

Minutes of the First Council of Experts Concerning the Follow-up of Market Restructuring

Date: Friday, July 29, 2022 10:30 - 12:30

Place: Tokyo Stock Exchange 15F Conference Room 1

Attendees: See member list (Mr. Matsumoto was absent)

[Ao, Senior Executive Officer, TSE]

The time has now come to commence the first “Council of Experts Concerning the Follow-up of Market Restructuring.”

My name is Ao from the Tokyo Stock Exchange (TSE). Thank you very much for joining us today amidst your busy schedule. As you can see, only the beginning of today's meeting is being filmed.

First, let me explain the purpose of this Council's establishment.

As you know, with your cooperation, the TSE has restructured its stock market into new market segments on April 4, 2022, with the aim of creating an attractive market that supports the sustainable growth of listed companies and medium- to long-term improvement of corporate value while enjoying the support of numerous investors from both Japan and overseas.

Listed companies have selected and transitioned to the new market segments based on the new market segmentation concept and their own business environment, and we recognize that they are now at a new starting point. We hope that listed companies will use the selection and transition to the new market segments as a starting point to revitalize their management and business operations, and in turn enhance their corporate value based on the concept of the market segment they have selected and the new market structure.

Of course, the improvement of corporate value does not happen overnight, but can be achieved through day-to-day accumulation. I would like the experts attending this meeting to put forward suggestions and advice on how to follow up and what to do next, e.g., which areas to focus on.

In addition, I would like you to provide a range of suggestions on the direction that TSE is to take for future market operations, and advise on points to consider with an eye to the future. It is my hope that this exchange of ideas will allow us to deepen our understanding. Thank you very much for your cooperation.

Since this is the first meeting, it would be customary for me to introduce the members and observers in attendance, but in this instance, I will ask that you refer to the list at hand. My apologies.

Please note that Mr. Matsumoto of Monex Group is not present today.

I will now move on to today's agenda.

First, today I would like to present facts and data on the transition to the new market segmentation and subsequent developments from a range of perspectives. Then, I would like you to provide frank and wide-ranging opinions on the nature and method of future follow-up, transitional measures, and the ideal listing system from a longer-term perspective.

In the next and subsequent meetings, we will continue to deepen our discussion based on the opinions voiced today, while also taking in the views of market participants.

I would like to move on to the agenda from this point on, and would like to ask that those filming leave the room.

Now let us begin today's discussion, but before getting started on the agenda, one point regarding the proceedings of the meeting should be discussed. Please go ahead.

[Ikeda, Manager, Listing Department, TSE]

Please see Document 4—the written opinion of Mr. Matsumoto, who is absent today.

I will discuss the points raised in the written opinion during our exchange of opinions, but in the meantime please refer to the section “Ways to Structure

Discussion” in the middle of the opinion statement.

From the time of the preliminary explanation, we had assumed that proceedings would be non-public, while the minutes of the meetings would be promptly released to ensure the transparency of discussions. In this regard Mr. Matsumoto states: “The effectiveness of a discussion depends greatly on what is on the agenda and where priorities are placed. “Agenda setting” is essential. In this sense, a chairperson should be appointed from within the members and outside the secretariat to promote discussion”; and further, “since we discuss the public stock market which have public nature and the public's attention is highly focused on it, the discussion should be open to the public. It should be sufficient to only keep the discussion undisclosed in instances where confidential information is handled.”

[Ao, Senior Executive Officer, TSE]

Having received such comments, for the time being we would like to proceed in the way we had originally planned for today. However, we would like to consider these two points for the next and subsequent meetings.

In terms of discussions, we would like to thoroughly listen to your opinions on agenda, and address issues raised from the perspective of efficient and appropriate operations; in terms of transparency, even if we do not stream the video in real time, we intend to promptly summarize and disclose the contents of the proceedings.

I would also appreciate it if the members could give me their opinions on these two points in advance today, if they have any.

[Okina, member]

The transparency that Mr. Matsumoto mentioned is very important, and while I understand that it may be difficult to have open discussions, I think it is vital that we disclose the minutes as soon as possible.

As to whether to appoint a chairperson, I think it would be good to consider the better option based on today's discussion.

I think it is important that the TSE's response be visible from the outside, at least by making the proceedings transparent. I think we should keep this in mind.

[Ao, Senior Executive Officer, TSE]

We understand that it is important to make this information widely available to the public, and we will do our best to respond quickly and to be as clear as possible about the contents. We would appreciate it if you could let us know if there is anything additional you would like to discuss later.

Now, I would like to move on to the exchange of opinions. First, we will provide an explanation based on the materials at hand [Document 3-1: Secretariat's Explanatory Material].

[Ikeda, TSE] (The first half of the explanation is omitted.)

I would now like to begin on page 41 with an explanation of the issues to be discussed today.

Points to be discussed are divided into general and specific sections. Since today is our first meeting, we would be grateful if you could give us a range of honest opinions, starting from anywhere you like.

First of all, in terms of general comments, we would like to hear your general opinions on how we should proceed with the follow-up—for example, whether we should take in the opinions of specific people, whether we should proceed with the review from a specific perspective, or whether you believe that certain approaches would be appropriate for individual companies and investors or that a specific type of messaging is necessary.

Next up, with regard to the individual sections, individual market segments are shown. When it comes to the Prime Market, which focuses on dialogue with investors, we would like to hear your opinions on how to best motivate companies—for example, on which points to be more focused during dialogue, and on whether different approaches to enhancing corporate value should be adopted for companies with large and small market capitalization.

On to the next page, the Standard Market is intended to allow companies to

grow in a way that is suitable to them. In this context, we would like your opinion on how to best approach companies.

In the Growth Market, I believe that IPOs are important from the perspective of supplying funds to growing companies, but startup development efforts are a continuous process from the non-listed stage on. Therefore, we hope to receive a wide range of opinions on such aspects on a case-by-case basis, as well as on how to promote growth after listing or improve market regeneration with increased entry and exit.

Then, transitional measures have been singled out as an important issue that has been left unresolved by the new listing system. I understand that opinions will vary, but I would appreciate your comments on the timing and the way forward, such as how the system should be structured and whether the direction to take should be indicated soon.

Finally, since the new market segmentation has only been in place since in April, for the time being, we would like to proceed with a view to improving the effectiveness based on the current system. That said, we would also appreciate your opinions on future states of the markets, listing systems and standards.

That's all for the explanation of the materials.

[Ao, Senior Executive Officer, TSE]

Next up, we would then like to hear the opinions of those present.

From page 41 of Document 3-1, which we explained earlier, we have listed the issues that we would like you to discuss by dividing them into several sections. You may start from any of them, or choose a point that is not on the list. Since this is our first meeting, I hope that we will hear a wide range of honest opinions. We welcome anyone's comments, so please do not hesitate to speak.

[Kumagai, member]

My name is Kumagai. I look forward to working with you.

First, I would like to bring up a few points that I believe are of broad importance

to the discussions that the Council will be having. I believe there are three key words: the first is “Invest in Kishida,” the second is “economic restructure,” and the third is “speed.”

With regard to the first key word—“Invest in Kishida”—my understanding is that the new capitalism advocated by the Kishida administration aims at financial inclusion. Specifically, it aims to create a society where no one is left behind financially, and a brand of mass capitalism where the benefits of financial markets are widely available to the people, who are the major shareholders. Since the TSE will play a major role in this process, I would like to see the TSE speedily implement multifaceted reforms, including a roadmap for improving corporate value.

With regard to the second key word—“economic restructure”—it can be pointed out that one of the reasons for the long-term stagnation of the Japanese economy is that there is a strong bias for the status quo, and that people and capital have not been smoothly reallocated toward growing areas in the right places and at the right time, creating a long-term slump in productivity. I believe that it will be vital to improve the restructure at an appropriate speed in combination with proactive labor market policies, as is being done in Sweden and other countries, in order to achieve labor mobility without unemployment.

As for the third key word—“speed”—this goes without saying, but in a very fast-changing situation, it is crucial that we work on reforms quickly.

Having made the above three points, I would now like to give some comments in accordance with the “Items for Discussion Today” in Document 3-1. First, in terms of general issues, I believe that the restructuring of the Japanese market can be assessed positively in a sense that appropriate measures have been taken to a certain extent, although we are still a long way from solving the structural problems that the Japanese market is facing.

As for what to do in the future, since the system has just been changed, I think it would be practical to first focus on improving its effectiveness.

There are two specific points: first, it is imperative that the measures that were

set forth at this conference be implemented quickly. The discussion of market structure started in 2018, but it took almost four years since that for the actual transition to take place. This was not fast enough.

Secondly, we will need to take stock of how listed companies and institutional investors have assessed the market's restructuring along with their future needs and issues, and to make firm use of this information in the upcoming reforms. In addition, it is also worth considering the establishment of objective indicators of results, such as market capitalization and market liquidity, and their periodic evaluation.

Next up, I will discuss individual issues.

First, regarding the Prime Market, if I may speak frankly, I understand that some are of the opinion that it has the same members as the TSE's former 1st Section and does not feel much like a "Prime" market at all. So what should we do? For example, I think we need to encourage competition among listed companies to join TOPIX, whose transition period will end in January 2025.

As for changing our approach based on the size of market capitalization, I do not feel that there is a particular need to do so at this time, given the fact that listed companies have voluntarily made market selections.

With respect to the Standard Market, thorough follow-up is necessary, as there is an undeniable sense that its market positioning is more ambiguous than that of the Prime and Growth Markets.

Specifically, it is important to seek to enhance corporate value through dialogue with investors, and I think the key to achieving this will be to enhance disclosure. It may be possible for the TSE to set a specific format for disclosure, such as "Business Plan and Matters Related to Growth Potential" on page 39 of Document 3-1.

In addition, it is expected to promote public relations activities and branding that focus on the strengths and characteristics of the Standard Market as well as accompanying changes.

The Growth Market is expected to play a role in nurturing companies that will become the pillars of future Japanese industry, but in reality, as shown on page 37 of Document 3-1, the growth in the median market capitalization has not been significant. There is also much room for improvement in addressing the lack of proactive investment in Growth Market stocks on part of institutional investors.

Here, too, I believe that the key will be to strengthen governance with a focus on information disclosure and constructive dialogue with institutional investors, and that in this respect it would be beneficial to require Growth Market companies to disclose their business plans and other information at least once a year. However, I believe that the TSE currently checks whether or not the format is as prescribed before disclosure. In the future, it may be necessary to carry out such checks from the perspective of whether the information disclosed is sufficient for investors to make investment decisions.

Needless to say, it is extremely important to indicate the timeframe for transitional measures as early as possible.

In other respects, if the transition period of the TOPIX revision through January 2025 is the first phase, the second phase will be a period in which world-famous Japanese companies with large market capitalization are further encouraged to make efforts to sustainably boost their corporate value. We believe it may be necessary to consider raising the current inclusion criteria of 10 billion yen in market capitalization of tradable stocks, and periodically replacing constituent stocks.

As for promoting the listing of growth companies, the Kishida administration has also set a goal of increasing the number of startups ten-fold in five years, but I believe that the underlying problem behind the stagnation of investment in startups is a lack of diversity. I would like to see efforts for survey interviews with startups to be stepped up as soon as possible.

Finally, one thing that I consider particularly important across the entirety of this Council's discussions is the "Toyota Production System," which places vital importance on the identification of root causes by digging deeper in five rounds

to ask why something happened, rather than just looking at the surface events. Based on this philosophy, I strongly urge this Council quickly identify root causes and address them.

That's all from me. Thank you very much.

[Koike, member]

My name is Koike from Nomura Asset Management Co., Ltd.

I would like to make a few comments as an institutional investor.

First of all, as a general comment, I believe that JPX will take the initiative in fostering an attractive and disciplined stock market, and we would like to do our best to assist them.

Since April, during my overseas business trips to discuss the Japanese stock market with about 160 pension clients, I have at times talked about the market restructuring of the TSE, and felt that the general intention of the reforms had not been conveyed effectively to these people.

Since the ratio of foreign investors in the TSE market is high, we feel it is very important to accurately communicate the advantages and disadvantages of market reform to stakeholders.

We also feel that the roadmap for improving corporate value, which is one of the objectives of market restructuring, is not clear. I have the impression that there is a lack of clarity as to how market reform will bring about an increase in market value, make the Japanese stock market more attractive, and cause an inflow of funds, and I believe that this should be discussed thoroughly.

In addition, since not all companies listed in the Prime Market necessarily make efforts to improve their corporate value, we believe it will be necessary to introduce a system to motivate and incentivize the improvement of corporate value among listed companies.

As for the Prime Market, we institutional investors are grateful for the increased

sophistication of stewardship activities. On the other hand, it is not necessarily true that all companies will approach engagement with this attitude, so I feel that it will be necessary to consider guidelines to serve as motivation for listed companies.

As for the transitional measures, while promptness may be required, I think it would be better to first clarify who should assess the effectiveness of plans for compliance, and how they should do so.

I think we need to look at the effectiveness of plans more strictly in view of failure to meet the criteria for listing on the new Prime Market. Furthermore, although individual planning periods are currently different, I understand that there may be a uniform three-year period for transitional measures instead, and I think that unless the progress made during the process is also disclosed, whether the plan is appropriate and whether the company is trying to fulfill its mission as a listed company will remain unclear.

As institutional investors, we handle large sums of money in terms of investment, and in addition to market restructuring, I believe that index reform will also become an issue. To say that market segmentation reform equals index reform would be an exaggeration, but most investors are confused as to how to invest in Japan or whether to invest in TOPIX or the Prime Index. Therefore, we believe it will also be important to appeal to foreign investors, including through an index strategy.

I have a rather middling impression of the Standard Market, and feel that some companies will stay there without thinking about a transfer to the Prime Market. I think that the discipline of the Standard Market will be strengthened, if companies that meet the listing criteria of the Prime Market provide information on why they opted for the Standard Market instead.

Also, whereas the market structure used to be hierarchical, under the new independent market structure, the motivation of companies in the Standard Market to move to the Prime Market is unclear, and we have strong misgivings as to what motivations and incentives may be used to promote movement between markets.

The Growth Market's reduced size makes it difficult for institutional investors to enter. This issue may affect the pricing of IPOs, and we believe that measures should be taken to address it.

Finally, it appears as though not much is expected of the Growth Market in terms of governance, but since many companies in the Growth Market have high business risk, I think those companies are the ones that need to be well governed if they are to attract risk money.

[Ando, member]

My name is Ando from Omron. I look forward to working with you.

I would like to make a few comments as someone involved in corporate management.

It is my understanding that the purpose of this Follow-up Council is to determine what needs to be done in order to hasten the realization of the results of the market restructuring. There are a variety of issues, but all in all, as indicated on page 17 of Document 3-1 I feel that our effort will be meaningless unless we address the fact that there are many companies with P/B ratios below 1. In other words, putting aside the individual issues, I believe that finding ways to tackle this problem will be more important than discussion of the system as a whole.

On the one hand, I recognize that the Corporate Governance Code is an excellent instruction manual and a thought-provoking reference on corporate management. Conversely, until 2015 there had been no comprehensive instruction manual on how corporate management should be conducted. However, it is also true that change will not gain momentum if left solely to the companies' autonomous initiative, so I believe it will be necessary to further strengthen our approach to companies.

Specifically, it is extremely important to define the message to send to, and the action to require of companies in the Prime, Standard and Growth Markets whose P/B ratios are below 1.

Since generalizations are meaningless, my opinion is that the management of companies with P/B ratios below 1 need to understand the essence of sustainability management, create and publish a roadmap of priorities for their reform efforts, and continue the PDCA cycle of dialogue and engagement with investors regarding the roadmap's contents.

Since this is our first meeting, I would like to go into individual issues from the next time onward. This is all from me.

[Kuronuma, member]

I am Kuronuma of Waseda University.

First, regarding the general discussion, my understanding is that the goal of the market restructuring is to encourage the improvement of corporate value. The TSE has already put forth measures in line with this, and we need to think about how we can have them accomplished.

Market capitalization has increased over the past 10 years, and naturally, one of the ways to increase corporate value is to increase market capitalization, so I think we should look at the size of individual companies and discuss whether or not it is greater than in the past 10 years as a target.

I believe that the manner in which companies that have failed to meet the continued listing criteria may have achieved this goal differs from market segment to market segment. Since some of the efforts made toward compliance may be of questionable effectiveness to begin with, I think it is important to discuss their progress at the Follow-up Council.

Then, with regard to individual issues, I think the Prime Market appears to be polarized in terms of market capitalization. I think what we should be looking at is the degree of growth rather than improvement in overall market capitalization. I think that while lower median market capitalization compared to overseas markets is problematic, we should consider how to raise the median market capitalization of the companies at the top end. I believe that we should consider measures for achieving growth in excess of that attained over the past 10 years, broken down by market capitalization of traded stocks.

I am also concerned about the low ROE, but I think that is more of a matter to be resolved through dialogue with institutional investors, e.g., under the Stewardship Code.

As for how to achieve a market capitalization of 10 billion yen for tradable shares, if this cannot be achieved by increasing the ratio of tradable shares, then it cannot be achieved without growth, and moving to the Standard Market may be unavoidable.

Although the initial listing criteria include 25 billion yen in market capitalization, the continued listing criteria do not, and I understand that some companies that have not met this criterion after listing. I think such situations should be sorted out at the earliest possible stage.

In addition, the concept of the Prime Market includes disclosure in English and a higher level of governance, and it may be necessary to discuss whether it is possible to loosen the application of the numerical criteria for continued listing for companies that have reached a certain level when it comes to disclosure in English and governance.

Regarding disclosure in English, this was intended for overseas institutional investors, but there is a history of not taking market capitalization into account, and I believe it is important that we consider how we look at the relationship between the two.

We should consider measures based on whether companies with small market capitalization are not subject to investment by foreign investors and therefore do not need to engage in English-language disclosure, or whether such companies would also be invested in if they provided English-language disclosure.

I do not have a detailed grasp of the Standard Market myself, and although this may be a rather bold opinion, I think that there is no need to seek improvements in market capitalization there. Ideally, we would achieve higher market capitalization across all markets, but the TSE restructured its market precisely because there are cases where market capitalization has not improved, and I

believe that an improvement of market capitalization may not necessarily be achievable in all markets. However, I do believe that we should promote the achievement of the criteria for market capitalization of tradable shares by eliminating cross-shareholdings and selling shares held by directors and officers.

As for the Growth Market, if a company cannot achieve the criterion of at least 4 billion yen in market capitalization after 10 years of listing, we will have no choice but to ask the company to move to a different market.

Regarding the revitalization of the Growth Market as an IPO market, the current criterion for circulating market capitalization is 500 million yen, so it is unavoidable that the funds raised are small. To improve this situation, it will be necessary to encourage the participation of institutional investors, but since institutional investors say they cannot invest because of the small size, I think the only solution would be to build a track record of large-scale IPOs and large-scale public offerings after listing.

In this regard, since many of the large post-listing fundraising deals in Mothers are also overseas, it is likely that institutional investors are participating. However, I do think we should look deeper into why we are not getting institutional investors to participate in IPOs in Japan.

Regarding “business plans and growth potential matters,” I am not sure of the extent to which we can address individual companies at this Council, but I think there is room to use this document to discuss the development of growth companies.

Finally, regarding transitional measures, looking at the distribution of the time frame for the plan to comply with the continued listing criteria, I think that around five years is appropriate no matter how you look at it, and that longer than that would not be reasonable.

That's all from me.

[Sampei, member]

My name is Sampei. Please take a moment to meet me.

I was an institutional investor until last year, and now I advise companies and institutional investors in their stewardship activities. In my mind, I am still an institutional investor, so I would like to speak from that perspective.

First, as a general discussion, I think there are three important things to consider.

The first point, in relation to the market, is that we should not micromanage companies in order to make the market principle work. However, not micromanaging means that we need to be prepared for the fact that companies that do not do well there will be eliminated.

Secondly, at a meeting of the Financial System Council's Expert Study Group on the Structure of Capital Markets, I said that the middle market would be a halfway house and that two market segments would be fine, but I still think the position of the Standard Market is unclear. I think our discussion will need to focus on the Standard Market.

The third point is the indexes: I think that we have failed to show a proper direction for TOPIX. This has been discussed by the Financial System Council, but I do not think that fundamental reforms have been made at present.

I mentioned earlier that the Standard Market is important, but what shocked me in conversations with foreign investors was that they ridiculed the Standard Market as a "subprime" market.

If the Prime Market is the global standard, then the Standard Market could be called the "Japan standard"—meaning, for example, a company that may not accept foreign practices in corporate governance, but is able to deliver decent results, such as ROE and P/B ratios. For example, this may be the case if a company's ROE and P/B ratio are currently inferior to those of the Prime Market, but the company is still able to deliver results in spite of a management style different from that of the Prime Market.

In such cases, however, P/B ratio is something that investors evaluate, so

English-language disclosure is important in order to receive evaluations. In Europe, there is a rule to label funds as SFDR (Sustainable Finance Disclosure Regulation), and Article 5 funds that do not take ESG into account are already experiencing declining inflows every quarter.

While it is impossible to survive without becoming a so-called Article 8 or Article 9 fund, to be one of these, MSCI's BBB rating, for example, is not enough. You cannot get a high rating without English-language disclosure. There is talk of encouraging disclosure of sustainability-related information in the reform of securities reports, but even if such information is disclosed, it will be meaningless unless the securities reports are disclosed in English.

I think we have to show that English-language disclosure is important, if we want people to invest, regardless of market segmentation.

In the Prime Market, I believe the focus should be on transitional measures. The length of time allowed for companies to comply with the continued listing criteria varies, but I believe that once a company decides that it wants to remain in the Prime Market, it should only be allowed to disclose its plan up to the originally disclosed deadline. For example, if companies that currently disclose plans for a period of one or two years gradually renew their plans and extend the period, there is a concern that this period may become even longer. Therefore, it should be clearly stated that renewal will not be permitted at an early stage.

Reform of TOPIX is also key.

I believe that the Growth Market is the one that should not be micromanaged. However, the main problem with the Growth Market is that market capitalization is not growing. In our analysis, when we look at companies in the U.S. that have the characteristics of the TSE's Growth Market, the average P/B ratio is 5.7x, which is almost the same as the Growth Market. On the other hand, the average ROE is -45%—vastly different to the -0.1% of the TSE. I think that in Japan, there may be a lack of investment toward full-scale growth. The U.S. example given here is for a company with a market capitalization of 100 billion yen or more, which means that even a company that large is still trying to invest and grow.

We should encourage such efforts to improve market capitalization, and since some companies will naturally fail when they take risks and invest, the median price may not necessarily go up, but it is important that some of the companies become highly successful.

I also believe that timely disclosure is the most important aspect of the Growth Market, and that the TSE should instill a more proactive and early disclosure stance on matters that investors may have concerns about, beyond the timely disclosure standards set forth by the TSE.

[Nagami, member]

I'm Nagami from RAKSUL. Thank you for the opportunity to speak.

First, I would like to make a general comment about the framework and positioning of this Council. Some of what I want to say has already been said by other members. Basically, I believe that it is extremely important to decide actions and deadlines and to work towards those actions and deadlines.

I am aware that market restructuring is just the starting point, so I think it is important to redefine the position as a stock exchange that continues to reform and innovate.

At that time, I believe that it is important not to take a patchwork approach to current issues, but to thoroughly discuss where we want the market to be when we update today's materials in three years' time, in 2025, and in five years' time, in 2027.

For example, it is important to clarify the number of listed companies as well as market concepts at that time, and to have a concrete image of indicators such as ROE and P/B ratio. I believe it is essential to backcast from there to consider and implement measures.

With that in mind, as I am participating as an issuer, I would like to make two comments from an issuer's perspective.

My first comment is that, as Mr. Sampei pointed out earlier, as an issuer, I

have recently had an increasing number of opportunities to physically meet with investors. Unfortunately, 7 or 8 out of 10 foreign institutional investors are not really aware of what market restructuring involves.

While it is important to clarify the concept in writing, I believe that both issuers and investors are motivated by benefits, and so I think it is extremely important to create benefits, and I feel that this perspective will result in concrete action.

As a specific discussion point relating to such benefits, from an investor's perspective, it is quite conceivable that the refinement of indexes will enable investment in high quality indexes, and from an issuer's perspective, this is like a north wind rather than the sun, and I think that if the transitional measures, including timing, are clarified, then issuers may be able to take them seriously.

To go into each argument, on the benefits side, something that is not mentioned in the document but that needs proper discussion in comparisons to Europe and the US, is the thorough introduction of stock-based compensation. Stock-based compensation is being introduced more by growing companies, while Prime and Standard Market companies have not introduced it, or do not really understand what it entails.

On the other hand, looking at the introduction of stock-based compensation at European and US companies, we can see that at NASDAQ companies in the US that have introduced stock-based compensation, in many cases, stock-based compensation is causing dilution amounting to several percentage points each year. Naturally, companies need to secure profit growth and to generate cash flow to overcome this issue, and I believe it is important to provide solid incentives, including incentives for executives and employees, to increase the share price and market capitalization, not only in terms of the north wind, but also in terms of the sun.

My second comment may be a specific issue. RAKSUL is listed on the Prime Market and so I would like to express my opinion on behalf of the Growth Market from the perspective of a company participating as a growing company. In regards to the Growth Market, I believe that the issues are market capitalization, and low liquidity within market capitalization.

Naturally, disclosure efforts and performance growth are important as a company, but in addition to these, I think that it is possible to engage in marketing activities and devise ways to make indexes in the Growth Market even more useful to investment trusts and other investors.

Furthermore, in terms of examinations, I am aware that examinations are already flexible for companies with deficit, but I believe that it is necessary to follow-up properly to check whether the flexibility that exists during the examination process remains afterwards. There are so many different controls, but I am concerned that the benefits of the Growth Market will be lost if having a deficit at the time of the examination is not acceptable.

On the other hand, looking at the stock market, the situation is extremely severe when it comes to evaluating loss-making companies. The situation is such that some companies are delaying going public, and as is written in Mr. Matsumoto's opinion, there is talk of a secondary market for unlisted shares, similar to the situation in the US and Europe. I am not sure if this refers to a pro-market or the establishment of a new market. Rather than rushing to the goal of going public, the idea is to create a place for incubation where major innovation can take place.

I believe that further collaboration with a secondary market for unlisted shares will contribute to the creation of long-term innovation in the Growth Market.

[Okina, member]

My opinion is the same as everyone else's. I believe that market restructuring is an important initiative for listed companies to improve their corporate value over the medium- to long-term, and to increase international competitiveness and attractiveness as a market. This review is the merely the first step. To make it an opportunity for reform, we need to take sustained initiatives, and I believe that, as things stand at the moment, the significance of this review has not yet been fully understood.

As Mr. Kumagai mentioned, I believe that the Japanese economy as a whole currently lacks dynamism. The Japanese economy, including productivity, has

been stagnant for many years, and I believe that in order to revitalize it, it is important for investors and companies to engage in dialogue, for “economic restructure” to speed up, and for a range of reforms to take place quickly, to achieve growth.

I am particularly concerned about transitional measures. That many companies have not met the continued listing criteria, and that the deadline for transitional measures for these companies is “for the time being” and is very unpredictable, is a problem. I feel that it is imperative to quickly send a strong message to address doubts about whether accomplishments are being made as a disciplined market.

As Mr. Sampei pointed out, since it is the companies themselves that choose which market to join during the market selection process, I believe it is extremely important for those companies to follow through with the commitments they made in their plans to comply with the continued listing criteria.

I have not been able to check the details in each and every plan, but as long as a company has pre-committed to a plan and selected a market, I think we need to consider how the TSE should respond, assuming that the company will promptly work to meet the criteria in accordance with that plan.

I also believe it is important to listen to lots of opinions on how to proceed. I understand that TOPIX is examined and calculated by an organization that is independent of the TSE, the market operator, and I would appreciate the secretariat creating an opportunity for a hearing on this as well.

My awareness of the issues regarding each market is pretty much the same as everyone else's. Regarding the Prime Market, I am keenly aware of issues such as how to deal with a situation in which nearly half of the companies have a P/B ratio lower than 1, with regard to such indicators as market capitalization, ROE, and P/B ratio, and that despite the fact that the market is committed to dialogue with global investors, English disclosure is inadequate and the ratio of foreign investors in the market is low.

For the time being, with regard to these issues, we should probably focus on dialogue with investors, but as Mr. Ando mentioned, I believe that P/B ratio is a serious issue, and I feel that we need to consider how to approach it.

I also believe that only a small number of investors are engaging in dialogue. Of course, there is a difference between passive and active investment, but I think it is essential for asset owners, especially corporate pension funds, to be actively involved in such activities, and for example, various regulations such as Stewardship Code and PRI (Principles for Responsible Investment) have been developed, but committing to and being actively involved in such activities carries great meaning in terms of promoting dialogue.

The Standard Market, as Mr. Sampei pointed out, was originally classified based on the same criteria of liquidity and governance as the Prime Market, and so I believe that the positioning of the Standard Market has become ambiguous in some aspects.

I would like us to think a bit more about what can be done to revitalize the Standard Market.

I believe that it is important to properly demand the same level of governance as the Prime Market, and rather than formally demanding a minimum of one-third of independent directors, although there are some issues with the evaluation method, I feel that it is necessary to demand that improvements be made to the quality of governance through dialogue.

Regarding the Growth Market, I think it is important to make it easier for institutional investors to enter the market, and to encourage large-scale IPOs.

With regarding to stimulating startups, an issue the Kishida administration plans to focus much attention on, I feel that it is necessary to discuss how to stimulate the market as a whole from various perspectives, and not just in terms of the range of the TSE. I believe that scaling up startups, and specifically increasing the number of startups, is necessary so that the market grows on a larger scale and become a market that institutional investors can enter.

[Kanda, member]

My name is Kanda from Gakushuin University. Thank you for the opportunity to speak.

My opinion also overlaps somewhat with that of other members, but I would like to express my opinions and impressions since this is the first Council meeting.

I have three general comments. The first is what is a listed company. The stock market evaluates the corporate value of listed companies, and the TSE is the operator of the stock market. Therefore, I believe that it is not a good idea for the TSE to be involved in micromanagement, such as telling companies what to do.

However, I am aware that the TSE has been working on a number of initiatives. I believe that we need to investigate excesses and deficiencies in relation not only to market restructuring but also the timely disclosure system, code of corporate conduct, and Corporate Governance Code which is part thereof, and we need to look at how to make these and market segmentation, work together as a set.

Secondly, I have always wondered what the public stock market is, and if you look at the macro statistics in the US, listed companies have returned more funds to the public stock market by share repurchase than funds raised in the market over the past 10 years or so. However, there is demand for funds from the companies. In Japan, since around 1998, not only the household sector but also the corporate sector has had a surplus of funds, in other words, there has been little demand for funds.

Unless we discuss the stock market in light of such situation, I think we may end up moving in the wrong direction.

Thirdly, as to how we should proceed, I think we need to hear from a wide range of people, especially foreign investors, to ask them how they view the TSE's markets and their expectations.

Moving on to specific issues, for the Prime Market, the most important aspect is to consider the optimal structure as a set that includes market segmentation, corporate codes of conduct, the Corporate Governance Code, and timely disclosure systems, and I think we should discuss what should and should not be done while looking at the actual situation.

Another issue, as others have pointed out, is financial indicators such as the P/B ratio, and whether or not we can move a step forward with respect to raising the P/B ratio.

I am also aware that English disclosure absolutely must increase, and I believe that English disclosure is necessary in the Standard Market as well. In this sense, I think the issue is not market segmentation, but the disclosure system.

With regard to transitional measures, there are two things to note as to why transitional measures were originally established, grandfathering and soft landing.

Starting with grandfathering, I believe that this will be a transitional measure for companies that do not meet the continued listing criteria, and that it will become more of a soft landing as time goes by.

With regard to what to do about soft landings, one approach is to set an interim target, an interim target for 2025 for example, in what one might call a two-step approach, since doing everything at once would cause halation.

Just now, another member pointed out that we should not allow plans to be updated to comply with continued listing criteria, but I think there could be some concerns over whether it will be that easy in reality. Finally, I feel companies should be able to show a two-step roadmap.

Furthermore, as has already been pointed out, with regard to the Growth Market, the problem here is that companies that have failed to grow remain listed in the Growth Market. I think that companies that have only had one IPO and have remained listed ever since should be made to leave the market, which

is exactly what market regeneration or revitalization is all about.

While there are many reasons for small IPOs, I am surrounded by many lawyers who are involved with VCs, and they tell me that one of the things they sense when going about their work, is that there is no demand for funds in the first place.

With regard to the Standard Market, other members have raised various points, and as I listened to them, it occurred to me that there are a number of accounting standards, such as IFRS, Japanese GAAP, and US GAAP, and in reference to these ideas, I feel it is worth discussing the image of IFRS for the Prime Market and Japanese GAAP for the Standard Market, or whether such operations can be considered in terms of corporate governance or another aspect.

Furthermore, regarding the Standard Market, I am aware that there was a lack of time for discussion when restructuring the market, or that perhaps the market concept had not been fully worked out, and I think that the Standard Market should be discussed during these Council meetings while looking at what is actually happening in the market.

[Ao, Senior Executive Officer, TSE]

We have now heard from everyone here. I think you have already had a chance to read the opinion, but I would like to ask for a summary of the opinion from Mr. Matsumoto, who is not present today.

[Ikeda, TSE]

Leaving aside some of the points I touched on earlier, I would like to reiterate some of Mr. Matsumoto's points in the order in which he made them. Please look at Document 4.

First, as a general comment, he is of the opinion that "it is essential to start by clarifying the main purpose of market restructuring in order to engage in effective discussion."

Regarding the first point, "Ways to Structure Discussion", below this, as

everyone pointed out earlier, Mr. Matsumoto is also of the opinion that speed is of the essence.

In the section on “Transitional Measures”, he starts by pointing out that we should proceed with the review as quickly as possible and determine and clarify the end date of transitional measures.

Secondly, he points out that accepting that there are about 500 companies that do not meet the continued listing criteria, makes the continued listing criteria a mere formality and makes the transitional measures extremely opaque.

Thirdly, he mentions the argument that there are currently companies that do not meet the continued listing criteria, and when the transitional measures end, there should be an opportunity for those companies to redeem their shares if they are delisted. He points out this is a matter that we should also be discussing.

Below that, he has commented on other issues, pointing out that the design of public markets should incorporate more shareholder perspectives, that at the time of the dissolution of parent-subsidary listings, it is important to note prices at which shares are acquired from the subsidiary companies’ minority shareholders, and that the small number of companies with statutory nomination and remuneration committee should not be overlooked.

Finally, he suggests that the reason for the much smaller amount raised during IPOs should be due to the secondary market for private equity being underdeveloped. That covers everything.

[Ao, Senior Executive Officer, TSE]

We’ve now heard from everyone, including the opinion we received from Mr. Matsumoto, but we still have some time left. Would anyone like to add anything based on what each member has said so far?

[Ando, member]

I think we should reach an agreement on how to publish the minutes of these

meetings, which Mr. Ao mentioned at the start of the meeting.

Incidentally, while I think the minutes of the meetings should obviously be made public, since our discussions may go back and forth, there are advantages and disadvantages involved in both publishing detailed minutes of each meeting and minutes indicating who said what. I think it would be better to publish only a summary of proceedings, which is pretty much the standard practice adopted by similar expert councils. How about discussing this amongst ourselves and considering which direction to take and then let the TSE secretariat make a final decision?

[Ao, Senior Executive Officer, TSE]

We have just received Mr. Ando's opinion on the minutes. If anyone else has any comments, I would like to hear them.

[Nagami, member]

Regarding the minutes, I personally do not have any problem with them being made public.

I would like to say something about a different issue from the minutes. As I mentioned earlier, I think it is very important to be specific about what roadmap to decide on and how to change things by when. I would very much like this to be discussed at upcoming meetings, so that no ambiguity remains.

Furthermore, as to whether or not to have a chairperson, something that was mentioned by Mr. Matsumoto, I am not saying that we necessarily have to have one, but I think it would be better to make a clear decision at the first meeting and at the next meeting.

My statement comes from the perspective of driving constructive discussion and implementation.

[Kanda, member]

Regarding my thoughts on the publication of minutes, obviously the sooner they are published, the better. One way would be to publish them word for word as minutes, the other way is to compile them in the form of a summary of the

proceedings. The former method could be done by making the meeting itself public or streaming it simultaneously on YouTube.

While there are advantages and disadvantages to each of these methods, the topics to be covered during these meetings are of interest to everyone and have a direct impact on listed companies, and so I think it is better to have a high level of openness. In that sense, how about including names of speakers as a general rule in the minutes, and if a member is not comfortable about that, we could, for example, remove his/her name for certain comments from the minutes?

However, I don't think we need to stream the meetings. In any case, I think it would be better to be more open.

[Koike, member]

At the outset, I said that the TSE should be proactive in disseminating information about market restructuring, and I believe that the minutes of the meetings should be made public.

I have been contacted by many investors and they ask me what we will be discussing, and while I obviously cannot answer their questions, it shows that they are interested. For this reason, it is better to indicate the points and direction of our discussions rather than to provide details.

[Ao, Senior Executive Officer, TSE]

Based on the current discussion, I am sensing that while streaming in real-time on YouTube, etc. is not necessary, it would be good to provide detailed and faithful minutes so that our discussions are properly understood and that providing a digest version to clarify the overall points and flow of our discussions would be an added bonus.

[Ando, member]

I think it would be better to reach a consensus on whether to disclose who made what statements, as Mr. Kanda proposed. I am okay with any format as long as there is a consensus among members.

[Ao, Senior Executive Officer, TSE]

Thank you. What do you think? If you don't mind, I think it would be clearer if we included your names.

(No particular objection from any member)

[Ao, Senior Executive Officer, TSE]

I take it everyone is okay with that. In that case, we will publish minutes with names. We will put together the minutes and ask you to review them before they are published. Regarding the wording in the minutes, please let us know if you would like to make your intentions clearer.

[Sampei, member]

I have no problem with publishing the minutes, as suggested. I have some requests relating to other issues.

The first request relates to comparisons between the Prime Market and foreign markets on Page 10 of Document 3-1. The horizontal axis shows the number of listed companies while the vertical axis shows market capitalization, making the chart very easy to understand for comparison purposes. Since indexes were mentioned earlier, could you please show the data using the same format for indexes?

For example, I think it would be easier to discuss if you could create a chart of how TOPIX and its series look when compared to overseas S&P500, etc.

My second request relates to Document 3-3. The situation is very easy to grasp from this collection of data, but when we discuss the Standard Market in particular, I would like to receive updates on the respective situations at companies that have moved from the First Section to the Standard Market and from the Second Section to the Standard Market. We can discuss frequency of updates later. It is not clear whether trends of these two groups will eventually converge, but overall, I believe that by looking at trends, such as which group [i.e. a group of companies from the First Section or another group] has a major impact on overall trends, we will be able to understand attitudes in the Standard Market. So I would appreciate it if you could update us at an appropriate time so

that we can monitor the transition.

[Kumagai, member]

I am not sure if this is something we should be discussing today, but can you give us a general idea of what kind of output you are expecting the Council to come up with, and by when?

Mr. Nagami mentioned having a roadmap, and I also believe that ideally there should be a “to-do list” with deadlines for things we should be discussing.

Also, page 5 of Document 3-1 states that the purpose is to advise the TSE, so I would like to ask if you have an image of what the output will be by when, including the extent to which what we say will be implemented.

[Ao, Senior Executive Officer, TSE]

Thank you. We will respond to the requests from Mr. Sampei.

Regarding the questions raised by Mr. Kumagai, we would like to summarize everyone’s opinions as soon as possible. When we asked you to join this Council, we said that we would like to continue holding meetings for about three years from a medium- to long-term perspective, but we would like to produce results sooner rather than later, if we can.

On the top of that, I think it would be a good idea to continue to follow up on the points indicated as points to be followed up on, after that point, and to receive opinions on the need for further restructuring.

Specifically, it is July now, and we are thinking that, if possible, we will be able to put something together after about half a year of discussion. However, at that time, if we consolidate your opinions into a single direction, it could create restrictions, and since there are many different points of contention, we believe that it is acceptable to have multiple opinions on some topics. We would like to put something together in that way first, while also considering how to proceed thereafter.

Today we have received comments regarding speed and what we are aiming

for, and we would like to reorganize our approach based on your opinions.

Of the issues that received a lot of comments, the issue that I consider difficult relates to companies with a P/B ratio lower than 1. While this is an extremely important issue, I think it is difficult to determine what specific measures are realistic and what would be a good way to get companies to change their mindset toward growth.

We would appreciate your suggestions for our own thinking on this issue.

There are a wide range of opinions regarding IPOs, and I think there are still differences of opinion when it comes to the details of IPOs. As Mr. Nagami explained earlier, we would appreciate any suggestions you have on how we should approach the relationship between the listed market and the non-listed market directly before the listed market.

[Sampei, member]

The matter of P/B ratio lower than 1 is a major issue, but I think making it part of TOPIX inclusion criteria would work very well. However, that could take time to decide and there will be opposition if we do it out of the blue.

I thought that asking such companies to go away and think about how to approach the situation, as Mr. Ando mentioned, is a good idea. That way, we can respond quickly and let companies think independently, so that we are not micromanaging them as I mentioned at the beginning.

Regarding IPOs, there is talk of a private secondary market, and I am not sure if such a market is necessary, but in my previous job, I invested in Mr. Nagami's company (RAKSUL) while it was a private company, and we talked a lot about when and at what stage an IPO would be a good idea. We can invest with confidence in companies that go public in that way thereafter.

General funds established in Japan have restrictions on such investments, but foreign funds, such as Luxembourg's SICAV can invest in private equities. It may not necessarily be an issue with the TSE rules, but an issue of legal framework governing mutual funds, and I believe it is possible to consider how

these and other issues can be smoothly connected if they are developed.

[Nagami, member]

Regarding P/B ratio, from the perspective of the issuer's management, I believe that a P/B ratio lower than 1 is probably a situation in which the management is not that bothered about the share price or is not aware of the concept of capital efficiency.

A certain level of governance is necessary, and I am also wondering if there is a way to get reports issued. In the medium- to long-term, I think it may be possible to remove such companies from the index. I think it we need to return to the meaning of being listed.

In the past, the Japan Securities Dealers Association held a meeting to discuss unlisted secondary markets which I also participated in and so I am aware of this issue. However, in some foreign countries, there are unlisted secondary markets under the umbrella of exchanges, while in other cases they are operated by other private companies.

Ideally, there should be multiple markets, but I think we should first consider the action that should be taken, whether the market should be built on the initiative of the stock exchange or whether it should be promoted by other private companies.

I believe the need exists, at least in creating a trend in which the number of startups and the number of listed companies increase.

[Ando, member]

When I made my remarks earlier, I said I would not discuss specific issues, but what I am most concerned about is how to follow-up with companies subject to transitional measures. Whether to aim for a soft or a hard landing is something to be discussed with respect to methodology.

That said, I acknowledge that no matter which method is chosen, in the event of a company delisting, we must be keenly aware of protection of shareholders, and whether individuals, corporations, or institutional investors, it is not ideal for

shareholders to suffer disadvantages because of strict rules.

Consequently, I feel that we should have a careful discussion on how to treat companies subject to transitional measures, being fully aware of this point.

[Ao, Senior Executive Officer, TSE]

Thank you. With that, I would like to close today's discussion.

I would like to summarize today's discussion in the minutes, in line with the direction we have just discussed. We will send the minutes to you as soon as we can for you to review, and we would appreciate your cooperation in making the minutes available to the public as soon as possible.

Finally, I would like to explain the schedule going forward and so on.

[Ikeda, TSE]

Thank you very much for the lively discussion today.

I would like to confirm everyone's schedule for the second and third Council meetings sometime in September, October, or November and to decide on dates. We would very much appreciate your cooperation in arranging the schedule for future meetings, and we would like to decide the dates as far in advance as possible to ensure the smooth operation of the council.

We had planned to ask for stakeholders' opinions from the next meeting, but since we have received quite a number of opinions today, I would like to summarize those opinions, reconsider our approach, and present the necessary data in parallel.

That's all from me.

[Ao, Senior Executive Officer, TSE]

With that, I hereby declare today's meeting adjourned.

Thank you very much for participating. I look forward to talking with you all again at the next meeting.

END