

(Reference Translation)

Development of Listing Rules for Improving Governance of Listed Subsidiaries and other Rule Changes

November 29, 2019

Tokyo Stock Exchange, Inc.

I. Purpose

The "Action Plan of the Growth Strategy" of the Japanese government (approved by the Cabinet on June 21, 2019; hereafter "the Action Plan") calls for the further strengthening of corporate governance, in order to further enhance competitiveness and to regain trust of Japanese companies. Particularly with respect to the governance of listed subsidiaries, the Action Plan calls for a more robust governance framework. Such framework includes measures, among others, like increasing transparency and requiring more information disclosure by parent company as well as the subsidiaries, and strengthening the independence standards for independent directors/auditors, in order to ensure decision making at listed subsidiaries is independent and the interests of minority shareholders are well protected.

Moreover, the feedback on public comments gathered between December 2018 and January 2019 by Tokyo Stock Exchange, Inc. (TSE) on the Consultation Paper "Review of TSE Cash Equity Market Structure," called for various improvements to the current listing rules. Also, the "Specialized Study Group on Japanese Market Structure" under the Financial System Council, which has been deliberating the cash equity market structure since May 2019, has pointed out the need to swiftly review the current rules for which issues have become apparent in terms of delisting, transfer to 1<sup>st</sup> Section, market change or section transfer.

Thereby, TSE will make necessary revisions to its listing rules toward improving the governance of listed subsidiaries etc.

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II. Outline

Item	Description	Remarks
1. Improving the Governance, etc. of Listed Subsidiaries		* In addition to these revisions, TSE will continue to consider (a) the appropriate approaches for managing the conflict of interest between the minority shareholders of listed companies that have a Quasi-Controlling shareholder(s), and (b) the appropriate framework for protecting the interests of minority shareholders of Quasi-Controlled Listed companies, TSE will establish "Study Group to review Minority Shareholder Protection of Quasi-Controlled Listed Companies."
(1) Strengthening the Independence Standards for Independent Directors/Auditors	- The independence standards for independent directors/auditors shall additionally stipulate that an independent director/auditor must not "have been with the parent or affiliated company in the last ten (10) years."	* This will be implemented as a measure to enhance the independence of listed subsidiaries from their parent companies, a matter that is called for by the Action Plan.
(2) Enhanced Disclosure on Approaches to	- A listed company that has a listed subsidiary shall disclose its approach to and policy on the management of its corporate group in its	* The purpose of this rule is to increase transparency and enhance disclosure by a listed company who has a listed subsidiary, and a listed subsidiary with parent companies,

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<p>Management of the Corporate Group, etc.</p>	<p>corporate governance report. (Said approach and policy shall include the reason for having the subsidiary remain “listed” (why it is keeping its subsidiary as listed company) and measures to ensure effectiveness of the governance framework for the listed subsidiary.)</p>	<p>in order to maintain a sound investment environment and facilitate appropriate investment decisions by investors.</p> <p>* If a listed company has multiple listed subsidiaries, the listed company shall provide the reason, the subsidiary is kept “listed,” for each listed subsidiary.</p> <ul style="list-style-type: none"> <li>- Where such a listed company has concluded with its listed subsidiary an agreement related to matters provided in the “approach to and policy on the management of the corporate group”, said matters should also be disclosed.</li> <li>- It is desirable for a listed subsidiary to disclose its parent company's “approach to and policy on the management of the corporate group” in the listed subsidiary’s corporate governance report and, where it has concluded an agreement related to such approach and policy, the listed subsidiary should also disclose the details of such agreement.</li> <li>- When listed company is going to conclude with its parent company or listed subsidiary an agreement related to matters that should be provided in the approach to and policy on the management of the corporate group, it is</li> </ul>

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		desirable for such listed company to also disclose the said matters.
<p>2. Revisions to the Delisting Criteria for Mothers and JASDAQ</p> <p>(1) Revision to the Delisting Criteria for Sales for Mothers-listed Companies</p>	<p>- Where a Mothers-listed company has posted sales of less than JPY 100 million in the most recent year, if it satisfies the requirements for “remaining listed on Mothers when choosing the market section after ten (10) years since a Mothers listing”, the company shall remain listed.</p>	<p>* The purpose of this revision is to waive certain delisting criteria for listed companies who has no sales, etc. for a long period of time but has a high growth potential etc.</p> <p>* The ideal listing criteria and market structure for companies with a high growth potential, such as investment-intensive companies, will be structured, as well, based on the discussion held at the “Specialized Study Group on Japanese Market Structure” etc.</p> <p>* Specifically, even if a Mothers-listed company has posted sales of less than JPY 100 million for the most recent year, if the company submits, by the time it discloses its financial statement of the immediately preceding business year, a "written explanation regarding high growth potential" prepared by the company and a "written confirmation on high growth potential" prepared by an entity other than the company that has expert knowledge and experience in</p>

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(2) Revision to the Delisting Criteria for Financial	• Even where a JASDAQ-listed company falls under the delisting criteria for financial performance or profits, if the company meets the criteria equivalent	<p>corporate value or stock price evaluation, the company shall remain listed. (However, if the market capitalization of the company is JPY 4.0 billion or more in the month containing such last day, the submission of such documents may be omitted.) * This approach is similar to the existing approach taken by Mothers-listed companies, 10 years after they first list on Mothers market.</p> <p>* TSE will reconsider the delisting criteria for companies with high growth potential, including investment-intensive companies, in consideration of discussions at the “Specialized Study Group on Japanese Market Structure” under the Financial System Council.</p> <p>* With respect to biotech ventures, which typically are investment-intensive companies, TSE will also clarify, in the future, its current approach to the application of the listing examination criteria.</p> <p>• Currently, for JASDAQ Standard, there are delisting criteria for operating income and operating cash flow pertaining to the most recent five (5) business years. For</p>

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Performance, etc. for JASDAQ-listed Companies	to those for the initial listing examination, the company shall remain listed.	<p>JASDAQ Growth, in addition to the said delisting criteria (grace period of five (5) years after initial listing), there are also delisting criteria pertaining to operating income for the subsequent ten (10) business years if a company had negative operating income at the time of its initial listing.</p> <ul style="list-style-type: none"><li>• TSE shall examine whether the company meets the criteria equivalent to those for initial listing examination, taking into consideration the company's financial performance, etc. after listing.</li><li>- Such examination shall be conducted during the year immediately following the four (4) consecutive business years, when operating income and operating cash flow pertaining to such periods are negative. If, as a result of the examination, the company remains listed, the delisting criteria for financial performance or profits shall apply from the following business year.</li></ul>

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<p>3. Revision to the Handling of Examinations on Assignments to the First Section, Section Transfers, etc.</p> <p>(1) Reassignment to the Second Section or Section Transfer in the Case of a Material False Statement in the Application Documents</p>	<p>- If a listed company that has been assigned to the First Section or transferred to another market section based on a material false statement in its application documents for such assignment or section transfer, such that it would otherwise have not met the criteria for such assignment or section transfer without the statement, TSE shall be able to reassign the company to the Second Section or transfer the company to the section on which it was listed before the said application was approved.</p>	<p>* Considering recent cases of companies making false statements in their applications for market section transfer, which became apparent after such market section transfer has been approved, TSE will revise its rules or handling of assignments to the First Section and section transfers etc.,.</p> <p>* The purpose of this rule is to deter companies from falsifying facts or figures to satisfy the criteria and pass the examination for assignment to the First Section or section transfer.</p> <p>* Specifically, the revision mainly assumes such situation where later it becomes apparent that the listed companies had material weakness in their internal management system etc. or had not met business result requirements or other quantitative requirements.</p> <p>* Reassignment of the listed company to the Second Section or section transfer of the listed company will also take into consideration the enforcement measures taken against such companies, such as designation as “Securities on Alert” or requirement of improvement reports, regarding</p>

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(2) Standardization of Formal Criteria for False Statement or Adverse Opinion, etc.	- The period regarding false statement(s) or adverse opinion(s) in cases where a Second Section-listed company applies for the assignment to the First Section shall be standardized with the criteria for Mothers- and JASDAQ-listed companies that apply for a section transfer to the most recent two (2) business years.	the false statement made by the company.  * Currently, all listed companies must not make false statement(s) or receive adverse opinion(s), etc. in the most recent five (5) business years when applying for assignment to the 1 <sup>st</sup> Section. However, considering that TSE has developed and strengthened its Enforcement Measures in recent years, TSE will revise the rule.
(3) Examination based on Implementation Status of Past Measures to Ensure Effectiveness	- Where a listed company has been subject to Enforcement Measure(s) in the most recent five (5) years, and the company applies for assignment to the First Section or section transfer, when examining the effectiveness of the internal management system and the appropriateness of corporate disclosure, TSE shall conduct necessary and adequate verification of matters such as (a) the implementation status of the improvement plan, etc. that the listed company formulated in	* The purpose of this rule is to clarify the handling of examinations on assignments to the First Section, etc. for listed companies that have been subject to Enforcement Measures in the past five (5) years, considering that an additional request for an improvement status report can be made within five (5) years from the submission of the initial improvement report.

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<p>(4) Revision to Calculation Method for Amount of Listing Agreement Violation Penalty</p> <p>4. Other Matters</p>	<p>response to the Enforcement Measures, and (b) the effectiveness of measures to prevent recurrence.</p> <p>- The base market capitalization for calculating the amount of listing agreement violation penalty shall be calculated by using (a) the last price on the day prior to the day the matter related to the violation, which led to the imposition of the penalty, was discovered and (b) the number of listed domestic shares, etc. as of the end of the immediately preceding month.</p> <p>• Other necessary revisions will be made.</p>	<p>* The purpose of this revision is to facilitate the proper calculation of the amount of the listing agreement violation penalty. The amount will be calculated based on the market capitalization before the violation was discovered.</p> <p>• Specifically, “the day the matter related to the violation, which led to the imposition of the penalty, was revealed” could be the day on which the first of a series of disclosures was made by the listed company regarding matters related to the violation.</p>

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III. Implementation Date (Tentative)

- These rules shall be implemented in February 2020.
- Item 1 (1) shall apply from the day following the day of the annual general shareholders meeting for the business year ending on or after March 31, 2020.
- Item 1 (2) shall apply to corporate governance reports to be submitted after the annual general shareholders meeting for the business year ending on or after March 31, 2020.
- In applying Item 2 (1), if a company is due to disclose the financial result of the recent business year end within less than one (1) year from the implementation date, the deadline shall be extended to the day on which one (1) year elapses from the implementation date.
- In applying Item 2 (2), if, for a company, the “immediately following year of the four (4) consecutive business years which the company had negative operating income and operating cash flow pertaining to those four (4) business years” falls within the period less than one (1) year from the implementation date, the “1 year” submission period will be read as “2 years.”
- Item 3 (1) shall apply to companies that are approved for assignment to the First Section or section transfer on or after the implementation date.
- Item 3 (4) shall apply to impositions of listing agreement violation penalties against acts committed on or after the implementation date.