

TSE's Recent Initiatives

Tokyo Stock Exchange, Inc.
April 18, 2024



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Follow-up of the Market Restructuring

- On April 4, 2022, TSE restructured the cash equity market **to incentivize sustainable growth and medium- to long-term corporate value creation at listed companies**, thereby **providing an attractive market that gains support from various types of investors both domestic and overseas**.
- In order to evaluate the current status of the new market segments and consider additional measures **to enhance the effectiveness of the market restructuring**, TSE established the "**Council of Experts Concerning the Follow-up of Market Restructuring**" and started discussions (July 2022 ~)

Summary of Discussions at the Follow-up Council [Major Policies] (published in Jan. 2023)

- ◆ In order to **ensure the effectiveness of the market restructuring** which was implemented for the purpose of contributing to the improvement of listed companies' corporate value and **to make this an opportunity for real change**, it is essential that **TSE continue to work on these reforms with a sense of urgency**.
- ◆ In order to revitalize the capital markets, and ultimately the Japanese economy, TSE should **create a framework to motivate listed companies** that are not concerned about violating the continued listing criteria **to take action independently to enhance their medium- to long-term corporate value, such as promoting cost of capital-conscious management**, by taking advantage of the characteristics of the three market segments.

Specific Initiatives

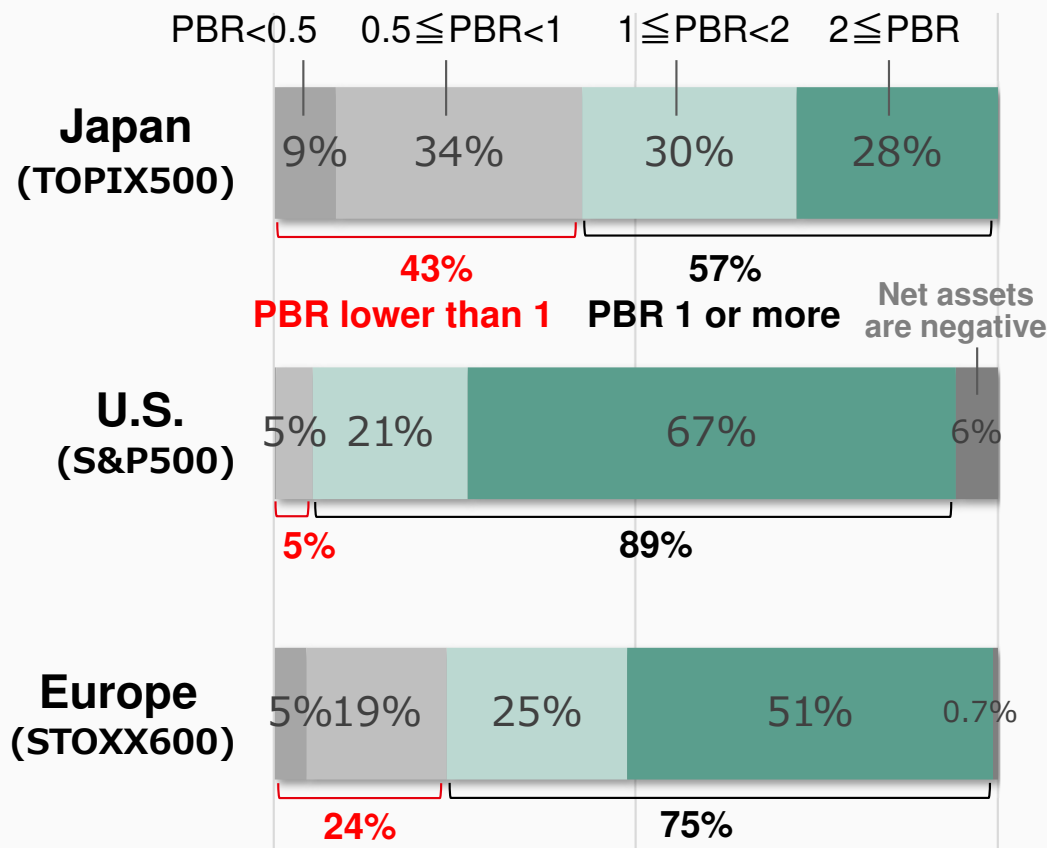
- ◆ **Raise Awareness and Literacy regarding Cost of Capital and Stock Price**
- ◆ Improve the Quality of Corporate Governance
- ◆ **Further Expansion of English Disclosure Practices**
- ◆ Improve the Effectiveness of Dialogue with Investors

1. Implement management that is conscious of cost of capital and stock price



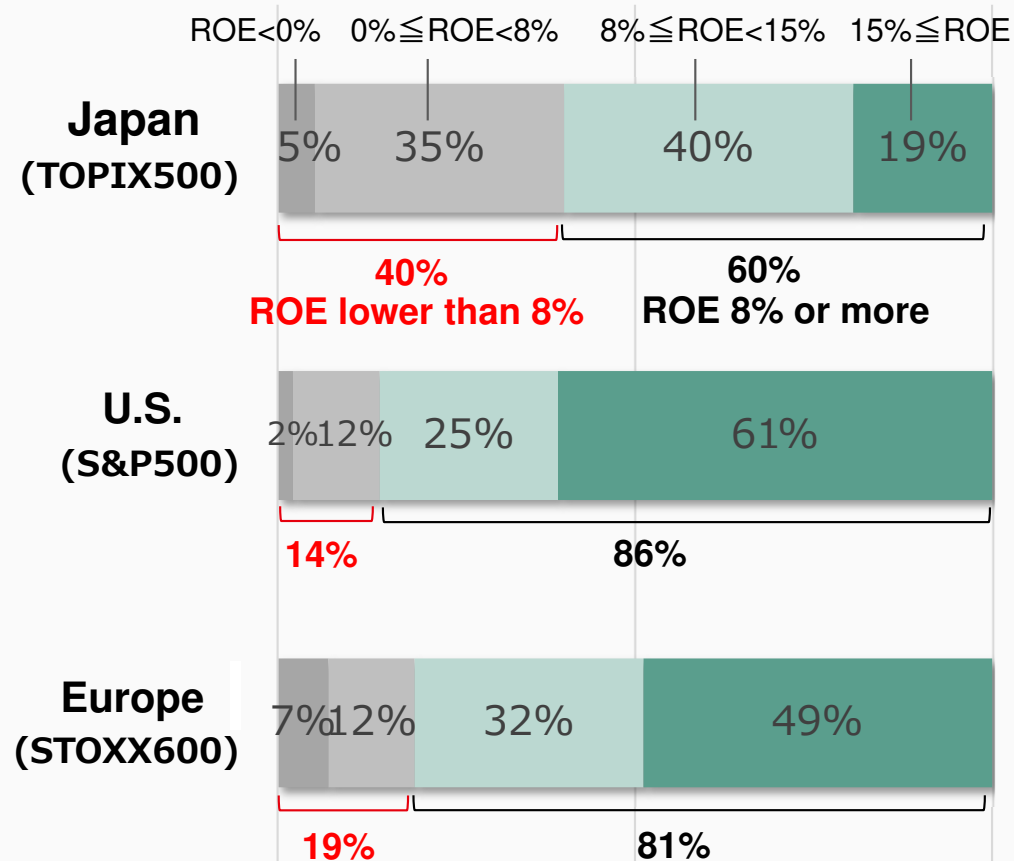
Global Comparison of PBR/ROE ※Data at the time of study

Global Comparison of PBR (major companies)



Note: Compiled by TSE based on Bloomberg data as of July 1, 2022.

Global Comparison of ROE (major companies)



Note: Compiled by TSE based on Bloomberg data as of July 1, 2022.

Purpose of Request

- The purpose of these actions is to have the management of the company carry out their management duties with more consideration of cost of capital and profitability based on the **balance sheet**, rather than just sales and profit levels on the income statement, in order to achieve sustainable growth and increase corporate value over the mid- to long-term.
- Specifically, based on the basic management policy established by the Board of Directors, **the management team is expected to take the lead in appropriately allocating resources with sufficient consideration of cost of capital and profitability** by pushing forward initiatives such as investment in R&D and human capital that leads to the creation of intellectual property and intangible assets that contribute to sustainable growth, investment in equipment and facilities, and business portfolio restructuring.

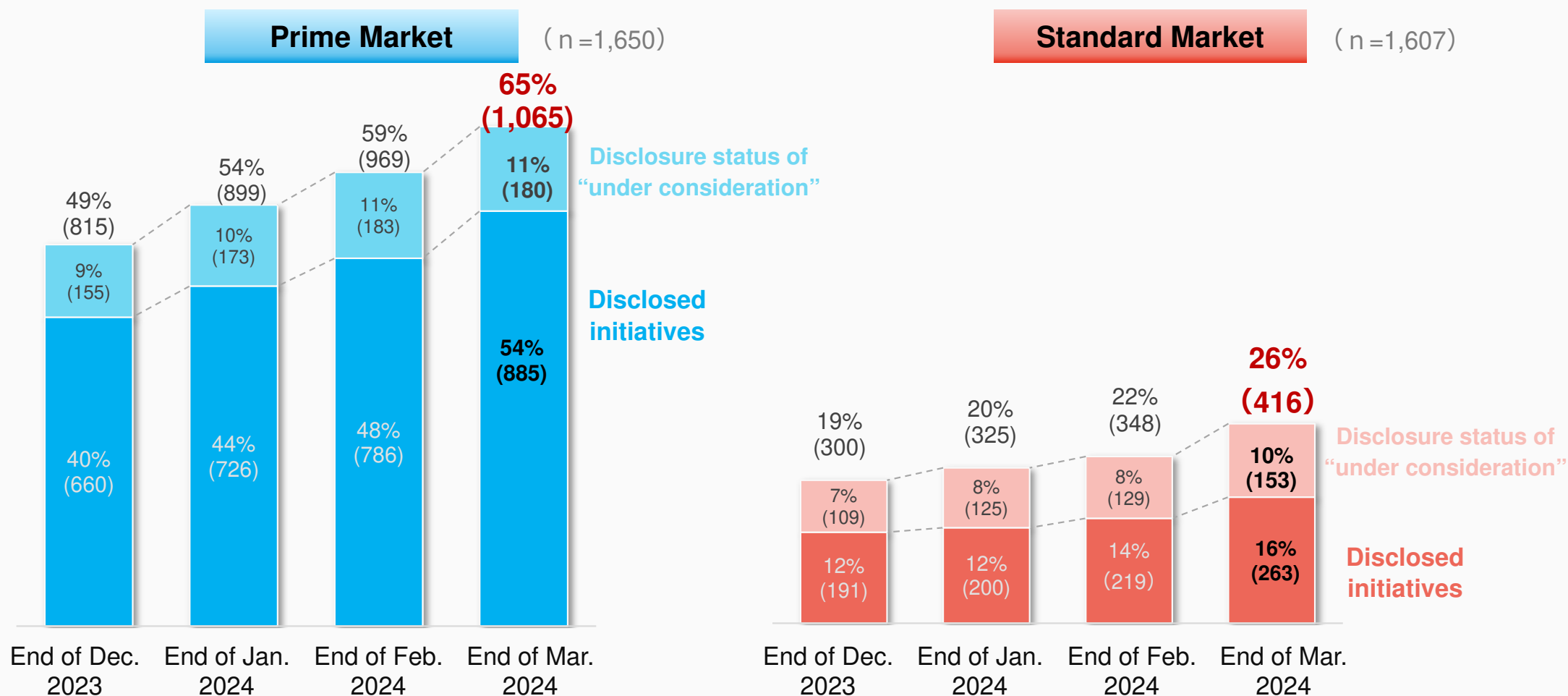
Note: While **share buybacks and dividend increases** are considered effective means of improving profitability, if shown as such by the company's analysis of whether the balance sheet effectively contributes to value creation, **TSE is not necessarily expecting companies to use only these or solve issues with a one-off response**. Efforts are expected on a fundamental level to attain profitability in excess of cost of capital on a sustained basis and achieve sustainable growth.

- In taking these initiatives forward, companies are expected to enable investors to assess their progress by presenting clear information on related policies, targets, and specific details in whatever way they see fit, and to **gradually improve their initiatives through proactive dialogue with investors based on this disclosure**.

Status of Disclosure (As of March 31, 2024)

◆ **65% of Prime Market listed companies (1,065 cos.)** and **26% of Standard Market listed companies (416 cos.)** have disclosed information regarding “Action to Implement Management that is Conscious of Cost of Capital and Stock Price.” (including companies with a disclosure status of “under consideration”).

➤ Increase of **16 pt (250 companies)** in the Prime Market and **7pt (116 companies)** in the Standard Market from the end of December 2023



Reference: TSE's Recent Initiatives

- TSE has **implemented the following measures to encourage more companies to consider and disclose effective measures.**

➤ TSE will continue to monitor the status of companies' responses and feedback from investors (focusing on the status of responses by companies whose fiscal year ends on March 31), and consider and implement additional measures as necessary.

Publication of a list of companies that have disclosed

- ◆ Publish a list of listed companies that have disclosed the information in accordance with the request to inform investors of who is taking action, thereby encouraging companies to make a proactive effort (Started on Jan. 15, 2024 and updated monthly).

Publication of key points from responses/examples of initiatives

- ◆ Compile and publish several key points based on responses from investors and examples of initiatives that investors deemed as fulfilling these expectations. (On Feb. 1, 2024)

Compilation and distribution of companies' response statuses

- ◆ Compile corporate disclosures and feedback from investors, etc., approximately once every quarter. (Started on Jan. 15, 2024)

Reminder to listed companies

- ◆ Inform all listed companies on the Prime and Standard Markets at the end of March 2024 about points to keep in mind regarding initiatives and disclosure, and procedures to be included in the list. Such points and procedures are frequently inquired about by listed companies. (At the end of Mar. 2024)

Note: In addition to the above, TSE internally established a dedicated group (Listed Company Support Group) in Jan. 2024 to support listed companies to consider initiatives to enhance their corporate value over the medium to long term.

Note: The above documents and data are available on the website page at <https://www.jpx.co.jp/english/equities/follow-up/02.html>

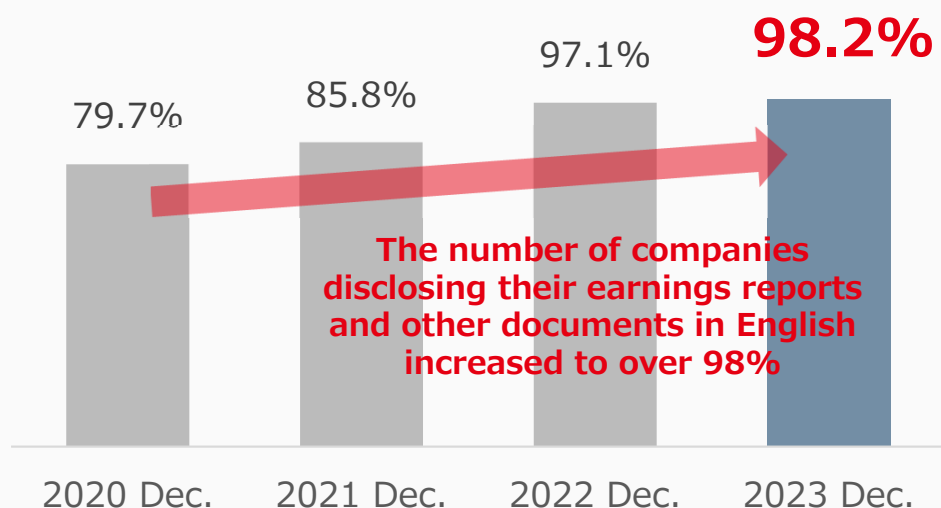
2. Further Expansion of English Disclosure Practices



Current status of English disclosure by Prime Market listed companies

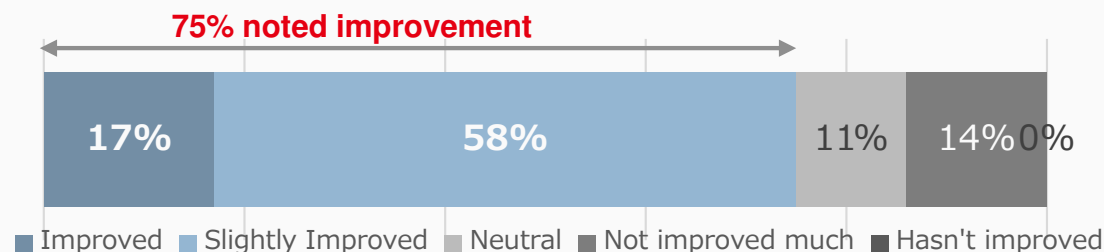
- The Prime Market is for companies that focus on constructive dialogue with global investors.
 - The 2021 update to the Corporate Governance Code stated that Prime Market listed companies should disclose and provide necessary information in English among their disclosure documents (supplementary principle 3-1 (ii)).
- Disclosure in English has been increasing among Prime Market listed companies in light of the revised code.
 - While overseas investors also positively rated the progress of these initiatives, 72% were "dissatisfied" or "somewhat dissatisfied" with the current situation, with many citing the difference in the amount of information compared to Japanese, the time lag in disclosure, and the lack of English disclosure for small cap stocks as reasons for their dissatisfaction.

English disclosure rate (Prime Market)

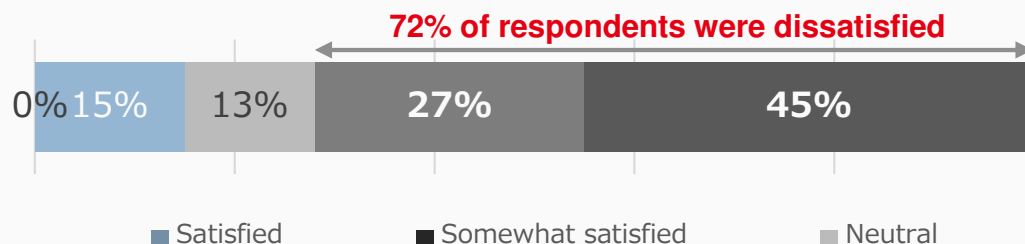


Assessment by overseas investors

Assessment of improvement



Satisfaction with current English disclosure



Source: Results of "Availability of English Disclosure Information by Listed Companies" Survey
 Note: The English disclosure rate is the percentage of companies that answered that they provide English disclosure for any of the following documents: Earnings reports, general meeting of shareholders announcements, corporate governance reports, securities reports, IR briefing materials, and other English disclosure materials.

Source: Prepared based on the results of a survey of overseas investors regarding English disclosure.

Expansion of English Disclosure in the Prime Market

- It will be stipulated in “Matters Desired to be Observed” under the Code of Corporate Conduct that Prime Market listed companies should endeavor to **simultaneously disclose the same material corporate information in Japanese and English**.
- In addition, taking into consideration the practical burdens on listed companies, as the “Matters to be Observed” in the Code of Corporate Conduct, for **financial results and timely disclosure information**, which have a particularly large impact on investment decisions and are required to be promptly disclosed, **simultaneous disclosure in English and Japanese will be mandatory**.

[Obligation Details]

Type of Documents		Timing of disclosure	Points to Note
Financial Results	<ul style="list-style-type: none"> • Earnings Reports (Annual/Quarterly) • Supplementary Explanatory Materials 	<ul style="list-style-type: none"> • Simultaneously with Japanese* 	<ul style="list-style-type: none"> • While simultaneous disclosure of all documents in full is preferred, disclosure of an excerpt or summary in English is acceptable.
Timely Disclosure Information	<ul style="list-style-type: none"> • All timely disclosure items 		

*In the case where simultaneous disclosure in English would cause a delay in disclosure in Japanese because urgent action is required due to the occurrence of an incident, or because the content of disclosure in Japanese is not finalized until immediately prior to disclosure due to the coordination with relevant parties, disclosure in English is not necessary to be made at the same time as the Japanese disclosure. (i.e. Disclosure in Japanese is prioritized.)

[Applicable Period]

Effective for disclosures made on or after April 1, 2025

*However, since some companies are expected to take time to establish the necessary system for English disclosure., TSE will give a grace period to listed companies that submit a document with a specific estimated date of implementation. The grace period will be one year from when the rules take effect. (TSE will make a list of companies that have been given the grace period and their estimated dates of implementation and publish it on the official JPX website in late March 2025.)

- English disclosures are regarded as **reference translations of Japanese disclosures** (accuracy of the translation is not subject to enforcement measures in the listing rules).

*In cases where no English disclosure is made (limited to cases where the plan is not disclosed), enforcement measures in the listing rules apply.

- **Further enhancement of disclosure content and expanding the scope of documents (to Annual Securities Reports, etc.) will continue to be considered.**

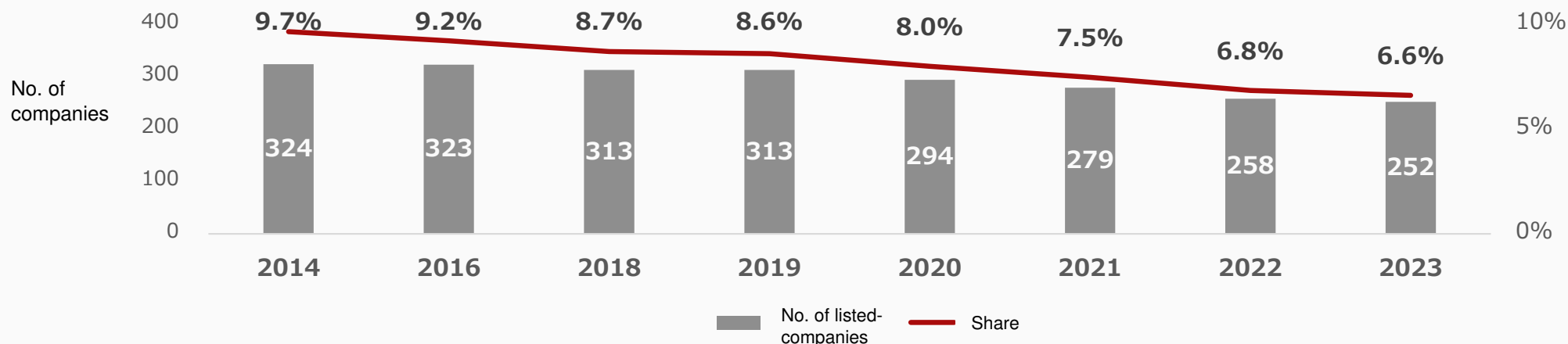
3. Disclosure of Information, etc. in Quasi-Controlled Listed Companies



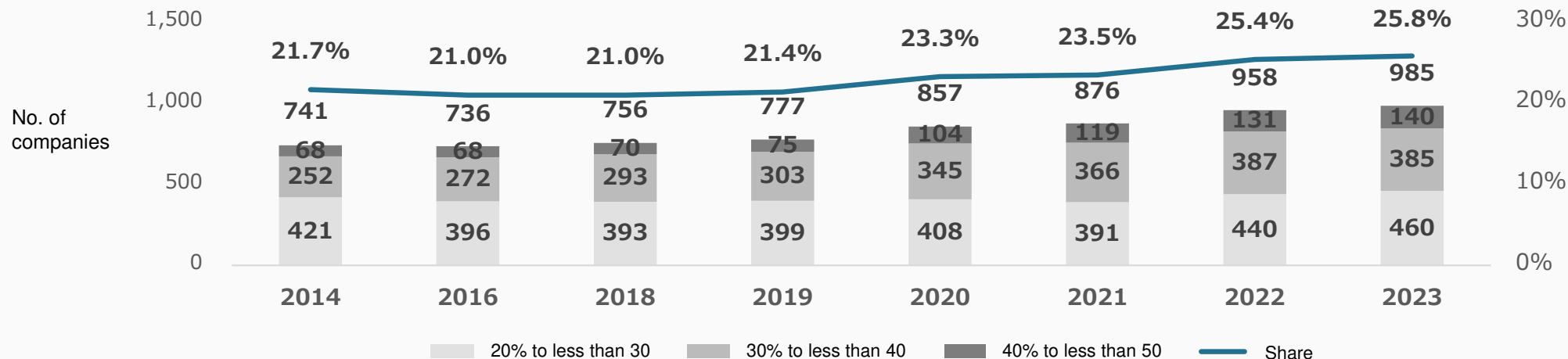
Trends in Listed Subsidiaries, etc.

- The share of listed subsidiaries has declined moderately. On the other hand, the number and share of listed companies with major shareholders (excluding non-corporate shareholders) holding 20% or more of their shares is gradually increasing.

Number of listed subsidiaries



Number of listed companies with major shareholders (excluding non-corporate shareholders)



Initiatives to Protect Minority Shareholders Based on the Study Group's Discussions

- In December 2023, TSE compiled the following two points based on discussions to date at “Study Group to review Minority Shareholder Protection and other Framework of Quasi-Controlled Listed Companies”:
 - Enhancement of Information Disclosure on Protection of Minority Shareholders and Group Management
 - Roles Expected of Independent Directors in Listed Companies with Controlling/Quasi-controlling Shareholder

Enhancement of Information Disclosure

- ◆ This report summarizes the key points regarding **information disclosure on protection of minority shareholders and group management** in corporate governance reports for listed companies that have parent-subsidary relationships or affiliated/other affiliated company relationships, as matters that investors expect to be disclosed.
- ◆ In addition, examples of corporate governance reports of each company are also included for reference.

Roles Expected of Independent Directors

- ◆ This document presents an explanation of **the roles of independent directors in protecting the interests of minority shareholders** of listed companies with a controlling or quasi-controlling shareholder, including examples of **specific situations**.

(Ref.) Key Points of “Explanation” That Contribute to Constructive Dialogue

Key Points of “Explanation”

- Clearly indicate **what is not being done** with respect to the Principle being explained.
 - In particular, **if there are details that are being implemented and those that are not** in one Principle, **clearly indicate them**
- Explain "**reasons for not complying at this time (reasons why it is appropriate for the company not to comply)**" for the contents that have not been complied from the following perspectives.
 - **Individual circumstances of the company** (company's industry, size, business characteristics, institutional design, environment surrounding the company, etc.)
 - **If alternative measures are being adopted, detail of them and the reasons why they are appropriate for the company**
- If you intend to comply the principles of the Code in the future, **explain the specific considerations for the compliance** from the following perspectives.
 - **structure, methods and processes for the considerations, and factors to be considered**
 - **Progress of the considerations, specific schedule for the compliance**
 - **If transitional efforts are being made prior to the compliance, details of them**

Major Types of Explanations Considered Insufficient

Type	Characteristic
a) Unclear Status of Response	<ul style="list-style-type: none">• Explained with the description of what is not complied is unclear, and it is difficult to understand why “explanation” is adopted.
b) No Statement of Reasons for Not Complying	<ul style="list-style-type: none">• Explained as "under consideration" without stating the reasons for not complying or the specific status of consideration.
c) Abstract Explanations	<ul style="list-style-type: none">• Explained abstractly, such as piecing together the wording of the Code.• Explained not based on specific individual circumstances.

(Ref.) Better Dialogue with Shareholders and Related Disclosure

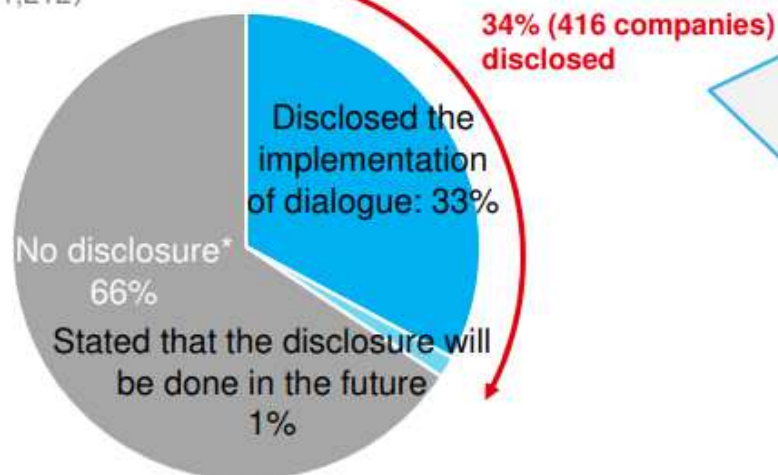


Responses to TSE's Request for "Better Dialogue with Shareholders and Related Disclosure"

- **To position the Prime Market as a market that focuses on constructive dialogue with diverse investors to enhance corporate value, TSE made a request to all the Prime-listed companies in March 2023, calling for "Better Dialogue with Shareholders and Related Disclosure."**
 - As it is important to **respond sincerely when there is a request for dialogue from a shareholder**, TSE's request is to have listed companies disclose the status of their dialogues with shareholders to encourage the development of systems and initiatives to do so.
- **Based on TSE's request, 34% (416 companies) of the Prime-listed companies with fiscal years that ended March 2023 disclosed their dialogue status.**
 - **Disclosure is more common among companies with larger market capitalization, as they are more likely to engage in dialogue with institutional investors. 40% (212 companies) of the Prime-listed companies with a market capitalization of JPY 100 billion or more disclosed their dialogue status.**

Status of disclosure on dialogue, etc. (Prime Market)

(n=1,212)



*If a company only discloses its "Policy on Constructive Dialogue with Shareholders" in accordance with Principle 5-1 of Japan's Corporate Governance Code, it is counted as "No disclosure."

Note : Based on corporate governance reports submitted by listed companies with the fiscal year ended March 2023 from the time of TSE's request to July 14, 2023.

Disclosure status by market capitalization (Prime Market)

