



TSE Explanatory Material

*The Fourth Council of Experts Concerning
the Follow-up of Market Restructuring*

Exchange & beyond

Tokyo Stock Exchange, Inc.

November 25, 2022

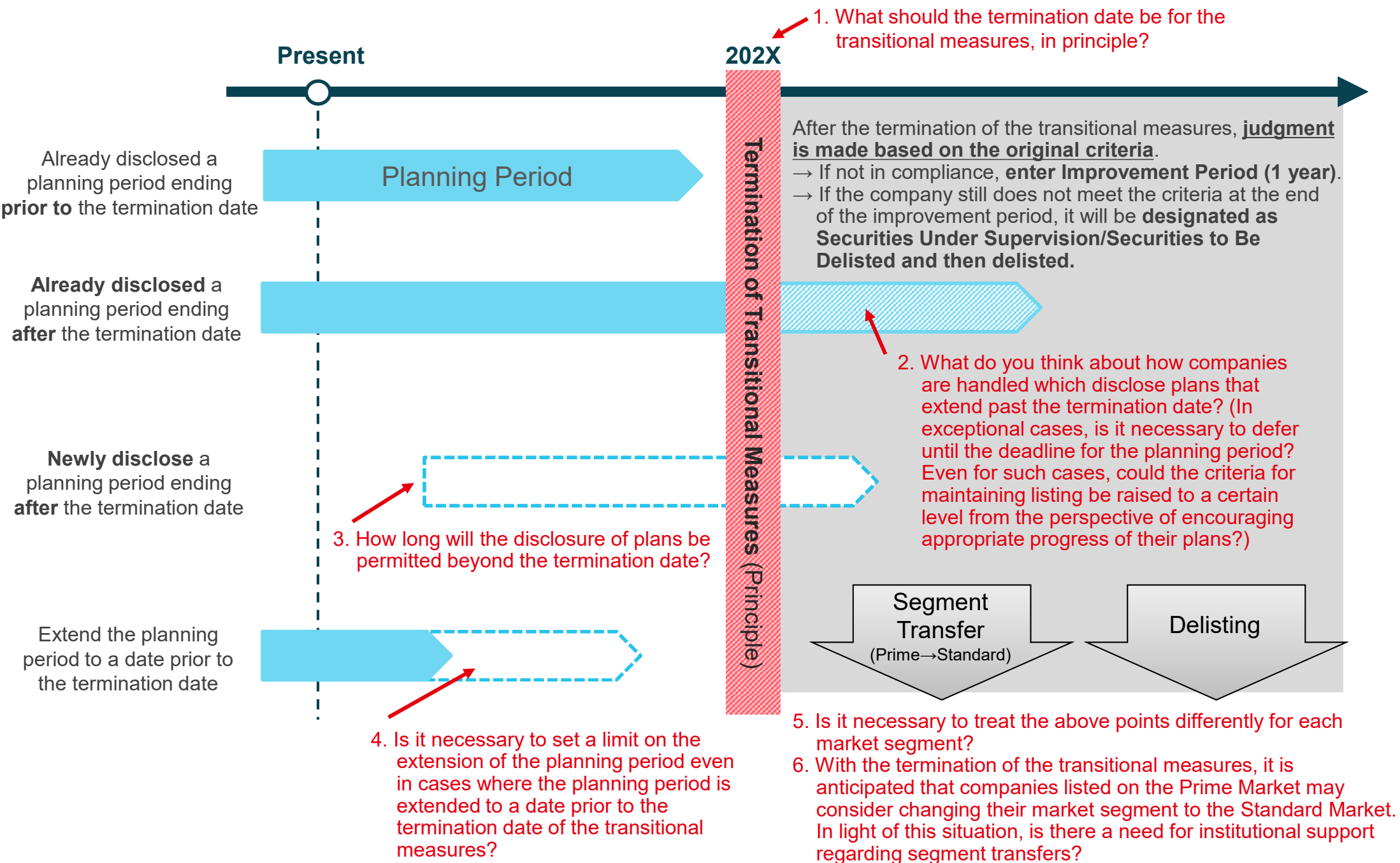


- How should the transitional measures be handled in the future?
 - **Termination Date of Transitional Measures**
 1. **What should the termination date be for the transitional measures, in principle?**
 2. **What do you think about how companies are handled which disclose plans that extend past the termination date?** (In exceptional cases, **is it necessary to defer until the deadline for the planning period?** Even for such cases, **could the criteria for maintaining listing be raised to a certain level from the perspective of encouraging appropriate progress of their plans?**)
 - **Plan Update**
 3. When determining the termination date of the transitional measures, **how long will the disclosure of plans be permitted beyond the termination date?**
 4. **Is it necessary to set a limit on the extension of the planning period even in cases where the planning period is extended to a date prior to the termination date of the transitional measures?**
 - **Other**
 5. **Is it necessary to treat the above points differently for each market segment?**
 6. With the termination of the transitional measures, it is anticipated that companies listed on the Prime Market may consider changing their market segment to the Standard Market. In light of this situation, **is there a need for institutional support regarding segment transfers?**

Reference: Previous Comments on the Handling of the Transitional Measures

- The transitional measures should be terminated as soon as possible anyway, as they will make the continued listing criteria meaningless.
- Considering how the planning periods have been structured, it is appropriate to draw the line around 5 years following transition (2027).
- It is important for each company to firmly adhere to the commitments made in the plan, and extensions of the originally disclosed deadlines should not be allowed.
- Another option would be a two-step approach with an interim target of 2025, for example, rather than prohibiting companies from renewing their plans from the beginning.
- TSE should publish the list of companies that do not meet the continued listing criteria along with the deadline for their plans.
- If many listed companies in the Prime Market apply to transfer to the Standard Market in close succession, securities companies may struggle with a shortage of capacity to handle the screening and review process.

Reference: Mapping of Items for Discussion



Reference: Companies that do not Meet the Continued Listing Criteria

- **507 companies** do not meet the continued listing criteria but have disclosed their plans to do so (as of Oct. 31, 2022).
 - Of the 586 companies that have disclosed plans, 67 companies have met the criteria (10 companies were officially confirmed to be in compliance after the transition, and 57 companies announced that they have exceeded the criteria, based on their own calculation), and 12 companies withdrew their plans as they went private. On the other hand, 31 companies newly disclosed their plans as they could not meet the criteria after the transition.
- The end dates for the planning periods are concentrated in the two to four years following the transition to the new market segments, and 94% of companies plan to meet the criteria within five years.

Number of Companies that do not Meet the Criteria

Prime

Note: As of Oct. 31, 2022

Tradable Share Market Cap (JPY 10 bil.) :	227
Tradable Share Ratio (35%) :	38
Trading Value (daily avg. JPY 20 mil.) :	78
Total (excluding duplications) :	271

Note: In addition, 5 companies were officially confirmed to be in compliance after the transition, and 33 companies announced that they have exceeded the criteria, based on their own calculation.

Standard

Tradable Share Market Cap (JPY 1 bil.) :	129
Tradable Share Ratio (25%) :	73
# of Shareholders (400 shareholders) :	11
Total (excluding duplications) :	194

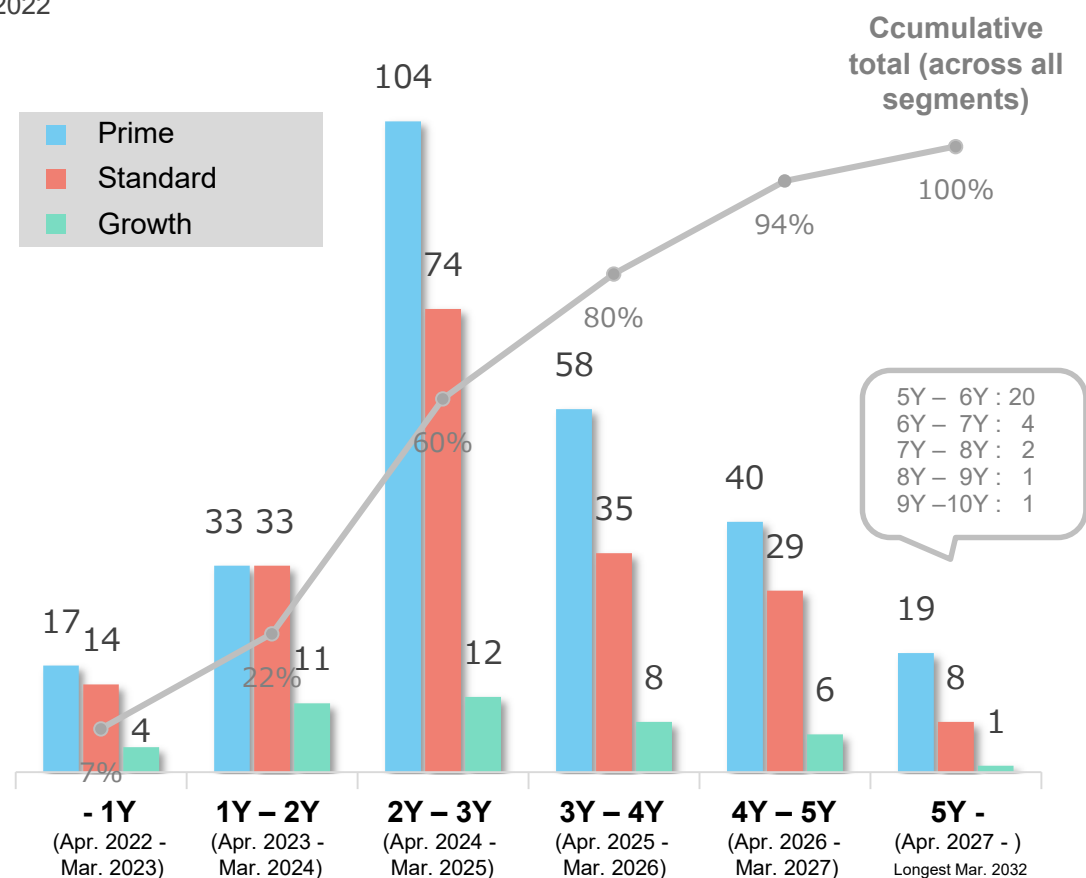
Note: In addition, 3 companies were officially confirmed to be in compliance after the transition, and 17 companies announced that they have exceeded the criteria, based on their own calculation.

Growth

Tradable Share Market Cap (JPY 0.5 bil.) :	4
Tradable Share Ratio (25%) :	23
Market Cap. (JPY 4 bil. from 10 th yr. of IPO) :	17
Total (excluding duplications) :	42

Note: In addition, 2 companies were officially confirmed to be in compliance after the transition, and 7 companies announced that they have exceeded the criteria, based on their own calculation.

Distribution of Plan Lengths

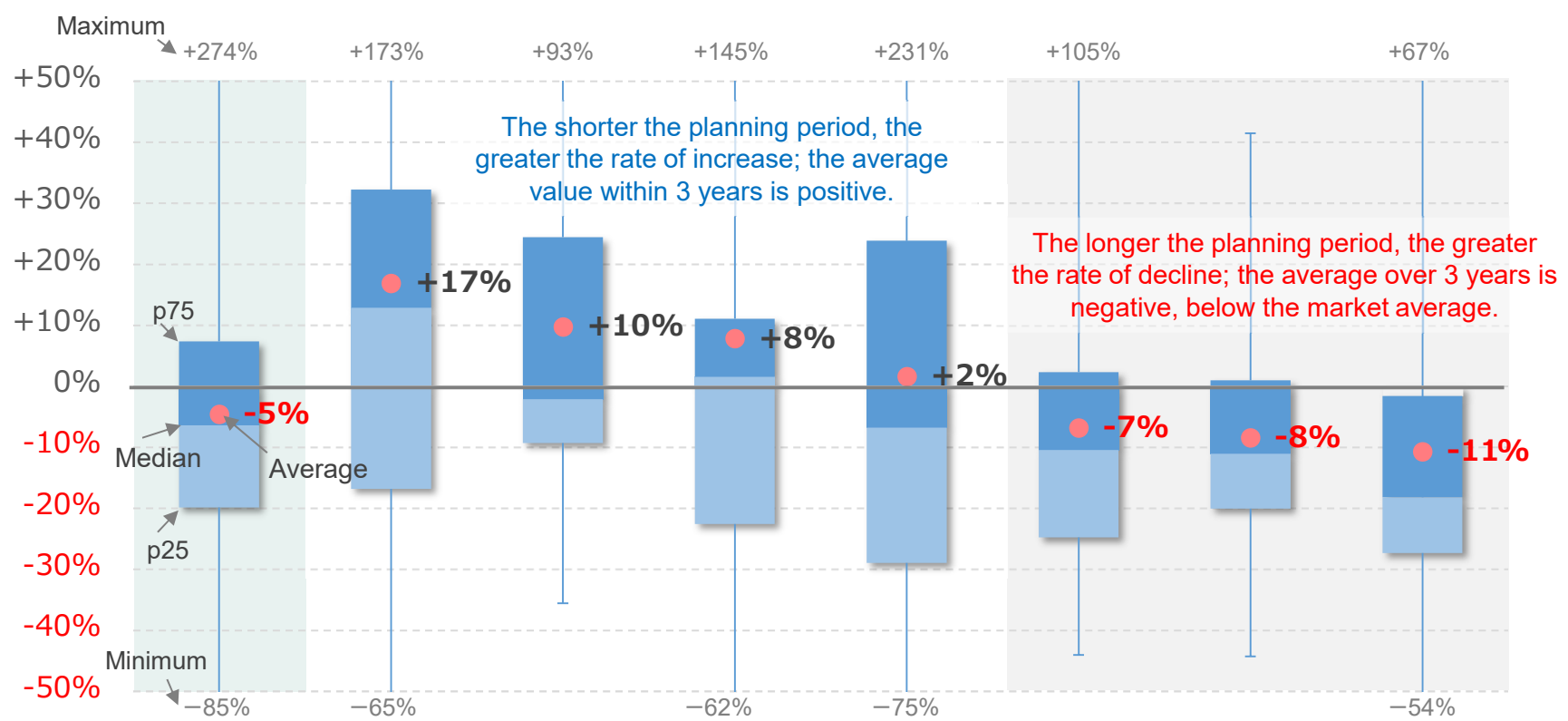


Note: Plan length is counted from the date of transition to the new market segment. If multiple criteria are not met and different length plans are set for each, the longest length plan is used.

● As for the market valuation since the reference date of transition (end of June 2021), the market cap. of companies that disclosed plans to meet the criteria within 3 years is on the rise, while the market cap. of companies that disclosed plans which will extend beyond 3 years has fallen below the market average.

Change in Market Cap. of Companies in the Prime Market that do not Meet the Criteria for Tradable Share Market Cap. (10 billion yen)

Change in Market Capitalization
From the reference date of transition (end of June 2021) to most recently (end of September 2022)



Note: "p75" indicates companies in the 75th percentile from bottom, and "p25" indicates companies in the 25th percentile from bottom.
Note: Calculated for companies with a market cap. of less than JPY 10 billion as of the reference date of transition (excluding companies delisted after the transition decision).

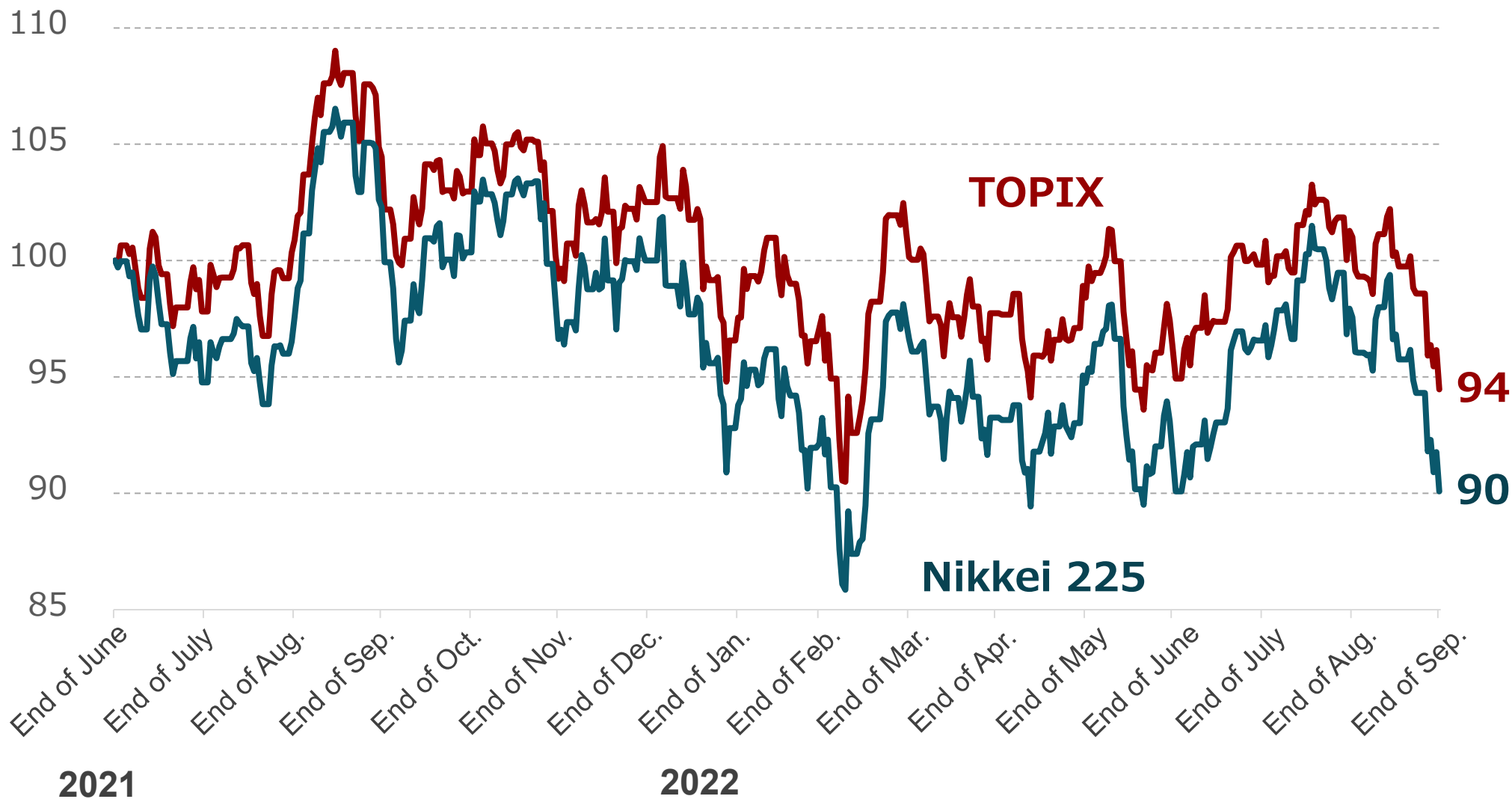
Plan Length

Note: Plan length is counted from the date of transition to the new market segment.

Reference: Performance of Indices

100 = Movement of each index with the reference date of transition (end of June 2021)

Performance of TOPIX and Nikkei 225



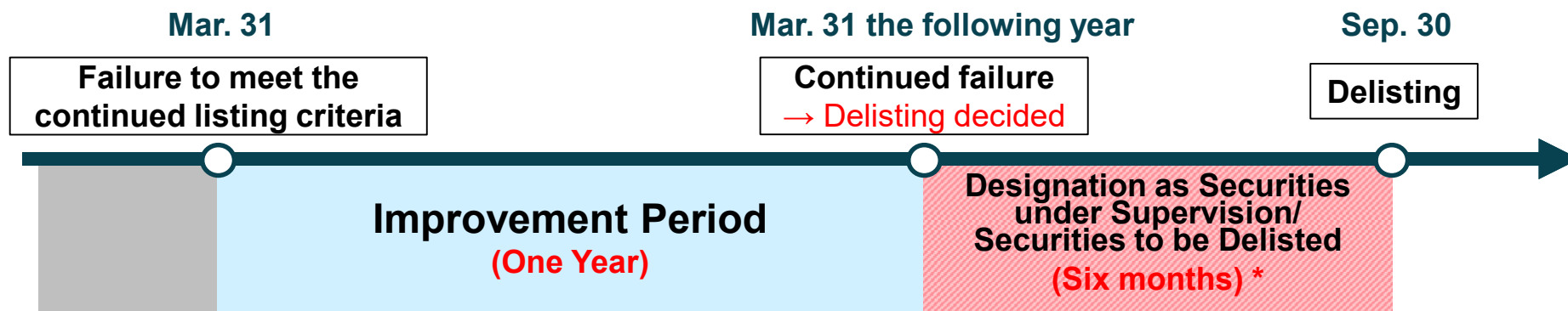
Source: QUICK

- If a company does not meet the continued listing criteria by the reference date, it will enter an **Improvement Period of one year in principle.**
- Failure to meet the criteria during the Improvement Period by the next reference date will result in delisting.
 - **It is expected that the company will be designated as Securities Under Supervision/Securities to Be Delisted for six months and then delisted.**

Note: The period of designation as Securities to Be Delisted* after the decision is made to delist will be extended in order to secure opportunities for investors to sell their shares.

* Under the current rule, the period is one month.

Example of Delisting Schedules (for a company with a fiscal year ending in March)



* TSE designates the company as Securities under Supervision after the end of the Improvement Period.

* TSE decides to delist and designates the company as Securities to be Delisted as soon as it confirms that the company does not meet the criteria, based on the "Table of Distribution of Stocks, etc." submitted by the company within two months of the end of its fiscal year.

Reference: Companies that do not Meet the Criteria for Tradable Share Market Cap./Market Cap.

Prime (Tradable Share Market Cap. JPY 10 bil.)

* For companies that disclosed their plans before the transition, the values are as of the reference date of transition; for companies that disclosed their plans after the transition, the values are as of the end of the most recent fiscal year.

Tradable Share Market Cap.*	Plan Lengths (from the date of the transition)						Total
	- 1Y	1Y - 2Y	2Y - 3Y	3Y - 4Y	4Y - 5Y	5Y -	
JPY 7.5 billion - 10 billion	4	13	32	21	10	2	82 (36%)
JPY 5 billion - 7.5 billion	6	8	36	14	10	4	78 (34%)
Less than JPY 5 billion	—	4	19	15	17	12	67 (30%)
合計	10 (4%)	25 (11%)	87 (38%)	50 (22%)	37 (16%)	18 (8%)	227 (100%)

Among companies disclosing long planning periods, many have tradable shares market capitalization of less than JPY 5 billion.

Standard (Tradable Share Market Cap. JPY 1 bil.)

Tradable Share Market Cap.*	Plan Lengths (from the date of the transition)						Total
	- 1Y	1Y - 2Y	2Y - 3Y	3Y - 4Y	4Y - 5Y	5Y -	
JPY 0.75 billion - 1 billion	6	10	22	12	7	2	59 (46%)
JPY 0.5 billion - 0.75 billion	2	8	22	11	12	1	56 (43%)
Less than JPY 0.5 billion	—	2	3	3	5	1	14 (11%)
Total	8 (6%)	20 (16%)	47 (36%)	26 (20%)	24 (19%)	4 (3%)	129 (100%)

Growth (Market Cap. JPY 4 bil. from 10th yr. of IPO)

Market Cap.*	Plan Lengths (from the date of the transition)						Total
	- 1Y	1Y - 2Y	2Y - 3Y	3Y - 4Y	4Y - 5Y	5Y -	
JPY 3 billion - 4 billion	—	1	4	1	—	—	6 (35%)
JPY 2 billion - 3 billion	1	2	2	1	1	—	7 (41%)
Less than JPY 2 billion	—	2	—	—	2	—	4 (24%)
Total	1 (6%)	5 (29%)	6 (35%)	2 (12%)	3 (18%)	0 (0%)	17 (100%)

Reference: Judgment Status for Continued Listing Criteria after Transition

- Following the transition to the new market segments, judgements concerning listed companies' compliance with the continued listing criteria are being made sequentially, starting with companies with fiscal years ending in April.
 - Of the 53 companies whose fiscal years end in April-September that disclosed their progress after the transition, **10 companies have been officially confirmed their compliance with the criteria, while 43 companies continued to fail to meet the criteria, 3 of which extended their planning periods.**
 - In addition, **31 companies did not meet the criteria for the first time and newly disclosed their plans.**
 - The fiscal year-ends of listed companies are concentrated in March and December so that **many companies will be judged to be in compliance with the criteria for the first time after the transition.**

Number of Companies that do not Meet the Continued Listing Criteria by Fiscal Year-End

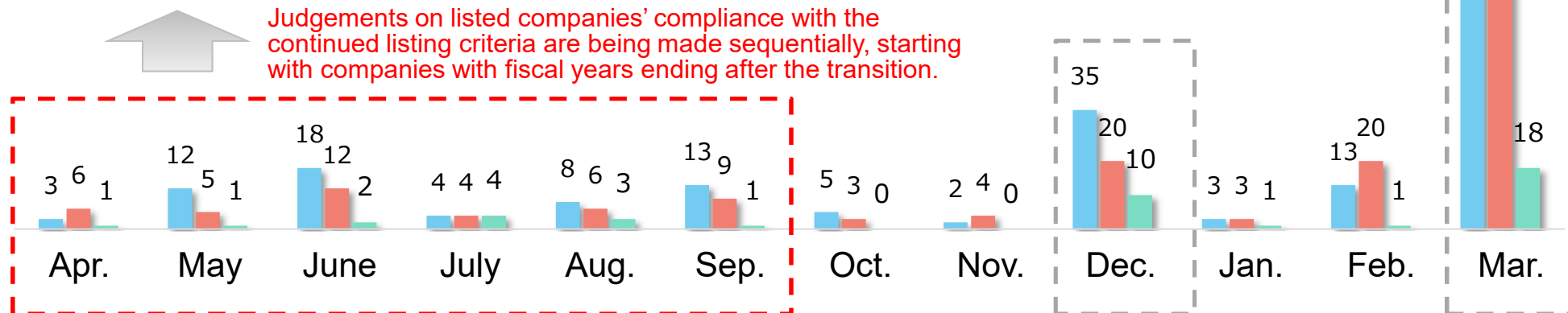
Note: As of Oct. 31, 2022

■ Prime ■ Standard ■ Growth

Total # of companies whose fiscal years end in Apr.-Sep. that disclosed progress	: 53
- # of companies that have been confirmed to comply with the criteria	: 10
- # of companies that continued to fail to meet the criteria	: 43
- # of companies that extended their planning periods*	: 3
# of companies that did not meet the criteria for the first time and newly disclosed their plans to do so	: 31

In the future, many companies will be judged on whether or not they are in compliance with the criteria for the first time after the transition

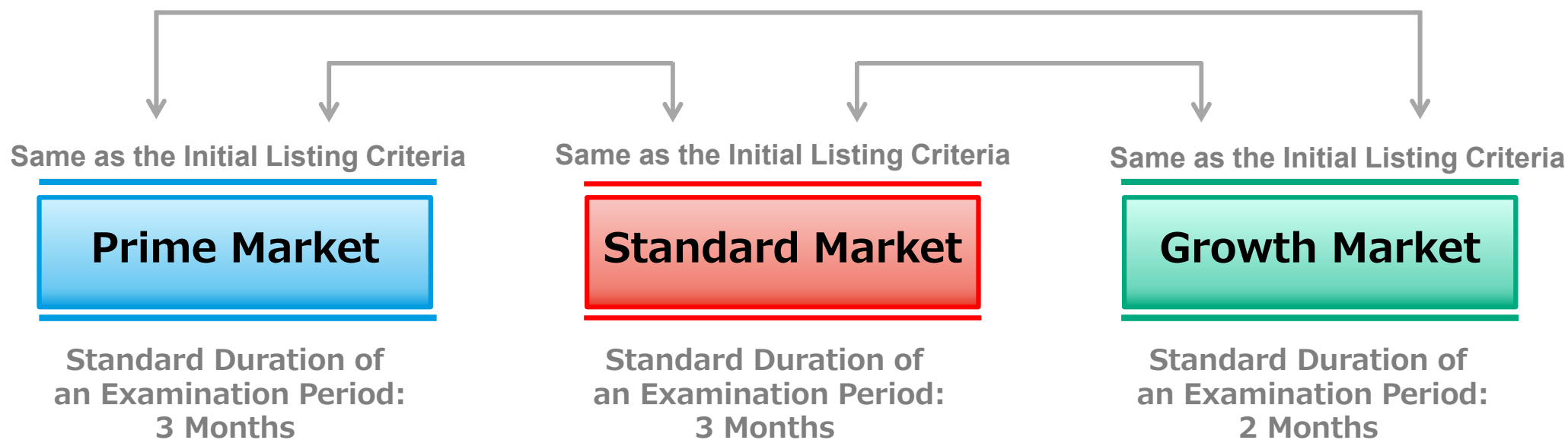
Judgements on listed companies' compliance with the continued listing criteria are being made sequentially, starting with companies with fiscal years ending after the transition.



* In addition, 3 companies whose fiscal years end in Mar. and 1 company whose fiscal year ends in Dec. extended their planning periods after the transition.

Fiscal Year-End

- Transfers to different market segments will be implemented based on applications from listed companies, and **the initial listing criteria will be applied mutatis mutandis for examination.**
 - Since each market segment is independent, **there are no relaxed criteria for segment transfers.**
 - **The standard duration of an examination period is the same as that in the initial listing.** (Three months for transfers to the Standard Market)
 - As with initial listing, **submission of a "Report Related to the Contents of Instructions on Going Public and Underwriting Examination" prepared by the lead underwriting trading participant is required.**



Reference Materials



Number of Companies that Do Not Meet the Criteria

Note: As of Oct. 31, 2022

	Combination of Unfulfilled Criteria							Total
	i	ii	iii	iv	v	vi	vii	
Tradable Share Market Cap (JPY 10 bil. or more)	●	●		●	●			227
Tradable Share Ratio (35% or more)	●	●	●			●		38
Trading Value (daily avg. JPY 20 mil. or more)	●		●	●			●	78
Number of companies	6	11	0	49	161	21	23	271

Distribution of Plan Lengths

		Combination of Unfulfilled Criteria							Total
		i	ii	iii	iv	v	vi	vii	
Length of Plan	Less than 1Y				1	9	4	3	17 (6%)
	1Y – 2Y		1		3	21	4	4	33 (12%)
	2Y – 3Y	1	4		20	62	5	12	104 (38%)
	3Y – 4Y	1	3		10	36	5	3	58 (21%)
	4Y – 5Y	4	3		7	23	2	1	40 (15%)
	5Y or more				8	10	1		19 (7%)

Note: Plan length is counted from the date of transition to the new market segment. If multiple criteria are not met and different lengths of plan are set for each, the longest plan is used.

Number of Companies that Do Not Meet the Criteria

Note: As of Oct. 31, 2022

	Combination of Unfulfilled Criteria							Total
	i	ii	iii	iv	v	vi	vii	
Tradable Share Market Cap (JPY 1 bil. or more)	●	●		●	●			129
Tradable Share Ratio (25% or more)	●	●	●			●		73
Number of Shareholders (400 shareholders or more)	●		●	●			●	11
Number of companies	0	11	2	6	112	60	3	194

Distribution of Plan Lengths

		Combination of Unfulfilled Criteria							Total
		i	ii	iii	iv	v	vi	vii	
Length of Plan	Less than 1Y		1			7	5	1	14 (7%)
	1Y – 2Y		1	1	1	18	10	2	33 (17%)
	2Y – 3Y		6	1		41	26		74 (38%)
	3Y – 4Y		1		4	21	9		35 (18%)
	4Y – 5Y		2			22	5		29 (15%)
	5Y or more				1	3	4		8 (4%)

Note: Plan length is counted from the date of transition to the new market segment. If multiple criteria are not met and different lengths of plan are set for each, the longest plan is used.

Number of Companies that Do Not Meet the Criteria

Note: As of Oct. 31, 2022

	Combination of Unfulfilled Criteria							Total
	i	ii	iii	iv	v	vi	vii	
Tradable Share Market Cap (JPY 0.5 bil. or more)	●	●		●	●			4
Tradable Share Ratio (25% or more)	●	●	●			●		23
Market Cap. (JPY 4 bil. from 10th yr. of IPO)	●		●	●			●	17
Number of companies	0	1	0	1	2	22	16	42

Distribution of Planning Period

		Combination of Unfulfilled Criteria							Total
		i	ii	iii	iv	v	vi	vii	
Planning Period	Less than 1Y					1	2	1	4 (10%)
	1Y – 2Y						6	5	11 (26%)
	2Y – 3Y						6	6	12 (29%)
	3Y – 4Y		1			1	4	2	8 (19%)
	4Y – 5Y				1		3	2	6 (14%)
	5Y or more						1		1 (2%)

Note: Plan length is counted from the date of transition to the new market segment. If multiple criteria are not met and different lengths of plan are set for each, the longest plan is used.