

Consultation Paper
“Review of TSE Cash Equity Market Structure”

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1. Entry-level Markets (2nd Section, Mothers, JASDAQ)

Entry-level Market Listing (quantitative)

- 2nd Section, JASDAQ (Standard) listing criteria focus on business track records
- Mothers, JASDAQ (Growth) listing criteria focus on high growth potential

Item		1st Section	2nd Section	Mothers	JASDAQ	
					Standard	Growth
Number of shareholders		2,200	800人以上	More than 200	More than 200	
Tradable shares	Number of tradable shares	More than 20,000 units	More than 4,000 units	More than 2,000 units	—	
	Market capitalization of tradable shares	—	More than 1bil. JPY	More than 5bil. JPY	More than 0.5 bil. JPY	
	Ratio of tradable shares to listed shares	More than 35%	More than 30%	More than 25%	—	
Public offering		—	—	More than 500 units	① More than 1,000 units ② More than 10%	
Market capitalization		More than 25 bil. JPY	More than 2 bil. JPY	More than 1 bil. JPY	—	
Number of years of business operation		More than 3 years		More than 1 year	—	
Shareholder equity		More than 1 bil. JPY	—	—	More than 0.2 bil. JPY	Positive
Profit amount or Market capital		Either a. or b. a. More than 0.5 bil. in the last 2 years b. More than 50 bil. JPY market cap & 10 bil. JPY in sales		— (※)	More than 0.1 bil. JPY or market cap of 5 bil. JPY	—

※ Underwriters need to submit a document referring to the company's business that has high-growth potential

Listing Requirements (Eligibility Requirements)

Main Markets (1 st and 2 nd Section)	Mothers	JASDAQ Standard	JASDAQ Growth
<p>1. Corporate continuity and profitability</p> <p>A business is operated continuously and a stable revenue base is present</p>	<p>1. Reasonableness of the business plan</p> <p>The listing applicant has developed reasonable and suitable business plans, and has developed the operating base necessary for executing such business plans, or there is reasonable expectation that it will develop such operating base</p>	<p>1. Business continuity</p> <p>There are no obstacles to continuity of business activities</p>	<p>1. Corporate growth potential</p> <p>The company has growth potential</p>
<p>2. Soundness of corporate management</p> <p>A business is carried out fairly and faithfully</p>	<p>2. Soundness of Corporate management</p> <p>The company is carrying out business in a fair and faithful manner</p>	<p>2. Reliability of corporate actions</p> <p>Corporate actions which cause market disorder are not expected</p>	<p>2. Reliability of corporate actions</p> <p>Corporate actions which cause market disorder are not expected</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>3. Effectiveness of corporate governance and internal management system of an enterprise</p> <p>Corporate governance and internal management system are developed in accordance with the size, corporate maturity, etc., of the enterprise, and functioning properly</p>	<p>3. Establishment of sound corporate governance and internal management system</p> <p>Corporate governance and internal management system have been established in accordance with corporate scale and function effectively</p>	<p>3. Establishment of sound corporate governance and internal management system in accordance with the stage of growth</p> <p>Corporate governance and internal management system have been established in accordance with the company's stage of growth and function effectively</p>
<p>4. Appropriateness of disclosure of corporate information, etc.</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>4. Appropriateness of disclosure of corporate information, risk information, etc.</p> <p>The company is able to make disclosure of corporate information, risk information etc. in an appropriate manner</p>	<p>4. Appropriateness of disclosure of corporate details, etc.</p> <p>The company is capable of appropriately disclosing corporate details, etc.</p>	<p>4. Appropriateness of disclosure of corporate details, etc.</p> <p>The company is capable of appropriately disclosing corporate details, etc.</p>
<p>5. Other matters deemed necessary by TSE from the viewpoint of the public interest or the protection of investors.</p>	<p>5. Other matters deemed necessary by TSE from the viewpoint of the public interest or the protection of investors.</p>	<p>5. Other matters deemed necessary by TSE from the viewpoint of the public interest or investors protection.</p>	<p>5. Other matters deemed necessary by TSE from the viewpoint of the public interest or investors protection.</p>

Number of IPOs

- Since the integration of the cash equity markets, many companies have listed on Mothers, and the 2nd Section and JASDAQ have continued to have some IPOs (Number of listings on JASDAQ Growth after market integration)

	1 st Section (※)	2 nd Section (※)	Mothers	JASDAQ Standard (Growth)	Total
2003	5	12	31	62	117
2004	8	14	55	71	164
2005	7	11	36	65	141
2006	13	16	40	56	162
2007	5	7	22	49	108
2008	2	5	12	19	47
2009	1	5	4	8	19
2010	4	2	6	10	22
2011	2	7	11	16	36
2012	2	5	23	14	44
2013	6	6	29	12 (0)	53
2014	10	<u>10</u>	<u>44</u>	<u>11 (0)</u>	75
2015	8	<u>9</u>	<u>61</u>	<u>11 (0)</u>	89
2016	8	<u>5</u>	<u>54</u>	<u>14 (0)</u>	81
2017	11	<u>8</u>	<u>49</u>	<u>18 (0)</u>	86

※ Data by TSE (before market integration in July 2013, numbers include only IPOs on TSE market)

Number of Years in Business at the Time of IPO

Number of years in business at the time of IPO (※ 1) (※ 2)

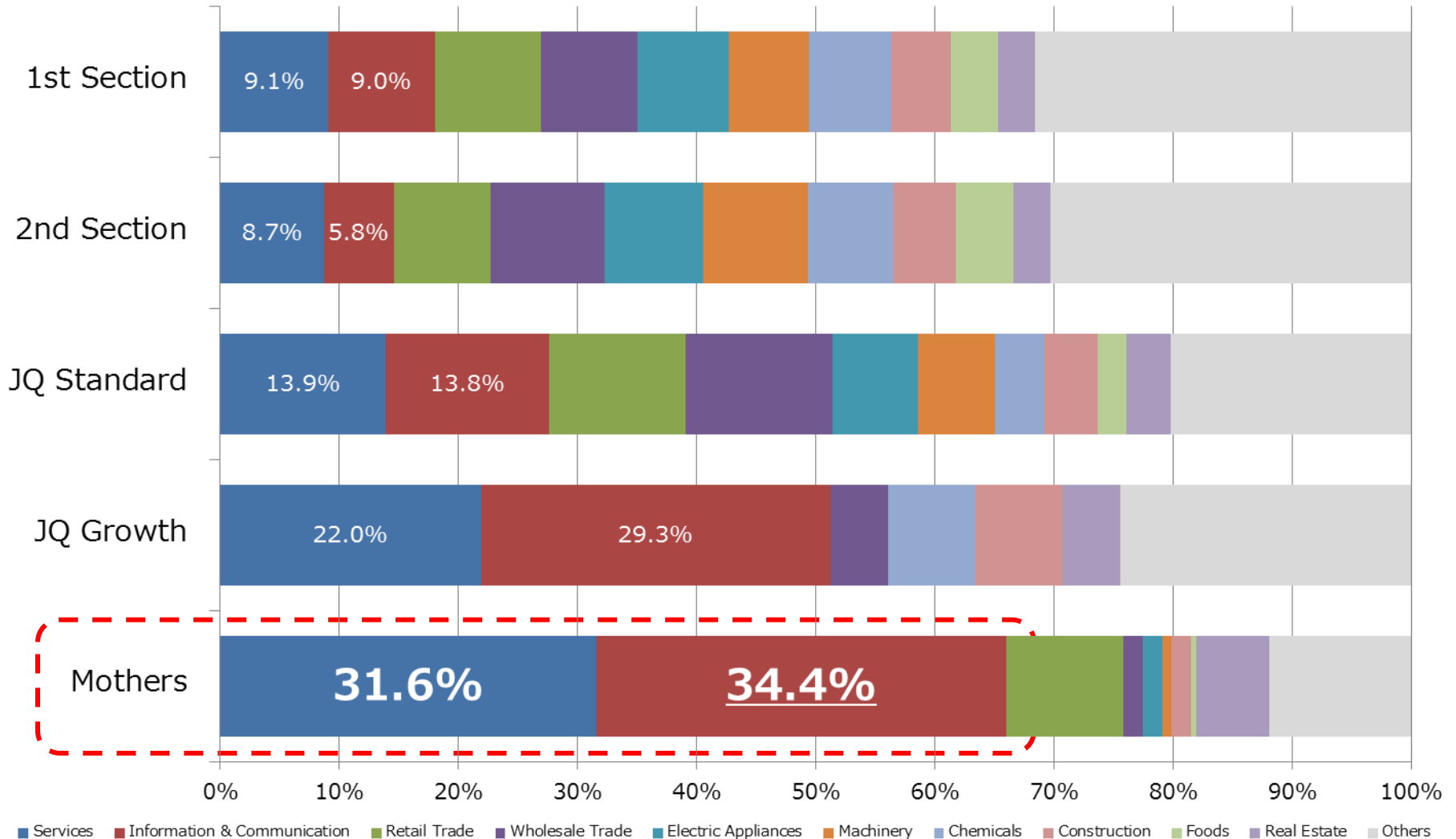
Market Segment/ Number of years of business	2 nd Section	J A S D A Q Standard	Mothers
Less than 5 yrs.	17%	5%	<u>10%</u>
5 yrs.~10 yrs.	9%	8%	<u>33%</u>
10 yrs.~15 yrs.	6%	25%	35%
15 yrs.~20 yrs.	3%	8%	13%
More than 20 yrs.	<u>66%</u>	<u>53%</u>	9%
(Average)	33 yrs.	25 yrs.	12 yrs.
<u>(Medium)</u>	<u>29 yrs.</u>	<u>23 yrs.</u>	<u>10 yrs.</u>

※ 1 After market integration in 2013 until end of 2017

※ 2 Based on the date of establishment of the company on the record

Industry Sectors of Listed Companies (Mothers)

■ About 66% of the companies listed on Mothers are in the Service or Information/Technology sectors

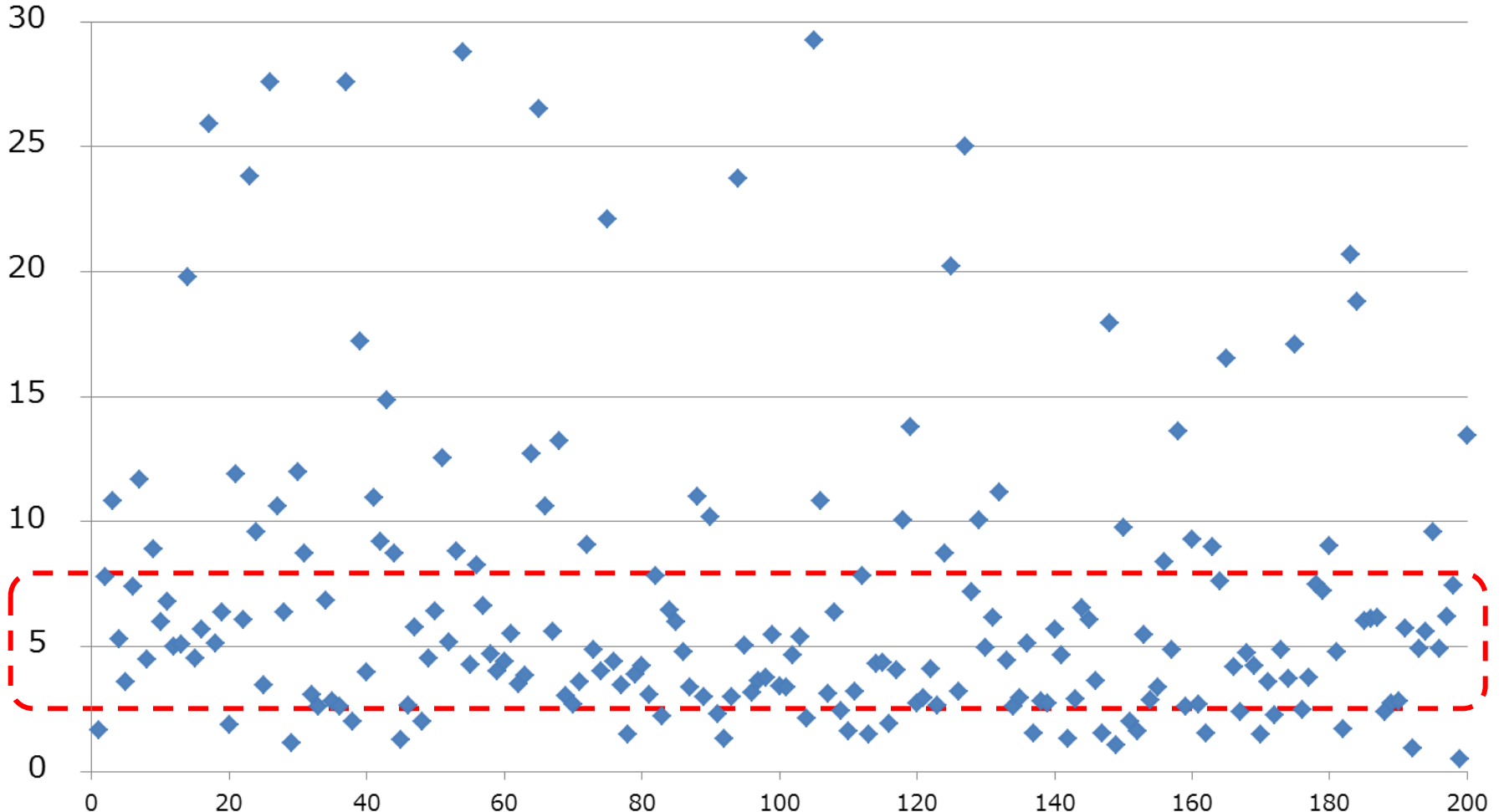


Capital Raised by Listed Companies (Mothers)

■ Average amount of capital raised at IPO on Mothers is about 0.5 bil. JPY

Amount of capital raised at each IPO on Mothers

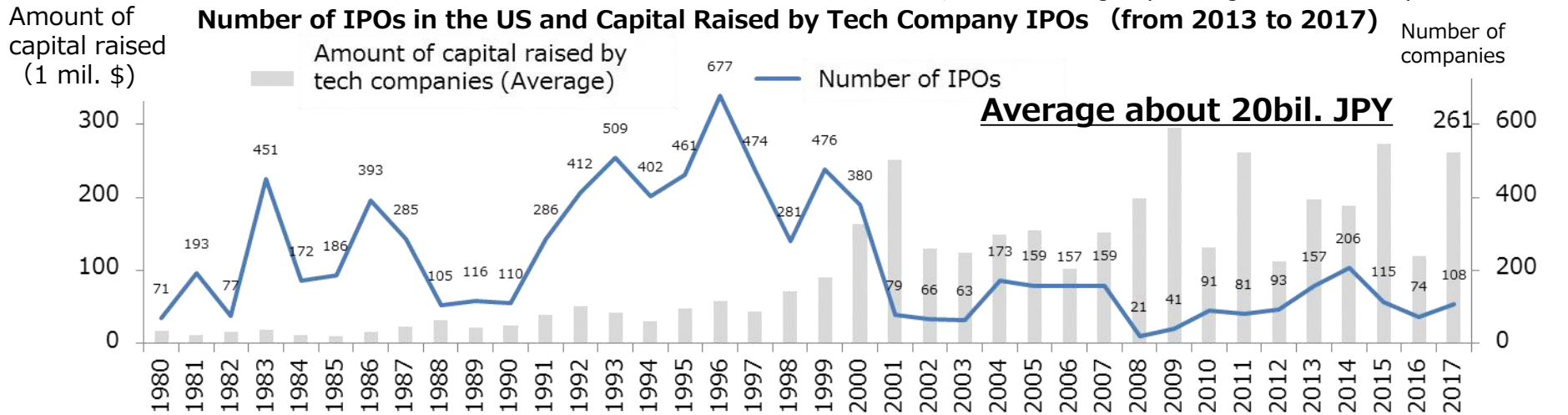
Amount of capital raised (0.1 bil. JPY)



※ IPOs on Mothers from market integration in 2013 until end of 2017

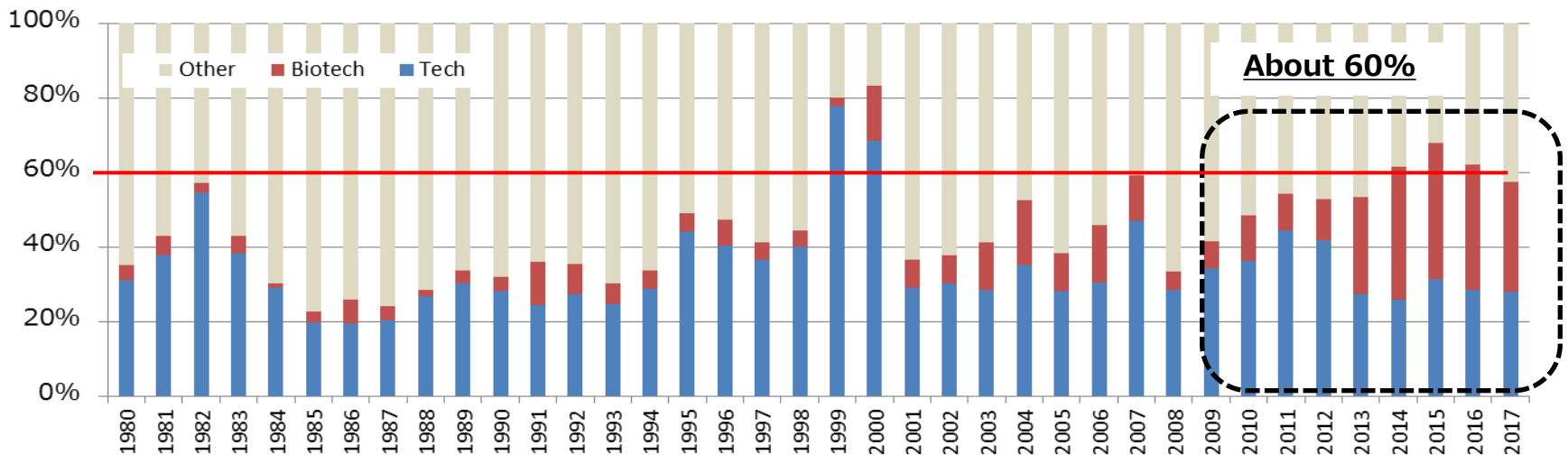
■ In the U.S., about 60% of IPOs are tech companies (※) , average capital raised is about 20 bil. JPY

(※) Internet related, other technologies (including communications) and Bio Techs



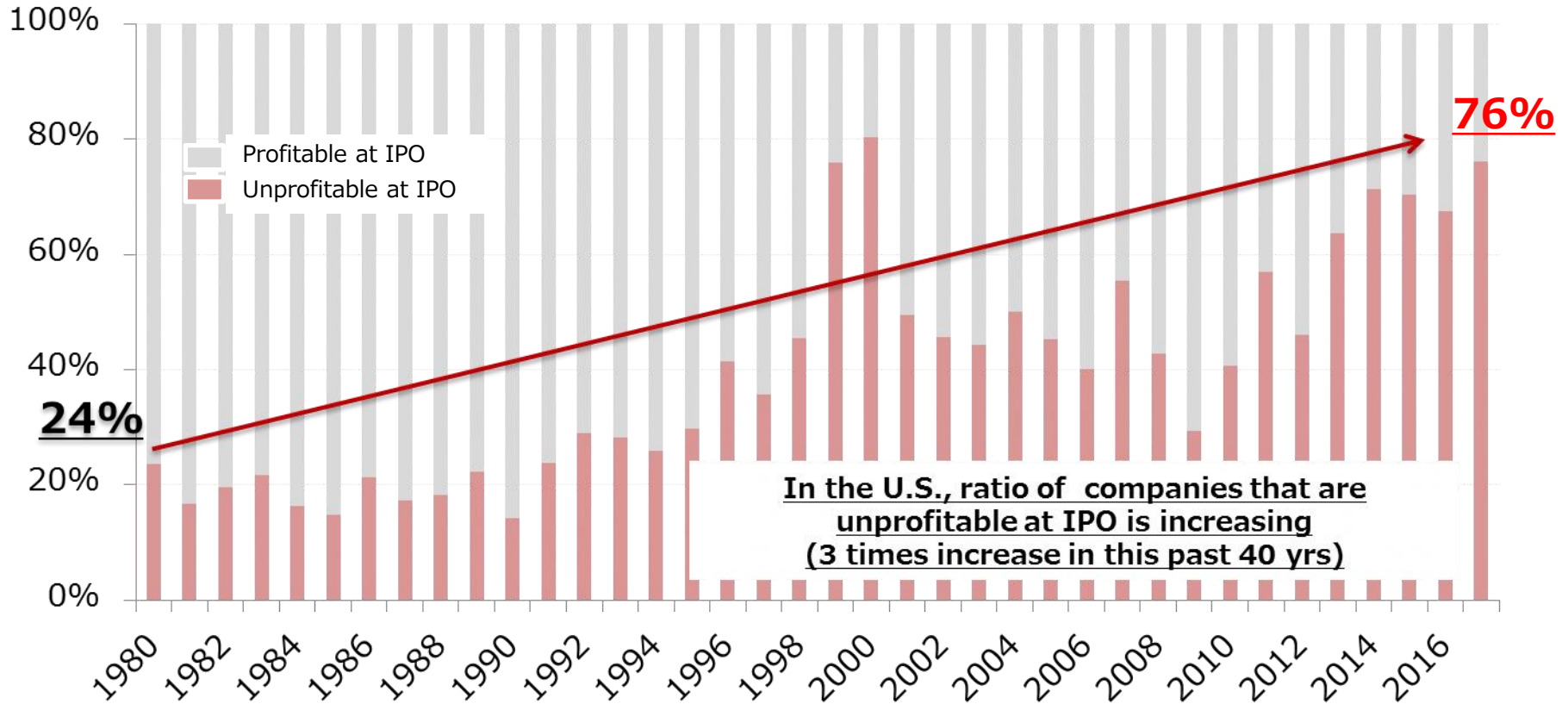
Ratio of Tech Companies for New Listings (1980 to 2017)

2008年のVisa除外



Ratio of Unprofitable Company IPOs in the U.S.

■ Tech companies are investment-intensive companies and therefore tend to be unprofitable (ratio increasing every year)



(出典) University of FloridaのJay R. Ritter教授公表米国IPOデータより東証作成

⇔ **In contrast, in Japan, unprofitable companies account for about 2% of the total IPO companies**
 (After 2005, of a total of 1,070 IPOs, 24 were unprofitable—recently, Mercari and Money Forward, etc.)

Recent Rule Changes at Other Exchanges

- In Hong Kong and Singapore, exchanges have listing criteria for investment-intensive companies (specifically, for Biotechs)

Hong Kong

Bio companies that do not meet the financial requirement

- Introduced Listing Criteria for Good Quality, High Growth & Innovative Biotechs
- **Requires Meaningful Investment from Sophisticated Investors**
- ✓ the exchange determines who is considered a “Sophisticated Investor” (AUM, investment experience, knowledge, etc.)
- ✓ the exchange determines what is “Meaningful” (1-5% of total market cap., at least 1.05 bil. JPY)
- ※Market Cap. under 3 bil. HK\$ 5%, 8 bil. HK\$ 3%, others 1%
- ※Other requirements include, progress on the clinical trial (completion of Ph. 1, no objection from authorities against Ph. 2 and onwards (clinical trial on people), more than 1 yr. of R&D and 2 yrs. of business, **high market cap requirement (more than 21 bil. JPY)**, no change in core business, investment from outside more than 6 months prior to listing

Singapore

Life Science companies that do not meet the financial requirement

- In 2009, listing criteria for life science companies was introduced (※)
- (※) companies that engages in R&D of organic or life phenomenon based on Biology etc.
- **Need to have investment from accredited Investors or Institutional investors more than 6 months prior to listing**
- ※Other requirements include more than 3 years of R&D, **high market cap (more than 24.3 bil. JPY) etc.**



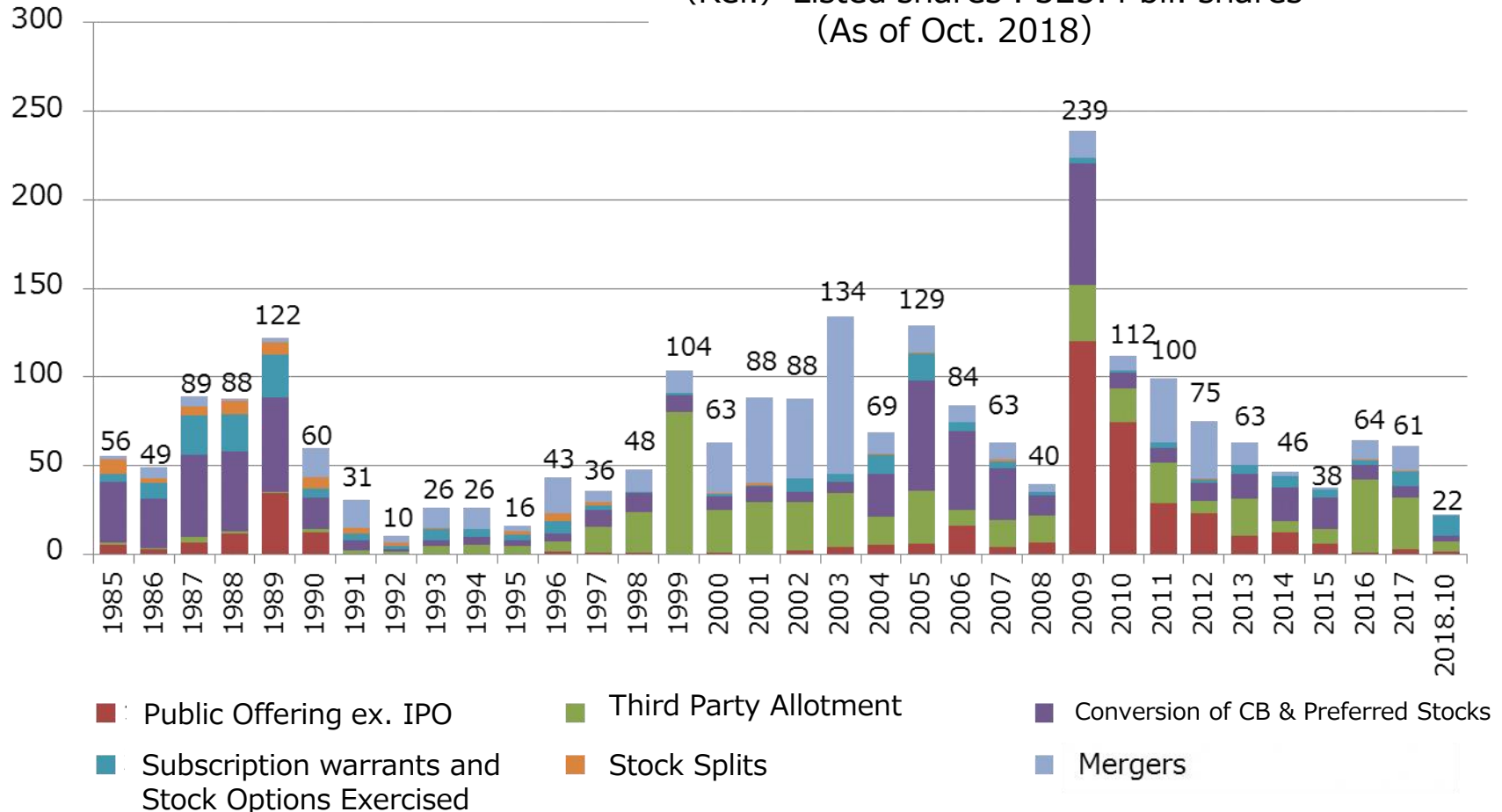
Capital Raised After Listing

- Not much capital is raised after listing, recently about 1% of total outstanding shares are related to capital raised

Increase in the outstanding shares of listed companies

(0.1 bil. shares)

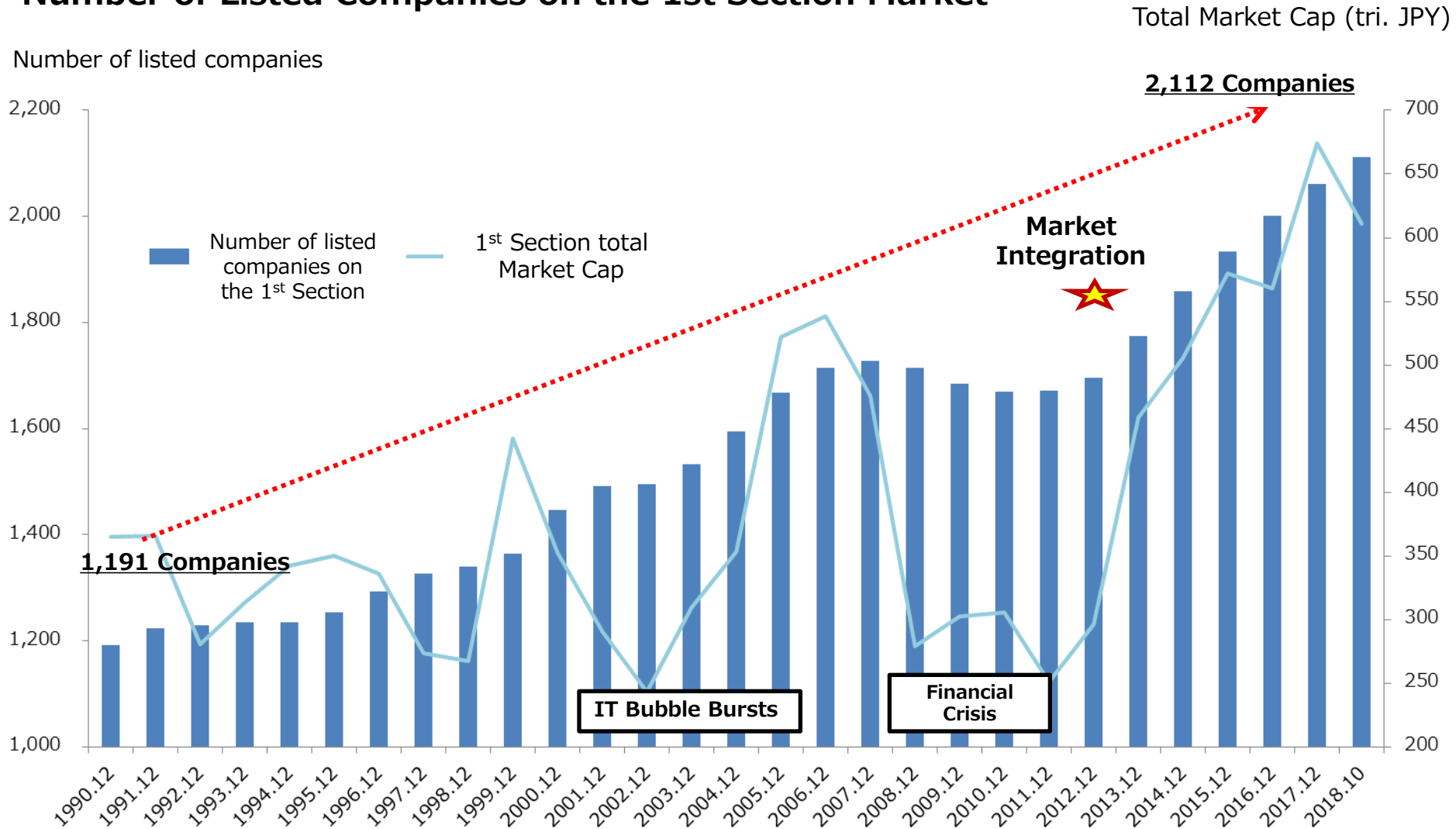
(Ref.) Listed shares : 325.4 bil. shares
(As of Oct. 2018)



2. "Step-up" Market (1st Section)

■ During the past 30 years, 1st Section listed companies have doubled

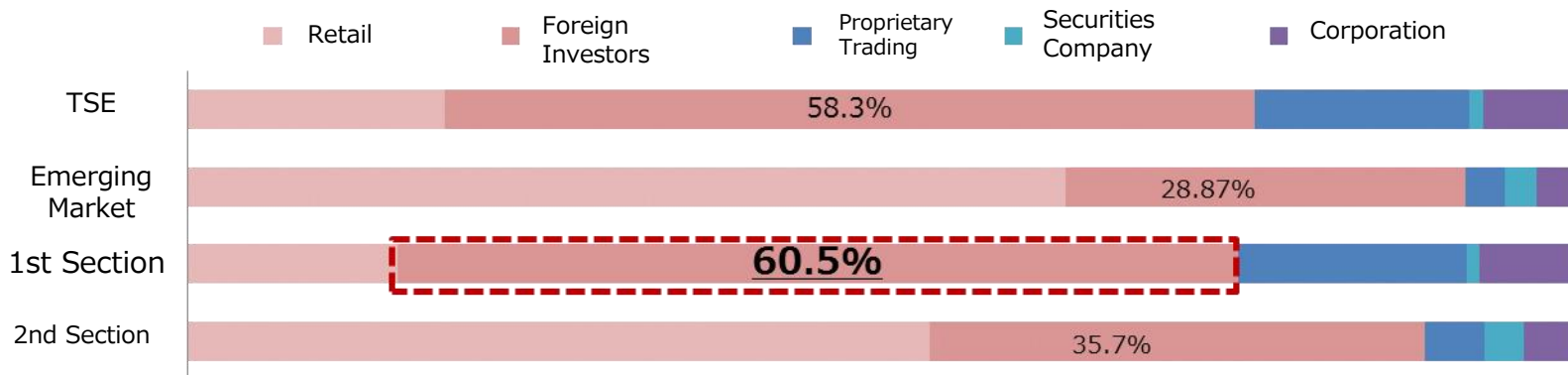
Number of Listed Companies on the 1st Section Market



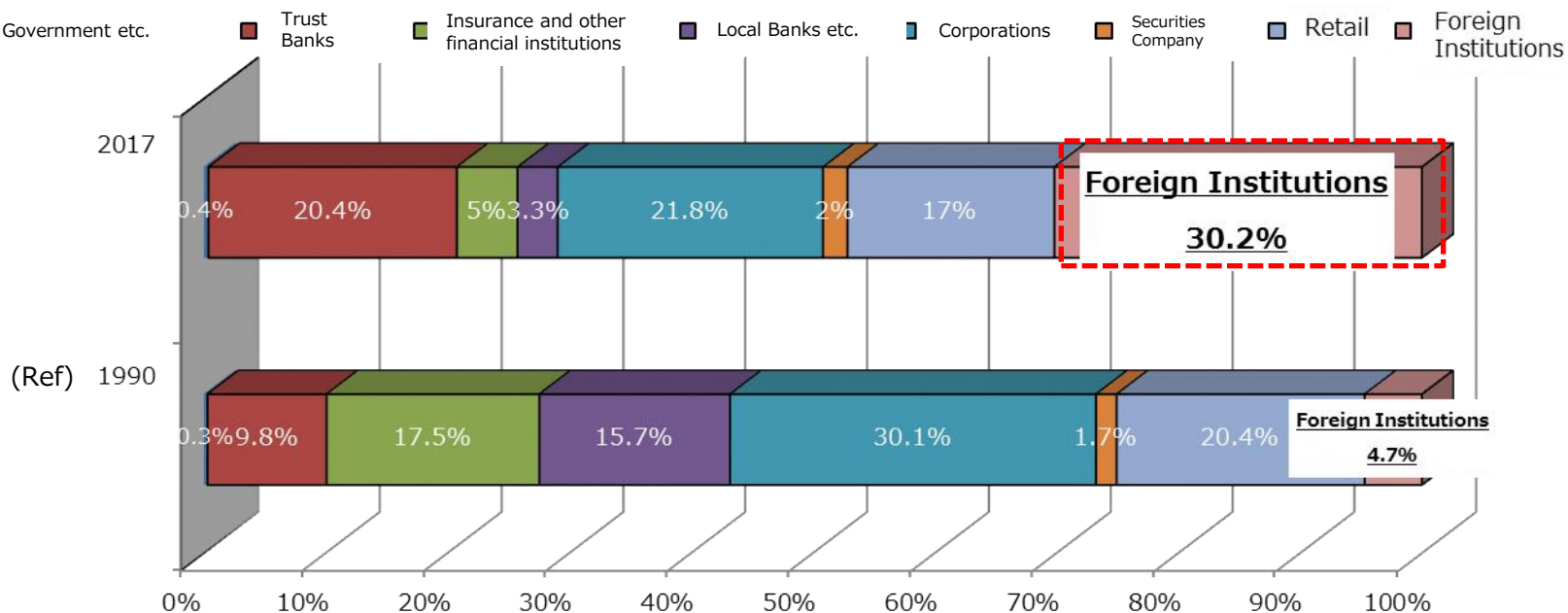
1st Section Types of Investors

Most 1st Section investors are global investors

Trading Value of TSE 1st Section Stocks by Investor Type (2017)



Shareholding by Market Value by Investor Category (2017)



Market Cap. of 1st Section Listed Companies

Top: Number of Companies
Bottom: Ratio

Market Segment/ Market Cap. JPY	<u>1st Section</u>	2 nd Section	JASDAQ Standard	JASDAQ Growth	Mothers
Over 1 tril.	<u>134</u> (6.3%)	1 (0.2%)	-	-	-
500bil.-1tril.	<u>118</u> (5.6%)	-	1 (0.1%)	-	-
100-500	<u>476</u> (22.5%)	5 (1.0%)	12 (1.7%)	-	8 (3.0%)
50-100	<u>343</u> (16.2%)	10 (2.0%)	14 (2.0%)	-	15 (5.6%)
25-50	<u>379</u> (18.0%)	40 (8.0%)	41 (5.9%)	1 (2.7%)	25 (9.3%)
Criteria for direct listing on 1st Section <u>10-25</u>	<u>452</u> (21.4%)	119 (23.8%)	117 (17.0%)	9 (24.3%)	71 (26.5%)
Criteria for market transfer to 1st Section <u>4-10</u>	<u>188</u> (8.9%)	180 (36.0%)	259 (37.5%)	13 (35.1%)	101 (37.7%)
<u>1-4</u>	<u>21</u> (1.0%)	145 (29.0%)	243 (35.2%)	13 (35.1%)	48 (17.9%)
Less than 1	=	-	3 (0.4%)	1 (2.7%)	-
Total	<u>2,111</u>	500	690	37	268

“Step-up” to the 1st Section

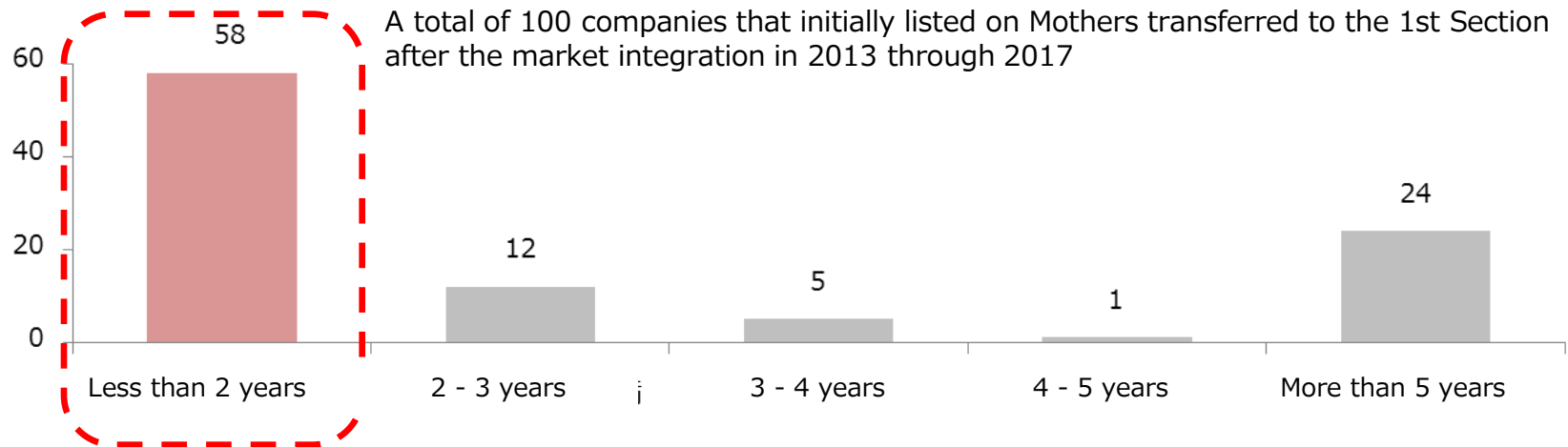
Length of time listed on the 2nd Section before market transfer to the 1st Section

Number of Companies



Length of time listed on the Mothers market before transfer to the 1st Section

Number of Companies





JPX

Main Markets of Global Stock Exchanges

(Comparing to the 1st Section)

	Market with Hierarchal Design					No Hierarchal Design		
	TSE	NASDAQ	LSE	Deutsche Boerse	Euronext	NYSE	Hong Kong	SGX
Name	1 st Section	Global Select	Premium	Prime	Regulated Market (Compartment A)	NYSE	Main Board	Main Board
Concept	—	The highest initial listing standards of any exchange in the world	Higher initial listing standards	For international investors	Market Cap. More than 10 bil€	Large & Mid Cap. Companies	For Established Companies	For Established Companies
Number of companies	<u>2,119</u>	<u>1,445</u>	<u>500</u>	<u>310</u>	<u>292</u>	2,434	1,889	465
Junior market	498 (2 nd Section)	814 (Global)	324 (Standard)	144 (General)	233 (Compartment B)	282 (American)	391 (GEM)	212 (Catalist)
Market Cap. Medium	<u>52 bil.</u>	<u>126 bil.</u>	<u>127.7 bil.</u>	<u>84.6 bil.</u>	<u>532.5 bil.</u>	205.4bil.	21.7bil.	11.7bil.
Market Cap. top 5% average	1.3 tri.	2.3 tri.	2.8 tri.	3.6 tri.	9.7 tri.	5.7 tri.	0.87 tri.	0.44 tri.
Market Cap. bottom 5% Average	6.9 bil.	8 bil.	6.8 bil.	3.4 bil.	118.6 bil.	11.7 bil.	2.9 bil.	0.77 bil.
Upgrade	Request for transfer				Automatic	—	—	—
Downgrade	Involuntary	Request for transfer			Automatic	—	—	—
Trading Value (2017)	680 tri.	1,133 tri.	200 tri.	169 tri.	222 tri.	1,453 tri.	213 tri.	24tri.

Global Comparison (GDP and Number of Issuers)

Number of Issues	Japan	US	Britain	Germany	China	Singapore
Nominal GDP (tri. JPY)	<u>540</u>	<u>2,163</u>	292	411	1,334	36
Exchange Market-Main (A)	<u>2,107</u> TSE 1 st Section	<u>4,702</u> NASDAQ Global Select•NYSE Main Board	512 Premium	328 Prime	3,895 Shanghai•Shenzhen Main Board•HK Main Board	508 Main Board
Exchange Market-other (B)	1,629	2,252	1,646	292	2,034	208 Catalist
Exchange Market-total (A+B)	<u>3,736</u> T•S•N•F (※ 1)	<u>6,954</u> NASDAQ•NYSE•American	2,158 LSE Main Board•AIM	620 Frankfurt	5,929 Shanghai•Shenzhen•HK	716 SGX
OTC Market (C)	20 Shareholder Community	10,306 OTC Markets Group	—	—	11,630 New Third Market	—
Market Total (A+B+C)	<u>3,756</u>	<u>17,260</u>	<u>2,158</u>	<u>620</u>	<u>17,549</u>	<u>716</u>

※ End of Oct. 2018

(※ 1) Tokyo, Sapporo, Nagoya, Fukuoka

3 . Market Transfer/Exit (Market Transfer/Delisting)

Market Transfer (from the 1st Section to the 2nd Section)

Market Transfer Criteria – Minimum Standard of Listing on the 1st Section

Item	Minimum Standard
Shareholder	2,000 (※)
Tradable shares	Tradable shares : 10,000 unit (※) Tradable Market Cap : 1 bil. JPY (※)
Market Cap.	2 bil. JPY (※)
Insolvency	Negative Shareholders' Equity (1 yr.)
Trading Volume	40 unit

※Each has a grace period

Recent Market Transfer

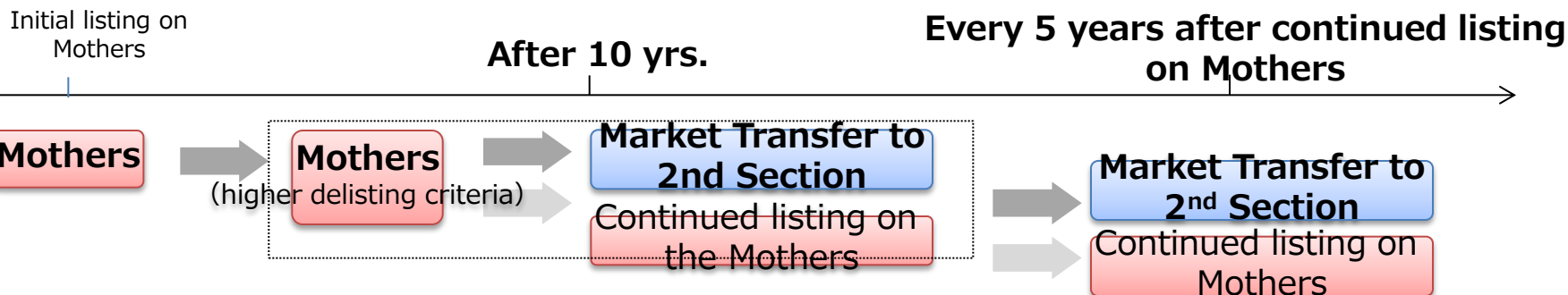
Year	Number of Companies	Reason
2010	2	Insolvency
2011	2	Insolvency
2012-2014	0	—
2015	1	Insolvency
2016	1	Insolvency
2017	1	Insolvency

Mothers 10 Year Rule

- In order to establish Mothers' market concept as a market for high growth companies, after 10 years, 2 processes commence
- ✓ Higher delisting criteria (same standard as the 2nd Section)
- ✓ Choose transfer to 2nd Section or continue listing on the Mothers (※)

※ In order to continue listing on the Mothers market, a company needs to explain that it still has high growth potential (except when the company has more than 4 bil. market cap.)

(Process after listing on the Mothers for 10 years)



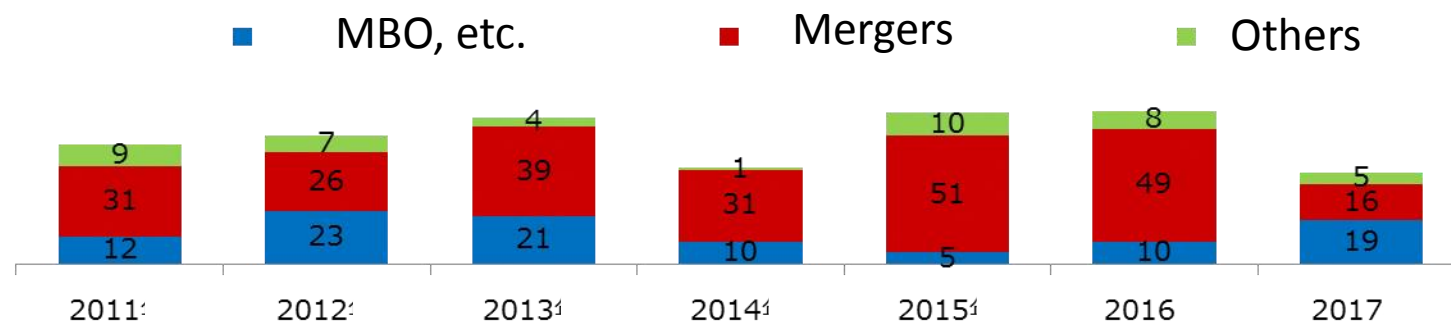
(Market Selection by companies listed on Mothers (total #))

Market Selection	After 10 years of listing on Mothers		Less than 10 years
	Market Selection to the 2nd Section	Continue listing on Mothers	
# of Companies	<u>61</u>	<u>41</u>	228

(Ref) Market Transfer less than 10 years from listing on Mothers		
Delisting	Market Transfer to the 1st Section	Market transfer to the 2nd section
10	109	2

※ As of Nov 28, 2018

Number of delistings (calendar year)



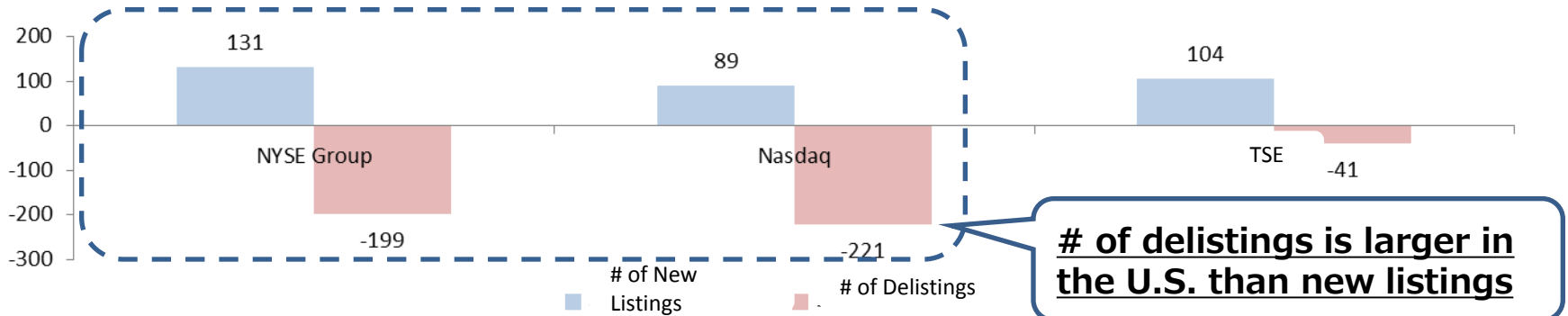
Delisting Criteria

※10 yrs. after listing the same standard as Main Market

Item	Main Market	Mothers	JASDAQ
Shareholders	4 0 0	1 5 0 (※)	1 5 0
Tradable Shares	2, 0 0 0 unit	1, 0 0 0 unit (※)	5 0 0 unit
Tradable Market cap	0.5 bil. JPY	0.5 bil. JPY (※)	0.25 bil. JPY
Tradable share ratio	5%	5%	—
Sales, Profit	—	(From 6th yrs. after listing) If sales is less than 0.1 bil. JPY	Negative CF for 5 yrs.
Market Cap	1 bil. JPY	0.5 bil. JPY (※)	—
Share price	—	Less than 1 % of offering price (for 3 yrs. after listing)	1 0 JPY
Trading Volume	1 0 unit/month or No trade for 3 months		—
Insolvency	2 consecutive auditing period		
Others	False Reporting, M&A, etc.		

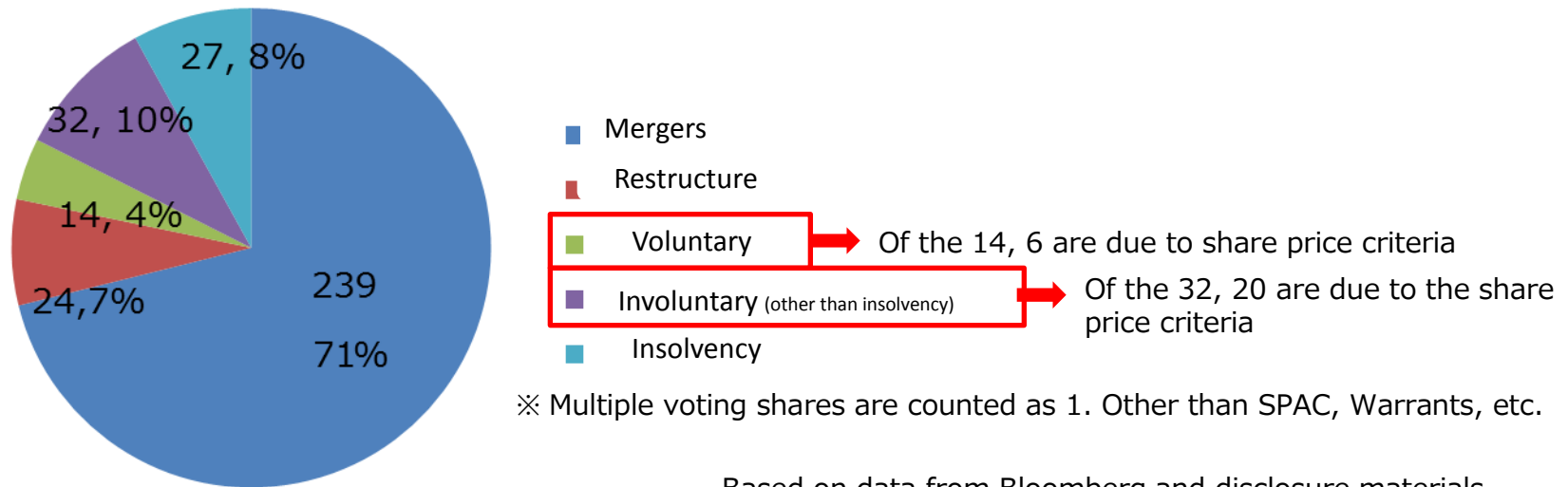
Most involuntary delistings are due to share price delisting criteria

Delisting on the U.S. Market



Based on World Federation of Exchanges , SEC EDGAR(NYSE, NASDAQ delisting by assumption)

Reasons for Delisting in the U.S., 2016 (non-U.S. companies not included)



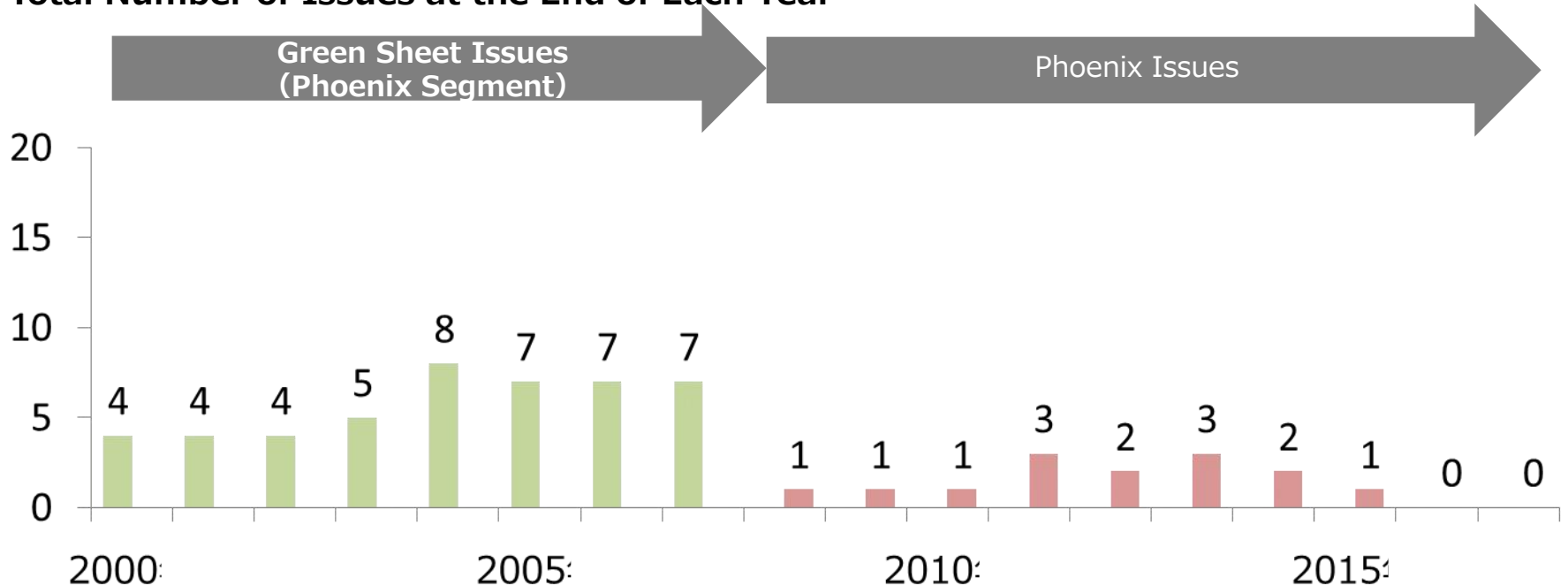
※ Multiple voting shares are counted as 1. Other than SPAC, Warrants, etc.

Based on data from Bloomberg and disclosure materials

Phoenix Issues

- ✓ Japan Securities Dealers Association operates Phoenix Issues as a market place for delisted stocks
- ✓ However, after June 2016, there are zero issues registered as Phoenix Issues

Total Number of Issues at the End of Each Year



Based on JSDA's public information