Summary of Public Comments Received in Response to "Development of Listing Rules for Improving Governance of Listed Subsidiaries and other Rule Changes" and TSE's Responses Thereto

Tokyo Stock Exchange, Inc. (TSE) published a number of proposed rule revisions on November 29, 2019 in the consultation paper "Development of Listing Rules for Improving Governance of Listed Subsidiaries and other Rule Changes", and widely sought comments until January 10, 2020. TSE received sixteen (16) public comments in response to this consultation.

Below is an outline of the major comments received and TSE's responses to them.

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	1. Improving the Governance, etc. of Listed Subsidiaries	
	(1) Strengthening the Independence Standards for Independent Directors/Auditors	
1	・ The Action Plan of the Growth Strategy stipulated that a person who has worked at the "controlling shareholder" in the last ten (10) years should not be appointed as an independent director/auditor. However, rather than the "controlling shareholder", we support the idea of not appointing a person who has been with the "parent" or "affiliated company" in the last ten (10) years.	※ TSE, upon further discussion and consideration of the received comments, will, as originally proposed, add a condition to the Independence Standards for Independent Directors/Auditors disqualifying persons who have worked at the parent or affiliated company in the last ten (10) years. ※ As pointed out by some of the received comments, the relationship between a parent or affiliated company and a former
2	・ We are in favor of the proposed amendment of the listing rules. We look forward to seeing the appointment of truly independent directors/auditors, who have not had any business relationships with parent or affiliated companies for at least ten (10) years.	
3	・ The disqualifying condition of having worked at the parent or affiliated company in the past should not be limited to just the last ten (10) years.	

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4	・ Generally, ten (10) years will be sufficient for balancing the need for talent and the necessity of guaranteeing the independence from former employers. Moreover, the Action Plan of the Growth Strategy has called for TSE to improve the effectiveness of the "Practical Guidelines for Group Governance Systems" (hereinafter the "Group Guidelines") published by the Ministry of Economy, Trade and Industry in June 2019. From the viewpoint of improving the governance (i.e., strengthening the independence) of listed subsidiaries in accordance with the Group Guidelines, TSE's proposal is appropriate. As such, we support the purpose of the proposed rule revisions. ・ We do not, however, think it desirable that a person who has worked at the parent or affiliated company could take the position of independent director/auditor at the listed subsidiary just because ten (10) years have elapsed. It should be emphasized that independence cannot be automatically determined from any length of time, but rather, TSE should consider substantive aspects such as whether a person can actually protect general shareholders, and whether they are "unlikely to have conflicts of interest with general shareholders".	employee can come to be tenuous if a certain period of time has elapsed since the employee left the company, by which general shareholders regard that person as having gained “independence.” For this reason, it would be inappropriate to uniformly disqualify such people from being independent directors/auditors. ※ However, even in cases where ten (10) years have elapsed, if a candidate for independent director/auditor is deemed "likely to have conflicts of interest with general shareholders" due to specific circumstances, it should be noted that said candidate will not meet the criteria for independent director/auditor. ※ In cases where a listed subsidiary appoints a person who was an executive officer at the parent or affiliated company more than ten (10) years ago, TSE will continue to require said listed subsidiary to include this information and any related information about the appointment in its corporate

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		governance report (hereinafter the "governance report") and Independent Directors/Auditors Notification.
5	・ We would like to confirm the definitions of "parent company", "subsidiary", and "affiliated company".	※ The definitions of terms shall be the same as those in the current Securities Listing Regulations. Specifically, the term "parent company" shall mean the parent company as defined in Article 8, Paragraph 3 of the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Order No. 59 of 1963), and the term "subsidiary" shall mean the subsidiary company as defined in the same paragraph. Moreover, the term "affiliated company" shall mean any other company which is owned by the same parent company which owns the listed company.
6	・ If a listed subsidiary has an outside director(s)/auditor(s) who has previously worked at the parent company, etc., the subsidiary should review the selection of outside directors/auditors by the next annual general shareholders meeting at the latest.	※ In order to set aside time to disseminate the information to each listed company, this revision will be applied from the day following the date of the annual general

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		shareholders meeting pertaining to the business year ending on or after March 31, 2020. ※ Therefore, if an independent director/auditor already notified to TSE does not meet the revised Independence Standards, the listed subsidiary will be required to submit an Independent Directors/Auditors Notification that includes this information at least two weeks before the date of the annual general shareholders meeting pertaining to the business year ending on or after March 31, 2020. ※ If it is expected that there will be no independent directors/auditors in submitting the above Independent Directors/Auditors Notification, the listed subsidiary will be required to submit notification of a new independent director(s)/auditor(s) pursuant to the provisions of Rule 436-2, Paragraph 1 of the Securities Listing Regulations.

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7	・ The below persons should also be disqualified as independent directors/auditors at the listed subsidiary: - A shareholder holding at least 10% of voting rights of the listed subsidiary (in the case where said shareholder is a corporation, this should mean a person who is currently or has worked at said corporation) and his or her immediate family; and - A person who is currently or has worked at an issuer with which the listed subsidiary has a cross-shareholding relationship.	※ We discussed the proposal in your comment. However, we decided to refrain from incorporating your proposal in the rule revision. ※ In accordance with Rule 211, Paragraph 4, Item (6) of the TSE's Enforcement Rules for Securities Listing Regulations and other related provisions, if a person to be designated as an independent director/auditor of a listed company is either (i) a major shareholder of the listed company (in cases where said major shareholder is a corporation, meaning a person who executes business or has executed business of said corporation) or (ii) a client of the listed company or a person who works at or has worked at said client (meaning a person who executes or executed business at any time within the last ten (10) years), the listed company is required to include this information and other related information in its governance report, etc. The purpose of these provisions

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		is as follows. If there exists an individual specific relationship between the listed company and the person designated as an independent director/auditor (e.g. as a major shareholder or a client, etc.), it may "give rise to conflicts of interest with general shareholders". As such, by appropriately disclosing to that effect in advance to shareholders/investors, constructive dialogue between shareholders/investors and the listed company is encouraged with regards to matters such as exercise of voting rights for the appointment of directors/auditors. ※ TSE deems that, at present, there are no circumstances that require immediate revision of the current rules and that it is appropriate to apply the current rules in an appropriate manner.
	(2) Enhanced Disclosure on Approaches to Management of the Corporate Group, etc.	

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8	・ Based on the recent cases involving listed subsidiaries, we see movements to strengthen the governance of listed subsidiaries. Also, as the Group Guidelines request parent companies who own a listed subsidiary to, among other things, fully fulfill accountability through information disclosure, it is desirable to encourage listed companies that own a listed subsidiary to strengthen their information disclosure. Moreover, adding disclosure of the company's approach to corporate group management will be very useful for investors to make investment decisions. As such, we support the proposed rule revisions.	※ TSE, upon further discussion and consideration of the received comments, will, as originally proposed, require listed companies that have a listed subsidiary to disclose in its governance report 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 based on its "approach to and policy on the management of its corporate group". ※ Currently, in the "Preparation Guidelines" for governance reports, TSE requires that if a listed company has a listed subsidiary, it should describe its approach to (or policy on) corporate governance based on this situation and its relationship with said subsidiary, and recommends disclosure of "the approach to and measures, etc. for the independence of the subsidiary". These requirements will be consolidated into disclosures to be required
9	・ The parent company should disclose the following matters: - Reasons why owning a listed subsidiary will improve the corporate value of the parent company and its subsidiary; and - Mechanisms for protecting the interests of minority shareholders of the listed subsidiary.	
10	・ The parent company should disclose their reasons for holding each individual listed subsidiary, as well as the metrics it uses to assess, on an ongoing basis, whether to continue holding shares in each listed subsidiary.	
11	・ In order to make the purpose of the rule revisions clear, the wording "the reason for having the subsidiary remain listed" should be replaced with "reasonable grounds for having the subsidiary remain listed". At the same time, the wording "measures to ensure effectiveness of the governance framework for the listed subsidiary" should be replaced with "measures, etc. to ensure effectiveness of the governance framework for the listed subsidiary in order to ensure independent	

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	decision making by the listed subsidiary".	in accordance with the revised listing rules.
12	・ It should be clearly indicated that the main purpose of the rule revisions is to ensure the independence of listed subsidiaries.	※ Based on the received comments, in the revised "Preparation Guidelines" for governance reports, TSE will require listed companies to disclose "whether it contributes to maximizing corporate value of the corporate group" as part of disclosure for "the reason for having the subsidiary remain listed," including from the viewpoint of and also to disclose "how consideration is given to the independence of decision-making by the listed subsidiary for the purpose of protecting minority shareholders of the listed subsidiary" as part of "measures to ensure effectiveness of the governance framework for the listed subsidiary.. ※ In order to ensure the effectiveness of the revision of the rules, including the "assessment of holdings on listed subsidiaries, on an on-going basis" as pointed out in the comments, TSE will follow up on the practical operations to establish the best practice by means such as compiling

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		disclosure examples and publishing analysis of such examples.
13	・ Is it correct that, to ensure effective governance of the listed subsidiary through improved disclosure of the company's approach, etc. to corporate group management, instead of emphasizing the listed subsidiary's independence, it will now be required for the parent company to disclose its policy for managing listed subsidiaries to the effect that it will sufficiently manage the listed subsidiary, and that it will exercise its shareholder rights in line with the interest of the corporate group?	※ The rule revision is not intended to require a listed company that has a listed subsidiary to change its "approach to and policy on the management of its corporate group". ※ If, as suggested in the received comments, a listed company does not emphasize "the independence of its subsidiary" but has a policy of managing the subsidiary adequately as a parent company and exercising shareholder rights based on the interests of its corporate group, the parent company will be required to include in its governance report information to this effect in its "Approach to and Policy on the Management of the Corporate Group". ※ If this is the case, then after the rule revision, for "the reason for having the subsidiary remain listed" that is newly required to be included in the governance reports, the listed company will be required to disclose their

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		reason for continuing to have a listed subsidiary regardless of the above management policy. At the same time, for "the measures to ensure effectiveness of the governance framework for the listed subsidiary", the listed company will be required to describe "measures in place to ensure that, in cases where the interests of the corporate group conflict with the interests of minority shareholders of the listed subsidiary, the listed subsidiary can make independent decisions that appropriately take into account the interests of its minority shareholders".
14	・ We support the proposal that, in the case that a listed company has concluded an agreement related to the approach to and policy on the management of the corporate group, TSE will require the listed company to disclose said approach and policy. However, as there are cases where agreements have been concluded under the name of an "accord" or other terms, it would be desirable to clarify that an "agreement" in this context is used as a broad term referring to any type of “agreement” or understanding, regardless of the title of the documentation.	※ As pointed out in the comment, if there is any agreement related to the approach to and policy on the management of the corporate group as required for disclosure, details of this agreement should also be disclosed, regardless of the name of such agreement. As such, TSE will make this clear in the "Preparation Guidelines" for governance

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		reports.
15	・ What are the reasons for requiring a listed subsidiary to disclose its parent company's approach to and policy on the management of its corporate group?	※ It is deemed that details of and changes, etc. to the parent company's "approach to and policy on the management of its corporate group" will impact the assessment of values of shares, etc. issued by the listed subsidiary. As such, TSE will require the listed subsidiary to include details of this approach and policy in its governance report. ※ In the case where the parent company is a TSE-listed company that has already included its "approach to and policy on the management of its corporate group" in its governance report, it will suffice that the listed subsidiary includes in its own governance report this information and an instruction to refer to the governance report of the parent company.
16	・ Capital and business alliance agreements, etc. which are concluded when a listed company makes an existing listed company its subsidiary include material information for investment decisions. As such, we hope that, in addition to improved disclosure of the governance report, rules will be developed for requiring	※ TSE's Securities Listing Regulations require listed companies to disclose details of any "change in its subsidiaries", "change in its parent company" or "business alliance" in a

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	improved timely disclosure, and that consideration will be given to how examinations on corporate information disclosure should practically be carried out.	timely and appropriate manner, except where the impact on investors' investment decisions is of minor significance. Furthermore, in disclosing these matters, the listed company is required to make sure that they contain no false statements, that there is no lack of information deemed important for investment decisions, and that the disclosed information will not cause misunderstanding among investors for investment decisions. ※ As it has been required, in the case that an agreement for a capital alliance, etc. (including agreements using terms other than "agreement") includes important information for investors' investment decisions, timely and appropriate disclosure of it will continue to be required. However, based on the received comments, TSE will further investigate and consider the need to revise the content of the “Guidebook for Timely Disclosure of Corporate Information".

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17	・ With respect to ensuring effectiveness of the governance framework for listed subsidiaries, the rules need to clarify what specifically needs to be disclosed. At least, independence of decisions related to the appointment and remuneration of directors/auditors should be given as an example for disclosure.	※ In order to ensure the effectiveness of the rule revision, we will strive to follow up on the practical operations and assist in establishing best practices, such as by compiling examples of disclosures by listed companies and publishing analysis of these disclosures. ※ Taking into account the practices and measures that will be taken in accordance with the revised rules, TSE will continue to examine whether or not it needs to respond to each point raised in the received comments.
18	・ A parent company should disclose (1) measures to ensure the independence of itself as well as that of its subsidiary, (2) persons concurrently working at the parent company and its subsidiary, and (3) any transaction with its subsidiary whose value exceeds 5% of annual sales. A subsidiary should disclose on an ongoing basis its investigations into matters such as no cash deposits, etc. being received from or placed with its parent company.	
19	・ Information on shared internal rules among the corporate group companies is highly material for investors' judgements on group governance, so it should be considered as one of the indicated disclosure items.	
20	・ In the case that the market capitalization of a subsidiary exceeds that of its parent company, it may give rise to “twist of capital”, which is thought of as unsound. As such, in that case, companies should be required to explain their views on such “twist” of capital in their governance report.	
	(3) Others	
21	・ Strict oversight should be carried out when listing and maintaining listings of subsidiaries.	※ In addition to these revisions, TSE established the "Study Group to review Minority Shareholder Protection and other Framework of Quasi-Controlled Listed
22	・ This listing rule revision assumes that the present rules allowing listed subsidiaries are acceptable, but that assumption itself should be under review. Our NPO has	

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	already expressed our opposition to the case of ASKUL Corporation where reappointment of independent outside directors was voted against by the parent company. The "Study Group to review Minority Shareholder Protection and other Framework of Quasi-Controlled Listed Companies" established on November 29, 2019, is expected to go over the pros and cons of the listed subsidiary rule itself. We strongly hope that you will reach a conclusion appreciated by institutional investors at home and abroad, and helps to build trust in the capital market in Japan.	Companies" which is discussing matters such as (a) how to manage shareholder conflicts of interest between a quasi-controlling shareholder(s) who has substantial control of a listed company based on voting rights and minority shareholders of said listed company, and (b) frameworks for minority shareholder protection needed to enable investors to invest with confidence. ※ The current status of discussions at the Study Group can be found on the JPX website.
23	・ London Stock Exchange requires listed companies with a controlling shareholder to put in place a relationship agreement. We hope the study group will also consider introducing such a rule to enhance governance of listed subsidiaries to protect the interests of minority shareholders.	
	2. Revisions to the Delisting Criteria for Mothers and JASDAQ	
	(1) Revision to the Delisting Criteria for Sales for Mothers-listed Companies	
24	・ We agree with the rule changes for taking into consideration future potential in criteria for continued listing on Mothers.	※ Having taken the submitted comments into consideration, TSE will revise delisting criteria for sales for Mothers-listed companies as originally proposed. ※ The purpose of the revision is not to ease delisting criteria but revising the criteria so that even if a company has sales under JPY
25	・ We are in favor of waiving certain delisting criteria for potential high growth companies as contemplated.	
26	・ If TSE intends to relax delisting criteria for the purpose of promoting industry, TSE should impose strict obligations on listed companies. For example, since we think it difficult to check the objectivity of the contents of a "written confirmation	

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	concerning the possibility of high growth", TSE should strictly ensure that listed companies comply with IR and timely disclosure requirements.	100 million in the most recent year, they can maintain their listing status if they are still confirmed to have high growth potential.
27	・ Delisting criteria for sales for Mothers should be kept as they are.	
28	・ Mothers-listed companies with low sales are repeatedly increasing their capital due to continuing deficit, and therefore have issued large numbers of shares. It is almost certain that their shares will increase further in the future. TSE expressed its view in the consultation paper dated July 2004, "Review of delisting criteria regarding total market capitalization", that application of the delisting criteria cannot be ensured effectively when there are excessive number of listed shares. In light of this, it does not feel right to simply exempt a delisting criterion for “financial performance” with a high market capitalization.	※ With regard to the points on IR and information disclosure for Mothers listed companies, as received in the comments, an "information session on investment" is required to be held under the current rules for the purpose of providing more information to investors that can help with investment decisions. TSE will continue to consider disclosure rules regarding information necessary for evaluating the growth potential of companies. ※ The purpose of "Partial revision of delisting criteria following the revision of market capitalization criteria" effective in September 2004, was to ensure effective application of the market capitalization delisting criteria for listed issues that have excessive number of listed shares, by adding a delisting criteria applicable in cases where the market capitalization is less than the number

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		obtained by multiplying the number of listed shares by two.
	(2) Revision to the Delisting Criteria for Financial Performance, etc. for JASDAQ-listed Companies.	
29	・ We are in favor of the proposed revision.	※ Having taken into consideration the submitted comments, TSE will revise delisting criteria for financial performance, etc. for JASDAQ-listed companies as originally proposed. ※ The purpose of the rule change is to revise delisting criteria so that companies may remain listed if they meet the criteria equivalent to those for the initial listing examination even when their operating income, etc. is negative over a long period of time. ※ Since TSE will examine whether the company meets the criteria equivalent to those for initial listing examination using quantitative and substantive requirements, this does not mean that all companies listed on JASDAQ Standard with a market capitalization of JPY
30	・ I agree with the rule changes for taking into consideration future potential in criteria for continued listing on JASDAQ.	
31	・ Under the current regulation, though JASDAQ-listed biotech ventures can avoid violating the delisting criteria for financial performance, etc. if they license out pipelines, it does not allow them to launch new products by themselves.	
32	・ I agree with the rule changes of JASDAQ delisting criteria, to the effect that companies may remain listed on JASDAQ if they satisfy the market capitalization and other criteria to remain listed on a major overseas exchange.	
33	・ I am against the rule changes because, they could increase the possibility that corporations with market capitalizations of JPY 5 billion or more, but have become targets for high-risk, gambling-type of investments may remain listed. Since market capitalization can grow through advertisements and IR, we cannot deny the possibility that corporations which are likely to fall under delisting criteria might place extravagant advertisements in desperation.	
34	・ With regards to this revision of delisting criteria for financial performance, etc. for JASDAQ-listed companies, surely there will be no cases for the revised rules to apply to, since initial listing examination criteria cannot be met if operating income	

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	and operating cash flow are negative for the most recent four (4) consecutive business years.	5 billion or more will remain listed. ※ In addition, as part of examinations on whether a company meets the criteria equivalent to the initial listing examination, in looking at the company's "business continuity" in terms of profit/loss outlook and financial situation, TSE will take into account progress in management activities since listing and whether there are any obstacles to continuity of future business activities, meaning companies could potentially remain listed even when their operating income, etc. is negative for the most recent four (4) consecutive business years.
35	・ Developing a marketplace for selling delisted securities should be prioritized over relaxing delisting criteria. Relaxing delisting criteria should not be pursued simply because of difficulty in developing such a marketplace.	※ Thank you very much for your valuable comments. In light of your suggestion and proposals published by the Expert Study Group on Capital Markets in Japan of the Financial System Council in their "Final Report" on December 27, 2019, TSE will consider developing a place for selling

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		delisted securities, as part of discussions about strengthening delisting criteria.
	(3) Others	
36	・ Listing of biotech ventures, especially those focusing on pharmaceutical development, should be treated carefully even on emerging markets as it is regarded as an extremely high risk investment compared to other sectors, given that new drug development is a very difficult business with a massive economic burden needed for clinical trials.	※ Thank you very much for your valuable comments. Taking your suggestions into consideration, we will continue to consider, among other things, appropriate listing examinations and appropriate frameworks for protecting investors with regards to investment-intensive companies, including biotech ventures. ※ Since investment in biotech ventures is considered to be higher risk for retail investors as pointed out in the comments, TSE published "Current approach and examination points for listing of investment-intensive biotech ventures" on December 26, 2019, to clarify the points to be examined. ※ With regard to "management systems for data, including experiment results" suggested in the comments, TSE will assess
37	・ Given that the environment for fostering biotech ventures is expected to improve in the future, it seems there will be less need for imposing risk on general retail investors by listing such high risk companies, whose growth potential is difficult to evaluate, on Mothers. Since the risk for early-stage biotech ventures is very high, their listing market should be Tokyo Pro Market, not Mothers.	
38	・ Given that in the life sciences field, the reproducibility of experiment data is often perceived as problematic, and that management systems for experiment data can be unreliable, we propose that listing examination criteria for biotech ventures should include that "management systems for data, including experiment results, shall be established and key life science experiment results shall easily be available for inspection by third parties".	

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		companies as to whether or not they have developed the operating base necessary for executing business plans.
	3. Revisions to the Handling of Examinations on Assignments to the First Section, Section Transfers, etc.	
	(1) Reassignment to the Second Section or Section Transfer in the Case of a Material False Statement in the Application Documents	
39	・ We are in favor of the proposed course of action.	※ TSE will implement "Reassignment to the Second Section or Transfer to the Section on Which the Company was Listed Before the Application was Approved" as originally proposed. That is because, as pointed out, if the rule was to revoke past decisions about assignment to the First Section or section transfer, it could cause confusion among market participants including listed companies and investors. It is also because the post revocation procedure is unclear.
40	・ Although we agree with the purpose of the rule revisions from the viewpoint of preventing moral hazards, TSE should change "Reassignment to the Second Section or Transfer to the Section on Which the Company was Listed Before the Application was Approved" to "Cancellation of Assignment to the First Section or Cancellation of Section Transfer". ・ Although we assume that TSE is concerned that retroactively cancelling assignments to the First Section and section transfers would cause confusion, we think such a concern could be remedied by adding a proviso that clarifies this retroactive cancellation will have no impact on the effectiveness of market trading up to then.	
41	Simply remaining in the original market or demotion is not a harsh enough penalty for on material false statements in the application documents for assignment to the First Section, etc. Attempting to deceive the stock exchange is a grave issue which could destabilize the existing order of the securities market	※ TSE will continue to consider appropriate approaches for responding to situations in which material false statements are found in application documents, taking into

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	in Japan. Accordingly, such deliberate acts must be met with strict disciplinary action, including delisting.	consideration recent cases of listed companies, etc. ※ Even under the current rules, companies can be delisted if false statements are found in the application documents for assignment to the First Section, etc. and they are deemed to be a material breach of the written oath submitted at the time of application.
	(2) Standardization of Formal Criteria for False Statement or Adverse Opinion, etc.	
42	・ Agreed. Standardization is important and two (2) years seems sufficient to us.	※ Taking into consideration that financial statements contained in the Securities Report cover two business years, TSE has required emerging companies listed on Mothers/JASDAQ to have given no false statements nor received adverse opinions, etc. within this period when they apply for section transfer to the First Section or a company applies for direct initial listing, etc. to the First Section. ※ On the other hand, for Second Section listed companies applying for assignment to the First Section, the period was set as five years
43	・ We agree with standardization of Formal Criteria for the purpose of achieving consistency.	
44	・ We agree with the rule revisions.	
45	・ What is the reason Mothers/JASDAQ listed companies applying for a transfer to the First Section are required to have given no false statements or received adverse opinions, etc. for only the last two (2) years?	
46	・ Currently, the provision and strengthening of Enforcement Measures for preventing false statements and adverse opinions, etc. are not sufficient. With the many scandals we have seen recently in listed companies, including those related to corporate governance and accounting fraud, I think there is a problem with TSE's intention to ease formal criteria for false statements or adverse opinions, etc.	

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47	・ As the reasons for reducing the assessment period to two (2) years, increase in the provision of Enforcement Measures has been cited but it seems that Enforcement Measures do not cover cases in which adverse opinions, etc. are expressed in audit reports.	when the system was introduced in 1970, from the viewpoint of preventing false statements, etc., due to the large number of false statements, etc. from listed companies which were being detected at the time. ※ The effect of the rule revision is that taking into account the recent provisions and strengthening of Enforcement Measures, formal criteria for false statements or adverse opinions applied to assignments from the Second to the First Section shall be standardized to match the criteria of two (2) years applicable to Mothers/JASDAQ listed companies. It will also clarify that if a company has been subject to Enforcement Measures in the most recent five (5) years, TSE shall examine, at the time of examination for the First Section assignment or section transfer, whether or not improvement measures formulated in response to such Measures have been adequately implemented.

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		※ In case false statements are made in Securities Reports, etc. and/or adverse opinions, etc. are expressed in audit reports, when TSE deems the need for improvement to be high, Enforcement Measures such as designation of Securities on Alert and/or request for submission of an improvement report shall be taken.
48	・ Section transfers from Mothers to the First Section are judged on either a "Market Capitalization Requirement" or a "Trading Volume Requirement". Please tell us the reason why the assessment period for adequacy of financial statements in cases where the company is judged in terms of trading volume will not be standardized to two (2) years from five (5) years.	※ The purpose of the rule revision is to implement revisions prioritizing the following matters: (a) Matters pointed out by many related parties as points for improvement through, among other things, the public consultation and interviews with market participants conducted during the Review of TSE Cash Equity Market Structure after fall 2018, and; (b) Matters pointed out by the Expert Study Group on Capital Markets in
49	・ Assessment periods differ between initial listings and First Section assignments, not only in terms of adequacy of financial statements, but also for items such as tradable shares, trading volume and market capitalization. In this regard, please tell us the reason why only the assessment period for the adequacy of financial statements is going to be changed this time.	

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		Japan of the Financial System Council as currently problematic and requiring swift improvement. ※ This rule revision will also standardize the period for which companies applying for section transfer from Mothers to the First Section are required to have given no false statements or received adverse opinions, etc. to two (2) years. ※ With regards to matters suggested in the comments other than those related to the assessment period for adequacy of financial statements, TSE will discuss these in detail based on the Final Report by the Expert Study Group on Capital Markets in Japan of the Financial System Council.
50	Currently, the only company that would be affected by the reduced assessment period for adequacy of financial statements is Toshiba. In this regard, please tell us the reason why TSE has determined that issues have surfaced, and that immediate improvement is necessary.	※ As mentioned above, the purpose of the rule change is to make revisions in light of matters pointed out as points for improvement through our public consultation and interviews with market participants, as well as matters deemed by

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		the Expert Study Group on Capital Markets in Japan of the Financial System Council to be currently problematic and require swift improvements. ※ Taking into consideration that TSE has further provisioned and strengthened its Enforcement Measures since the introduction of formal criteria for false statements and adverse opinions, etc. for assignment to the First Section in 1970, TSE considers it appropriate to make revisions which ensures the substantial improvement of company's actions through examining whether plans formulated in response to Enforcement Measures have been adequately implemented, rather than uniform application of formal criteria of 5 years.
	(3) Examination based on Implementation Status of Past Measures to Ensure Effectiveness	
51	・ We agree with the currently proposed rule revisions. With regard to examinations for First Section assignments or section transfers for listed	※ When conducting examinations, TSE will make every effort to conduct necessary and

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	companies that have been subject to Enforcement Measures in the past, results should be contingent upon their measures to improve governance, including significant changes to the board of directors, a full and transparent investigation as to causes of the original actions that resulted in the Enforcement Measures, and measures to prevent their reoccurrence.	thorough verification of whether improvement measures formulated in response to the Enforcement Measures have been implemented adequately.
52	・ Examinations should be conducted strictly and adequately from the viewpoint of fraud prevention.	
53	・ The proposed revision is not an adequate safeguard, because of the possibility that companies engaged in fraudulent activity could slip through examinations again.	
	(4) Revision to Calculation Method for Amount of Listing Agreement Violation Penalty	
54	・ We believe the calculation should be based on the average of the daily VWAP prices from the prior sixty (60) trading days, since stock prices are often highly volatile.	※ Taking into consideration the submitted comments, TSE shall, as originally proposed, calculate listing agreement violation penalties using stock prices from immediately before the violation is discovered. This is because if we use average prices over a certain period of time, depending on the period of time chosen, the price could be influenced by stock price decline after the violation was discovered, and therefore it would be difficult to
55	・ It would surely be more reasonable for the calculation method for the listing agreement violation penalty to use average closing prices over a certain period of time, such as 30 days, rather than a calculation method which directly reflects temporary price fluctuations.	
56	・ TSE should consider whether or not to expand the range of actions which can lead to a listing agreement violation penalty, to actions such as insufficient or inappropriate implementation of measures to prevent recurrence of the violation or other measures set out in the improvement report.	

No.	Summary of Comment	TSE's Response
57	・ When calculating the listing agreement violation penalty, TSE should consider measures so that the amount can be increased or decreased depending upon the conduct and behavior of the listed company. For example, in cases where the confidence on insecurities market is materially damaged due to malicious activity or repeated violations over a long period, it would be reasonable for the listing agreement violation penalty to be increased.	appropriately measure the impact of violation on the market confidence. We will continue to consider all matters regarding listing agreement violation penalties, including how they should be calculated, taking into account all received comments.
58	・ Under the listing rule revisions this time, TSE can penalize a company by reassigning it to the Second Section or transferring it to the section on which it was listed before said application was approved when false statements are detected in listed companies' application documents either for First Section assignment or section transfer only. ・ A listing agreement violation penalty should be imposed additionally as a penalty for similar cases related to initial listing. If it is not possible to require an additional listing agreement penalty, I hope that some kind of measures will be introduced through future changes.	※ In cases such as the one mentioned in this comment, a listing agreement violation penalty may be imposed even under the current rules. TSE will continue to apply these rules adequately.
	4. Others	
59	・ For companies newly assigned to the First Section who have been subject to Enforcement Measures in the past, TSE should consider introducing a follow up examination to confirm that the company is making no false statements, etc., as part of normal supervision procedures.	※ TSE will continue to consider whether or not to introduce measures in response to each of the submitted points.

No.	Summary of Comment	TSE's Response
60	・ To prevent fraudulent applications, TSE should consider introducing a system in which it checks, after a certain period of time from First Section assignment or section transfer, that the company has made no false statements in applications.	※ Even under the current rules, for companies whose "Securities on Alert" designation was cancelled, TSE checks the progress of improvements if necessary.

Comments No. 1, 5, 11, 12, 14-17, 19, 23, 40, 43, 52, 55-57, 59 & 60 are from Institute for Legislation surrounding Listed Companies; No. 2, 10, 18, 25, 29, 39, 42, 51 & 54 from Oasis Management Company Ltd.; No. 3, 7 & 9 from Strategic Capital, Inc.; No. 4, 8 & 22 from Japan Corporate Governance Network; No. 38 from iPS Portal, Inc.; and No. 44 from Canyon Partners, LLC. All other comments are from individuals.