

## II Listing Requirements

### 1 Investigation and Confirmation of Listing Eligibility Requirements by J-Adviser

#### (Listing Eligibility Requirements)

An initial listing applicant must satisfy the matters enumerated in each of the following items.

- (1) An initial listing applicant does not damage the reputation of the market of the Exchange and is a company that is suitable for listing on such market.
- (2) An initial listing applicant conducts business fairly and in good faith.
- (3) The corporate governance and internal management structure of an initial listing applicant is appropriately developed in accordance with corporate scale and maturity, etc. and functions properly.
- (4) An initial listing applicant carries out disclosure of corporate content and risk information, etc. appropriately and has developed a system and framework which enables it to fulfill its disclosure obligations based on the Special Regulations.
- (5) No relations with anti-social forces and other matters deemed necessary by the Exchange from the perspective of the public interest and investor protection.

*(Rule 113 of the Special Regulations)*

#### (Investigation and Confirmation of Listing Eligibility by J-Adviser)

A J-Adviser must investigate and confirm whether an entity it supervises, which intends to make an initial listing application, satisfies the listing eligibility requirements prescribed in Rule 113, and whether such entity is able to fulfill the obligations prescribed in Part 2, Chapter 2. Thereafter, the J-Adviser must prepare the "Written Oath Regarding Listing Eligibility" and the "Matters to Note When Preparing Written Oath Regarding Listing Eligibility" pursuant to the provisions of the Enforcement Rules and submit them together to the Exchange.

*(Rule 314 of the Special Regulations)*

At TOKYO PRO Market, the supervising J-Adviser investigates and confirms the listing eligibility of the applicant company based on the eligibility requirements specified by TSE in its regulations.

The supervising J-Adviser prepares the "Written Oath Regarding Listing Eligibility" and "Matters to Note When Preparing Written Oath Regarding Listing Eligibility" and submits them to TSE after investigating and confirming the listing eligibility requirements. Based on the "Matters to Note When Preparing Written Oath Regarding Listing Eligibility," TSE confirms whether a supervising J-Adviser has investigated and confirmed the necessary items based on proper procedures by means of an interview of the supervising J-QS.

The following are the items that TSE requires a J-Adviser to investigate and confirm based on the "Matters to Note When Preparing Written Oath Regarding Listing Eligibility." The items listed here are those for which TSE checks with a supervising J-Adviser and do not limit the scope of investigation and confirmation that the J-Adviser conducts on the applicant company. There may be additions to or omissions from these items, depending on the industry sector and business category of the applicant company.

- (1) An initial listing applicant does not damage the reputation of the market of the Exchange and is a company that is suitable for listing on such market.

Necessary and appropriate due diligence (hereinafter "DD") of the corporate group of the initial listing applicant should be conducted. In DD, necessary and appropriate investigation and confirmation should be conducted for matters concerning business activities (including business model, business environment, and risk factors), finance and legal affairs (including matters that have a serious effect on business management such as the legal system of the country where the applicant was incorporated or where its sales activities are conducted), etc. of the corporate group of the initial listing applicant.

- Points to be checked in investigation and confirmation regarding an applicant
  - In concluding a J-Adviser agreement with an applicant, details of such agreement are explained in detail to allow the applicant company to develop a full understanding.
- Investigation of the country where the applicant was incorporated or where its sales activities are conducted
  - Necessary investigation and confirmation (legal system including business regulations, accounting system, and tax system) is conducted, and risks are fully understood concerning the country where the applicant/affiliate was incorporated or the country where its sales activities are conducted.
- Business activities and business environment
  - Business activities and business environment of the applicant are understood, and necessary investigation and confirmation is conducted on business health and growth potential.
  - Strengths and weaknesses of the applicant are checked (SWOT analysis, etc.)
  - Trends in financial performance of the applicant are checked.
  - Business processing flow of the applicant is checked  
(Sales/purchase/manufacturing/accounting/labor/finance and investment activities, etc.)
  - Profit planning and a system (procedures) to develop such plan are checked.
  - Status of budget control (annual/semiannual/monthly, etc.) is checked.
  - It is checked that the applicant properly confirmed the sufficiency of working capital for 12 months from the scheduled listing date.
- Investigation and confirmation of important business bases
  - Appropriate investigation and confirmation is conducted in terms of location, history, size, management system, etc. of important business bases (plant, sales office, branch, head office, etc.)
  - On-site investigation (physical survey, etc.) is conducted on important business bases (plant, sales

office, branch, head office, etc.)

When outsourcing DD to a third party, such DD should be conducted by a suitable outside professional.

- Outsourcing of DD
  - In the course of executing J-Adviser operations for initial listing, when a part or all of DD is outsourced to an outside professional, DD operation outsourcing to a suitable outside professional should fall within reasonable scope.
- Handling of results of DD
  - Issues discovered and pointed out in DD internally or by the outside professional are understood comprehensively, and proper handling is checked.
- Means for assessment and confirmation of technology of drug development bio-venture, etc.
  - As for a drug development bio-venture company or a prior investment company, the core technology is properly analyzed and assessed through DD conducted by an internal or outside professional, etc.

## (2) An initial listing applicant conducts business fairly and in good faith.

It should be confirmed that the corporate group of the initial listing applicant does not provide or receive unfair gains to/from a related party or other specified party through transactions and other business activities.

- Related party transaction, etc.
  - Necessary investigation and confirmation is conducted to understand the status of transaction with a related party of the applicant or a party with a strong personnel and capital relationship.
  - It is confirmed that the applicant is properly aware of related party transactions and has a check-and-balance system.

It should be confirmed that officers of the initial listing applicant are not in conditions that would impair the fair, faithful, and adequate execution of duties as an officer of such initial listing applicant.

- President and Representative Director, etc.
  - It is confirmed that there is no problem in capability as a president of a listed company (corporate manager) by conducting an "interview with the president (corporate manager)."
- Officers (director, accounting adviser, corporate auditor or executive officer, senior general manager or auditor-secretary, or a person equivalent thereto)
  - Necessary investigation and confirmation is conducted to understand the status of changes in officers since its foundation.
  - The status of officers' large debts and personal guarantees to a third party is checked.
  - It is confirmed that there is no transaction between the applicant and its officers that is lacking in

reasonableness and leads to a conflict of interest.

- (3) The corporate governance and internal management structure of an initial listing applicant is appropriately developed in accordance with corporate scale and maturity, etc. and functions properly.

It should be confirmed that a system is in place to ensure proper execution of duties of officers of the corporate group of the initial listing applicant and that such system functions properly.

- Qualification of directors
  - The number of directors, their roles, and eligibility are checked.
- Shape of organization
  - It is confirmed that the corporate governance system of the applicant is properly described in the corporate governance report.
  - It is confirmed that company organs, organization, and check-and-balance system are adequately developed to oversee the execution of officer duties, and they function effectively.
  - Necessary investigation and confirmation is conducted on the state of holding shareholders meetings, board of directors meetings, and board of auditors meetings, as well as the state of preparation of such minutes.

It should be confirmed that an internal control system is properly developed and managed to ensure effective management activities of the corporate group of the initial listing applicant.

- Internal control system
  - Necessary investigation and confirmation is conducted on the approval process for rules regarding request for approval and rules for authority on decisions, etc.

It should be confirmed that human resources necessary for stable and continuous execution of management activities and for maintenance of an internal control system of the corporate group of the initial listing applicant is secured.

- Securing human resources
  - It is confirmed that human resources necessary for business management of the applicant is secured.
- Officers and employees
  - Proper investigation and confirmation is conducted on officers and employees (including but not limited to collection of resumes, work histories, and questionnaires or interviews as necessary).

It should be confirmed that the corporate group of the initial listing applicant adopts accounting standards that are suitable for its situation and that the necessary accounting organization is properly developed and managed.

- Accounting standards

- It is confirmed that accounting standards are suitable to the applicant's situation and are properly applied.
- Development of accounting organization
  - It is confirmed that there is an accounting organization capable of properly conducting accounting work in place.

An effective system for compliance with laws and regulations concerning management activities and other matters of the corporate group of the initial listing applicant is properly developed and managed.

- Raising awareness of laws and regulations, rules, etc.
  - It is confirmed that the management has sufficient knowledge and understanding of the Financial Instruments and Exchange Act, relevant laws and regulations, various rules of the Exchange, etc.
  - It is confirmed that an internal system for legal compliance is established and properly managed.
  - If there was a case of legal violation in the past, the status of rectification of the deficiency and the status of development of a preventive system is checked.

- (4) An initial listing applicant carries out disclosure of corporate content and risk information, etc. appropriately and has developed a system and framework which enables it to fulfill its disclosure obligations based on the Special Regulations.

It should be confirmed that the corporate group of the initial listing applicant properly manages corporate information such as facts that have a material influence on management and make it available for timely and adequate disclosure to investors. It should also be confirmed that a system to prevent insider trading is properly developed and managed.

- Disclosure system
  - Necessary investigation and confirmation is conducted on the organizational system and procedures for disclosure after listing.
  - It is confirmed through interview, etc. that the management and the person in charge of disclosure sufficiently understand regulations and obligations for disclosure.
- Disclosure on the website
  - It is confirmed that the applicant is prepared to post necessary items on its website after the listing application date.
  - It is confirmed that the flow of posting information on its website is developed (development of internal rules and manuals, etc.) and communicated thoroughly within the company.
- Management of insider trading
  - Necessary investigation and confirmation is conducted on the information management system (personal information, corporate information, information on business partners, etc.)
  - Necessary investigation and confirmation is conducted on specific measures to prevent insider trading (development of rules to prevent insider trading, etc.)

As for Specified Securities Information, etc. submitted by the initial listing applicant, it should be confirmed that such information is properly prepared based on the Special Regulations of Securities Listing Regulations Concerning Specified Listed Securities and includes matters that should be considered as risk factors of the initial listing applicant based on the industry sector and business category of the corporate group of the initial listing applicant.

- Compliance with rules and laws and regulations for Specified Securities Information
  - It is confirmed that the applicant understands the laws and regulations concerning major business activities, complies with them, and includes necessary items in Specified Securities Information.
- Specified Securities Information
  - It is confirmed that information to be included in "risk information" is understood and sufficiently disclosed.
  - It is confirmed that related party transactions are comprehensively understood and are fair and reasonable, and that they are sufficiently disclosed.
  - It is confirmed that the reasons for appointment of the audit firm, legal counsel, J-Adviser, etc. are appropriate.
  - When the audit firm, legal counsel, or J-Adviser, etc. was replaced or had its contract terminated in the past, the appropriateness of the reason is checked.
  - It is confirmed that there is no problem with the background to concluding the audit contract, the period of engagement and personnel as well as capital relationship with officers and employees, through an interview, etc. with the audit firm.
  - Also, when there is any unresolved audit finding including accounting function and the effectiveness of internal control, etc., the applicant's approach toward appropriately responding to such finding is checked.
  - Whether there is any pending legal matter, lawsuit, or other issues, and the development of a system to handle them are checked.
  - When the applicant has a parent company, etc., it is confirmed that management activities of the applicant are independent from its parent company, in addition to risks on management activities.
- Appropriateness of Specified Securities Information
  - It is confirmed that Specified Securities Information is based on the form stipulated by the Securities Listing Regulations and that the information provided is accurate.
  - To confirm entries in Specified Securities Information, measures are taken as necessary such as questioning the applicant and obtaining supporting documents.

(5) No relations with anti-social forces and other matters deemed necessary by the Exchange from the perspective of the public interest and investor protection.

It should be confirmed that the corporate group of the initial listing applicant has developed an internal system to prevent the involvement of anti-social forces in its management activities and makes efforts, and that the actual condition is appropriate from a perspective of public interest

and investor protection.

- Investigation of anti-social forces by J-Adviser
  - The involvement of anti-social forces is checked based on an appropriate scope/method in light of J-Adviser internal standards.
  - When any questionable item is found concerning relations with anti-social forces, its details are examined in detail, and appropriate measures are taken.
- Applicant's system for confirmation
  - It is confirmed that the applicant's fundamental policy as well as internal system to eliminate the involvement of anti-social forces are properly established and managed.

In concluding an agreement between a J-Adviser and an initial listing applicant stipulated by the Special Regulations of Securities Listing Regulations Concerning Specified Listed Securities, it should be confirmed that the initial listing applicant accurately understands the Special Regulations, relevant laws and regulations and details of such agreement. It should also be confirmed that the initial listing applicant has developed a system to properly exchange information with its J-Adviser.

- Cooperation between J-Adviser and applicant
  - It is confirmed that a system for report/communication/confirmation has been established between the initial listing applicant and its J-Adviser (including J-QS).
  - A system to ensure proper recording and storing of report/communication/confirmation between the initial listing applicant and its J-Adviser (including J-QS) is checked.

The applicant is confirmed to be appropriate from the perspective of the public interest and investor protection.

- Shareholders \*Including potential shareholders
  - The changes in shareholders since its foundation are understood, and necessary investigation and confirmation is conducted.
  - When both class shareholders and ordinary shareholders exist, necessary investigation and confirmation is conducted on their rights.
- Lock-up clause
  - It is confirmed that the necessary documents such as written assurance are exchanged with those subject to the necessary lock-up clause.
  - Also, measures are taken to check compliance of those subject to lock-up after listing.
- Takeover defense measures
  - When takeover defense measures are in place, necessary investigation and confirmation is conducted on the reason for introduction and details of such measures.

## 2 Audit by Audit Firm

- (1) An audit report should be attached to financial statements required for Specified Securities Information (including information equivalent to Issuer Filing Information submitted when solicitation for acquisition or purchases, etc. for specified investors is not undertaken). Such audit report should contain an "unqualified opinion" or "unqualified conclusion" or an opinion or conclusion equivalent to these and satisfy the criteria enumerated in each of the following items.
- The report contains the result of an audit or review conducted in compliance with generally-accepted auditing standards, interim auditing standards, or quarterly review standards in Japan or a standard equivalent to these.
  - The report contains certification corresponding to audit certification prescribed in Article 193-2 of the Financial Instruments and Exchange Act or certification equivalent thereto.
  - The report is prepared by an audit firm.
  - The report pertains to the most recent business year or consolidated accounting period.
- (Rule 210, Item 5 of the Securities Listing Regulations,  
Rule 103, Item 6 of the Enforcement Rules)*

At TOKYO PRO Market, the issuer is required to attach audit reports to the financial statements for the most recent business year or consolidated accounting period included in "Specified Securities Information (or Issuer Filing Information)" that is submitted at the time of filing the listing application. At TOKYO PRO Market, it is stipulated that the audit firm should prepare the audit report from the perspective of ensuring a certain level of quality.

## 3 Establishment of Shareholder Services Agent

A listed domestic company shall entrust shareholder services to an entity approved by the Exchange as a shareholder services agent specified by the Enforcement Rules.

*(Rule 138 of the Special Regulations)*

It is necessary to either entrust shareholder services to an entity approved by TSE as a shareholder services agent or obtain such agent's internal consent to accept such entrustment by a listing application date.

(Note) The shareholder services agents currently approved by TSE are trust banks, Tokyo Securities Transfer Agent Co., Ltd., Japan Securities Agents, Ltd., and IR Japan, Inc. (Rule 120 of the Enforcement Rules).



## 4 Restrictions on Stock Transfer

A listed company must not restrict transfer of listed stock, etc. unless otherwise specified by the provisions of Article 2, Paragraph 3, Item 2, (ii), (2) of the Act (Note 1) and the provisions of other special laws (Note 2).

*(Rule 134 of the Special Regulations)*

The issuer is required not to restrict the transfer of stocks subject to the listing application in its articles of incorporation, unless there are restrictions stipulated by laws.

(Note 1) Stock that is unlikely to be transferred from the acquirer to anyone other than specified investors, etc.

(Note 2) Cases where the transfer of stock subject to the listing application is restricted due to specific laws, such as the Broadcast Act and the Civil Aeronautics Act, and such restriction is considered to not disrupt trading at TSE and treated as exceptions.

## 5 Securing of Liquidity Provider

A listed company, with the agreement of a trading participant of the Exchange, shall designate such trading participant as a liquidity provider, notify the Exchange and announce it.

*(Rule 135 of the Special Regulations)*

The applicant company is required to designate one or more TSE trading participants as a liquidity provider. The supervising J-Adviser is required to support the applicant company to secure a liquidity provider, and trading participants designated as liquidity providers have obligations to make efforts to provide liquidity such as working to ensure the smooth trading of securities issued by the listed company.

## 6 Issuance of Analyst Report

A listed company shall make efforts toward the regular issuance of analyst reports pertaining to the company (meaning documents distributed to investors whose main content is financial analysis of a corporation, etc.)

*(Rule 136 of the Special Regulations)*

The applicant company is required to make efforts to ensure the regular issuance of analyst reports on the company. Also, the supervising J-Adviser is to support the applicant company in such efforts.

## 7 Handling by Designated Book-entry Transfer Institution

A listed stock, etc. must be subject to handling in the book-entry transfer operation of a designated book-entry transfer institution.

*(Rule 137 of the Special Regulations)*

Domestic stocks listed on a financial instruments exchange are subject to the Book-Entry Transfer System for Stocks, etc. by a designated book-entry transfer institution based on the Transfer Act. Japan Securities Depository Center, Inc. (hereinafter "JASDEC") is designated as a book-entry transfer institution based on the Transfer Act.

Therefore, stock of the applicant company needs to be either subject to or be expected to be subject to handling by JASDEC by the time of listing.

In order for stock of the applicant company to be subject to handling in the book-entry transfer operation of a designated book-entry transfer institution, since such applicant company should be a one that does not issue stock certificates, if the applicant company issues stock certificates and has not completed procedures for non-issuance of stock certificates, such company needs to complete procedures for non-issuance by the time of filing its listing application in principle. Also, it is necessary to submit a series of documents required by JASDEC such as an agreement form that describes the applicant's consent to JASDEC's handling of stock to be listed.

For handling of foreign stocks, etc., please also see the "Initial Listing Guidebook for Foreign Companies."

## 8 Shares per Share Unit

At TSE, in order to improve convenience for market users including investors, the goal is to consolidate the trading units of all listed companies to 100 shares. A company applying for initial listing is required to make its trading unit (number of shares per share unit) 100 shares.

At TOKYO PRO Market, there is no uniform number of shares per share unit specified in the market regulations, but when securities to be listed are stocks, the issuer is recommended to set the trading unit (number of shares per share unit) to 100 shares.

## 9 Changes of Stock, etc. before Listing

### (1) Entries Concerning Changes of Stock, etc. before Listing

When a special stakeholder, etc. (Note 1) has carried out an acquisition or transfer of a stock to be issued by the applicant company, subscription warrants or bonds with warrants (excluding offering, secondary offering, solicitation of primary offering for subscription to specified investors and solicitation of secondary distribution to specified investors (hereinafter "offering, etc. prior to listing"), including exercise of subscription warrants and bonds with warrants; hereinafter "changes of stock, etc.") during the period from two years counting from the end of the most recent business year immediately before the initial listing application date (meaning the business year that immediately precedes the business year to which the listing date belongs. In the case where such listing date falls within the period from the start of the business year to the day of the annual general shareholders meeting, this shall be the business year immediately preceding the most recent business year; the same shall apply hereinafter in this rule) (Note 2) to the day of announcing "Specified Securities Information" and "Issuer Filing Information," entries concerning changes of such stock, etc. should be included in "Specified Securities Information" and "Issuer Filing Information." However, if the stock to be issued by the applicant company is a Green Sheet Issue designated by the Japan Security Dealers Association, this may not apply.

(Rule 115 of the Special Regulations, Rule 106 of the Enforcement Rules)

(Note 1) "Special stakeholder, etc." are those stipulated by Article 1, Item 31 of the Cabinet Office Ordinance on Disclosure and consist of the following.

- 1 Special stakeholder of the applicant company (special stakeholder stipulated by Article 1, Item 31, Sub-item (a) of the Ordinance)
- 2 Top 10 shareholders of the applicant company
- 3 Affiliated company related to the applicant company through personnel affairs (affiliated company through personnel affairs stipulated by Article 1, Item 31, Sub-item (c) of the Ordinance) or affiliated company related to an applicant company through capital ties (affiliated company through capital ties stipulated by Article 1, Item 31, Sub-item (c) of the Ordinance) or their officers
- 4 Securities company (including foreign securities company) and its officers, affiliated company through personnel affairs (affiliated company through personnel affairs stipulated by Article 1, Item 31, Sub-item (c) of the Ordinance) or affiliated company through capital ties (affiliated company through capital ties stipulated by Article 1, Item 31, Sub-item (c) of the Ordinance)

(Note 2) For example, when the last day of the most recent business year immediately before initial listing application is March 31, it would be April 1 two years before.

### (2) Retention, etc. of the Record of Changes in Ownership of Stocks, etc. Before Listing

An initial listing applicant shall retain the record pertaining to the status of changes in stock, etc. for a period of five years from the listing date.

(Rule 106 of the Enforcement Rules)

## 10 Allotment, etc. of Stock for Subscription by Third-party Allotment, etc. before Listing

### (1) Regulations on Allotment, etc. and Holding of Offered Stock, etc. by Third-party Allotment

When the initial listing applicant carries out allotment of offered stock, etc. (Note 2) by third-party allotment, etc. (Note 1) (offered stock stipulated by Article 199, Paragraph 1 of the Companies Act or offered preferred equity contribution stipulated by the Act on Preferred Equity Investment) during the period one year counting from the most recent business year immediately preceding the initial listing application date to the day preceding the listing date, such applicant shall have the entity that received an allotment or delivery enumerated in each of the following items give written assurance to its supervising J-Adviser on the matters specified in the following paragraph (Note 3). Approval of whether allotment of offered stock is carried out is determined based on the due date of payment or the last day of a payment period for offered stock.

(Rule 115 of the Special Regulations,  
Rule 107, Paragraph 1 of the Enforcement Rules)

(Note 1) Out of methods of allotment of offered stock, this includes methods other than a public offering, allotment to shareholders, and allotment to preferred equity contributors pertaining to such stock, etc. designated by the Japan Security Dealers Association as a Green Sheet Issue where a securities company allocates to an unspecified large number of recipients according to rules specified by the Association.

(Note 2) This includes allotment of offered stock by third-party allotment (excluding cases of offering, etc. before listing), allotment of subscription warrants by third-party allotment (including allotment of own subscription warrants considered to have the same effect), and issuance of stock due to exercise of subscription warrants.

(Note 3) The matters on which the applicant company has the entity that received an allotment or delivery give written assurance to its supervising J-Adviser are as follows.

a. Continuous holding

An entity that received such allotment or delivery shall continue to hold the stock or subscription warrants (hereinafter "allotted stock, etc.") until six months have passed

since the day it received the allotment or delivery (where one year has not passed since receiving allotment or delivery of allotted stock, etc., the day when one year has passed since receiving such allotment or delivery). However, this shall exclude cases where allotted stock, etc. was transferred due to significant difficulty in the business operations of such entity or other cases where it is deemed unavoidable in light of socially accepted norms by the supervising J-Adviser.

(Rule 107, Paragraph 2, Item 1 of the Enforcement Rules)

b. Report to the applicant company when stock transfer, etc. is conducted

Where carrying out a transfer of allotted stock, etc. or acquired stock, etc. pertaining to allotted stock, etc., the entity that received an allotment or delivery shall give written notice to the initial listing applicant in advance and report on the details of such transfer to the initial listing applicant after the fact.

(Rule 107, Paragraph 2, Item 2 of the Enforcement Rules)

c. Other matters deemed necessary by TSE

(Rule 107, Paragraph 2, Item 3 of the Enforcement Rules)