

Improvements to Listing Rules to Invigorate IPOs by Medium/Small-Sized Companies

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Tokyo Stock Exchange, Inc.

I. Purpose

The Japanese economy today faces various structural problems of an aging society, stagnant domestic demand due to a shrinking population, and prolonged deflation. Under these circumstances, the effect of the Great East Japan Earthquake, floodwaters in Thailand, and persistent yen strength at historic levels coinciding with the euro-zone crisis is posing unprecedented difficulties for the Japanese economy. In order for the Japanese economy to attain sustained growth into the future, initiatives must be taken to cultivate new industries and revitalize existing ones.

From the perspective of cultivating new industries, Tokyo Stock Exchange (TSE) implemented measures in March 2011 aimed at invigorating the Mothers market for growing companies. In light of the revitalization of existing industries, support for small/medium-sized companies is an urgent issue as these companies serve an extremely important role in the Japanese economy as they have cutting edge technology and are important sources of employment.

Given these circumstances, TSE is engaging in initiatives to provide medium/small companies with flexible fund-raising opportunities as they pursue further technological development and overseas expansion, as well as contribute to the continuous growth of the Japanese economy. Furthermore, in order to list such medium/small companies and provide investors with attractive investment opportunities, TSE will implement listing rules and systems related initiatives aimed at invigorating IPOs. Such initiatives include revisions to listing examination criteria regarding corporate continuity/profitability established based on the assumption of sustained growth during a period of rapid economic growth and easing of market capitalization criteria for direct listing to the 1st Section Market which have become excessively strict in light of recent market conditions.

II. Outline

Items	Contents	Remarks
1. Revisions to listing examination criteria, etc. for the main markets (1) Revisions to listing examination criteria, etc. regarding corporate continuity	- TSE shall deem it sufficient if any of the following criteria is satisfied. i. Amount of profits: The total amount of ordinary profits in the last two (2) years shall be 500 million yen or more	- With respect to satisfying market capitalization criteria, sales in the most recent year must also be 10 billion yen or more (as of current).

(Reference Translation)

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and profitability a. Revisions to criteria for "amount of profits or market capitalization"	<p>ii. Market capitalization: The market capitalization as of the listing day is expected to reach 50 billion yen or more</p> <p>(Reference: Summary of revisions)</p> <table> <tr> <th>Item</th><th>Before</th><th>After</th></tr> <tr> <td>Type of profit</td><td>Ordinary profit and net income before taxes</td><td>Ordinary profit</td></tr> <tr> <td>Period and level</td><td> <p>Satisfy either of the following (a) or (b):</p> <p>(a) 100 million yen or more with respect to the first year (of the last two (2) years) and 400 million yen or more with respect to the most recent year; or</p> <p>(b) 100 million yen or more with respect to the first year (of the last three (3) years), 400 million yen or more with respect to the most recent year, and the total amount of profits in the last three (3) years shall be 600 million yen or more.</p> </td><td>The total amount in the last two (2) years shall be 500 million yen or more.</td></tr> <tr> <td>Market capitalization</td><td>100 billion yen or more</td><td>50 billion yen or more</td></tr> </table>	Item	Before	After	Type of profit	Ordinary profit and net income before taxes	Ordinary profit	Period and level	<p>Satisfy either of the following (a) or (b):</p> <p>(a) 100 million yen or more with respect to the first year (of the last two (2) years) and 400 million yen or more with respect to the most recent year; or</p> <p>(b) 100 million yen or more with respect to the first year (of the last three (3) years), 400 million yen or more with respect to the most recent year, and the total amount of profits in the last three (3) years shall be 600 million yen or more.</p>	The total amount in the last two (2) years shall be 500 million yen or more.	Market capitalization	100 billion yen or more	50 billion yen or more	<p>- The same shall apply to examinations for assignment to the First Section market and examinations for alteration of markets.</p> <p>* The revision to "Type of profit" is intended to allow companies which could not meet the criteria due to extraordinary loss arising from an accidental event, to be eligible for qualitative examination.</p> <p>* The revision to "Period and level" is intended to allow companies which could not meet the criteria due to short-term deterioration in business performance prior to listing, to be effectively eligible for examination.</p> <p>* The revision to "Market capitalization" is one to the formal requirements intended to reflect recent market conditions.</p>
Item	Before	After												
Type of profit	Ordinary profit and net income before taxes	Ordinary profit												
Period and level	<p>Satisfy either of the following (a) or (b):</p> <p>(a) 100 million yen or more with respect to the first year (of the last two (2) years) and 400 million yen or more with respect to the most recent year; or</p> <p>(b) 100 million yen or more with respect to the first year (of the last three (3) years), 400 million yen or more with respect to the most recent year, and the total amount of profits in the last three (3) years shall be 600 million yen or more.</p>	The total amount in the last two (2) years shall be 500 million yen or more.												
Market capitalization	100 billion yen or more	50 billion yen or more												

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b. Revision to examination of "corporate continuity and profitability"	- Out of the examinations on "corporate continuity and profitability", with respect to profit/loss or revenue/expenditure outlook, TSE shall check that the earnings plan or revenue/expenditure plan is reasonable, and stable earnings can be expected based on such plan.	<ul style="list-style-type: none"> * The current requirement is for the outlook on business performance before and after listing to be good. Henceforth, a company will be eligible for listing as long as TSE confirms that stable earnings can be expected after listing. - The same shall apply to examination of assignment to the First Section market and examination of alteration of markets.
(2) Revision to criteria for "amount of net assets"	- TSE shall deem it sufficient if the amount of net assets as of listing is expected to reach 1 million yen or more.	<ul style="list-style-type: none"> * The current subject of examination is the amount of net assets at the end of the most recent business year as of the initial listing application date. Henceforth, a company will be able to add the amount of funds expected to be raised through a public offering in conjunction with an initial listing. - The same shall apply to examination of assignment to the First Section market and examination of alteration of markets.
(3) Revision to market capitalization criteria for direct listing on the First Section market	- TSE shall deem it sufficient if the market capitalization as of the listing day is expected to reach 25 billion yen or more.	<ul style="list-style-type: none"> * The current requirement is 50 million yen or more in market capitalization as of the listing day. This revision to the formal criteria is intended to reflect recent market conditions.
(4) Set a standard listing examination period	- TSE will strive to complete listing examinations of applications for initial listing on the main market within three (3) months from receiving such application.	<ul style="list-style-type: none"> * This is intended to increase initial listing applicants possibility of awareness of the period required for a listing examination. - The same shall apply to examination of assignment to the First Section market and examination of alteration of markets.

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<p>(5) Revision to documents to be submitted for initial listing applications in cases where there is an unlisted parent company, etc.</p> <p>(6) Revision to documents regarding mergers, etc. before initial listing applications</p>	<p>- TSE shall require the company to submit documents describing content on "matters regarding controlling shareholders, etc." and "financial information regarding unlisted parent companies, etc." in place of documents prepared in accordance with securities reports by the parent company, etc.</p> <p>- In cases where an initial listing applicant conducts a merger, etc. before its initial listing application, the level for TSE to request submission of a summary of merged companies, etc. shall be where the impact of such merger, etc. on the financial statements, etc. of the initial listing applicant is 50% or more.</p>	<p>* In light of opinions that excessive burden is placed on unlisted parent companies, etc., TSE shall deem it sufficient to submit documents containing content equivalent to those required in timely disclosure after listing.</p> <p>- The same shall apply to initial listing applications for the Mothers market.</p> <p>- This shall not be required for applications for alteration of markets.</p> <p>* The current level for requesting submission is where the impact on the financial statements, etc. of the initial listing applicant is 20% or more. This revision is made in light of opinions that this is a factor limiting the flexibility of reorganization activities before listing.</p>
<p>2. Revisions to examination of assignment to the First Section market</p> <p>(1) Revision to examination of assignment to the First Section market</p>	<p>- In cases where there is no significant change to the business content and internal management structure of the company since listing on the Second Section market, with respect to examination of assignment to the First Section market, TSE shall change the confirmation method to one centered on the situation after initial listing.</p>	<p>* Currently, similar examination is simultaneously carried out with examination of initial listing application for the Second Section market. With respect to examination of assignment to the First Section market shortly after listing, this revision is intended to avoid overlap and streamline examination at the time of initial listing.</p> <p>- Eligible examinations shall be those within approximately</p>

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<p>(2) Revision to period subject to examination for trading value criteria</p> <p>(3) Preliminary applications</p>	<p>- The period subject to examination shall be the last six (6) months prior to the date of the application for assignment to the First Section market.</p> <p>- With regard to applications for assignment to the First Section market, preliminary applications may be accepted.</p>	<p>three (3) years since initial listing.</p> <p>- TSE will endeavor to complete examination in such cases within two (2) months of receiving applications.</p> <p>- The same shall apply to examination of alteration of markets.</p> <p>* This is intended to have examination cover a more recent period.</p> <p>- The same shall apply to examination of alteration of markets.</p> <p>- The same shall apply to applications for alteration of markets.</p>
<p>3. Other</p> <p>(1) Establishment of waiting period for alteration of markets from the Mothers market to the First Section market</p> <p>(2) Special provision for the criteria for liabilities in excess of assets in cases where liquidation is carried out based on turnaround ADRs</p> <p>(3) Other</p>	<p>- With respect to alteration of markets from the Mothers market to the First Section market, the date of alteration of markets shall be required to be one where one (1) year or more has elapsed counting from the date of listing on the Mothers market.</p> <p>- With respect to cases where a listed company plans to clear its liabilities in excess of assets within two (2) years from carrying out liquidation based on turnaround ADRs, the grace period until delisting shall be extended from one (1) year to two (2) years.</p> <p>- TSE will make other necessary amendments and adjustments to the</p>	<p>- A similar waiting period of one (1) year currently applies to assignment from the Second Section market to the First Section market.</p> <p>* This is intended to establish similar special provisions to those for cases where liquidation is carried out based on "Guidelines for Private Liquidation" in light of the increasing use of turnaround ADRs.</p> <p>- A grace period of one (1) year shall also be established for reassignment from the First Section market to the Second Section market.</p>

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Items	Contents	Remarks
	listing rules.	

III. Implementation Schedule

- The rules will be implemented in March 2012.
- The revisions regarding the handling of 1. will apply to initial listing applicants which apply to list on the main market after the implementation date.
- The revisions regarding the handling of 2. (1) and 2. (3) will apply to companies applying for assignment to the First Section market after the implementation date.
- The revisions regarding the handling of 3. (1) will apply to initial listing applicants which apply to list on the Mothers market after the implementation date.

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