

Results of Public Comments Received on "Revisions to the Rules for Securities on Alert in Order to Improve the Effectiveness of Listed Companies' Improvements to Their Internal Management Systems"

Tokyo Stock Exchange, Inc. (TSE) released an outline of "Revisions to the Rules for Securities on Alert in Order to Improve the Effectiveness of Listed Companies' Improvements to Their Internal Management Systems" on October 26, 2023, sought public comments on it until November 25, 2023, and received comments from three parties.

The following is a summary of those comments and TSE's responses:

No.	Comment Summary	TSE's Response
	1. Revisions to the Rules for Securities on Alert	
1	<ul style="list-style-type: none"> – It says that TSE will make the criteria for determining whether a company's internal management system is adequately developed and implemented consistent with those for the initial listing examination. We hope that TSE will publish criteria that are as specific and clear as possible. – If they are to be prescribed as principles so as not to invite a check-the-box response, it is necessary for TSE to provide specific examples and present its views. 	<ul style="list-style-type: none"> – In order to make them widely known, we have prescribed the criteria for the initial listing examination in the "Guidelines Concerning Listing Examination, etc." and detailed the specific handling of the criteria in the "New Listing Guidebook" for each market segment. By making the criteria for the examination regarding a company's internal management system under the Rules for Securities on Special Alert consistent with those for the initial listing examination, we believe that they will be considerably more specific. In light of your

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		<p>comments, we will also consider providing specific examples and presenting our views on issues that are unique to Securities on Special Alert.</p>
2	<ul style="list-style-type: none"> - When de-designating the security, the grounds for determining that the company's internal management system is adequately developed and implemented should be specified and made public. Under the current rules, the "reasons" are given for the de-designation, but we ask that TSE go one step further. 	<ul style="list-style-type: none"> - In light of your comments, we will endeavor to carefully and adequately explain the grounds for determining that the company's internal management system is adequately developed and implemented when giving our reasons for the security's de-designation.
3	<ul style="list-style-type: none"> - In the grounds for determining that the company's internal management system is adequately developed and implemented at the time of the security's de-designation, TSE should make specific mention of the commitment of the company's top management toward ensuring the company's continued compliance with the grounds so that TSE can ensure the effectiveness of the company's improvements to its internal management system after de-designation. TSE should also require the company to submit some kind of written pledge or other document. - In addition, TSE should consider encouraging the functioning of the company's internal governance system, such as by sharing information on the submission of such a document with the members of its board of directors and board of auditors. 	<ul style="list-style-type: none"> - In our examination of the company's internal management system under our current rules, we require that its management and board of directors confirm such company policies as the one for the operation of its internal management system after the security's de-designation and the one for overseeing the system's operational status. We also require that the company disclose the contents of said policies if necessary, in the hope of ensuring the effectiveness of its

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		<p>improvements to its internal management system after the security's de-designation. We will consider any additional measures to ensure said effectiveness based on the operational status of the new rules after they take effect.</p>
4	<ul style="list-style-type: none"> <li data-bbox="309 598 1415 901">– If a listed company that has been designated as a Security on Special Alert states in its Annual Securities Report, Corporate Governance Report, or another disclosure document that its governance and internal management systems are adequately developed and implemented, and TSE finds those statements to be false or inappropriate during the course of its de-designation examination, TSE should consider making a public announcement to that effect. <li data-bbox="309 917 1415 1061">– If TSE has a problem with making a public announcement, it should at least inform the company's board of directors and board of auditors/audit committee that there was a problem with the company's disclosure of non-financial information. 	<ul style="list-style-type: none"> <li data-bbox="1442 598 2078 1005">– As in the past, we require a listed company to promptly correct any false or inaccurate statements that we find in the company's Corporate Governance Report during the course of our examination to designate the company as a Security on Special Alert or our examination of the company's internal management system after the designation. <li data-bbox="1442 1021 2078 1372">– In addition, we will continue our policy of making a public announcement when false or inaccurate statements in a company's Corporate Governance Report or other documents form our grounds for taking an action against the company, such as by designating it as a Security on Special Alert.

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5	<ul style="list-style-type: none"> <li data-bbox="309 279 1415 414">– We believe that the establishment of a follow-up period for companies with troubled internal management systems is a welcome revision, and we anticipate that it will help them to firmly establish ones that are adequate. <li data-bbox="309 438 1415 574">– On the other hand, we are concerned that listed companies that do not meet the continued listing criteria may also be eligible for a long-term follow-up period, and we hope that strict measures will be taken depending on the circumstances. 	<ul style="list-style-type: none"> <li data-bbox="1442 279 2072 734">– Under these revisions, we will extend the company's designation as a Security on Special Alert during the improvement period for meeting the continued listing criteria if the company does not meet said criteria but has made improvements to its internal management system. However, we will not postpone the delisting of such companies beyond said improvement period. <li data-bbox="1442 758 2072 1053">– Regardless of whether the company has been designated as a Security on Special Alert, it will be delisted if it violates the continued listing criteria and fails to meet the said criteria within the improvement period for meeting said criteria.
2. Other (Streamlining the Segment Transfer Examination Process)		
6	<ul style="list-style-type: none"> <li data-bbox="309 1133 1415 1380">– Managing underwriters (managing trading participants) tend to be reluctant to agree to take on a listing eligibility examination that does not involve fund raising because it is not profitable for them. We've seen cases of companies about our size that would like to make a segment transfer but are unable to apply for one in the first place. 	<ul style="list-style-type: none"> <li data-bbox="1442 1133 2072 1380">– As you pointed out, we do not set a single standard examination period because we anticipate that the number of items we have to check may increase when the company has not undergone a listing eligibility

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	<p>We support the current revisions because we believe they will be a useful measure to resolve this situation. We also think it is reasonable not to set a standard examination period because, as TSE states in the outline of specifications, if a company underwent a segment transfer examination without undergoing a listing eligibility examination, TSE would have a massive amount of items to check, and with limited human resources, the process may be delayed.</p> <ul style="list-style-type: none"> - On the other hand, TSE should avoid creating a situation where the examination takes an inordinate amount of time, since an indeterminate examination period could make the company's shareholders anxious. Therefore, we hope that TSE will make an examination system that takes the following two points into account: - The system takes the company's track record as a listed company into full consideration (since one could suppose that a listed company that has never caused a scandal meets a certain level of standards). - The system clarifies in advance the key items to be examined when a company does not undergo a listing eligibility examination (because listed companies can prepare themselves if these are known in advance). 	<p>examination by a securities company. In our examination, we take the company's track record as a listed company into account. So, if we find no particular problems in the development and operational status of the company's corporate governance and internal management system or in the disclosure status of corporate and other information, for example, we anticipate that we can complete the examination within the same amount of time as if the company had undergone a listing eligibility examination.</p> <ul style="list-style-type: none"> - In addition, we will set up a consultation service for companies that would like to make a segment transfer to the Standard Market so that they can sort out in advance the items that will be the focus of the examination. - For more details, please refer to the "New Listing Guidebook - Standard Market" regarding the examination process and consultation services for companies that do not undergo the listing eligibility

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		examination.

Submitted by: 1, 2, 3, 4 =Institute for Legislation Surrounding Listed Companies; 5 = Sumitomo Mitsui Trust Asset Management Co. Ltd.; 6= MEDIA SEEK INC.