



# Summary of Discussions on Measures to Improve the Effectiveness of the Market Restructuring (Draft)

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**Exchange & beyond**

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- In Japan's economy, the lack of a smooth transition of personnel and capital resources to growing areas has led to a prolonged slump in productivity. In order to ensure the sustainable development of the Japanese economy in the future, it is important to promote industrial metabolism and innovation in business and society.
- In doing so, individual listed companies can not only take measures independently, but they can also consider ways to increase productivity by exchanging factors of production and by implementing M&As with other companies. It is important for TSE to support such efforts and thereby contribute to the improvement of productivity in the Japanese economy as a whole.
- Under these circumstances, 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 itself continue to exercise leadership and work on ongoing reforms with a sense of urgency.
- At this time, the government is aiming for financial inclusion to create a society where no one is left behind financially and the benefits of the financial and capital markets are widely available to all citizens. From the perspective of achieving this, TSE is expected to play a major role in continuous and speedy reforms.
- In light of this background:
  - TSE should immediately make clear how the transitional measures will be handled in the future with respect to the continued listing criteria, which have been established as a measure for easing drastic changes, including the timing of termination, from the perspective of ensuring a healthy industrial metabolism.
  - In order to revitalize the capital markets, and ultimately the Japanese economy, measures should be taken to further encourage listed companies that are not concerned about violating the continued listing criteria to take steps to enhance their medium- to long-term corporate value, such as promoting capital efficiency-conscious management, by taking advantage of the characteristics of the three market segments.

## II .1. Handling of Transitional Measures

- In order to encourage listed companies to increase their corporate value and to ensure a healthy industrial metabolism, the transitional measures should be terminated as soon as possible, taking into consideration the amount of time it will take for the results of companies' initiatives to be realized.
- On the other hand, it is necessary to design the transitional measures in consideration of the fact that some listed companies have selected a market segment and made a plan without a set deadline, and that some listed companies have made steady progress in their efforts based on their plans.
- In addition, the revised transitional measures should be designed to be as simple and as clear as possible so investors can easily understand.
- If transitional measures are terminated and stricter exit criteria are applied, it would be necessary to ensure sufficient redemption opportunities for investors, and it would be appropriate to use the framework of the Securities to Be Delisted.



Specific proposals on the handling of transitional measures will be discussed at the next council.

- What is required of Japanese companies is not a conventional management reform, but backcasting once they have discussed what they want to achieve in the future and redesigning management itself, shifting away from profit and loss management and moving toward balance sheet management and cash flow management.
- In particular, considering that the purpose of this market restructuring is to contribute to the improvement of corporate value of listed companies, it will be meaningless unless we address the fact that about half of all listed companies have a PBR below 1. Whether or not we can take any steps forward to improve financial indicators such as PBR is a point of discussion at the council.
- From this perspective, measures such as a) raise awareness of capital efficiency and stock price, b) improve the quality of corporate governance, c) further expansion of English disclosure practices, and d) improve the effectiveness of dialogue with investors, should be promoted in accordance with the characteristics of each market segment.
- In doing so, TSE should not micromanage individual companies, but rather allow autonomy in corporate management to function.

- In Japan, there are many cases where management is unaware of capital efficiency and stock price. It is necessary to change management's awareness and allow autonomy in corporate management functions.
- First, TSE could encourage management to properly identify the company's cost of capital and capital efficiency, evaluate those statuses and its stock price and market capitalization, and disclose policies and specific initiatives for improvement as necessary. This could be a catalyst for promoting dialogue with investors and improving management literacy.
- In particular, companies with a PBR consistently below 1x (i.e., not achieving capital efficiency in excess of their cost of capital) should be required to disclose their policies and specific initiatives for improvement.
- In addition, the Code of Corporate Conduct introduced by TSE in 2007 should be reviewed and revised as necessary to clarify the responsibilities of listed companies and to ensure their effectiveness, while taking into account subsequent developments in corporate governance and other factors.
- In addition, in order to raise awareness among management in listed companies, TSE could be proactive in promoting understanding and recommending stock compensation plans, providing training opportunities and sharing best practices to improve literacy related to capital markets and corporate governance.

## II .2.b) Improve the Quality of Corporate Governance

- Since the establishment of the Japan's Corporate Governance Code, listed companies have made progress in their efforts to improve governance, but their awareness of the need to gain insight in order to improve their own management skills is still low.
- Corporate governance has so far tended toward formalism but improving quality should be more focused from now on.
- “Comply or Explain” has become a formality for some companies. For example, there are some companies whose Explanations have been “under consideration” for several years. TSE should re-emphasize the purpose of the “Comply or Explain” principle, clearly state inappropriate cases of Explanations, and encourage companies that do not properly implement “Comply or Explain” to correct the situation as necessary.
- In addition, while the number of listed companies that have nomination committees and remuneration committees is increasing, there are many cases where the roles and functions of these committees are not clear. Therefore, TSE should continue to encourage disclosure of the status of activities of nomination committees and remuneration committees, investigate the actual status of their activities, and compile and publish the status and examples.

## II .2.c) Further Expansion of English Disclosure Practices

- Quite a few foreign investors cite a complete lack of information as a reason for their reluctance to invest in Japan.
- In particular, given that the Prime Market is for companies committed to dialogue with global investors, further expansion of English disclosure practices, which is the foundation of the dialogue, should be encouraged and possibly made mandatory in the future.
- In doing so, it is necessary to consider factors such as the scope of documents to be covered, taking into account the burden on listed companies and the status of use by investors.
- In addition, English disclosure practices should be promoted as a matter of course for companies that have capital needs with foreign investors. Thus, it is necessary to encourage voluntary disclosure to progress in the Standard Market and Growth Markets as well.



## II .2.d) Improve the Effectiveness of Dialogue with Investors

- It is important to gain insight into how to improve one's own management capabilities through dialogue with stakeholders, including investors, but some companies remain reluctant to engage in such dialogues.
- In particular, listed companies in the Prime Market are expected to focus on constructive dialogue to improve their corporate value. From the perspective of encouraging constructive dialogue with investors, TSE should require companies to clarify the status of dialogue between management and investors and the content of such dialogue.
- While CEOs and other members of management are expected to play a central role in dialogue with investors, independent directors are also expected to actively respond to requests from investors for dialogue, as they are in a position to supervise management in response to shareholder requests.
- However, the number of independent directors who engage in dialogue with investors is currently limited, and some independent directors are not fully aware of their roles. Therefore, educational activities are needed to ensure that independent directors properly understand the roles expected of them.
- On the other hand, while investors should play an important role in appropriately encouraging listed companies to increase their corporate value, only a few investors are involved in dialogue at present, and it is important to encourage asset owners, including corporate pension funds, to be actively involved in dialogue in the future.

# (Reference) List of Members of the Council

Members:	Ando Satoshi	Director, OMRON Corporation
	Kanda Hideki	Professor, Gakushuin University Law School
	Koike Hiroyasu	President & Chief Executive Officer, Nomura Asset Management Co., Ltd.
	Kumagai Mitsumaru	Deputy Chairman of the Institute, Daiwa Institute of Research Ltd.
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	Matsumoto Oki	Chairman & CEO, Monex Group, Inc.
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