

## Summary of Public Comments on "Revisions to Listing Rules in Connection with the Amendments to the Companies Act in 2019"

Tokyo Stock Exchange, Inc. (TSE) published proposed rule revisions on December 17, 2020 in the consultation paper "Revisions to Listing Rules in Connection with the Amendments to the Companies Act in 2019" and widely sought comments until January 18, 2021. TSE received one public comment in response to this consultation.

Below is an outline of the comment received and TSE's responses to it.

No.	Summary of Comments	TSE's Responses
	1. Securing an outside director	
1	- Since listed companies must secure at least one outside director according to "the Act Partially Amending the Companies Act" (Act No. 70 of 2019; hereinafter referred to as the "Amended Companies Act"), we do not consider it very meaningful to state the same matter in the Securities Listing Regulations (hereinafter referred to as the "listing regulations"). Instead, from the perspective of the relationship between hard law and soft law, it would be more appropriate for TSE to consider introducing measures, etc. in the listing regulations for preventing a situation where the result of imposing the obligation to secure at least one outside director based on the Amended Companies Act leads to compliance only in form, not in substance, and turns out to be contrary to the interests of general shareholders.	<p>* The Amended Companies Act does not impose an obligation on listed companies with a board of company auditors that are not categorized as large companies under the Companies Act to appoint outside directors. Since the protection of general investors is considered important regardless of whether or not a listed company is categorized as a large company, this revision is aimed at requiring all listed companies to secure outside directors as the minimum requirement.</p> <p>* TSE has worked on developing listing rules that are effective for protecting general investors</p>

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		<p>through requesting, in the Code of Corporate Conduct, listed companies to secure at least one independent outside director as a matter desired to be observed and requesting, in the Corporate Governance Code, listed companies to clarify the roles and responsibilities of independent outside directors and to effectively utilize them. We will continue to consider and work on measures for protecting general investors and ensuring their effectiveness.</p>
	2. Rule revisions in connection with the establishment of regulations of share delivery	
	(1) Addition of items for timely disclosure	
2	<p>- We request TSE to provide us with its approach for the de minimis criteria for timely disclosure of share delivery. TSE could handle share delivery differently from other reorganization activities (such as merger, share transfer, and stock swap) by establishing de minimis criteria similar to that for a change in a subsidiary or that for issuance of offered shares.</p>	<p>* Under the Amended Companies Act, share delivery is positioned as an activity under reorganization because shares are delivered as consideration when acquiring a subsidiary. Accordingly, for the de minimis criteria for timely disclosure, TSE will handle share deliveries in the same manner as that applicable to other reorganization activities rather than with a focus on its specific aspects,</p>

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		such as a change in a subsidiary or share issuance.
	3. Others	
3	- Regarding the revision of regulations on director remuneration, we expect TSE to undertake an overall review of the disclosure rules on this matter besides integrating timely disclosure for granting stock options into timely disclosure for offering of stock subscription warrants.	* In relation to the comment, in the Preparation Guidelines for Corporate Governance Reports (hereinafter referred to as the "preparation guidelines"), we currently request listed companies to describe "incentives" and "remuneration for directors". We will continue to work on enhancing disclosure while monitoring the overall situation regarding disclosures on director remuneration following the promulgation of the Amended Companies Act.
4	- Under the Amended Companies Act, an outline of the expected role of a candidate for outside director is required to be described in the reference documents for general shareholders meetings (Article 74, Paragraph 4, Item 3 of the Ordinance for Enforcement of the Companies Act). An outline of the duties performed by an outside director in relation to the expected role is also required to be described in the business report (Article 124, Item 4 (e) of the same ordinance). These	* In relation to the comment, in the preparation guidelines, it is currently stated that a listed company could describe the roles and responsibilities of each outside director in the listed company in the section on the "reason for appointment of an outside director" of the "appointment status of outside directors" and

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	<p>amendments should be sufficient for TSE to consider requiring listed companies to provide similar descriptions in disclosure documents prescribed by TSE.</p> <p>- It might be a good idea for TSE to request listed companies to provide description on outside auditors (candidates), such as their expected roles, as optional items in disclosure documents prescribed by TSE.</p>	<p>also describe the roles and responsibilities of outside directors in the section on the "reason for adoption of current corporate governance system". Furthermore, in the preparation guidelines, a listed company could describe the roles and responsibilities of each outside auditor in the company also in the section on the "appointment status of outside auditors". We will continue to consider the desired form and content of disclosure on the roles of outside directors and outside auditors, etc. while monitoring the situation regarding such disclosures following the promulgation of the Amended Companies Act.</p>
5	<p>- While a company that will become a subsidiary due to share delivery is not a party to the share delivery, if it is conducted with the aim of making a listed company a subsidiary, in terms of actual procedures, the listed company must disclose an opinion on its position regarding a tender offer. In this regard, TSE should consider the consistency between the practice related to the disclosure of such opinions and recent developments in the rules regarding listed subsidiaries.</p>	<p>* As mentioned in the comment, if share delivery is conducted with the aim of making a listed company a subsidiary, the listed company shall disclose information to investors in a timely and appropriate manner when the listed company releases its opinion on its position regarding the tender offer (or, if share delivery will be conducted as a part of a capital tie-up, when the</p>

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		<p>listed company decides to form the capital tie-up).</p> <p>* TSE has developed listing rules for protecting minority shareholders of listed companies with controlling shareholders or those equivalent thereto. In light of the comment on considering requiring measures for protecting minority shareholders at the stage of disclosing an opinion regarding a tender offer, which comes before a controlling relationship is formed due to the acquisition of shares, we will continue to consider the framework necessary for protecting minority shareholder interests through discussions in the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code and the Study Group to review Minority Shareholder Protection and other Framework of Quasi-Controlled Listed Companies.</p>

Comments No. 1 to No. 5 are from Institute for Legislation surrounding Listed Companies.

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