Guide to Initial Listing for Foreign Companies

Chapter 1 INTRODUCTION

✧ Purpose of Publishing this Guide

Recently, interest from companies mainly in the Asia region in listing on Tokyo Stock Exchange, Inc. (TSE) has been growing.

The criteria for initial listing on TSE and the documents required for submission upon applying are, in principle, the same regardless of the applicant company's country of origin, but there are some differences between the application processes for domestic and foreign companies.

This guide is a supplemental document that provides an overview of the criteria for foreign companies to be newly listed on TSE and other points to note, and highlights the differences in the application processes between foreign and domestic companies.

✧ TSE's Market Structure

TSE provides three main market segments: the Prime Market, Standard Market, and Growth Market.

Foreign companies will, in the same way as domestic companies, be required to choose one of these three markets for their listing.

The Prime Market
The Prime Market is a market for companies which have appropriate levels of market capitalization (liquidity) to be investment instruments for many institutional investors, keep a higher quality of corporate governance, and commit to sustainable growth and improvement of medium- to long-term corporate value, putting constructive dialogue with investors at the center.

The Standard Market
The Standard Market is a market for companies which have appropriate levels of market capitalization (liquidity) to be investment instruments in the open market, keep the basic level of corporate governance expected of listed companies, and commit to sustainable growth and improvement of medium- to long-term corporate value.

The Growth Market
The Growth Market is a market for companies which have a certain level of market value by disclosing business plans for realizing high growth potential and their progress towards these appropriately and in a timely manner, but at the same time pose a relatively high investment risk from the perspective of business track record. The applicant company is required to have "high growth potential," and whether or not each company has this is evaluated and concluded by a lead underwriter based on the company's business model and the business environment in which it operates.

Furthermore, after the initial listing, companies may transfer to another market segment in line with their growth stage and the concept of each segment.

✧ Significance of Listing on TSE for Foreign Companies

The listing of a foreign company's shares on TSE generally offers the following merits.

Increased credibility and higher name recognition in Japan
By becoming a TSE-listed company, foreign companies will be able to gain name recognition and obtain higher credibility among Japanese business partners and financial institutions as a company

seen to have business potential. At the same time, listing on TSE will contribute to the discovery of business expansion opportunities such as M&As. In addition, through increased exposure to the Japanese media, with newspaper coverage such as in the stock market pages, the company will be recognized more widely in Japan, making it easier to attract more talented people.

Furthermore, becoming a publicly traded company generally has the following merits.

Stronger internal management systems and higher employee morale

Enabling a timely and appropriate grasp of the company's situation, including budgeting and personnel and labor management, will facilitate management decision-making. In addition, you can expect better compliance awareness across the company. Becoming a public company can also be expected to increase the motivation of board members and employees.

Facilitation and diversification of financing

Listed companies can improve and enhance their financial positions by increasing their fund-raising capability, as being listed paves the way for direct financing in the primary market, enabled by high liquidity in the secondary market, such as capital increases at market price through a public offering as well as the issuance of stock warrants and bonds with stock acquisition rights.

✧ How Initial Listings Work

Shares will be listed based on an application filed by the company issuing the shares. Listed shares become an investment choice for an unspecified number of investors, so from the viewpoint of investor protection, TSE* conducts a listing examination to determine whether the company is adequately qualified to be a listed company. TSE has established various rules and regulations regarding initial listing, and conducts listing examinations based on these.

The rules and regulations concerning initial listing consist of the "Securities Listing Regulations," the "Enforcement Rules for Securities Listing Regulations," and the "Guidelines Concerning Listing Examinations, etc."

The listing examination criteria established by these regulations are made up of initial requirements, which are quantitative criteria such as number of shareholders and profits, and the contents of the examination, which are qualitative criteria to check the disclosure system and the status of corporate governance. Please see "Initial Requirements" and "Contents of Examination" below for details.

If, as a result of the listing examination, it is confirmed that the applicant company is qualified to list, TSE will approve the listing of said company and make a public announcement. The company will then go through the public offering and secondary distribution processes to be listed on the stock exchange.

*The actual examination will be conducted by Japan Exchange Regulation, which is entrusted by TSE.

✧ Basic Policy on the Application of the Listing Rules, etc. for Foreign Companies

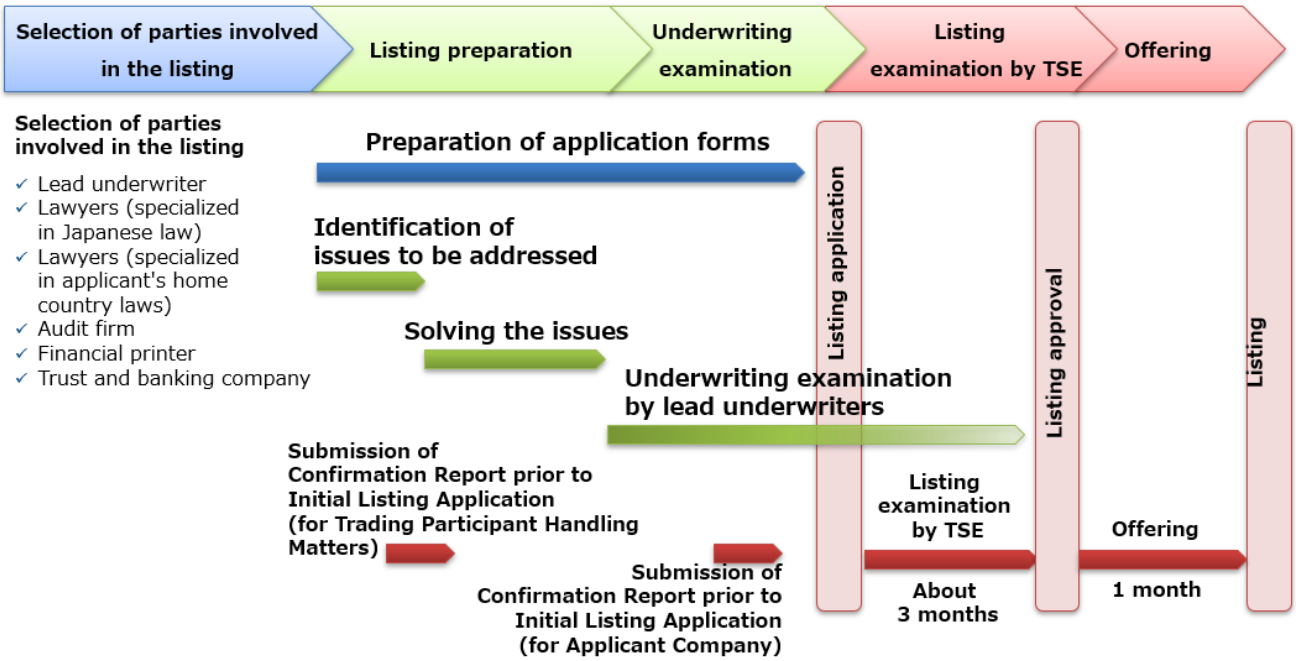
The criteria for initial listing are basically the same whether the company is a domestic or a foreign company. However, if a company is a foreign company, application of the listing rules and other rules shall be determined also in consideration of the home country's legal system and business practices, among other things.

✧ Listing Schedule

When a foreign company applies for listing on TSE, the listing examination process takes approximately three to four months in principle. Since it takes approximately one month for the public offering process (IPO) to be completed following TSE's approval of the listing, based on the standard schedule, the overall process from the submission of listing application to the date of the actual listing would take approximately four to five months.

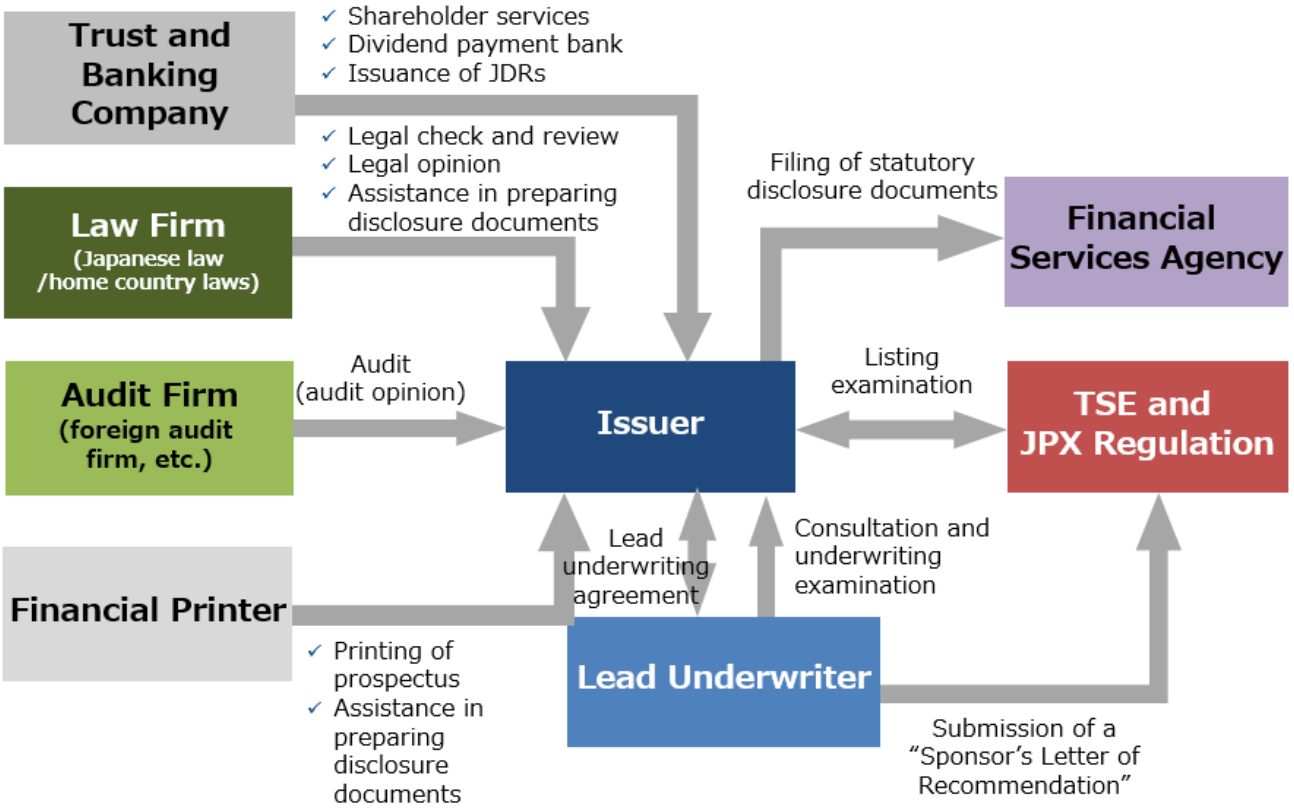
The time required for listing preparation and the underwriting review before applying for listing varies depending on the development status of the company's internal structures and the underwriting policy of the underwriting securities company.

Listing Schedule



✧ **Roles of Parties involved in IPO**

The following Japanese and foreign parties, including TSE, play major roles in the listing of foreign companies on TSE. The parties involved in the IPO process will work closely to support the company's preparation for listing on TSE.



Lead managing underwriters (TSE participant)	In addition to entering into a lead underwriting agreement with the issuing company and providing underwriting services, lead managing underwriters engage in the overall listing preparations, including providing the issuing company with advice on listing and consultation on topics such as the development of the listing schedule. In addition, at the time of listing, the lead managing underwriter will submit a report on the listing eligibility examination to TSE.
Law firms[1]	The law firm will be required to confirm the differences between Japanese laws and local laws, check the legal matters required for the listing, and prepare legal opinions[2]. In addition, domestic law firms may prepare the necessary documents for initial listing applications, and carry out disclosure of corporate information as representatives of listed foreign companies following their listing.

[1] Since confirmation is required of both Japanese laws and local laws, support is generally provided by a Japanese law firm and a local law firm.

[2] - A legal opinion, etc., indicating the appropriateness of the information in the documents to be submitted for listing and the compliance of the issuing company with local laws and regulations
- A legal opinion, etc. from a legal expert as to the legality of the initial offering or secondary distribution and the truth and accuracy of matters relating to laws and regulations contained in the Securities Registration Statement.

Auditors (Foreign audit firms, etc.)	Auditors provide advice on accounting systems and financial statements and conduct audits of the financial statements (expressing an audit opinion).
TSE	TSE provides companies and IPO-related parties guidance on the listing processes and preliminary consultations.
Trust banks	After listing, trust banks will act as an administrator of stocks in relation to Japanese shareholders and may also perform services related to dividend payments as a dividend-paying bank. In addition, when companies list as JDRs, trust banks play a role in issuance and other aspects of these JDRs.

Chapter 2 TSE's Initial Listing Criteria

✧ Initial Listing Criteria Applicable to Foreign Companies Listing on TSE (Initial Requirements and Contents of Examination)

In principle, the criteria applicable to a foreign company's initial listing will be the same criteria as for a domestic company with respect to initial requirements and the contents of examination.

On the other hand, in some cases, there are criteria that apply only to or do not apply to foreign companies. The following is a list of initial listing criteria by market segment.

➢ Initial Requirements

■ Prime Market

Item	Initial Requirements (Prime Market)
(1) Number of Shareholders (Estimate at Time of Listing)	800 or more
(2) Tradable Shares (Estimate at Time of Listing)	a. The number of tradable shares: 20,000 units or more b. The market capitalization of the tradable shares: JPY 10 billion or more
(3) Market Capitalization (Estimate at Time of Listing)	JPY 25 billion or more
(4) Years of Business Operation	The business has operated continuously with the board of directors having been established three or more years before the date of application.
(5) Amount of Net Assets (Estimate at Time of Listing)	The amount of consolidated net assets is JPY 5 billion or more and amount of unconsolidated net assets is a positive figure
(6) Profits and Net Sales (The amount of profit shall be calculated by adding to or subtracting minority interest income or loss from consolidated operating income.)	The applicant company satisfies either of the following a. or b.: a. Aggregate profits over the last two years are JPY 2.5 billion or more b. Net sales over the last year are JPY 10 billion or more and market capitalization is estimated to be JPY 100 billion or more at the time of listing
(7) False Statements or Adverse Opinions, etc.	a. No false statements were made in annual securities reports, etc., for the past two years b. Accounting auditor's opinion on financial statements etc. for the last two years (excluding that for the last year) was either an "unqualified opinion" or a "qualified opinion with exceptions." c. Accounting auditor's opinion on financial statements, etc. for the last year was, in principle, an "unqualified opinion." d. Stocks, etc. pertaining to the initial application that are listed on other domestic financial instruments exchanges in Japan do not fall under the following (a) and (b): (a) The internal control report issued in the last year states that "appraisal results cannot be provided". (b) The internal control audit report issued in the last year

Item	Initial Requirements (Prime Market)
	states that "opinion is not expressed".
(8) Expected Implementation of Merger, etc.	The applicant company does not fall under the following a. and b.: a. The applicant company has conducted or has plans, within two years, to conduct a merger or company split, make a company a subsidiary or exclude an existing subsidiary from its umbrella, or take over or transfer business, and will cease to remain a substantial surviving company due to these events. b. The applicant company has plans, within two years, to conduct a merger through which it becomes a dissolved company, or a share exchange/share transfer through which it becomes a wholly-owned subsidiary of another company.
(9) Handling by the Designated Book-entry Transfer Institution	The shares are subject to the book-entry transfer operation for listed foreign stocks, etc. or the book-entry transfer operation of the designated book-entry transfer institution, or are expected to become so by the time of listing.
(10) Restriction on Transfer of Stocks, etc.	No restrictions are imposed on the transfer of foreign stocks, etc., for which an initial listing application has been filed (however, this does not apply to cases where it is deemed necessary to do so for compliance with the laws of the home country or similar reasons, to the extent that it does not impede trading on TSE's market).
(11) Depository Agreements, etc.	If the initial listing application is for foreign stock depository receipts, etc., the depository agreement and other necessary agreements must be concluded in accordance with the Enforcement Rules for Securities Listing Regulations.

(Notes)

- Regarding (2), the ratio of tradable shares required for domestic companies is not required under the initial requirements for foreign companies.

- (9), (10), and (11) are criteria required to be met specifically by foreign companies.

■ **Standard Market**

Item	Initial Requirements (Standard Market)
(1) Number of Shareholders (Estimate at Time of Listing)	400 or more
(2) Tradable Shares (Estimate at Time of Listing)	a. The number of tradable shares: 2,000 units or more b. The market capitalization of the tradable shares: JPY 1 billion or more
(3) Market Capitalization (Estimate at Time of Listing)	-
(4) Years of Business Operation	The business has operated continuously with the board of directors having been established three or more years before the date of application
(5) Amount of Net Assets (Estimate at Time of Listing)	The amount of consolidated net assets is a positive figure
(6) Profits or Sales (The amount of profit shall be calculated by adding to or subtracting minority interest income or loss from consolidated operating income.)	Total profits over the last year are JPY 0.1 billion or more
(7) False Statement or Adverse Opinion, etc.	a. No false statements were made in annual securities reports, etc. for the last two years b. Accounting auditor's opinion on financial statements, etc. for the last two years (excluding that for the last year) was either an "unqualified opinion" or a "qualified opinion with exceptions" c. Accounting auditor's opinion on financial statements, etc. for the last year was, in principle, an "unqualified opinion". d. Stocks, etc. pertaining to the initial listing application that are listed on other domestic financial instruments exchanges do not fall under the following (a) and (b): (a) The internal control report issued in the last year states that "appraisal results cannot be provided" (b) The internal control audit report issued in the last year states that "opinion is not expressed".
(8) Expected Implementation of Merger, etc.	The applicant company does not fall under the following (a) and (b): a. The applicant company has conducted or has plans, within two years, to conduct a merger or company split, make a company a subsidiary or exclude an existing subsidiary from its umbrella, or take over or transfer business, and will cease to remain a substantial surviving company due to these events. b. The applicant company has plans, within two years, to conduct a merger through which it becomes a dissolved company, or a share exchange/share transfer through which it becomes a wholly-owned subsidiary of another company.

Item	Initial Requirements (Standard Market)
(9) Handling by the Designated Book-Entry Transfer Institution	The shares are subject to the book-entry transfer operation for listed foreign stocks, etc. or the book-entry transfer operation of the designated book-entry transfer institution, or are expected to become so by the time of listing.
(10) Restriction on Transfer of Shares, etc.	No restrictions are imposed on the transfer of foreign stocks, etc., for which an initial listing application has been filed (however, this does not apply to cases where it is deemed necessary to do so to comply with the laws of the home country or similar reasons, to the extent that it does not impede trading on TSE's market).
(11) Depository Agreements, etc.	If the initial listing application is for foreign stock depository receipts, etc., the depository agreement and other necessary agreements must be concluded in accordance with the Enforcement Rules for Securities Listing Regulations.

(Notes)
- Regarding (2), the ratio of tradable shares required for domestic companies is not required under the initial requirements for foreign companies.
- (9), (10), and (11) are criteria required to be met specifically by foreign companies.

■ **Growth Market**

Item	Initial Requirements (Growth Market)
(1) Number of Shareholders (Estimate at Time of Listing)	150 or more (At least 500 units must be publicly offered by the time of listing)
(2) Tradable Shares (Estimate at Time of Listing)	a. The number of tradable shares: 1,000 units or more b. The market capitalization of the tradable shares: JPY 0.5 billion or more
(3) Market Capitalization (Estimate at Time of Listing)	-
(4) Years of Business Operation	The business has operated continuously with the board of directors having been established one or more years before the date of application
(5) Net Assets (Estimate at Time of Listing)	-

Item	Initial Requirements (Growth Market)
(6) Profit or Sales (The amount of profit shall be calculated by adding to or subtracting minority interest income or loss from consolidated operating income.)	-
(7) False Statement or Adverse Opinion, etc.	a. Either an "unqualified opinion" or a "qualified opinion with exceptions" was expressed in the audit report (excluding that of the last year) attached to the "Annual Securities Report for Listing Application" b. An "unqualified opinion" was expressed in the audit report, etc. (of the last year) attached to the "Annual Securities Report for Listing Application" c. No "false statements" were made in the audit report mentioned above or the annual securities report, etc. with reference to financial statements related to a quarterly review report d. Stocks, etc. pertaining to the initial listing application that are listed on other domestic financial instruments exchanges do not fall under the following (a) and (b) (a) The internal control report issued in the last year states that "appraisal results cannot be provided" (b) The internal control audit report issued in the last year states that "opinion is not expressed".
(8) Handling by the Designated Book-entry Transfer Institution	The shares are subject to the book-entry transfer operation for listed foreign stocks, etc. or the book-entry transfer operation of the designated book-entry transfer institution, or are expected to become so by the time of listing.
(9) Restriction on Transfer of Stocks, etc.	No restrictions are imposed on the transfer of foreign stocks, etc., for which an initial listing application has been filed (however, this does not apply to cases where it is deemed necessary to do so to comply with the laws of the home country or similar reasons, to the extent that it does not impede trading on the Exchange's market).
(10) Depository agreements, etc.	If the initial listing application is for foreign stock depository receipts, etc., the depository agreement and other necessary agreements must be concluded in accordance with the Enforcement Rules for Securities Listing Regulations.

(Notes)

- (1) above is limited to cases where the public offering is conducted in Japan.
- Regarding (2), the ratio of tradable shares required for domestic companies is not required under the initial requirements for foreign companies.
- (8), (9), and (10) are criteria required to be met specifically by foreign companies.

- **Contents of Examination**
  - **Prime Market**

Item	Contents of Examination
Corporate Continuity and Profitability	The applicant company is operated continuously and has a stable and excellent revenue base.
Soundness of Corporate Management	The applicant company carries out its business fairly and faithfully.
Effectiveness of Corporate Governance and Internal Management System	Corporate governance and internal management systems are appropriately established and functioning.
Appropriateness of Disclosure of Corporate Information, etc.	The applicant company is in a position where it is able to disclose its corporate information appropriately.
Other matters TSE deems necessary from the viewpoint of public interest or investor protection	-

(Notes)

- The listing examination of an initial listing applicant that is a foreign company shall be conducted in consideration of the legal system and business practices in the home country or region of the applicant company.
- "Other matters TSE deems necessary from the viewpoint of public interest or investor protection" includes, among other things, the point that the rights of shareholders and other owners and the circumstances under which they may exercise those rights are not unreasonably restricted.

■ **Standard Market**

Item	Contents of Examination
Corporate Continuity and Profitability	The applicant company is operated continuously and has a stable revenue base.
Soundness of Corporate Management	The applicant company carries out its business fairly and faithfully.
Effectiveness of Corporate Governance and Internal Management System	Corporate governance and internal management systems are appropriately established and functioning.
Appropriateness of Disclosure of Corporate Information, etc.	The applicant company is in a position where it is able to disclose its corporate information appropriately.
Other matters TSE deems necessary from the viewpoint of public interest and investor protection	-

(Notes)
- The listing examination of an initial listing applicant that is a foreign company shall be conducted in consideration of the legal system and business practices in the home country or region of the applicant.
- “Other matters TSE deems necessary from the viewpoint of public interest or investor protection" includes, among other things, the point that the rights of shareholders and other owners and the circumstances under which they may exercise those rights are not unreasonably restricted.

■ **Growth Market**

Item	Contents of Examination
Appropriateness of Disclosure of Corporate Information, Risk Information, etc.	The applicant company is in a position to appropriately disclose its business details and risk information, etc.
Soundness of Corporate Management	The applicant company carries out its business fairly and faithfully.
Effectiveness of Corporate Governance and Internal Management System	Corporate governance and internal management systems that are commensurate with the size and maturity of the company are appropriately established and functioning.
Reasonableness of the Business Plan	The applicant company has established a rational business plan and built a business foundation necessary to execute the business plan or has a rational plan to do so.
Other matters TSE deems necessary from the viewpoint of public interest and investor protection	-

(Notes)
- The listing examination of an initial listing applicant that is a foreign company shall be conducted in consideration of the legal system and business practices in the home country, etc., of the applicant.
- “Other matters TSE deems necessary from the viewpoint of public interest and investor protection" includes, among other things, the point that the rights of shareholders and other owners and the circumstances under which they may exercise those rights are not unreasonably restricted.

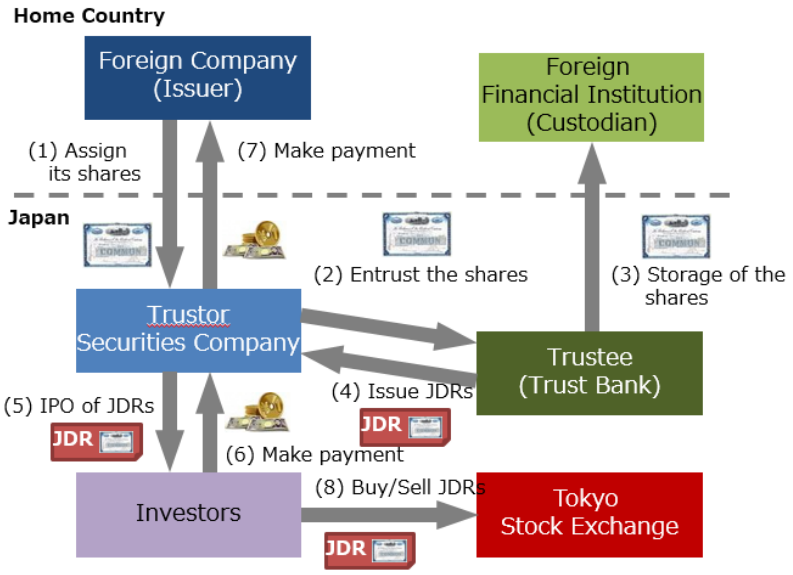
✧ **Points to Note for Foreign Companies**

➢ **Depositary Receipts (DR)**

Foreign companies are allowed to list on TSE using depositary receipts (JDR, ADR, GDR, etc.) The specific structure of Japan Depositary Receipts (JDRs) is as follows.

What is JDR?

- Abbreviation of "Japanese Depositary Receipt."
- JDR is a viable alternative for a foreign issuer who cannot list its shares directly in foreign countries under local laws, etc.
- **JDR has an advantage in that it is treated as domestic securities.**
- The requirements under the Japanese securities law and the TSE rule to list JDR are basically the same as those to list shares directly.
  - An issuer of underlying shares (not a trustee) needs to disclose under the Japanese securities law.
  - An issuer of underlying shares is the applicant of the JDR to TSE.
- Exchange Traded Notes and ETFs issued by foreign institutions have been already listed on TSE by using the JDR scheme.



The following summarizes points regarding the initial requirements for listing on TSE for foreign companies using JDRs.

- The number of shareholders in the initial requirements is calculated based on the number of JDR beneficiaries.
- Tradable shares in the initial requirements are calculated based on the number of the JDR units approved as tradable shares.
- Market capitalization in the initial requirements is calculated based on the total number of outstanding shares.

➢ **Foreign companies whose principal market is a market other than TSE**

In the case of a foreign company already listed on a foreign securities exchange and whose principal market is a market other than TSE, in cases where TSE deems it appropriate, TSE can treat said company as conforming to all or part of the contents of examination for the listing application.

(Notes)

(1) The initial requirements are the same regardless of whether the principal market is TSE or another exchange.

(2) TSE shall designate the principal market taking into consideration the tradable share status and other aspects of the relevant foreign company on the stock exchange where the company's shares are listed.

- **Privatized foreign companies**

The following points should be noted with respect to the initial requirements of the Prime and Standard Markets when a foreign company is newly listed on either of these and the initial listing applicant is a privatized foreign company. ("Privatized foreign company" refers to (i) a foreign company operating a business which was previously operated by a party who was fully financed by the home country's government, following the transfer of the assets, rights, and obligation from the party, (ii) a foreign company, the majority of whose issued shares were previously held by the home country's government, that became a privately-owned company due to the sale of all or part of those shares by the government, or (iii) a foreign company that TSE deems similar to these foreign companies.)

Prime Market

- Years of Business Operation

The business operated by the privatized foreign company has been continuously conducted for more than three years before the initial listing application date.

- Profit or Sales

If financial documents have not been prepared in the past and it would be extremely difficult to prepare new financial documents, the time period required by this initial requirement shall be the time period specified by TSE.

- False Statement or Adverse Opinions, etc.

If financial documents have not been prepared in the past and it would be extremely difficult to prepare new financial documents, the time period required by this initial requirement shall be the time period specified by TSE.

Standard Market

- Years of Business Operation

The business operated by the privatized foreign company has been continuously conducted for more than three years before the initial listing application date.

- Profits

If financial documents have not been prepared in the past and it would be extremely difficult to prepare new financial documents, the time period required by this initial requirement shall be the time period specified by TSE.

- False Statement or Adverse Opinions, etc.

If financial documents have not been prepared in the past and it would be extremely difficult to prepare new financial documents, the time period required by this initial requirement shall be the time period specified by TSE.

✧ **Listing Fees, etc.**

Upon initial listing:

	When the principal market is TSE			When the principal market is not TSE
	Prime	Standard	Growth	
Listing Examination Fee	JPY 4 million	JPY 3 million	JPY 2 million	JPY 2 million
Initial Listing Fee	JPY 15 million	JPY 8 million	JPY 1 million	JPY 2.5 million + fixed rate fee (Note 1)
Public Offering and Secondary Distribution Fees	Number of shares offered x offering price x 0.09 Number of shares to be sold × sale price × 0.01% (Note 2)			—

Note 1: The fixed rate fee shall be calculated by multiplying the amount derived by multiplying the number of listed foreign stocks, etc. by JPY 0.0225 by the number specified under a. through c., which corresponds to the ratio of the number of foreign stocks, etc., owned by corporations and individuals with a domicile or residence in Japan to the number of listed foreign stocks, etc.

a. In excess of 5%: 1/10
b. More than 2% and up to 5%: 1/20
c. 2% or less: 1/50

Note 2: The total of the initial listing fee and the public offering/secondary distribution fee for the Growth Market is capped at JPY 20 million.

Annual listing fee:

Market capitalization as of listing	When the principal market is TSE			When the principal market is not TSE
	Prime	Standard	Growth	
JPY 5 billion or less	JPY 960,000	JPY 720,000	JPY 480,000	JPY 120,000
Over JPY 5 billion and up to JPY 25 billion	JPY 1.68 million	JPY 1.44 million	JPY 1.2 million	JPY 240,000
Over JPY 25 billion and up to JPY 50 billion	JPY 2.4 million	JPY 2.16 million	JPY 1.92 million	JPY 480,000
Over JPY 50 billion and up to JPY 250 billion	JPY 3.12 million	JPY 2.88 million	JPY 2.64 million	JPY 600,000
Over JPY 250 billion and up to JPY 500 billion	JPY 3.84 million	JPY 3.6 million	JPY 3.36 million	JPY 720,000
Over JPY 500 billion	JPY 4.56 million	JPY 4.32 million	JPY 4.08 million	JPY 840,000