity without substance becomes a surviving company in the merger, the descriptions included in "Securities Report for Initial Listing Application (Part I)" must also include relevant descriptions concerning all the dissolved companies in the merger.

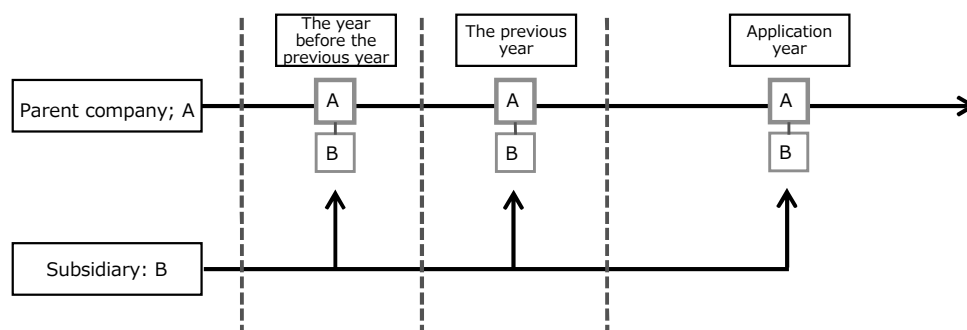
## 2 Becoming a Holding Company



Timing of becoming a holding company (Notes 1, 2 and 3)		The year before the previous year	The previous year	Application year
Handling for the purpose of examination	"Number of consecutive years of conducting business"	The number of consecutive years of conducting business may be calculated by adding the periods of major business at the controlled company (main company) of the holding company (Rule 212, 3(2) of the Rules)		
	"Amount of profits"	For the Amount of profits before business years before becoming the holding company, the examination applies to the Amount of profits determined on the basis of consolidated income statement, etc. of a subsidiary (Note 4) (in case where there are several subsidiaries, the Amount of profits determined on the basis of the income statement combining all the income statement of such subsidiaries) for respective consolidated accounting year. (Rule 212, 5 (8) of the Rules)		
	"Amount of sales"	For the period before becoming a holding company, the examination applies to the amount equivalent to sales of subsidiaries (Note 4) presented in the consolidated income statement, etc. for each consolidated accounting year(in case where there are several subsidiaries, the amount of sales shown in the income statement combining all the consolidated income statements of such several subsidiaries). (Rule 226, 5 (4) of the Rules)		
	"Amount of net assets"	The examination applies to the amount of net assets determined on the basis of consolidated balance sheet of the subsidiary (in case where there are several subsidiaries (Note 5), the amount of net assets determined on the basis of the income statement combining all the income statements of such subsidiaries) (Rule 212, 4 (7) of the Rules)(Note 5)		
	"False statement or adverse opinion, etc."	For the period before becoming the holding company, the examination applies to the financial statements of the subsidiary (Note 4) (in case where there are several subsidiaries, including the statements concerning the combined financial information of such subsidiaries) for respective business year and respective consolidated business year ended within the periods subject to the examination and the securities report in which the financial statements are described or to which they are referred (Rule 212, 6(3) of the Rules)		
Documents to be Submitted, etc.	Documents to be Submitted	<Cases where several subsidiaries exist when becoming a holding company> Income statement combining consolidated income statement, etc. and balance sheet combining consolidated balance sheets of such several subsidiaries for the period of examination period before becoming the holding company (Rule 204, 1(11) of the Rules)		
	Audit opinion, etc.	Required (Note 6)		
	Availability for public inspection	Required		

- (Note 1) For the purpose of this section, the holding company represents a Japanese company or any equivalent entity TSE deems appropriate as a holding company of the holding companies prescribed in Article 9, Paragraph 4, Item 1 of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Law No. 54 of 1947).
- (Note 2) This excludes cases where an applicant becomes a holding company as it causes another company to receive its business or transfers its business to another company.
- (Note 3) In cases where the initial listing applicant became a holding company within the last two (2) years or on or after the beginning of the business year to which the initial listing application date pertains, the descriptions of Securities Report for Initial Listing Application (Part I)" pertaining to the periods before becoming a holding company shall include all the subsidiaries which existed at the date when the applicant became a holding company. (Rule 204, 1 (4) d of the Rules)
- (Note 4) It is limited to subsidiaries which existed at the date when the applicant became a holding company.
- (Note 5) When an applicant becomes a holding company after the beginning of the quarterly accounting period to which the listing application date belongs, the examination applies to the amount equivalent to the net assets determined on the basis of the quarterly consolidated balance sheet of its subsidiary (when the applicant does not submit any quarterly report for initial listing applicant or its copy, the consolidated balance sheet included in "Securities Report for Initial Listing Application." When the subsidiary is not required to prepare consolidated financial statements, its quarterly balance sheet).
- (Note 6) This refers to audit reports based on the audit in compliance with generally accepted audit standards. However, if TSE deems it appropriate, it refers to documents describing an opinion or conclusion concerning financial figures based on the procedures in compliance with "Practical Guidelines on Review Engagements Concerning Departmental Financial Information Set Forth in Securities Listing Regulations of Tokyo Stock Exchange" established by the Japanese Institute of Certified Public Accountants or other standards deemed reasonable. (Rule 209 (2) of the Rules)

### 3 Stock swap

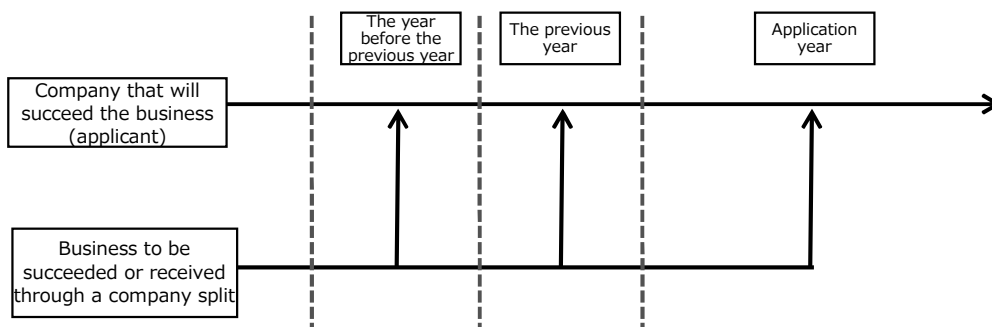


Timing of stock swap (Note 1)		The year before the previous year	The previous year	Application year
Handling for the purpose of examination	"Amount of profits"	For the Amount of profits before the stock swap, the examination applies to the Amount of profits determined on the basis of consolidated income statement, etc. (Note 3) of main stock swap company (Note 2). (Rule 212, 5 (7) of the Rules)		
	"Amount of sales"	For the Amount of profits before the stock swap, the examination applies to the Amount of profits determined on the basis of consolidated income statement, etc. (Note 3) of main stock swap company (Note 2). (Rule 226, 5 (4) of the Rules)		
	"Amount of net assets"	<div style="display: flex; align-items: center; justify-content: center;"> <div style="border: 1px solid black; padding: 5px; margin: 0 10px;">–</div> <div style="font-size: 0.8em; margin: 0 10px;">The examination applies to the amount of net assets determined on the basis of quarterly consolidated balance sheet or consolidated balance sheet of main stock swap company. (Rule 212, 4 (1) of the Rules, Rule 212, 4 (6) of the Rules)</div> </div>		
	"False statement or adverse opinion, etc."	For the period before the stock swap within the periods subject to the examination, the examination applies to the financial statements of the main stock swap company for respective business year and respective consolidated business year ended within the periods subject to the examination and the securities report in which the financial statements are described or to which they are referred. (Rule 212, 6(4) of the Rules). 5.		
Documents to be Submitted, etc.	Documents to be Submitted	Financial statements, etc. of principal companies of stock swap for each business year and each consolidated accounting year ended within the periods subject to the examination		
	Audit opinion, etc.	Required (limited to main stock swap company)		
	Availability for public inspection	Required		

- (Note 1) The stock swap event includes the cases of stock swap by a subsidiary of the applicant and excludes the cases of stock swap between the applicant and its subsidiary or among subsidiaries of the applicant.
- (Note 2) "Main stock swap company" means the company concerned with the largest business scale among companies involved in a stock swap (if a subsidiary of an initial listing applicant is a party to a stock swap, a party to the stock swap (excluding subsidiaries of the initial listing applicant) and the initial listing applicant). In this case, "business scale" shall be determined in consideration of such factors as the amounts of total assets, net assets, sales, profits, etc. (Rule 2, 3 (3)-2 of the Regulations)
- (Note 3) For the periods during which the applicant is not required to prepare consolidated income statements, etc., the examination applies to the income statement.



## 4. Company Split, Receipt of Business



- Corporate divestiture (Note) Timing of company split and receipt of business		The year before the previous year	The previous year	Application year
Handling for the purpose of examination	"Number of consecutive years of conducting business"	The number of consecutive years of conducting business may be calculated by adding the period of activities of the another company related to business that the applicant succeeds or receives. (Rule 212, 3(3) of the Rules)		
	"Amount of profits"	For the period before succeeding or receiving business, the examination applies to the amount equivalent to the Amount of profits described in the documents related to financial statements concerning business which the applicant succeeds or receives. (Rule 212, 5 (9) of the Rules)		
	"Amount of sales"	For the period before succeeding or receiving business, the examination applies to the amount equivalent to the Amount of profits described in the documents related to financial statements concerning business which the applicant succeeds or receives. (Rule 226, 5 (4) of the Rules)		
	"False statement or adverse opinion, etc."	For the period before succeeding or receiving business, the examination applies to the financial statements of the other company for the periods subject to the examination and the securities report in which the financial statements are described or to which they are referred. (Rule 212, 6(4) of the Rules).		
	(Note 1)	"Distribution of ownership of shares"	—	The examination applies to the distribution of ownership of the applicant shares as of the listing date. (Rule 212, 1 (9) of the Rules)
		"Number of consecutive years of conducting business"	—	The examination applies to activities related to major businesses at the time of split and the periods of activities at the listing company may be added. (Rule 212, 3 (1) of the Rules, Rule 212, 3 (3) of the Rules)
		4) Amount of net assets	—	The examination applies to the amount equivalent to "amount of net assets" described in the documents related to financial statements concerning business the applicant succeeds from the listed company. (Rule 212, 4 (8) of the Rules)
Documents to be Submitted, etc.	Documents to be Submitted		<The recent two year period includes any period before succeeding or receiving business> Documents relating to financial statements concerning a business the applicant succeeds or a department the applicant receives from another company (Note 2)(Rule 212, 1 (12) and (14) of the Rules)	
			<The recent two year period includes any period before succeeding or receiving business> Financial statements, etc. of the another company for any period before succeeding or receiving business (Rule 212, 1 (13) and (15) of the Rules)	
			—	Copy of documents concerning company split as prescribed in

		Article 794, Paragraph 1 or Article 803, Paragraph 1 of Companies Act (Rule 204, 1 (22) of the Rules)
	Audit opinion, etc.	Required (Notes 3, 4)
	Availability for public inspection	Required

(Note 1) In cases where the applicant is a company expected to succeed the business of a listed company upon its shareholder-directed spin-off, and the listing application is filed before such spin-off.

\* “Amount of profits”, “Amount of Sales” and “False statement or adverse opinion, etc.” will be consistent with the above.

(Note 2) This refers to so-called departmental financial information.

(Note 3) This refers to audit reports based on the audit in compliance with generally accepted audit standards. However, if TSE deems it appropriate, it refers to documents describing an opinion or conclusion concerning financial figures based on the procedures in compliance with “Practical Guidelines on Review Engagements Concerning Departmental Financial Information Set Forth in Securities Listing Regulations of Tokyo Stock Exchange” established by the Japanese Institute of Certified Public Accountants or other standards deemed reasonable. (Rule 209, (3) and (5) of the Rules)

(Note 4) This refers to an audit report audited consistent with the provisions of Article 193-2 of Financial Instruments and Exchange Act.

## b. Documents required to be submitted when a significant effect is given

Timing of corporate reorganization		The previous year	Application year
Documents to be Submitted, etc.	Merger (Note 1)	Financial statements, etc. of the merging company for the consolidated business year immediately preceding the merger (Rule 204 1 (4) c(a) of the Rules)	
		"Outline documents of merged companies, etc. for initial listing application" in the form required by TSE which describe the overview of business of merging companies, status of business and status of equipment, etc. (Rule 204, 1(17)a of the Rules)	
	Turning another company into a subsidiary or turning a subsidiary into a non-subsidary	Financial statements, etc. of the subsidiary for the period immediately preceding the year in which another company was turned into a subsidiary or a subsidiary was turned into a non-subsidary (Rule 204, 1 (4) c (b) of the Rules)	
		"Outline documents concerning changes in subsidiaries for initial listing application" designated by TSE which describe the overview of the changes in the status of subsidiaries as another company is turned into a subsidiary or a subsidiary is turned into a non-subsidary and the reasons thereof (Rule 204, 1(17)c of the Rules)	
	Company split, receipt or transfer of business (Notes 2, 3)	Documents related to financial statements concerning business to be succeeded by company split (limited to those related to the year immediately preceding the company split)(Rule 204, 1(17)b (a) of the Rules)	
		"Outline documents concerning company split for initial listing application" designated by TSE which describe the overview of business to be succeeded by company split (Rule 204, 1 (17) b (b) of the Rules)	
		Documents related to financial statements in relation to departments or divisions to be received or transferred (Rule 204, 1 (17) d (a) of the Rules)	
		"Outline documents concerning the receipt (or transfer) of business for initial listing application" designated by TSE which describe the overview of business to be received or transferred, reasons for receipt or transfer and consideration for the receipt or transfer, etc. (Rule 204, 1 (17) d (b) of the Rules)	
	Audit opinion, etc.	Required	
	Availability for public inspection	Required	

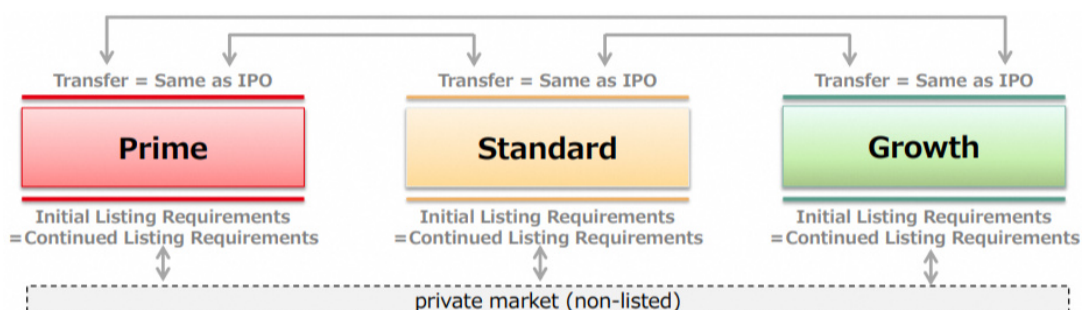
- (Note 1) This includes the cases where a subsidiary of the applicant carries out merger and excludes the cases of merger between the applicant and its subsidiary or among subsidiaries of the applicant.
- (Note 2) This includes the cases where a subsidiary of the applicant carries out company split and excludes the cases of company split between the applicant and its subsidiary or among subsidiaries of the applicant.
- (Note 3) This includes the cases where a subsidiary of the applicant receives or transfers a business and excludes the cases of receipt or transfer of business between the applicant and its subsidiary or among subsidiaries of the applicant.
- (Note 4) In any case, when TSE deems necessary, these provisions will apply to any dissolved company through a merger with the initial listing applicant as if the dissolved company was an initial listing applicant.

# VIII Alteration of Markets

## 1. Flow of Alteration of Markets

### (1) Alteration of markets

TSE allows a listed company to alter its listed market among Standard Market, Prime Market and Growth Market as shown in the following chart.



This section illustrates the overview of the contents of examination when a company listed on Standard Market or Growth Market intends to apply for the alteration of listing market to Prime Market.

### (2) Timing of the alteration of markets and procedures relating thereto

#### 1) Timing of the alteration of markets

When an applicant effects public offering or secondary distribution, etc. (including limited distribution), the date of alteration of market will be after two to four weeks after the approval date of market alteration, and when no public offering or secondary distribution, etc. is made, it will be the date of one week after from the approval date of market alteration (if the day is a holiday, it will be deferred to the following business day. Also, there are two or more holidays between the approval date of market alteration and the alteration date of markets, the listing day will be deferred so that the alteration date will be the fifth day from the approval date of market alteration).

#### 2) Procedures relating to the alteration of markets

Consistent with normal application in the case of initial listing examination, application for the alteration of market shall be made by submitting documents necessary for the application for the alteration to TSE after the completion of general regular meeting of shareholders for the year immediately preceding the application (for the application

date and time for market alteration shall be decided in consultation with the lead underwriter beforehand). Consistent with initial listing application, preliminary application for market alteration would be possible.

Consistent with initial listing examination, the lead underwriter shall suggest an expected alteration schedule (expected application date for market alteration, requested approval date of market alteration, and expected date of market alteration) and TSE will propose an examination schedule including interview, etc. in consideration of suggested schedule.

Meanwhile, if a period less than three years has passed from the listing and no substantive changes have taken place with respect to organizational structure and lines of business of an applicant, such examination period may be shortened to two months.

(Note 1) The standard duration of an examination period is three months. However, in consideration of a period from the most recent listing, any change in organizational structure and substance of businesses, size of the applicant group, seasonal peaks, and normal business operations, a period for preparation of documents to respond to relevant issues may be set in a way different from normal cases and the frequency of interviews may be adjusted. In addition, as a result of adjustment, overall examination period may be changed (notwithstanding standard examination period, the applicant is encouraged to develop sufficiently flexible examination schedule to address cases where overseas field inspection, if any, may be required, or there are too many holidays).

Standard examination period is based on the assumption that no particular cases would be identified during the examination process. However, if any issues are identified or if new facts yet to be detected are revealed on the applicant, for example, through the provision of information from external parties such as in media reports, the duration of the examination may be extended. If a change in the schedule results in the establishment of market alteration date beyond the date of final accounts pertaining to the year of application for market alteration, the procedures for re-application will be triggered.

(Note 2) In cases where there are diversified issues for examination purpose, items to be confirmed for examination purpose are expected to be diversified. Therefore TSE would request such applicants to take three months or more as an examination period.

(Note 3) If the applicant identifies any issues requiring relevant adjustments concerning schedule including cases in (Note 1) and (Note 2) above or encounters any uncertain cases, please consult the lead underwriter and then contact TSE via the lead underwriter in advance.

## 2. Criteria for Alteration of Markets

Formal requirements and substantive criteria pertaining to market alteration to Prime Market are as follows:

### List of formal requirements for market alteration

Item	Criteria
1) The number of shareholders (At the expected time of alteration of markets)	800 shareholders or more
2) Tradable shares (At the expected time of alteration of markets)	a. Over 20,000 units or more of tradable shares b. Market capitalization of tradable shares: 10,000 million yen c. Percentage of tradable shares of the listed stocks: 35% or more
3) Market capitalization (At the expected time of alteration of markets)	Less than or equal to ¥25,000 million
4) Amount of net assets (At the expected time of alteration of markets)	The amount of consolidated net assets is ¥5,000 million or more. Consolidated net assets must be positive.
5) Amount of profits (For the amount of profits, consolidated ordinary income)	a. The amount of profits for the last two years shall be at least ¥ 2,500 million b. The amount of sales for the last one year shall be at least ¥10,000 million. The market capitalization on the listing day is expected to reach at least 100,000 million yen.
6) Number of consecutive years of conducting business	The applicant has continuously conducted the business activities, setting up a board of directors for at least three years before the initial listing application day.
7) False statement or adverse opinion, etc.	a. Securities report, etc. for business year ended within recent two years contains no "false statement". b. Audit opinion on financial statements, etc. for business year ended in the last two years (excluding the last year) contains an "unqualified opinion" or a "qualified opinion with exceptive items". c. Audit opinion on financial statements for the last year shall, in principle, contains "unqualified opinion". d. The audit report is the one which does not meet (a) and (b) below: (a) The internal control report pertaining to the business

	<p>year ended within the last year contains the fact that "assessment results cannot be provided"; and</p> <p>(b) The internal audit pertaining to the business year ending in the last year contains "disclaimer of opinion".</p>
8) Establishment of a Shareholder Services Agent	The applicant is required to outsource services related to shareholders to a shareholder service agent or to receive preliminary consent to the acceptance of services provided to shareholders from a shareholder service agent approved by the Exchange.
9) Share Unit	The number of shares comprising one Share Unit is expected to be 100 shares.
10) Classes of stocks, etc.	<p>Japanese stocks pertaining to the application for market alteration shall meet any of those mentioned in the following a. through c.</p> <p>a. In the case of a company issuing one class of stock with voting rights, said stock with voting rights;</p> <p>b. In the case of a company issuing multiple classes of stocks with voting rights, a class of stock with voting rights whose value of rights, etc. to receive economic benefits is higher than any other classes of stock;</p> <p>c. Stock with no voting rights</p>
11) Restrictions on transfer of shares	Transfer of shares is not restricted or it is expected that there will be no restriction by the time of listing;
12) Handling by the Designated Book-Entry Transfer Institution	Stocks shall be subject to the book-entry transfer operation of the designated book-entry transfer institution, or is likely to be so.
13) Expected merger, etc.	<p>An expected merger is the one which does not meet (a) and (b) below:</p> <p>a. An applicant plans to effect merger, corporate divestiture, turning a company into subsidiary or vice versa or receive or transfer business after initial listing application day and within two years from the end of business year immediately preceding the day and the applicant ceases to be in-substance surviving company.</p> <p>b. When an applicant plans to effect merger making the applicant dissolved company, share exchange turning the applicant into a wholly owned subsidiary or transfer of shares within two years from the end of business year immediately preceding initial listing application date (excluding cases where such transaction is expected to be made before listing day)</p>

**List of Substantive Criteria for Market Alteration**

Item	Criteria
1) Corporate continuity and profitability	A business is operated continuously and a stable revenue base is present;
2) Soundness of company management	A business is carried out fairly and faithfully;
3) Effectiveness of corporate governance and internal management system of an Enterprise	Corporate governance and internal management system are properly prepared and functioning;
4) Appropriateness of the disclosure of corporate information	The applicant is in a status where disclosure of the corporate information, etc. may be carried out in an appropriate manner.
5) Other matters deemed necessary by the Exchange from the viewpoint of the public interest or the protection of investors.	—



### 3. Contents of Examination for Market Alteration

JPXR will examine formal requirements in altering listed market to Growth Market by assessing whether an applicant meets each item described in “2 Criteria for Alteration of Markets”. For addressing formal requirements, please refer to “II Formal Requirements”.

For the examination of items of substantive examination (hereinafter referred to as “Examination for Market Alteration”), JPXR will examine whether the applicant meets the criteria based on descriptions included in disclosure draft of “Securities Report for Market Alteration (Part I)”, “Various Explanatory Data Concerning the Applicant” as main items for the examination and also through relevant interviews with the applicant.

For the contents of examination of market alteration, JPXR will make examination similar to that for initial listing according to “III Listing Examination”.

Meanwhile, for alteration to Prime Market from Growth Market or Standard Market, JPXR will make relevant examination with focus on continuity of business and profitability and disclosure status of company information, etc. after listing when there has been no significant changes in businesses, corporate governance and internal management system since initial listing (Guidelines VII (2)).

Also, when a listed company which has been required to apply measures to ensure effectiveness for the last five years applies for market alteration, in examining adequacy of disclosures of effectiveness of internal management system and company information, JPXR will assess whether improvement plans, etc. developed at the time of application of effectiveness measures have been fulfilled appropriately (Guidelines VII (4)).

## IX Measures to Ensure Effectiveness of Initial Listing Examination

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### 1. Handling when application forms for initial listing contained false statement

If it is revealed that documents submitted for initial listing application and listing examination have included any false statement and as such the listed company should not have met listing criteria, TSE will delist the company unless the company meet the examination requirements for listing eligibility consistent with those for initial listing (Rule 601, Paragraph 1, Item 10 of the Regulations)

Specifically, though the company is not to meet criteria for delisting immediately, if a significant deficiency in internal management system, etc. is detected or the company has not satisfied criteria for formal requirements, etc. concerning operating results, etc., JPXR will make necessary examination.

The same shall apply to market alteration. If it is revealed that documents submitted for application for market alteration and examination of application for market alteration have included any false statement and as such the company should not have met criteria concerning market alteration, the company shall be delisted unless the company meets the requirements for listing eligibility consistent with initial listing examination within one year (Rule 601, Paragraph 1, Item 10 of the Regulations).

# X Listing Fees

Consumption taxes and local consumption taxes will be levied on various dues and fees mentioned in this chapter.

## 1. Listing Examination Fees

Listing examination fees will be charged to an applicant at the time of listing application.

Fees	Amount	Payment date
Listing examination fees:	¥ 4 million	By the end of the month following the month to which the listing application date belongs

(Note 1) When an applicant has filed a listing application or preliminary application and will make the listing application within three years from the beginning of the business year to which the most recent listing application belongs (in case of a preliminary application, the expected date of listing application described in the preliminary securities listing application form), listing fees will be halved.

(Note 2) When a preliminary examination is made, preliminary listing charges will be the same amount as the listing fees. When a preliminary listing application is filed and if the listing application is filed in the business year to which the expected date of listing application described in the preliminary securities listing application belongs, the applicant needs to pay no listing examination fees.

Traveling expenses incurred for a field trip when conducting on-site investigations and interviews implemented at a locations far away from Japan, such as in Europe and the US, etc. or other expenses deemed necessary for the purpose of listing examination, JPXR will charge amounts equivalent to the expenses actually incurred.

## 2. Initial Listing Fees

An applicant is required to pay initial listing fees and fees of public offering or secondary distribution at the time of initial listing.

Fees	Amount	Payment date
Initial listing fees	¥ 15 million	By the end of the month following the month to which the listing application date belongs
Fees for public offering or secondary distribution	(1) Fees for public offering of stocks pertaining to listing application Number of offered stocks x public offering price x 9/10,000	By the end of the month following the month to which the listing date belongs
	(2) Fees for secondary distributions of stock certificated, etc. for which the listing application is filed (Note 2) Number of secondary distribution of shares (Note 3) x secondary distribution prices x 1/10,000	

(Note 1) Fees pertaining to public offering or secondary distribution relate to public offering or secondary distributions of stock certificates pertaining to initial listing application made by listing day after listing approval date.

(Note 2) They are limited to cases which meet Rule 2, Paragraph 4, Item 1 of the Act.

(Note 3) The number of secondary distribution of stock certificates includes the number of shares of secondary distribution by over-allotment. In addition, in cases where increase in common shares by third party allotment pertaining to green shoe option is made after listing, "Fees pertaining to listing of new shares" (mentioned below) commensurate with the number of allotted shares with respect to increase in common shares by third party allotment will be required.

(Note 4) Amount less than ¥100 arising in the calculation process of fees will be disregarded.

### [Illustrative examples of calculation of fees required for initial listing]

(Pre-conditions)

- Public offering: 100,000 shares
- Secondary distribution (purchase underwritten by the underwriter): 50,000 shares
- Secondary distribution (overallotment): 20,000 shares
- Prices for public offering or secondary distribution: ¥ 2,560

(Calculation)

Initial listing fees: ¥15 million

+ fees for public offering or secondary distribution

(Public offering)

$$100,000 \text{ shares} \times ¥2,560 \times 9 / 10,000 = ¥230,400$$

(Secondary distribution)

$$(50,000 \text{ shares} + 20,000 \text{ shares} = 70,000 \text{ shares})$$

$$\times ¥2,560 \times 1/10,000 = ¥17,900$$

(fraction of less than ¥100 is disregarded)

$$\text{Total} = ¥15,248,300$$

### 3. Fees to be Paid by Listed Companies

Prime Market listed companies will be charged annual fees for maintaining listing, fees for issuance of new shares, fees for listing of new shares and fees associated with merger, etc. as mentioned below.

#### (1) Annual Fees for Maintaining Listing

After listing, a Mothers company will be required to pay the amount mentioned in the table below, with the addition of ¥120,000 for the use of TDnet.

Market capitalization	Amount	Payment date
Less than or equal to ¥5,000 million	¥960,000	By the end of March and the end of September (a half of amount mentioned left added by fees for the use fees of TDnet, respectively)
More than ¥5,000 million Less than or equal to ¥25,000 million	¥1,680,000	
More than ¥25,000 million Less than or equal to ¥50,000 million	¥2,400,000	
More than ¥50,000 million Less than or equal to ¥250,000 million	¥3,120,000	
More than ¥250,000 million Less than or equal to ¥500,000 million	¥3,840,000	
More than ¥500,000 million	¥4,560,000	

(Note 1) The market capitalization of listed stock is calculated by applying the closing price on the final day of the trading session in December each year (if no trading is effected on the trading session of the day, the closing price at the trading session at the most recent date when the trading was effected) and the number of listed shares at the end of December each year.

(Note 2) Annual fees for maintaining listing at the time of initial listing year will differ depending on the month in which the listing is made. (Refer to the table below)

Annual fees for maintaining listing to be paid by the end of March	
Month in which an initial listing is made	Annual fees for maintaining listing
August of the previous year	One twelfth of annual fees for maintaining listing on the basis of market capitalization of listed stock as of listing date with addition of a half of annual fees for maintaining listing
September of the previous year	A half of annual fees for maintaining listing
October of the previous year	Five twelfths of annual fees for maintaining listing
November of the previous year	Four twelfths of annual fees for maintaining listing
December of the previous year	Three twelfths of annual fees for maintaining listing
January	Two twelfths of annual fees for maintaining listing on the basis of market capitalization of listed stock as of listing date
February	No payment of annual fees for maintaining listing is required

Annual fees for maintaining listing to be paid by the end of September	
Month in which an initial listing is made	Annual fees for maintaining listing
February	Seven twelfths of annual fees for maintaining listing on the basis of market capitalization of listed stock as of listing date
March	A half of annual fees for maintaining listing on the basis of market capitalization of listing as of listing date
April	Five twelfths of annual fees for maintaining listing on the basis of market capitalization of listed stock as of listing date
May	Four twelfths of annual fees for maintaining listing on the basis of market capitalization of listing as of listing date
June	Three twelfths of annual fees for maintaining listing on the basis of market capitalization of listed stock as of listing date
July	Two twelfths of annual fees for maintaining listing on the basis of market capitalization of listed stock as of listing date
August	No payment of annual fees for maintaining listing is required

## (2) Fees for listing new shares

If a listing company issues new shares, etc., the amounts mentioned below will be charged.

Fees	Amount	Payment date
Stocks, etc. (Note 1) are issued or disposed of (Note 2)	Paid amount per share x the number of shares of stock to be issued or disposed x 1/10,000	By the end of the month following the month in which new shares were issued
Subscription warrants are issued where shares underlying subscription warrants are listed stock certificates (Note 3)	(Issuance price of subscription warrants x total number of subscription warrants + amounts paid at the exercise of subscription warrants (Note 4) x number of shares underlying subscription warrants) x 1/10,000	
Stock certificates, etc. are for secondary distribution (Note 5)	Number of stocks for which secondary offering is made x sales prices x 1/10,000	

(Note 1) Includes stock certificates for which conversion to listed certificates, etc. are made (this means the delivery of new listed stocks, etc. in exchange for the acquisition of stocks issued by the company).

(Note 2) Limited to those stock certificates acquired through public offering as prescribed in Article 199, Paragraph 1 of the Companies Act (in case of foreign companies, securities equivalent to them). This excludes issuance or disposal of stocks by third party allotment arising from the exercise of rights to acquire offered shares from the issuer or holder of the offered shares, which are granted to the principal underwriting financial instruments firm which implements an over-allotment in relation to the initial listing in entering into a principal underwriting contract for offering, etc. of securities.

(Note 3) They are limited to stock certificates, etc. prescribed in Article 238, Paragraph 1 of the Companies Act and free allotment of shares options prescribed in Article 277 of the same act (in case of foreign companies, securities equivalent to them).

(Note 4) "Payment amount associated with the exercise of subscription warrants" represents the value of properties contributed in exercising of subscription warrants (the same shall apply hereinafter).

(Note 5) They are limited to the sales which meet Rule 2, Paragraph 4, Item 1 of the Act.



### (3) Fees for Listing of Shares of New Stock

Fees mentioned below will be required for listing of shares, etc. newly issued by a listed company.

Fees	Amount	Payment date
Fees for listing new shares	Issuance price per share (Note 1) x the number of newly issued shares (Note 2) x 8/10,0000	By the end of the month following the month to which the listing date of new shares belongs (Note 3)

(Note 1) When listing is effected for shares newly issued through the conversion of shares where shares can be converted to another class of shares (this means the company delivers new listed stocks, etc. in exchange for the company acquiring stocks that the company has issued; the same shall apply hereinafter), the calculation is made with reference to issuance price per share as the “issuance price per share” in the table.

In listing new shares issued through the exercise of subscription warrants, the calculation is made by regarding the amount equivalent to the price per share determined using the formula below as the issuance price per share.

[Issuance price of each subscription warrant x total number of subscription warrants + payment amount related to the exercise of subscription warrants x the number of shares arising from subscription warrants exercised]

In addition, in listing shares issued at the time of acquisition by a company of subscription warrants with special conditions, the calculation is made by regarding the amount equivalent to the price per share calculated as follows as the issuance price per share.

[Issuance price of each subscription warrant x total number of subscription warrants (if subscription warrants represent those granted to corporate bonds with subscription warrants, the total of the amount for subscription warrants and the amount of corporate bonds pertaining to subscription warrants acquired)]

(Note 2) New shares to be listed by virtue of Rule 303 of the Regulations shall be excluded.

(Note 3) In listing new shares issued through the conversion of shares to another class of shares, the payment dates are separately determined where new shares issued through the exercise of subscription warrants are listed or new shares issued concurrently at the time of acquisition of subscription warrants with special conditions are listed.

#### (4) Fees for Merger, etc.

If a listed company effects a merger and acquisition (merger, demerger, stock swap or stock delivery), the fees mentioned below shall be paid.

Fees	Amount	Payment date
Fees for merger, etc.	(Number of shares of stock issued at the time of merger + number of shares of treasury stock to be delivered) x closing price of the shares (Note 1) at the trading session where the merger takes effect (Note 2) x 2/10,000	By the end of the month following the month in which merger, etc. takes effect

(Note 1) It refers to the date when merger, divestiture or share exchange takes effect (the same shall apply hereinafter).

(Note 2) If no trading is effected on the trading session of the day when the merger, etc. takes effect, this refers to the closing price at the trading session first effected after the day when the merger, etc. takes effect.

(Note 3) The maximum fees for the merger, etc. will be ¥10 million.

## 4. Fees for Alteration of Markets

### (1) Alteration of markets from Standard Market to Prime Market

Fees	Amount	Payment date
Examination fees for market alteration	¥4,000,000	By the end of the month following the month to which the listing application date belongs
Fees for alteration of markets	Fees for initial listing on Prime Market (¥15 million) - (fees for listing paid at listing on Standard Market (¥8 million) + (if markets were altered in the past, fees for market alteration paid at the time of market alteration)	By the end of the month following the month to which the market alteration date belongs

(Note 1) When the applicant files a preliminary application, preliminary examination fees at the same amount as the listing fees for market alteration will be charged to the applicant. When a preliminary listing application is filed and if the listing application for market alteration is filed in the business year to which the expected date of market alteration application described in the preliminary securities listing application belongs, the applicant does not need to pay market alteration examination fees again.

(Note 2) For a company listed before April 3, 2022, notwithstanding the above, the amount calculated in the following manner will be fees for market alteration depending on market sections.

Listed market on or before April 3, 2022	Fees for alteration of markets
First section	—
Second Section	Fees for initial listing on Standard Market (¥15 million) - (¥12 million (if markets were altered in the past, ¥12 million added by fees for market alteration paid at the time of market alteration)
JASDAQ	Fees for initial listing on Standard Market (¥15 million) - (¥6 million (when the market was altered in the past, the amount equivalent to ¥6 million added by the fees for alteration of markets paid on or after April 4, 2022)

Mothers	Fees for initial listing on Standard Market (¥8 million) - (¥1 million (if markets were altered in the past, ¥1 million added by fees for market alteration paid at the time of market alteration))
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## (2) Alteration of markets from Growth Market to Prime Market

Fees	Amount	Payment date
Examination fees for market alteration	¥4 million	By the end of the month following the month to which the listing application date belongs
Fees for alteration of markets	Fees for initial listing on Standard Market (¥15 million) - (fees for listing paid at listing on Growth Market (¥1 million) + (if markets were altered in the past, fees for market alteration paid at the time of market alteration))	By the end of the month following the month to which the market alteration date belongs

(Note 1) When the applicant files a preliminary application, preliminary examination fees at the same amount as the listing fees for market alteration will be charged to the applicant. When a preliminary listing application is filed and if the listing application for market alteration is filed in the business year to which the expected date of market alteration application described in the preliminary securities listing application belongs, the applicant does not need to pay market alteration examination fees again.

(Note 2) For a company listed before April 3, 2022, notwithstanding the above, the amount calculated in the following manner will be fees for market alteration depending on market sections.

Listed market on or before April 3, 2022	Fees for alteration of markets
First section	—
Second Section	Fees for initial listing on Standard Market (¥15 million) - (¥12 million (if markets were altered in the past, ¥12 million added by fees for market alteration paid at the time of market alteration))

JASDAQ	Fees for initial listing on Standard Market (¥15 million) - (¥6 million (when the market was altered in the past, the amount equivalent to ¥6 million added by the fees for alteration of markets paid on or after April 4, 2022))
Mothers	Fees for initial listing on Standard Market (¥15 million) - (¥1 million (if markets were altered in the past, ¥1 million added by fees for market alteration paid at the time of market alteration))

## XI IPO Center (Support Given to Prospective Issuers)

### 1. Assistance Activities through Visits to Individual Companies and Consultation

TSE staff will directly visit any company considering to list its stock and present the overall picture of and procedures for listing.

The TSE New Listing will provide consultation at every stage of preparation for listing, ranging from the evaluation of listing to actual preparation for listing. Please feel free to contact us in any case where you do not understand what you should start with in considering listing or you wish to directly hear from TSE on listing though you have started some preparatory works.

### 2. Seminars for Prospective Issuers

TSE holds various seminars for companies which consider listing or are preparing themselves for listing at any location in Japan. These seminars will outline the listing system and preparation for listing and views and opinions of companies which succeeded in listing will be informed.

### 3. Mail Magazine

“IPO Center Mail Magazine” will provide information on seminars and other events given by TSE, as well as Q&A on listing examination and explanation of the system on a weekly basis.

Please feel free to send any message to the address below as TSE responds to any questions concerning initial listing, including listing system such as listing examination and actual preparation for listing.

IPO Center  
New Listing, Tokyo Stock Exchange, Inc.  
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