

Summary of Public Comments on "Handling of Transition Measures and Other Matters Relating to Continued Listing Criteria"

Tokyo Stock Exchange, Inc. (TSE) released the outline of "Handling of Transition Measures and Other Matters Relating to Continued Listing Criteria" on January 30, 2023 and sought comments until March 1 of this year, as a results of which 14 comments were received.

The following is a summary of the main comments received and TSE's responses.

No.	Summary of Comments	TSE's Response
	1. Handling of transition measures relating to continued listing criteria	
	(1) End date of transition	
1	<ul style="list-style-type: none"> By clarifying the end date of the transition measures relating to the continued listing criteria and publishing a list of companies under the transition measures, we expect that companies subject to these measures will be encouraged to work hard to meet the continued listing criteria. We also believe that the end date of the transition is generally appropriate, based on the distribution of the lengths of Conformance Plans and other factors. 	<ul style="list-style-type: none"> In implementing the market restructuring, TSE decided to provide a transition measure for the time being for the purpose of avoiding drastic changes. However, from the perspective of encouraging listed companies to increase their corporate value and ensuring healthy industrial metabolism, we have decided to specify the end date of the transition measures taking into account the summary of discussions of the Council of Experts Concerning the Follow-up of Market Restructuring (hereinafter referred to as the "Follow-up Council"). Under the common view of the Follow-up
2	<ul style="list-style-type: none"> Considering that it would be inappropriate to allow the transition measures to continue long term, we believe that the end date is appropriate from the perspective of ensuring a certain level of urgency and covering a significant number of the Conformance Plans of companies that are making positive efforts to comply with the continued listing criteria. 	
3	<ul style="list-style-type: none"> Given the purpose of the market restructuring, the deadline for transition measures needs to be specified, and I think it is appropriate to set the end date as March 31, 2025, taking into consideration that the status of COVID-19 under the 	

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	<p>Infectious Diseases Control Law will be lowered to Category V in May and that economic activity is also returning to normal.</p>	
4	<p>– In cases where listed companies fail to meet the continued listing criteria as of the earliest record date that falls on or after March 1, 2025, we do not think it necessary for TSE to provide an additional one-year improvement period. The next two years will be sufficient for such listed companies to meet the continued listing criteria.</p>	<p>Council that the transition measure should be terminated as soon as possible, there were two opinions regarding the specific end date: one was that it should be a date two years after the transition to the new market segments (three years if the improvement period is included) and the other was that it should be three years after the transition (four years if the improvement period is included). Despite this, we have decided to set the end date as March 2025, which is three years after the transition, taking into consideration the time between the publication of the end date and the application of the regular continued listing criteria, as well as the distribution status of the length of Conformance Plans, among other things.</p>
5	<p>– We think it somewhat unfair that exceptional measures will apply to companies that have already disclosed a Conformance Plan with an end date that goes beyond the earliest record date that falls on or after March 1, 2025. However, given that the currently submitted Conformance Plans are based on voluntary</p>	<p>– For listed companies that have disclosed a Conformance Plan as of the day before the implementation date with a deadline that goes beyond the end date of the transition</p>

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	<p>targets specified by each company as permitted under the current rules and that the number of such companies is limited, we consider it unavoidable.</p>	<p>measures, TSE will continue to designate them as Securities Under Supervision until they are confirmed to meet or not meet the criteria at the end of their Conformance Plan, taking into consideration that said plans were formulated on a voluntary basis with no clear deadline as you commented, and that we see in some cases that companies are making steady progress with these plans.</p>
(2) Reselection of Market Segment		
6	<p>– For Prime Market listed companies wishing to transfer their market segment to the Standard Market, TSE will not require them to undergo the segment transfer examination if they apply in the period of six months from the implementation date of the revised rules. We think this unavoidable for the purpose of encouraging each listed company to list its stocks on the appropriate market.</p>	<p>– Each of the three market segments of TSE is positioned as an independent market segment with its own clear market concept. Therefore, when a listed company wishes to transfer to another market segment, it shall apply for transfer of market segment and shall be subject to a listing examination to determine whether it meets the listing criteria of the market segment to which it wishes to transfer.</p> <p>– On the other hand, for companies listed on the Prime Market, which were allowed to</p>
7	<p>– I believe it is appropriate that TSE will encourage listed companies under the transition measures to transfer to their appropriate market segment after reexamining their submitted plan in the next six months to see whether it is feasible and revising it if necessary.</p>	
8	<p>– Providing an opportunity to reselect the market segment is desirable from the perspective of investor protection, as it will encourage companies that have difficulty in meeting the criteria for the Prime Market but still meet the criteria for</p>	

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	<p>the Standard Market to transfer to the Standard Market, and thereby is expected to reduce delisting risk.</p>	<p>select either the Prime Market or the Standard Market when applying for market segment selection during the period from September to December 2021, the assumptions under which market segments were selected have now been changed by specifying the end date of the transition. Accordingly, TSE has decided to provide Prime Market listed companies with an opportunity to list their stocks on the Standard Market without requiring them to be subject to the segment transfer examination.</p>
9	<p>– We strongly request that the deadline for reselection of the Standard Market should be either the end date of the plan disclosed by each company or the end of March 2025, in line with the transition measures, from the perspective of ensuring time for companies themselves to evaluate the effectiveness of Conformance Plans and for investors to make appropriate investment decisions.</p>	<p>– TSE has decided to provide this chance for reselection of market segment given that there will be a change in the assumptions that were used for the market segment selections conducted by each listed company before the transfer. The purpose of the provision is not to allow listed companies which fail to meet the requirements by the end of their Conformance Plan to transfer to the Standard Market without being subject to the</p>
10	<p>– I feel that the proposal to set the deadline for the Standard Market as September 29, 2023 does not respect the improvement plans voluntarily set by companies under the transition measures and encourages companies to transfer to the Standard Market based on their current status of achievement. I think that the deadline for reselection should be either the deadline disclosed in the</p>	<p>– TSE has decided to provide this chance for reselection of market segment given that there will be a change in the assumptions that were used for the market segment selections conducted by each listed company before the transfer. The purpose of the provision is not to allow listed companies which fail to meet the requirements by the end of their Conformance Plan to transfer to the Standard Market without being subject to the</p>

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	<p>Conformance Plan or March 2025, as a certain period of time is needed for assessing the progress of plans.</p>	<p>examination. Accordingly, we have decided to provide an opportunity for reselection for a limited period from the implementation date of the revised rules. In line with this purpose, TSE has set the specific period as six months, taking into account the time that was given for consideration of market segment selection by listed companies before the transfer.</p> <p>– Please note that if a company wishes to transfer to the Standard Market after the end of the reselection period, it may do so by taking the regular procedures (applying for transfer of market segment to the Standard Market and meeting the listing criteria of the new market segment).</p>
11	<p>– For companies failing to meet the criteria for the Prime Market but meeting the criteria for the Standard Market, from the perspective of investor protection, we think it would be better for TSE to strongly request them to continue listing by taking the procedure for transfer to the Standard Market, or establish a framework that automatically transfers them from the Prime Market to the Standard Market, for example.</p>	<p>– TSE considers each of the three market segments to be an independent market segment with its own clear market concept. Therefore, when a listed company failing to meet the continued listing criteria wishes to transfer to another market segment, it shall</p>

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12	<ul style="list-style-type: none"> - Even if a company fails to meet the continued listing criteria for the Prime Market, if it meets the initial listing criteria for the Standard Market, I think it should be transferred to the Standard Market. 	<p>apply for transfer of market segment and shall be subject to a listing examination to determine whether it meets the listing criteria of the destination segment. In this regard, except for the reselection to be allowed under these revisions, we have no plan to provide a framework to allow listed companies to transfer to another segment without being subject to the examination.</p>
(3) Other		
13	<ul style="list-style-type: none"> - Since we can expect a significant number of companies, including those in the banking industry, to change their market segment to the Standard Market or to be delisted when the transition measures end, it is necessary to provide information so that there will be no major confusion. 	<ul style="list-style-type: none"> - Taking into consideration the comments we have received, we will continue to provide appropriate information on the details and purpose of the amendments as well as the status of companies to which the transition measures apply, through the TSE website and other means.
14	<ul style="list-style-type: none"> - Regarding the details of these revisions and listed companies' conformance to the continued listing criteria, it is necessary to provide easy-to-understand information to individual investors, who, unlike institutional investors, have limited means of obtaining this information. 	<ul style="list-style-type: none"> - The status of companies under the transition measures will be published on the TSE website in July of this year or later, including the names of companies under the transition measures, the criteria they are failing to
15	<ul style="list-style-type: none"> - The purpose and background of these amendments, including other related information, should be communicated widely to capital market participants including listed companies in an easy-to-understand manner. 	

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		meet, and the lengths of their Conformance Plans.
16	<ul style="list-style-type: none"> <li data-bbox="309 331 1417 579">– In reality, the Standard Market is composed of mature companies of a smaller size or companies that deliberately did not select the Prime Market, and I think the priority for these companies is more the protection of management through stable shareholder maneuvering or contingency takeover defense measures rather than the improvement of corporate value. <li data-bbox="309 595 1417 1273">– If there is an increase in the number of companies that transfer from the Prime Market to the Standard Market or the number of delisted companies due to the ending of transition measures, we are afraid that it could slow down the economic growth of Japan as a whole. From the perspective of protection of employees and investors, especially, acquisition of Standard Market companies by Prime Market companies should be encouraged. Specifically, it would be effective to (1) raise the criteria for ratio of tradable shares to prevent stable shareholder maneuvering (ideally, to 51% in the end), and (2) encourage companies that are to be delisted to apply mutatis mutandis the "Fair M&A Guidelines" issued by the Ministry of Economy, Trade and Industry (METI), by assuming the price at the time of delisting is the MBO price or the TOB price offered by the controlling shareholder and having the board of directors implement market checks (ideally, TSE should cooperate with METI to have this included in the M&A Guidelines). 	<ul style="list-style-type: none"> <li data-bbox="1440 331 2074 954">– TSE positions the Standard Market as "the market for companies which have appropriate levels of market capitalization (liquidity) to be investment instruments in the open market, keep the basic level of corporate governance expected of listed companies, and commit to sustainable growth and improvement of medium- to long-term corporate value". Based on this concept, TSE intends to create a framework to improve corporate value that meets the characteristics of the Standard Market.
	2. Extension of Designation Period for Securities to Be Delisted	
17	<ul style="list-style-type: none"> <li data-bbox="309 1353 1417 1380">– If a company chooses to take the risk to deliberately not make reselection and 	<ul style="list-style-type: none"> <li data-bbox="1440 1353 2074 1380">– As you commented, there is a risk that some

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	<p>continue to be listed on the Prime Market, then fails to meet the continued listing criteria, said company could face a risk of delisting. As this makes it necessary to strengthen investor protection, the proposal to extend the designation period for Securities to be Delisted is appropriate.</p>	<p>issues may be delisted due to the ending of transition measures related to the continued listing criteria. Therefore, in order to secure sufficient opportunities for shareholders to sell their shares, TSE will extend the designation period for Securities to Be Delisted, which is currently set at one month.</p>
	<p>3. Other</p>	
<p>18</p>	<p>– Initiatives to support the sustainable growth and medium- to long-term improvement of corporate value of listed companies, which was the purpose of the market restructuring, are extremely important in order to gain support from domestic and overseas investors, and we hope TSE will take further measures to ensure its effectiveness in the future.</p>	<p>– From this perspective, TSE will promptly address the various initiatives set forth in the "TSE's Future Actions in Response to the Summary of Discussions of the Follow-up Council" published on January 30, 2023, and will evaluate them on an on-going basis, thereby improving the effectiveness of the market restructuring.</p>
<p>19</p>	<p>- Under current rules, holdings by domestic business corporations are, as a general rule, excluded from tradable shares, but I don't think it is necessary to exclude general corporations. As an alternative, I wonder whether we could simplify the procedures for submitting the "shareholding status report" and treat shares held by general corporations as tradable shares if we can confirm through, say, statistical data from the shareholder register administrator that the holding has increased or decreased in</p>	<p>– Under the current rules, shares held by certain entities including business corporations are, as a general rule, excluded from tradable shares as it has been confirmed from past statistics that actual trading frequency (turnover ratio) in the market for</p>

No.	Summary of Comments	TSE's Response
	the last five years.	<p>such shares is extremely low. However, if the shares are held for "pure investment purposes" and were actually traded in the last five years, such shares are exceptionally treated as tradable shares.</p> <ul style="list-style-type: none"> - However, even if the shares were actually traded, we may not consider this as a track record in the market in some cases, such as cases of direct transactions among group companies and acquisition of shares in connection with organizational restructurings. Accordingly, in applying this exception, we check the trading details based on large shareholding reports or shareholding status reports prescribed by TSE.
20	<ul style="list-style-type: none"> - TSE stated in No. 44 through 46 of the Summary of Public Comments on "Development of Listing Rules for Cash Equity Market Restructuring (second set of revisions)," published on April 30, 2021, that "in light of suggestion that shares held in the name of trust banks as bank accounts have low liquidity in the market, we will examine the practical measures to be taken to ascertain the number of such shares and verifying the actual situation." In this regard, please tell us, as a result 	<ul style="list-style-type: none"> - As you pointed out, as a response to comments received in the consultation on "Development of Listing Rules for Cash Equity Market Restructuring (second set of revisions)," TSE stated that we would examine the handling of shares held in the name of

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	<p>of your examination, how TSE will treat shares held in the name of trust banks as bank accounts and, if TSE intends to change the handling of such shares, when the change will take effect.</p>	<p>trust banks as bank accounts.</p> <ul style="list-style-type: none"> - Since we have confirmed that shares held in the name of trust banks as bank accounts actually have low turnover ratios as is the case with shares held by domestic ordinary banks, TSE is currently considering excluding them from tradable shares in the future. As for the specific timing of this revision, we will consider it taking into account the impact on listed companies including companies under the transition measure.
21	<ul style="list-style-type: none"> - Under the calculation method of "free-float shares" for TOPIX, all shares held by individuals are treated as free-float shares, but this may not be in line with the reality for issues which are held long-term by many individuals for the purpose of shareholder benefits. Even when shares are held by individuals, they should be excluded from free-float shares if it is found using data from Japan Securities Depository Center that such shares are held for a long period of time. As the ratio of passive management linked to TOPIX is rapidly increasing, funds are flowing into shares of companies with shareholder benefit plans, whose free-float weight ratios are calculated higher than the actual situation, while funds are relatively flowing out of shares of companies without any shareholder benefit plans. This means that the PBRs of even technologically skilled, internationally competitive companies has 	<ul style="list-style-type: none"> - Free-float weight ratio is calculated according to the provisions of "Free Float Weight Calculation Methodology" published by JPX Market Innovation & Research, Inc. - From the perspective of objectivity, the free-float weight ratio is calculated by excluding non-free-float shares, which are estimated based on the most recent statutory disclosure documents – annual securities reports – from all the listed companies covered by the index, along with other disclosed documents

No.	Summary of Comments	TSE's Response
	<p>been lowered, which could damage the national interest of Japan.</p>	<p>(including data prepared by TOYO KEIZAI INC based on annual securities reports).</p> <ul style="list-style-type: none"> - The shares estimated as non-free-float include those held by the top 10 major shareholders and those shares are, as a general rule, treated as non-free-float shares whether they are held by individuals or corporations.
22	<ul style="list-style-type: none"> - PBR is an indicator determined by stock price, which management has no control over, while ROE is an indicator over which management has more control than PBR and is not affected by fluctuations of stock price indices such as TOPIX. Therefore, we believe it would be reasonable to encourage companies with an ROE below 8% to improve, rather than those with a PBR below 1. We believe that the fact that there is a significant number of companies with an ROE of 8% or more and a PBR below 1 is not necessarily because of problems with those companies' IR activities. 	<ul style="list-style-type: none"> - Based on the summary of discussion at the Follow-up Council, from the perspective of encouraging management of companies to be more conscious of cost of capital and stock prices, TSE has decided to request all listed companies in the Prime and Standard Markets to implement an ongoing cycle whereby it first analyzes its current situation, considers initiatives for improvement, discloses the details to investors, and then updates its initiatives through dialogue with investors.
23	<ul style="list-style-type: none"> - While I completely agree with the issue of companies with a PBR below 1, I believe that there are companies with a PBR of 1 or more that should also be encouraged to improve. 	<ul style="list-style-type: none"> - In that cycle, each listed company shall consider what indicators it should refer to

No.	Summary of Comments	TSE's Response
		<p>based on its own situation. However, we have given PBR as an example because we believe it important for listed companies to be conscious of medium- to long-term growth potential in addition to sufficient earning power.</p> <ul style="list-style-type: none"> - As you know, PBR is not an absolute indicator, and there may be trends depending on the industry. However, since a situation where PBR is below 1, in particular, means that a company is not achieving the returns expected by investors, or even if it is achieving them, investors do not recognize enough growth potential, we present PBR as one recommended indicator for listed companies to use to make necessary improvements based on the analysis of their situations.

Submitters: Nos. 1, 5, 8 and 11 are from Resona Asset Management Co., Ltd.; Nos. 2, 6, 15 and 18 are from Japan Corporate Governance Network; No. 4 is from The Investment Trusts Association, Japan; No. 9 is from HOKURIKU ELECTRICAL CONSTRUCTIONCO.,LTD; No. 16 is from Simplex Asset Management Co., Ltd.; and No. 20 is from Trust Companies Association of Japan; all other comments are from individuals.