

Revisions to Listing Rules and Other Rules regarding IPOs

December 16, 2022

Tokyo Stock Exchange, Inc.

I. Objective

Given that nurturing start-up companies is the key to spurring the Japanese economy's dynamism and growth while solving societal issues, the Japanese government is implementing an array of measures on this issue, such as those set out in the "Grand Design and Action Plan for a New Form of Capitalism" (approved by the Cabinet on June 7, 2022).

As we see diversification of the characteristics and needs of start-ups aiming to list their shares on the exchange, Tokyo Stock Exchange, Inc. (TSE) has decided to make some necessary revisions to its listing rules and other rules, including in relation to matters raised in the "Grand Design and Action Plan for a New Form of Capitalism," with a view to diversifying the ways in which start-ups are able to list their shares for the first time. These include the implementation of a smoother initial listing process and the creation of an environment for direct listings.

II. Overview

Item	Description	Remarks
1. Smoother initial listing process (1) Application documents for initial listing a. Audit report	- Regarding the audit report attached to the Annual Securities Report for Initial Listing Application (Part I), as long as it is submitted by the applicant company before the listing approval, that will suffice the	- Currently, the submission of an audit report is required both when filing an initial listing application and receiving initial listing

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<p>b. Financial information in light of organizational restructuring</p>	<p>requirements.</p> <p>- Applicant companies for initial listing on the Standard Market and the Prime Market that have undergone an organizational restructuring (merger, share exchange, share transfer, share delivery, making a company a subsidiary or making a subsidiary a non-subsidiary, business succession or business split through company split, or acquisition or transfer of business) in the most recent two years or the business year of the application will be required to submit the financial information listed below, depending on the level of materiality, for the companies or businesses that were subject to the restructuring.</p> <table border="1" data-bbox="510 959 1453 1393"> <thead> <tr> <th data-bbox="510 959 999 1066">Size of companies or businesses in scope</th> <th data-bbox="999 959 1453 1066">Required financial information</th> </tr> </thead> <tbody> <tr> <td data-bbox="510 1066 999 1121">Core company or business</td> <td data-bbox="999 1066 1453 1121">Audited financial information</td> </tr> <tr> <td data-bbox="510 1121 999 1286">Company or business with significant influence</td> <td data-bbox="999 1121 1453 1286">Documents containing an outline of financial information (unaudited)</td> </tr> <tr> <td data-bbox="510 1286 999 1393">Company or business without significant influence</td> <td data-bbox="999 1286 1453 1393">—</td> </tr> </tbody> </table>	Size of companies or businesses in scope	Required financial information	Core company or business	Audited financial information	Company or business with significant influence	Documents containing an outline of financial information (unaudited)	Company or business without significant influence	—	<p>approval, but this process will be streamlined mainly to reduce the administrative burden for audit firms.</p> <p>- This is aimed at streamlining the submission process and auditing procedures for financial information, thereby allowing companies in the process of preparing for listing to flexibly utilize organizational restructurings to achieve growth.</p> <p>- Also, other required revisions will be made, including to make core companies or businesses subject to initial requirements such as profits.</p>
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<p>(2) Initial Requirements</p> <p>a. Years of Business Operation</p>	<p>- Financial information for the most recent two years or the business year of the application prior to the organizational restructuring shall be required.</p> <p>-A "core company or business" is one whose size is bigger than that of the initial listing applicant. A "company or business with significant influence" is one whose size equates to approximately 50% or higher of that of the initial listing applicant. (Size is determined by taking into account amounts of net assets, total assets, net sales, net income, and other factors.)</p> <p>- The requirement will be of years of business operation as a stock company, and not the number of years since the establishment of the board of directors.</p>	<p>- If an initial listing applicant company is newly established due to said organizational restructuring, a core company or business is the one with the biggest size among the companies and businesses in scope, and a company or business with significant influence is one whose size in proportion to the core company or business is approximately 50% or higher.</p> <p>- This is aimed at focusing on the company's history of business activities, thereby allowing companies in the process of preparing for listing to flexibly utilize organizational restructurings to achieve growth.</p> <p>-The effectiveness of corporate governance will be examined substantively in the listing</p>

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b. Market Capitalization and Market Capitalization of Tradable Shares	<ul style="list-style-type: none"> - Where an applicant company for initial listing makes a public offering or secondary distribution, the calculation of market capitalization and market capitalization of tradable shares will be based on public offering or secondary distribution prices determined on the price determination date, rather than the estimated price stated in the Securities Registration Statement. 	<p>examination.</p> <ul style="list-style-type: none"> - This revision is to allow the examination to be conducted based on prices that better reflect investor valuations that are formed in the book building stage. - If it is confirmed that the amount calculated based on the public offering or secondary distribution prices does not meet the criteria after listing approval, the initial listing shall not be made.
(3) Listing Examination	<ul style="list-style-type: none"> - Initial listing applicant companies may continue the listing examination for one year from the initial listing application filing date without an application once again, irrespective of whether an annual general shareholders' meeting (settlement of accounts) has been held. 	<ul style="list-style-type: none"> - This revision is aimed at reducing the administration load of the initial listing application process, given the heightened need for flexibility to set the listing schedule. - The standard examination period in each market segment remains unchanged.
(4) Initial Price Formation	<ul style="list-style-type: none"> - For issues listing for the first time, buy and sell market orders will be prohibited in transactions carried out on the listing date. 	<ul style="list-style-type: none"> - This revision aims to limit the excessive stock volatility range in unstable supply-demand conditions. - If no trades are executed on the initial listing

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		date, buy and sell market orders will be prohibited until the day on which the initial price is determined.
2. Introduction of Direct Listing	- Applicant companies applying for initial listing on the Growth Market whose market capitalization is expected to be JPY 25 billion or more at the time of initial listing shall be allowed to list without a public offering.	<ul style="list-style-type: none"> - Currently, the use of direct listing is not allowed on the Growth Market as the initial requirements mandate that a public offering must be conducted at the time of initial listing. - Companies which have an adequate company size at the time of listing may wish to be made listed without conducting a public offering because they have sufficient funds available through fundraising at the unlisted stage. This revision aims to introduce a system of direct listing to respond to these needs. - Direct listing is possible on the Standard and Prime Markets. - In tandem with this, necessary rules will be implemented to facilitate smooth direct listings, including requiring a managing trading participant of an initial listing

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		<p>applicant to confirm its measures to ensure liquidity and to submit tradable share reference prices (in order to determine the order book center price on the initial listing date), and requiring an initial listing applicant to submit the Annual Securities Report before the initial listing.</p>
<p>3. Revision to Continued Listing Criteria for Amount of Net Assets</p>	<p>- Even if the net assets of a Growth Market-listed company as of the end of the fiscal year are negative, if the company's market capitalization is JPY 10 billion or more (limited to where the reason for the negative net assets is due to losses arising from investment aimed at increasing corporate value) and a plan to satisfy the criteria for amount of net assets has been disclosed, an improvement period will be granted based on the period of said plan.</p>	<p>- The aim is to avoid imposing excessive restrictions around corporate actions such as M&As on Growth Market-listed companies that are deemed to have an adequate level of expected future growth potential.</p> <p>- If companies have net assets of JPY 100 billion or more and appropriately disclose a plan to satisfy the criteria, the current rule which sets an improvement period based on the planning period of said plan irrespective of the reason for the negative net assets remains unchanged.</p> <p>- The current rule on net assets in the continued listing criteria, where the requirement does</p>

Item	Description	Remarks
		not apply to companies listed on the Growth Market for less than three years, remains unchanged.
4. Other	- Other revisions will be made where necessary.	

III. Implementation Schedule (Planned)

- Implementation is scheduled for March 2023.
- Item 1. (1) and (2), and 2. shall apply to companies filing an initial listing application on or after the enforcement date.
- Item 1. (3) shall apply to companies which have filed an initial listing application as of the enforcement date.
- Item 1. (4) shall apply to issues listing for the first time that carry out an initial listing on or after the enforcement date.
- Item 3. shall apply to companies that do not satisfy the criteria as of the end of the fiscal year ending on or after the enforcement date (including companies in an improvement period related to said criteria).

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