Establishment of New Rules for Examination of Material Changes in a Listed Company's Business or Governance That Raise Serious Concerns Regarding Listing Eligibility and Related Revisions

Listing Department

Tokyo Stock Exchange, Inc.

November 27, 2026

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1. **Establishment of New Rules for Examination of Material Changes in a Listed Company's Business or Governance That Raise Serious Concerns Regarding Listing Eligibility**

2. Revision of Application of Listing Criteria Concerning Tradable Share Ratio

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Examples of Material Changes in a Listed Company's Business, Governance That Raise Serious Concerns Regarding Listing Eligibility

- In recent years, there have been cases in which **listed companies have made material changes to their business or governance after listing that raised serious concerns regarding listing eligibility**.

1. Changes to Major Shareholders, Management Structure, Business Activities, and Other Matters

In small listed companies experiencing poor business performance or non-compliance with the continued listing criteria, complex changes may occur, including **the sending of directors or other officers by an entity that has newly become a major shareholder and the launch of a new business with little connection to the company's existing business.**

1. Change to major shareholders

Through third-party allotments, stock transfers, or purchases in the market (including those made through a wolf pack strategy), **a specific shareholder becomes a controlling/major shareholder**

2. Change to management structure

Management structure changes through, for example, the appointment of a **party related** to a specific shareholder **as a director**

3. Launch of new businesses, etc.

Company announces launch of new business, business acquisition, signing of service agreement, etc. with little connection to the company's existing business (There have also been **cases that raised suspicion of unfair financing or the granting of benefits to specific shareholders** under the guise of fund raising for new business ventures.)

Serious concerns regarding the effectiveness of the internal management system, the soundness of corporate management, corporate continuity and profitability, the public interest, and investor protection

2. Significant Change to Business Activities

Significant change to the nature of the business that accounts for the majority of a listed company's revenue due to the launch of a new business or other developments

Serious concerns regarding corporate continuity or profitability in light of the business model and other relevant characteristics of the business after such change

➢ To protect shareholders and investors and maintain market confidence, it is important to **deter and prevent such cases before they occur.**

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Establishment of New Examination Rules

- **Where material changes to business or governance occur at a listed company and raise serious concerns regarding its listing eligibility**
  - **An examination equivalent to the initial listing examination is conducted** within one year (the stock is designated as a **Security Under Supervision** during the examination).
  - **If the stock is determined not to meet the listing eligibility requirements** as a result of the examination**, it is delisted**.

  Note: The scope of examination is limited to cases where serious concerns regarding listing eligibility arise, so as **not to hinder sound corporate activities or shareholder engagement.**

Determination of Serious Concerns Regarding Listing Eligibility (Cases Subject to Examination) → **Examination of Listing Eligibility** (Within one year) → **Examination Results**

Material changes to business or governance

Material changes to business or governance occur at a listed company, including those in its management structure, the status of major shareholders, and business activities

In practice, a listed company is informed whether serious concerns regarding listing eligibility exist during prior consultation or other communications concerning disclosure of material changes to its business or governance.

Serious concerns regarding listing eligibility

Examples

Where complex changes occur, including the sending of directors or other officers by a specific shareholder or the launch of a new business, thereby giving rise to serious concerns regarding the effectiveness of the internal management system, the soundness of corporate management, or corporate continuity or profitability
(see page 5 for a past case)

Examples

Where the launch of a new business or other developments result in a significant change in the nature of the business that accounts for the majority of a listed company's revenue or similar indicators, thereby giving rise to serious concerns regarding corporate continuity or profitability

No serious concerns regarding listing eligibility

No further action

Designation as Security Under Supervision (Examination)

Designated as a Security Under Supervision and investors alerted to the risk of delisting

Examination equivalent to initial listing examination

Meet criteria (eligible for listing) ⇒ **continued listing**

Does not meet criteria (ineligible for listing) ⇒ **delisting**

Note: For five years after meeting the criteria, reports on the status of its business, governance, and other matters may be required, as necessary.

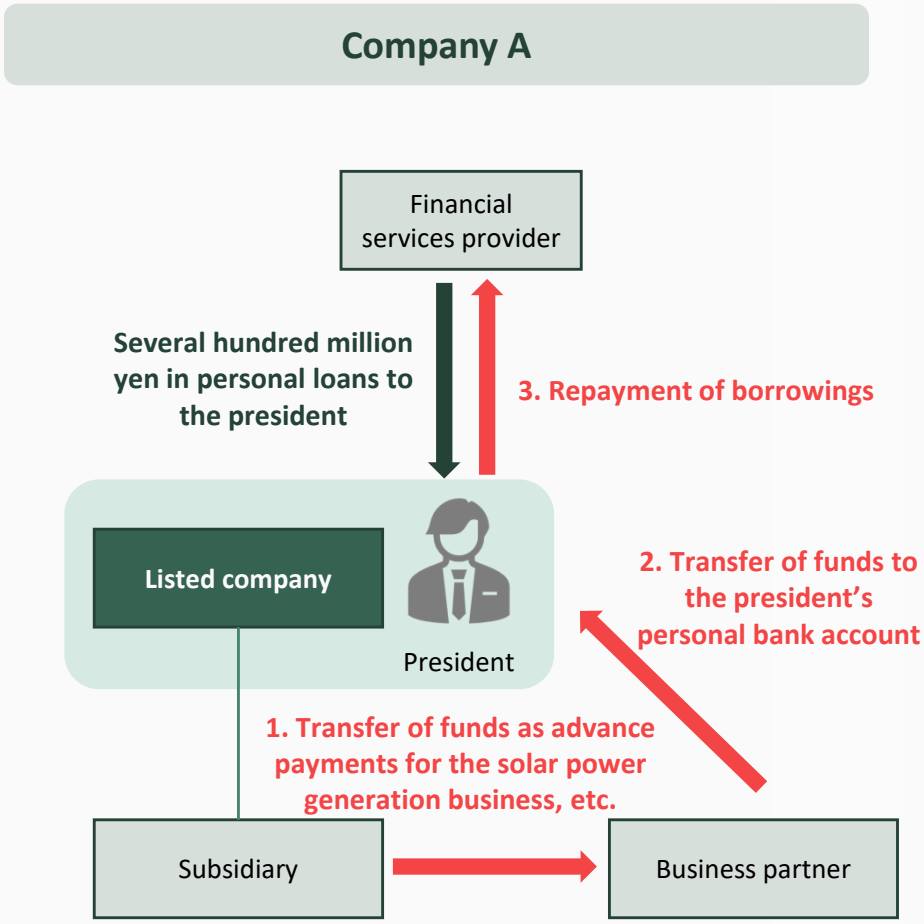
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Reference: Case Involving Complex Changes to Major Shareholders, Management Structure, Business Activities, and Other Matters

- There have been cases in which changes to controlling shareholders or management teams have been followed by complex material changes in the company's business or governance, including entry into new business areas with little connection to the company's existing business, raising serious concerns regarding listing eligibility.

  Note: In this case, inappropriate transactions involving the outflow of subsidiary funds subsequently came to light amid a concentration of authority in the hands of management.

Period	Case of listed company A
2014	**A person recruited externally became the representative director and president of the listed company.** The person acquired shares in the listed company from its parent company **and became its largest shareholder (major shareholder)** (market capitalization: approximately JPY 1.6 billion).
2014-2017	The president led the launch of new businesses, including **solar power generation (renewable energy) and casino-related businesses** (the company had previously operated an office supplies business).
2019-2023	Inappropriate accounting processing continued over an extended period, including **the outflow of subsidiary funds through advance payments for the solar power generation business and the use of such funds to repay the president's personal borrowings.**
November 2024	An investigation by a special investigation committee revealed inappropriate transactions and other matters.
January 2025	Designated as a Security on Special Alert
December 2025	Decision to delist made because the internal management system, etc. was no longer likely to be adequately developed or implemented.



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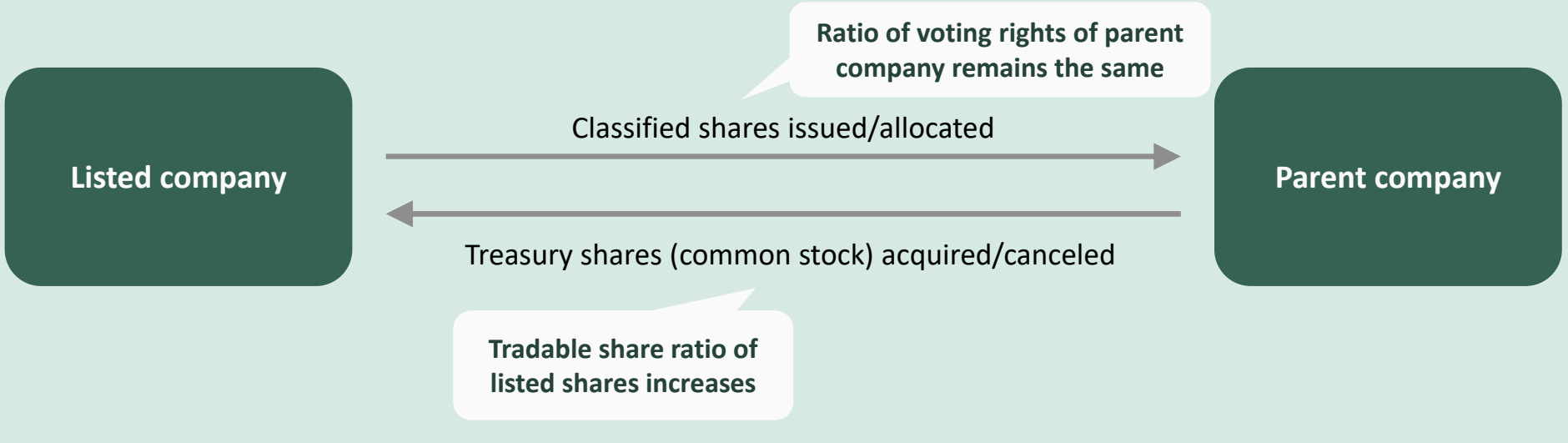
Issue With Listing Criteria Concerning the Tradable Share Ratio

- **From a corporate governance perspective**, TSE has initial listing criteria and continued listing criteria concerning the tradable share ratio **in order to ensure that voting rights held by shareholders other than stable shareholders account for a certain proportion of the total voting rights.**
- Recently, there have been **cases of companies acquiring and canceling common stock (listed shares) from major shareholders and issuing classified stock with the same number of voting rights (unlisted shares) to said major shareholders, to meet the tradable share ratio criteria**.

  Note: The current system calculates the tradable share ratio as the ratio of tradable shares to listed shares, without taking unlisted classified shares into account.

Actual example

- A company failed to meet the continued listing criterion requiring a 25% tradable share ratio (the parent company and other associated companies owned around 70% of its shares).
- The company met the continued listing criterion by acquiring and canceling all its shares held by the parent company and at the same time issuing classified shares subject to transfer restrictions carrying the same number of voting rights (unlisted shares).



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Revision of Application of Listing Criteria Concerning Tradable Share Ratio

- **For companies that issue shares with voting rights other than listed shares, etc.**, the tradable share ratio will be calculated **based on voting rights**.

  Note: No change for companies that have not issued shares with voting rights other than listed shares, etc. (The tradable share ratio criterion continues not to apply where a company has issued multiple classes of shares with voting rights and the shares with fewer voting rights are listed.)

Current rule

$$\text{Ratio of tradable shares} = \frac{\text{No. of listed shares} - (\text{Shares held by stable shareholders: Shares owned by major shareholders (owning 10\% or more)} + \text{Shares owned by officers, etc.} + \text{Treasury shares} + \text{Shares owned by domestic commercial banks, insurance companies, business corporations, etc.} + \text{Other shares deemed by TSE to be stably owned})}{\text{No. of listed shares}}$$

New rule

$$\text{Ratio of tradable shares} = \frac{\text{Total voting rights} - (\text{Voting rights held by stable shareholders: Voting rights held by major shareholders (owning 10\% or more)} + \text{Voting rights held by officers, etc.} + \text{Voting rights held by domestic commercial banks, insurance companies, business corporations, etc.} + \text{Voting rights held by other shareholders deemed by TSE to be stable shareholders})}{\text{Total voting rights}}$$

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