

Results of Public Comments Received on "Revisions to Listing Rules and Other Rules regarding IPOs"

TSE published "Revisions to Listing Rules and Other Rules regarding IPOs" on December 16, 2022, and solicited comments until January 20, 2023, as a result of which seven comments were received. The following is a summary of the main comments received and TSE's responses.

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1. Smoother Initial Listing Process		
1	<ul style="list-style-type: none"> • We support the prohibition of market orders (bids and offers) for first-time listed stocks on the listing date. On the other hand, we would like to request that the implementation date, which is scheduled for March, be changed to June or later, with a two-month preparation period, for the following reasons. <ul style="list-style-type: none"> ➤ The number of stocks listed in March is usually second only to those listed in December, and given that the implementation date has not been specified at the time of consultation, we cannot rule out confusion arising from the possibility of inequality (differences in stock price performance on the listing date) among stocks that carry out initial listings (arrive at their listing date) before and after the implementation date, which is to be announced at a later date. ➤ A certain amount of time is required to modify our internal systems, including the back-end. 	<ul style="list-style-type: none"> - The prohibition of market orders is being introduced in response to the points raised in the "Report of the Working Group on the Public Offering Price Setting Process" published by the Japan Securities Dealers Association on February 28, 2022, and we believe that it needs to be implemented promptly. However, in light of the need for a preparation period for market participants and other reasons, we will change the implementation date to approximately June 2023.
2	<ul style="list-style-type: none"> • We believe that the proposed new rule is not appropriate for the below reasons. Even if it is decided to introduce the rule, we would like TSE to reject market orders 	<ul style="list-style-type: none"> - The newly introduced prohibition of market orders is to change the current prohibition of market buy orders from the second business day after listing, implemented as a regulatory

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	<p>on the exchange side, rather than securities firms having to take the action. If it is necessary for securities firms to take action, we would like you to consider implementation after the introduction of alphanumeric characters into securities codes, which is scheduled for 2024.</p> <ul style="list-style-type: none"> ➤ Limit orders have virtually the same effect as market orders if the order prices deviate far enough from the current prices. ➤ The effect of prohibiting market orders only on the first day is not clear. ➤ Development of systems that prohibit market orders only on the first day would be burdensome. ➤ The timing of implementation is not clear, so it is not realistic to be ready by March 2023. 	<p>measure for first-time listed issues that fail to trade on the listing day, to a prohibition of market orders (both buy and sell) for all first-time listed issues from the listing day.</p> <ul style="list-style-type: none"> - Therefore, as with the current regulatory measures, we expect securities firms to take the action not to accept market orders from customers (or place them with the exchange). However, we will also add a control to the exchange system not to accept market orders, in the same manner as when the current regulatory measures were implemented.
3	<ul style="list-style-type: none"> • Will the acceptance of market orders be prohibited for brokerage orders? Also, will the placing of brokerage orders and proprietary orders itself be prohibited or will they be systematically blocked on the TSE side? If they are not systematically rejected on the TSE side, we would like you to consider pushing back the implementation, as it will take time to develop our internal systems. 	<ul style="list-style-type: none"> - In addition to the prohibition of market orders, the current regulatory measures include "prohibition of purchases by trading participants based on their own calculations for trading that will determine the initial price" and "immediate collection of purchase price from customers for purchases on the initial price determination date." These two measures will continue to be implemented from the second business day following the listing as regulatory measures for issues that

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		fail to be traded on the listing date.
4	<ul style="list-style-type: none"> Are market orders prohibited regardless of the proprietary or brokerage classification? 	<ul style="list-style-type: none"> The prohibition of market orders applies to both brokerage and proprietary trading.
5	<ul style="list-style-type: none"> Are market orders prohibited until the initial price is determined on the listing date or until the close of trading on the listing date? Also, if the issue is not traded on the listing date, are market orders prohibited until when the initial price is determined or until the close of trading on the day it is determined? 	<ul style="list-style-type: none"> The prohibition of market orders will apply until the close of trading on the day the initial price is determined. For issues that fail to be traded on the listing date, market orders will also be prohibited from the following business day until the close of trading on the day the initial price is determined.
6	<ul style="list-style-type: none"> Is it correct to recognize that what is described as "first-time listing" in these documents differs from "Direct Listing" in that it simply means issues that carry out an initial listing on TSE, excluding segment changes, without going through other markets? 	<ul style="list-style-type: none"> "First-time listed issues" or "issues carrying out a first-time listing" refers to stocks (meaning those defined in Rule 2, Paragraph 1, Item 1 of the Business Regulations, excluding issues listed or continuously traded on TSE, other financial instruments exchanges in Japan, foreign financial instruments exchanges, or organized over-the-counter
7	<ul style="list-style-type: none"> Does the prohibition apply to initial listings on TSE of issues that are already listed on an overseas market? 	

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		markets) that are newly listed (excluding issues designated by TSE on a case-by-case basis). Issues that carry out initial listings via overseas markets are not subject to the market order prohibition.
8	<ul style="list-style-type: none"> Which rules will be amended as a result of the introduction of this measure? 	<ul style="list-style-type: none"> The "Rules concerning Bids and Offers," which stipulate the prohibition of market orders, are scheduled to be partially amended (see above for specific details of the amendment).
9	<ul style="list-style-type: none"> In relation to the prohibition of market orders, we would like to know if any other revisions to the exchange regulations or other rules are being considered (e.g., prohibition of acceptance of market orders from customers, changes regarding restrictions imposed from the next day when the initial price is not determined on the initial listing date, etc.). 	
2. Introduction of Direct Listing		
1 0	<ul style="list-style-type: none"> The reason for requiring a public offering when listing on the Growth Market is to "secure tradable shares." In light of this purpose, shouldn't the market capitalization of tradable shares or the ratio of tradable shares be set at a higher level to supplement the "securing of tradable shares?" Please explain why you are setting a criterion for market capitalization. 	<ul style="list-style-type: none"> ✘ The initial listing criteria (initial requirements) for conducting public offerings in the Growth Market are intended to promote the realization of high growth potential by requiring newly listed companies to raise funds.
1 1	<ul style="list-style-type: none"> You also say that one reason for requiring a public offering when listing on the 	<ul style="list-style-type: none"> On the other hand, there are some

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	<p>Growth Market is the expectation that the company will achieve further development based on the funds raised. Companies with a market capitalization of JPY 25 billion or more can be listed on the Standard Market except in cases where they do not meet the profits criterion. So, connecting Direct Listings to the Standard Market is a way of clarifying the market concept, and accordingly, the introduction of Direct Listing on the Growth Market would make the market concept ambiguous and contradicts the purpose of the new market structure.</p>	<p>companies that still have high growth potential but are already a reasonable size (market capitalization) at the time of listing and have sufficient funds available through fundraising at the unlisted stage. These companies may therefore wish to list without conducting a public offering. In order to meet the needs of such companies, Direct Listing will be available on the Growth Market in addition to the Prime and Standard Markets, and this will be contingent on market capitalization criteria.</p>
1 2	<ul style="list-style-type: none"> • If Direct Listing is introduced, it is likely that the purpose of listing will be perceived as solely providing an opportunity for pre-listing shareholders to sell their shares, further increasing the perception of the Growth Market as just providing profits to founders and venture capitalists, but are such concerns being considered? 	<ul style="list-style-type: none"> - From the perspective of ensuring liquidity, the criteria for number of shareholders and tradable shares will be applied to Direct Listings in the same way as to public offerings. - These amendments will enable Direct Listings without a public offering or secondary distribution as well as initial listings with a secondary distribution only. However, regardless of whether there is a public offering or a secondary distribution, companies carrying out initial listings on the

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		<p>Growth Market must disclose to investors their business plan to realize growth after listing and other matters related to its growth potential. We will continue to consider measures to promote the realization of high growth potential by Growth Market listed companies, based on the discussions of the "Council of Experts Concerning the Follow-up of Market Restructuring".</p>
1 3	<ul style="list-style-type: none"> Is it correct to understand that if the market capitalization calculated based on the secondary distribution price is less than JPY 25 billion, the listing approval will be revoked? 	<ul style="list-style-type: none"> In the case of an initial listing involving only a secondary distribution, TSE will not grant listing approval if the market capitalization calculated based on the secondary distribution price is less than JPY 25 billion.
<p>3. Revision to Continued Listing Criteria for Amount of Net Assets</p>		
1 4	<p>In order to implement a plan to resolve insolvency, a company may have to rapidly downsize its business or investment activities, with the risk of causing stagnation of growth that is counterintuitive to the purpose of the rule amendment. I believe careful consideration should be given to the interpretation of the rules when it comes to operating them. TSE should examine how insolvency conditions in</p>	<ul style="list-style-type: none"> The criteria for net assets are established to encourage companies in financial distress to carry out management improvements and structural reforms at an early stage, and to appropriately remove companies that are in a

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	<p>relation to listing criteria and delisting criteria should be evaluated, including the removal of the insolvency criterion.</p>	<p>state equal to bankruptcy from the market.</p> <ul style="list-style-type: none"> - On the other hand, for the Growth Market, in order to provide listing opportunities to companies that have high growth potential but are not yet financially stable, even under the existing initial listing criteria, there is no initial requirement for amount of net assets. Even if the amount of net assets stays negative for the first three years after listing, the company will not be delisted. - The continued listing criteria related to net assets are applied in principle from three years after listing on the Growth Market, but in order not to impose excessive restrictions on business and investment activities amidst the growing need for active M&As and investment at startups, the criteria will now be amended for Growth Market listed companies who are deemed to have adequate growth potential.
1 5	<ul style="list-style-type: none"> • As growth companies such as start-ups in particular are required to flexibly change 	<ul style="list-style-type: none"> - From the viewpoint of encouraging swift

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	<p>their business policies in response to changes in the business environment to achieve solid growth, it is difficult to resolve even temporary insolvency in a short period of time. The improvement period to be set based on the company's plan to address its insolvency should be flexibly determined, such as allowing mid- to long-term improvement periods of 5 to 10 years.</p>	<p>management improvements and structural reforms, the rules require Growth Market listed companies that fail to comply with the continued listing criteria related to the amount of net assets after three years of listing to develop and disclose a plan to comply with these criteria within one year, in principle.</p>
1 6	<ul style="list-style-type: none"> If the new rule is in accordance with Rule 501, Paragraph 7, Item 5-a of the Enforcement Rules for Securities Listing Regulations, the improvement period would be "a period that the Exchange deems appropriate." In this case, is it theoretically possible to set an unlimited period (a virtually unending period) at the discretion of the Exchange? 	<ul style="list-style-type: none"> Meanwhile, if the market capitalization is JPY 10 billion or more, that means that the market evaluates the growth potential to be adequate, and therefore, the period shall be set by each listed company based on its own management policy and business environment. (This is the same as the current operation regarding Rule 501, Paragraph 7, Item 5-a of the Enforcement Rules for Securities Listing Regulations.)
1 7	<ul style="list-style-type: none"> If the new rule is in accordance with Rule 501, Paragraph 7, Item 5-a of the Enforcement Rules for Securities Listing Regulations, is it correct to understand the determination of market capitalization as "the average of the three months up to 	<ul style="list-style-type: none"> As you understand, the average market capitalization for the three months up to the last day of the fiscal year shall be used to

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	the last day of the fiscal year"?	determine whether the market capitalization is JPY 10 billion or more. (This is the same as the current operation under Rule 501, Paragraph 7, Item 5-a of the Enforcement Rules for Securities Listing Regulations.)
1 8	<ul style="list-style-type: none"> Since about 40% of the 500 companies currently listed on the Growth Market have market capitalizations of JPY 10 billion or more, there doesn't seem to be much meaning behind where the line is drawn between in scope and out of scope, but what is your thinking behind the "market cap of JPY 10 billion" figure? 	<ul style="list-style-type: none"> The amendment is for companies deemed to have adequate growth potential, and the specific level is set based on the median and average market capitalization of companies listed on the Growth Market (Mothers) at present and in previous years.
1 9	<ul style="list-style-type: none"> (Regarding it being limited to where TSE recognizes that net assets are negative due to losses resulting from investment activities aimed at improving corporate value over the medium to long term,) Is this determination made in accordance with a certain calculation method, such as "where the amount of net assets less the loss is positive" or is it made exclusively at the discretion of TSE? 	<ul style="list-style-type: none"> The amendment is intended to ensure that M&A, capital investment, R&D investment, etc. aimed at aggressive business expansion are not excessively restricted for companies listed on the Growth Market which are deemed to have adequate growth potential. Based on the purpose of this amendment, the new rule will be applied to companies with a market capitalization of JPY 10 billion or more
2 0	<ul style="list-style-type: none"> Please give an outline of the basis for application of "losses resulting from investment activities aimed at improving corporate value over the medium to long 	

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	<p>term." For example, is it limited to losses due to impairment of goodwill or intangible assets related to M&A, impairment of fixed assets of subsidiaries acquired through M&A, or similar things, or does it include operating losses of subsidiaries? Or can be applied without limitation at the discretion of the Exchange?</p>	<p>but that are also recognized to have negative net assets due to "losses resulting from investment activities aimed at improving corporate value over the medium to long term."</p>
2 1	<ul style="list-style-type: none"> • Are losses from affiliates accounted for under the equity method and losses from investment securities, etc. also included in "losses resulting from investment activities aimed at improving corporate value over the medium to long term"? 	<ul style="list-style-type: none"> - Listed companies shall disclose details (including the amount) of "losses resulting from investment activities aimed at improving corporate value over the medium to long term" in their quarterly financial statements and other statements. TSE shall, in principle, apply the new rule to cases where it can be confirmed through such disclosure that the amount of such losses exceeds liabilities in excess of assets.
2 2	<ul style="list-style-type: none"> • Are companies engaged in the investment business as a business also under the scope? 	
2 3	<ul style="list-style-type: none"> • Would a company that has already entered an improvement period and records "losses resulting from investment activities aimed at improving corporate value over the medium to long term" during that period still be in scope? 	<ul style="list-style-type: none"> - In this case, "losses resulting from investment activities aimed at improving corporate value over the medium to long term" are typically assumed to include losses due to impairment of goodwill or intangible assets related to M&A, impairment losses in companies that are the target of M&A, depreciation, R&D expenses, etc. Other losses and expenses
2 4	<ul style="list-style-type: none"> • Would a company that had losses related to an M&A conducted prior to listing and recorded them after listing also be in scope? 	
2 5	<ul style="list-style-type: none"> • Say that a company discovered some inappropriate accounting and revised results from previous years, and in the current fiscal year, posted a "loss resulting from 	

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	investment activities aimed at improving corporate value over the medium to long term" in connection with this, resulting in an excess of liabilities. Would this company be in scope?	shall be judged on a case-by-case basis in light of the purpose of the above revision.
4. Other matters		
2 6	<ul style="list-style-type: none"> • In light of the fact that TSE has always strongly requested startups to become profitable in practice, TSE should first review this stance. In addition, TSE should consider how it should be evaluating loss-making financial results in relation to the listing criteria and delisting criteria. In particular, growing companies such as startups are required to flexibly change their business policies in line with changes in the business environment to achieve solid growth, and these things also need to be evaluated. 	<ul style="list-style-type: none"> - The Growth Market is a market for companies with high growth potential and business plans to achieve it. Although it is not necessary for a company to be profitable in order to list or maintain its listing, companies listed on the Growth Market are expected to achieve growth while obtaining a certain level of market evaluation through disclosure of business plans and matters related to growth potential. - In the Growth Market listing examination for "reasonableness of the business plan," based on this concept, we do not require speedy profitability, but rather will check whether the business plan is appropriately formulated based on the business model, business environment, risk factors, and other

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		<p>elements, and whether the business infrastructure necessary to execute the said business plan is in place (or is expected to be in place). In this regard, there is no change in handling from the previous Mothers segment, and TSE revised its initial listing guidebook in November 2020 to reiterate its stance on this matter.</p> <ul style="list-style-type: none"> - Please note that there are currently no delisting criteria (continued listing criteria) that stipulate the amount of profit.
27	<ul style="list-style-type: none"> • We would like TSE to consider making the disclosure of business plans and matters related to growth potential more flexible in accordance with the reality of companies that are achieving growth by flexibly changing their business strategies. In many cases, flexibility is not always allowed in requests for the contents of this disclosure from the TSE staff, which indirectly leads to pressure to make business strategies more rigid and turn profitable at an early stage. 	<ul style="list-style-type: none"> - TSE has indicated the items to be included and points to note in the disclosure of business plans and matters relating to growth potential, but we expect each listed company to be flexible in choosing what specifically to write in accordance with its own situation. Based on this approach, we will continue to make efforts to improve the operation of the system.

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2 8	<ul style="list-style-type: none"> • The proposal for "smooth listing examination tailored to corporate characteristics (deep tech)" requires disclosure of future investment plans and results of investment. However, if this disclosure requirement triggers pressure to turn profitable, it would run counter to the purpose of promoting deep tech companies and would be a complete reversal of the purpose of this amendment. Therefore, we request that the system be administered in such a manner so that the guidance on disclosure does not, in effect, put pressure on companies to become profitable at an early stage, thereby hindering their opportunities for significant growth. 	<ul style="list-style-type: none"> - Companies that are focused on research & development, whose aim is to cultivate new markets using new technologies in cutting-edge industries such as space, materials, and healthcare (i.e., deep tech companies), are required to make sufficient disclosure of information regarding business plans and matters related to growth potential in order to enable investors to make rational investment decisions because of their particular characteristics, namely that it is difficult to assess their businesses relative to other industries, in addition to the high risks. However, such disclosures do not necessarily need to include business plans or other information up to the point of turning profitable.
2 9	<ul style="list-style-type: none"> • We believe that this review will lead to further vitalization of the IPO system and sustainable growth of the stock market, as it will enable companies wishing to list to take an efficient and flexible approach to listing applications and promote new listings, including listings on the Growth Market. On the other hand, we are 	<ul style="list-style-type: none"> - We will continue to consider how information should be disseminated in the event of cancellation or postponement of an initial listing after listing approval.

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	<p>aware that some companies have canceled or postponed their IPOs after listing approval and after the book-building process. In some cases in the past, the background to the cancellation was not disclosed in detail. Therefore, we believe that it is desirable to disclose more appropriate reasons for cancellations or postponements in order to improve investor confidence.</p>	

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