

Minutes of the 12th Council of Experts Concerning the Follow-Up of Market Restructuring

Date: Tuesday, October 11, 2023 9:30 - 11:30 a.m.

Place: Tokyo Stock Exchange 15F Special Conference Room

Attendees: See member list

[Kikuchi, Director, Listing Department, TSE]

Now that the scheduled time has arrived, we will convene the 12th Council of Experts Concerning the Follow-up of Market Restructuring. Thank you very much for your cooperation today.

We will begin by explaining today's agenda.

[Ikeda, Senior Manager, Listing Department]

Thank you very much for your time today. There are three main items on the agenda today.

The first item on the agenda is Document 2, "Action to Implement Management that is Conscious of Cost of Capital and Stock Price" and "Better Dialogue with Shareholders and Related Disclosure." Based on the previous discussion, we would like to receive your comments on specific proposals for future initiatives. Based on the results of today's discussion, we intend to implement the plan as soon as possible.

The second agenda item is Document 3. We would like to report on the results of the re-selection of market segment from the Prime Market to the Standard Market, which was conducted until the end of last month, and the status of companies to which the transitional measures are applied.

The third agenda item is Document 4. With regard to the expansion of English-language disclosure in the Prime Market, we would like to receive your opinions based on the needs of overseas investors and the status of efforts by listed companies.

Document 5 shows the details of the revisions to the listing rules regarding the appointment of female directors in Prime Market companies. At the end of the meeting, we will give a brief report.

[Kikuchi, Director, Listing Department, TSE]

We will now begin to explain the materials. There are 3 topics on the agenda today, and we would like to make an explanation and then exchange views on each of them.

We will now explain our future initiatives regarding "Action to Implement Management that is Conscious of Cost of Capital and Stock Price" and "Better Dialogue with Shareholders and Related Disclosure," based on Document 2.

[Monden, Manager, Listing Department, TSE]

I will now explain Document 2. The first half of this section discusses the request for management that is conscious of the cost of capital and stock prices.

On page two, we introduce the contents of the previous discussion, and on page three, we present three major concrete proposals for future initiatives based on the previous discussion.

The first point is a discussion on whether to publish a list of companies that are disclosing information based on the request from the perspective of visualizing the status of companies that are taking proactive measures and encouraging their efforts.

Although this request does not specify the documents to be disclosed, from the viewpoint of investor clarity, we request that if disclosure is made, a statement to that effect and the method of viewing be included in the Corporate Governance Report. So, we envision that we will extract and list the companies that describe the key phrase "actions to implement management that is conscious of cost of capital and stock price" described here in their governance reports.

In addition, some companies are currently disclosing with the phrase "under consideration." In such cases, we would require that they state "under consideration" in parentheses after the key phrase mentioned earlier, in order to distinguish them from companies that disclose their contents as well in the list.

We expect to begin this list at the beginning of next year, and would like to reiterate to the listed companies the purpose of the request and points to keep in mind prior to the publication of the list. As for the contents to be made known, we expect, for example, that a response is expected even if the P/B ratio exceeds 1x, that a specific explanation is required even if the company states that it is under consideration, and that if the company is disclosing the information, the governance report should state that the

company is disclosing the information including the key phrase mentioned earlier. We would appreciate your comments on whether there are any other points that should be particularly emphasized and communicated.

As a second initiative, we will compile and disseminate information on key points to be addressed based on investors' perspectives and examples of initiatives that have received a high level of support from investors.

In this case, for example, only examples from large companies will not be helpful for small- and medium-sized companies. Also, the point of response to a P/B ratio below 1x will vary depending on whether the company is below 1x due to low ROE, or earning power, or whether the company is below 1x due to issues such as growth potential evaluation even if ROE is high. For this reason, we hope to create several patterns of response points and examples, depending on the size and situation of the company.

Regarding the third point, response status compilation and distribution, we reported once at the last meeting in August. We would like to continue to publish the same kind of data about once every six months in the future.

From page four onward, we will discuss the request for the promotion of dialogue with shareholders and disclosure. Similarly, page five presents the discussions from the previous follow-up meeting, and page six presents specific examples of response efforts based on the previous discussion.

First, we expect to introduce good examples of corporate initiatives by the end of the year to serve as a reference for corporate initiatives.

For example, we expect to compile information in the form of interviews with management, seminars, etc., on companies that are sincerely committed to dialogue, such as companies whose management takes the initiative in committing to dialogue, or companies that are actively engaged in management information disclosure and IR activities.

In addition to introducing these good examples, we would like to reiterate the points listed in the bullet points with the arrow feathers as the purpose of this request and points to keep in mind.

The second initiative is based on the perspective of aligning the listed company with the investor's viewpoint. We plan to introduce the actual views of investors in the form of interviews and seminars on how the investors view dialogue and engagement, and what kind of information disclosure and IR they expect from companies.

Third, in parallel with our efforts to encourage listed companies, we will also inform institutional investors of the purpose of this request and tell them that we hope they will proactively take the lead in dialogue, taking into consideration measures to realize management that is conscious of the cost of capital and stock prices.

Finally, from the perspective of improving the effectiveness of dialogue and engagement and supporting companies to ensure that their information disclosure and investor relations activities reach investors appropriately, we will continue to consider how the Exchange can provide other support, such as the creation of contact points between companies and investors.

That's all for the explanation of the material. We would be happy to hear your opinions today on what you think about these initiatives and whether there are any particular points that should be emphasized in disseminating the purpose of the request.

[Kikuchi, Director, Listing Department, TSE]

Now we would like to ask for feedback from you.

[Kumagai, member]

Before I get into the individual issues, I would like to say a few words about the general discussion.

When I had the opportunity to address Prime Minister Kishida at the Prime Minister's office for about 40 minutes the other week, I also briefly explained TSE's recent efforts to realize management that is conscious of the cost of capital and stock price.

Prime Minister Kishida delivered a speech in New York in late September, strongly communicating to the world his desire for Japan to become an asset management

nation. He seemed to realize that overseas investors have high expectations that Japanese companies will change this time around.

There is no doubt that the TSE's efforts to realize management that is conscious of the cost of capital and stock price have been extremely effective in fostering a very positive view of Japanese companies among foreign investors. We hope to continue constructive discussions with you at this follow-up meeting toward the realization of an asset management nation.

Having said the above, I will now move on to the individual issues. Regarding pages three and six of Document 2, I have no objection to the content in general, as they carefully reflect the previous discussion. On that basis, I would like to make four comments on page three of Document 2.

First, I think it is an extremely important measure to further promote corporate disclosure and initiatives by the publication of a list of companies who have disclosed and the response status compilation and distribution. After the last meeting in August, Daiwa Institute of Research Ltd. had an opportunity to have a discussion with companies. At that time, a number of companies saw the published totals and developed an awareness that they had to be included in the TSE's tally. So I recognize that this has had a significant effect on promoting disclosure.

In today's document, it is stated that the publication of the list and distribution of the status of the response is to be started by the beginning of the next year, but why not clarify in advance a clear start date and publication date? I believe that clearer timing will further promote disclosure, as companies will act firmly toward it.

The second point is about reminding the purpose of the request and points to keep in mind. The first point to be reiterated with the arrow feather says, "further improvement efforts are expected." Please consider making the wording a little stronger. While this initiative is a request and not mandatory, I suggest that the TSE clearly indicate its willingness to make further requests as necessary after confirming disclosure and progress.

The third point concerns the compilation of examples of initiatives that have been praised by investors under "Publication of key points about responses/examples of initiatives." While it is beneficial to compile good examples, it is also extremely

important to learn from failures, as the famous book "The Essence of Failure" is still being read today.

Although the manner of publication must be carefully considered, I believe that it would be very beneficial for companies to create fictitious examples, for example, to illustrate disclosure efforts that are out of line with investors' viewpoints.

The fourth point is the compilation of examples for companies of several different sizes and situations under the "Publication of key points about responses/examples of initiatives." When I speak with small- and medium-sized companies, I hear that while the examples of large companies are helpful, they are often distant from initiatives that could be implemented in their own companies. In light of these comments, it would be beneficial to provide a detailed response in the form of a pattern that is appropriate to the situation.

However, such guidance is necessary in the initial stages of this request, and we must gradually encourage companies themselves to become more creative. Related to the publication of examples, I think one option would be for the TSE to hold a seminar to bring the voices of institutional investors to the companies. While the materials are useful, I believe that actually hearing the stories often helps us understand them even better, so please consider this in the future.

That is all from me. Thank you very much.

[Koike, member]

Unfortunately, I was not able to attend the last meeting, so I have submitted Document 6 as a reference for your discussion, to give you an idea of what we, as institutional investors, are actually doing in terms of engagement and other activities. I will now introduce it to you.

First, please refer to page one. As an institutional investor, there are three main types of investment activities. The first is investment decisions in management and selection of investee companies, the second is post-investment engagement, and the third is exercising voting rights in investee companies. Through the integrated operation of these three processes, the role of the investment management company is to promote corporate transformation and improve the investment performance of assets under management.

The first step in making an investment decision is to invest in a company that provides sufficient disclosure to make the investment worthwhile. In order for an asset management company to fulfill its fiduciary responsibility, the first and minimum requirement is to be able to provide explanations to asset owners, so even if we wanted to invest in a company that does not have disclosure and IR capabilities, we would not be able to do so. I think these points are one of the first issues to be addressed.

Second, engagement is a constructive dialogue with the company with the goal of improving sustainable corporate value, so this is not just a dialogue or conversation. This means that we, Nomura Asset Management Co., Ltd., will firmly analyze the ideal image of our portfolio companies, have them understand this image and share it with each other, and firmly set and manage milestones toward this ideal image. Therefore, the volume of work is actually very large.

As shown on slide 1, our engagement structure consists of 10 members of the Engagement Promotion Office, 25 members of the Global Research Department, which conducts corporate research, and 11 members of the Responsible Investment Research Department, which focuses on the exercise of voting rights. The total 46 members conduct dialogues with companies, depending on their respective stages or roles.

On top of that, the Responsible Investment Committee is in charge of handling responsible investment. Although it is not indicated on page one, in order to monitor conflicts of interest and ensure their fairness, an advisory body called the Responsible Investment Advisory Council, which includes outside experts and outside directors, monitors the Responsible Investment Committee. Nowadays, investment managers within financial groups are required to manage conflicts of interest, so we have this multi-layered structure for engagement.

Last year's results are indicated on page two. Last year, there were 1,010 cases and 520 target companies. As shown in the table on the right, more than half of the engagements were with executives, with 201 with presidents.

For your reference, our website also includes contents of CEO Engagement, in which I personally had engagement conversations with CEOs of our portfolio companies.

As for the themes of the engagement, we discuss a wide range of topics, including business strategy, financial strategy, and ESG-related topics, as described in the lower right-hand corner. As for capital efficiency, it falls under financial strategy, so think of it as about 15% of the overall conversation.

We feel that the current limit in terms of volume is to respond to 1,010 cases from 520 companies with a total of 46 people working together, and we recognize that this is a challenge for us.

On page three and beyond, we have provided a specific flow of dialogue. The information has been processed in such a way that the name of the company cannot be identified, but I hope you will forgive us as it is intended to give you an idea of what we are doing. The target company is a domestic manufacturing company with a market capitalization of JPY500 billion.

Engagement begins anyway with understanding this company, analyzing the issues, and goal setting as an institutional investor. Analysts conduct various analyses and come up with an image of what the company should be like, which is then presented to the company, and a dialogue begins.

Although this company has very strong technology and marketing, its capital efficiency has been declining over the past decade. There was little awareness of the need to identify the causes of the problem and work to improve capital efficiency. Some divisions also have some low-margin businesses in certain regions that have lost their international competitiveness, but the business portfolio discussion wasn't even happening. Also, disclosure of such things hasn't been sufficient.

Analysts do not have data, so they interact with companies by estimating various data and testing hypotheses. As you can see in the engagement process on page three, this has been going on for nearly two years.

We start with a long-term capital efficiency analysis, and continue with various dialogues, such as whether the company should disclose ROIC targets, including mid-term plans, or how to turn around unprofitable businesses. It was difficult to gain their understanding, so we began contacting outside directors and made sure they knew what we were thinking and shared it with them.

The basis for this is the company analysis on pages four and five. While introducing this analysis, we will first discuss our thoughts on the company's corporate value and how it should develop its business.

Currently, we at asset management firms are being asked to improve the quality of this engagement. Dialogue and conversation are quite different. We have to engage in dialogue that contributes to sustainable corporate value enhancement, so there are some difficulties from the standpoint of an investment management company in blindly approaching a company. However, we are also very conscious of the problem that the Japanese capital market will not be revitalized without it. Therefore, we ourselves are facing a major challenge in increasing the scope and volume of coverage while improving quality, and I believe this is one of the bottlenecks in the Japanese capital market.

As I mentioned earlier, 46 people and 520 companies, or 1,010 cases, is one of our benchmarks, and I think it is very important to know how to develop this efficiently.

There are many definitions of engagement, and I think some investors see just exercising voting rights as engagement. However, we believe that the high quality of engagement that the world is demanding is the continuous provision of advice and suggestions in the course of communication that will increase the corporate value of the company through dialogue with that company.

On that basis, regarding TSE Document 2, first of all, I agree with you regarding the publication of the list of companies disclosing action to implement management that is conscious of cost of capital and stock price on page three. Actually, what is a bit disappointing about this data is that the disclosure rate of companies with P/B ratios above 1x is still low, and I believe this is an indication of the lack of corporate awareness in Japan's capital markets.

On the other hand, however, these figures are for mid-July, which is probably when companies are busy with various things, including responding to general meetings. So I am also interested in the progress that has been made since then. I would like to see a stronger message on the purpose of the request and points to keep in mind. Also, I would appreciate it if you could provide good examples for each disclosure.

Regarding page six, I believe there are many listed companies that do not have an IR infrastructure in place. Therefore, I hope that you will actively introduce examples of contents, such as what kind of IR should be developed.

As a side note, yesterday, the Securities Analysts Association of Japan was held, where analysts selected and awarded companies with excellent disclosure records.

Three companies from emerging markets were also selected for the grand prize regarding disclosure. I believe that your initiatives can be developed in a much more meaningful way if these efforts of the Analysts Association are also utilized.

The TSE is currently taking the lead in this discussion, but once the discussion gets to this point, I think a little more collaboration with outside associations and others would be helpful in extending the message. I am currently the president of the Analysts Association. If we can be actively involved in these initiatives, I believe we can also fulfill our association's social mission. I hope that you will actively utilize various outside voices.

[Ando, member]

I have one practical suggestion in accelerating the initiatives on page three of Document 2. I think it would be a good idea to establish a new section in the Corporate Governance Report format itself, entitled "Action to Implement Management that is Conscious of Cost of Capital and Stock Price."

Currently, each company is describing its efforts in its own way and at its own location as appropriate. However, by including it in the Corporate Governance Report as a major item, the importance of the TSE's request can be demonstrated once again, and it should make it easier for both companies and investors to compare the efforts of different companies.

[Okina, member]

Regarding page three of Document 2, I also think the proposal just mentioned by Mr. Ando is very good. Since this announcement merely identifies companies that have stated the key phrase, I believe it is necessary to make this more substantive in the future. I think it is important, at least when you publish the list at the beginning of next year, to put out a package of the key points of the response and the publication of examples of initiatives, and to make visible what kind of initiatives are desirable, not just to put the key phrase on the document.

In addition, I think it would be better to provide a message that not only says that P/B ratios of more than 1x are expected, but actually educates people a little about the current position of Japanese companies, including what P/B ratios of overseas companies are like and so on.

Regarding page six, I think there are two important points. We believe it is important that the management and CEO take the lead in the dialogue, and that this point be communicated clearly. In addition, as explained by Mr. Koike, I believe it is important to send out a strong message to investors.

[Sampei, member]

I agree with the publication of the list of companies disclosing action to implement management that is conscious of cost of capital and stock price on page three of Document 2, as well as the separate listing of companies under consideration.

Currently, this distinction is very difficult in some corporate governance reports. In some cases, there is a link to a disclosure that says "Initiatives to Enhance Corporate Value" in the explanatory section of Principle 5-2, but it may not be clear whether this is an action to implement management that is conscious of cost of capital and stock price or not. In fact, looking at the linked page, it is difficult to discern whether it is a response to the request from the TSE. Therefore, I think it is a very good approach to determine the key phrase, have them extracted based on them, and have companies recognize it.

Another point, the first of the points to be reiterated, is that the companies' awareness of a P/B ratio of over 1x has not yet been successfully raised. A term often used by investment management firms, which may have become obsolete because it is so commonplace, is GARP (growth at a reasonable price). This is precisely the point of view that instead of focusing on the absolute level of P/B ratios, if growth is expected, valuations will rise in proportion to that.

We need to clearly indicate that many companies are far below the GARP line, and in the section on key points to address, we need to clarify which companies understand this and disclose their efforts and which do not.

Among them, rather than evaluating good writing, it is necessary to select those that are good at writing and to which the market has had a sustained good response. In some cases, the stock price rises due to the transient effect of announcements, but then falls again when the actual financial results are announced. Therefore, I think it is important to select good examples whose initiatives are properly accompanied by substance.

Also, to monitor it, it would be good to tally it every six months.

Second, thank you for reflecting on page six the various things I mentioned during our preliminary consultation.

As an additional opinion, I believe that dialogue with outside directors is important for investors and also becoming very important for companies. Whenever we hear about recent progress in governance reform in Japan, the first thing we see is an increase in the number of outside directors and a rise in the ratio of them. However, there is nothing to show what kind of results have been achieved by this, and I think this means that, overall, outside directors are not functioning that well. To make it work, direct dialogue with investors is crucial.

But on the other hand, investors often do not know what to talk about with outside directors. Meetings with outside directors are completely different from meetings with management, so I think it is important to sort out things like agenda setting, what is appropriate to say, what is inappropriate as a topic, and so on.

Therefore, as Mr. Koike mentioned earlier in his presentation, I believe that organizing the types of situations in which dialogue with outside directors is necessary and what to talk about at such meetings will be useful in creating contact points between companies and investors, which is exactly what is written later in this presentation.

This would encourage investors to confidently set agendas for specific situations and apply for dialogue, and companies would feel comfortable accepting such requests, which I believe would invigorate the process. I think it would be good to try to create something like this dialogue agenda example for dialogue with outside directors.

[Nagami, member]

I don't feel any discomfort in general, and I think it is fine to take the stance of trying it first, assuming that it is well publicized.

On page six, it says "Provide perspectives from investors." The stance and quality of engagement and dialogue is likely to vary considerably from investor to investor, and I think there is a fair possibility that one or two examples may be misleading.

Naturally, I don't think that exhaustiveness can be guaranteed, but I think that issuers will be able to understand the situation from a more multifaceted perspective if a certain number is guaranteed.

[Matsumoto, member]

Regarding the second point, promotion of dialogue with shareholders and disclosure, on page six it says "Provide examples of good corporate practices," but I think it would be better to introduce some bad examples as well. It would be efficient and effective to put pressure on such companies by providing bad examples as well, even without company names.

Also, it says "Inform Investors." As Mr. Nagami mentioned, the volume and content of engagement varies considerably among institutional investors. Since this naturally depends on both the issuer and the investor, it would be effective to disclose information about the situation on the investor side as well. Specifically, it could be an introduction of the spectrum of various investors and what kind of engagement they are doing, such as "there are investors who are doing this kind of thing" or "there are investors who are only doing this kind of thing." I think it is effective because it puts pressure on the investor to see that this is not the way to go.

Related to "other," I think it would be efficient and useful if TSE could set up a web-based reference box where both issuers and investors can post examples of good and bad things that have happened in dialogue and engagement, without TSE having to go to ask them.

[Kanda, member]

On page three, under "Publication of a list of companies who have disclosed," I would like you to devise a way, if possible, so that we can know what will be done after how many years, since just two words, "under consideration", can be misleading.

On another point, I very much agree with the intent of what Mr. Ando just said. In terms of institutional matters, I think it is necessary to consider how to organize the inclusion in the Corporate Governance Report of items that are not included in the desired items of the Code of Conduct.

The word "request" is used in today's document. I think we should consider including this in the desired items of the Code of Corporate Conduct in the future, but at this time, it is not.

The Corporate Governance Report includes fields related to the disclosure and explanation content based on the principles of the Corporate Governance Code and

the matters to be complied with and desired in the Code of Corporate Conduct. If you provide a description field for this matter, there will be even more things mixed in. For this reason, my intuition is that it would be better to put it in the desired items section of the Code of Corporate Conduct and then add a section for it to be stated, but I am not opposed to adding a section ahead of time. In any case, I would like to ask you to sort out once and for all the relationship between the Corporate Governance Report and the Code of Corporate Conduct.

As for the dialogue, it is a difficult question, but I think this is very fine for future initiatives on page six.

One point, regarding the publication of examples, I think it would be very good if there were examples of companies disclosing not only that they have engaged in engagement and dialogue, but also what happened or did not happen as a result of the engagement and dialogue.

I think Nomura Asset Management's material provides a very good example. It would be good to have disclosure from the corporate side as to what did or did not happen as a result of the engagement.

Also, on page two of the Nomura Asset Management document, 69% of the engagement themes for 2022 are ESG-related. It would be good to provide examples of what has happened through engagement and dialogue, even in relation to ESG. In general, since ESG-related themes account for nearly 70% of the total, it would be helpful for companies to provide examples of how they have changed or not changed at all as a result.

[Koike, member]

As you say, rather than simply disclosing that a dialogue has taken place, they could disclose the substance of the dialogue and the subsequent performance. Not all companies are willing to do so, but as far as we have been able to tell, there are many that are open to disclosing the dialogue to the public.

In addition, first of all, we would like to make it known once again what engagement is in the first place and why we do it. In the current context, the focus tends to be on so-called capital efficiency. However, it is necessary to reiterate the original starting point that it is positive for the stock market for institutional investors to engage in broad management discussions with companies and be useful in improving corporate value.

Otherwise, it will be understood that simply disclosing capital efficiency is sufficient, or that P/B ratios in excess of 1x are sufficient.

As Messrs. Matsumoto and Nagami mentioned, it is true that there is considerable variation in the quality and engagement of institutional investors, and we do not mean to imply that we have a high level of engagement. The asset management industry sees this as a major challenge, and I believe that each company is struggling with this issue. There are some investment management firms with a small number of people to deal with, and others that do not need so many people because there are only a few companies to invest in, and there are many different styles. As I mentioned earlier, discussions at the follow-up meetings have gained a great deal of momentum, so I think it is necessary, for example, to create a subcommittee of institutional investors to capture the consensus of institutional investors.

Also, perhaps companies are consulting with their lead brokerage firms or investment banks. What kind of advice the investment bank or lead brokerage firm is giving, and what they think about it, are probably necessary inputs.

Also, there is the issue of analyst coverage, and not all analysts cover all companies. Rather, the percentage of firms covered is lower, and the number of firms not covered is higher. If so, analysts should also figure out how to think about this issue.

I believe that the TSE and the members of this conference will continue to play a central role in the discussion. However, I believe that by broadening the scope of the discussion a little, we can have more effective discussions or increase the penetration of our ideas.

[Sampei, member]

I fully agree with what Mr. Koike just said. There was already such a discussion at the most recent FSA, "Follow-up Meeting on Stewardship Code and Corporate Governance Code."

A very substantial document was submitted at that FSA follow-up meeting, and it included numerous comments on what investors felt were the problems with the engagement. I said at that meeting that since such voices have been gathered, institutional investors should get together to discuss how to resolve such issues and how to define engagement.

After all, even as we proceed further, as Mr. Koike just mentioned, we need to sort out here how we perceive engagement in the first place, otherwise we will not be able to move in the direction of reaping its fruits. In order to promote engagement in Japan, we need to consider what the purpose and types of engagement can be, and if both companies and investors disclose that they have engaged, they need to indicate with respect to which types. We need to make sure that we don't expand our own definition and say that this or that is engagement. The FSA is also participating in this meeting as an observer, and I believe that this is not just a TSE issue but should be considered a larger problem.

[Okina, member]

Just a word, on the bottom right-hand corner of page two of Document 6 submitted by Mr. Koike, the engagement themes are listed, including business strategy, financial strategy, and ESG-related topics, and I understand that this is an indication of the themes on which the emphasis is placed. Our requirement for management that is conscious of cost of capital and stock price is related to all of the themes. We believe that considering PBR, ROE, ROIC, cost of capital, etc. means considering business strategy and sustainability from a long-term perspective, and we have already sent out that message. We encourage institutional investors to approach engagement from this perspective.

[Kuronuma, member]

I am basically in favor of proceeding with the initiatives described on pages three and six. On that basis, I would like to make two comments.

On page three, when describing the details of the initiatives, I think it is fine at this point to add the word "under consideration" for companies that are still in the process of consideration. In reality, however, there must be many steps, and there may be cases where the company has decided what initiatives to implement and is also implementing them, cases where the company has decided but has not yet implemented them, cases where the company has not yet decided but is still considering them, and so on.

So in the end, I think it would be desirable for TSE to look at the contents properly and determine how they should be classified. The objective, of course, is to have them describe their initiatives and implement them as they go along.

Mr. Kanda also made an important point about something that had been bothering me as well. Regarding the question of whether or not a corporate governance report should include an additional section, it seemed to me that we should sort out in the first place whether it is related to corporate governance or the Code of Corporate Conduct to improve return on capital and market valuation in a company.

My impression is that the Code of Corporate Conduct sets forth what is desirable and undesirable about a company's behavior in the marketplace. On the other hand, we understand that the Corporate Governance Code defines what companies should do to enhance corporate value through dialogue with investors. This case seemed to be more of a story that fits into the latter category. If so, there is also the question of whether we can decide on our own without discussion at the follow-up meeting on the code, which is held separately from the follow-up meeting on the market restructuring.

In any case, as the TSE is trying to move forward with what it considers desirable for the enhancement of corporate value in connection with the market restructuring, it seems to me that it would be a good thing to have companies make a firm statement in the corporate governance report to ensure this in a hurry. However, the question of whether they should be required to provide a column to describe the information should be an issue for future consideration.

[Kumagai, member]

Regarding whether or not to include the information in the corporate governance report, I would conclude that it should be included. However, I think it is necessary to look at the whole picture, discuss it, and determine the priority for inclusion in the corporate governance report.

[Kanda, member]

Regarding Mr. Kuronuma's point, I basically had the same understanding of the purpose and positioning of the Code of Corporate Conduct and Corporate Governance Code. However, the issue of increasing the ratio of female board members, which you will be discussing later in the presentation, is not stipulated in the Governance Code

but in the Code of Corporate Conduct. I would like to hear your thoughts on why this matter was stipulated in the Code of Corporate Conduct, , although it does not have to be today. Alternatively, I hope that you will organize your thinking as you conduct a general review of the Code of Corporate Conduct in the future.

[Kikuchi, Director, Listing Department, TSE]

Thank you very much. Next, based on Document 3, we would like to present the statistics on Prime-listed companies who decided to transfer to the Standard Market.

[Monden, Manager, Listing Department, TSE]

I will now explain Document 3. First, page one is the statistics on Prime-listed companies who decided to transfer to the Standard Market.

Following the decision in January of this year to terminate the transitional measures, companies listed on the Prime Market have had the opportunity to transfer to the Standard Market without an examination. A total of 177 companies applied for the special exception period from April to September.

See selection results by tradable share market capitalization at bottom left. Most of the companies that decided to transfer to the Standard Market were entities that did not meet the criteria for a market capitalization of JPY10 billion for tradable shares, and the smaller the market capitalization of tradable shares, the higher the percentage of transfer.

On the other hand, there are also 14 companies that chose the Standard Market while meeting all Prime Market criteria.

Those companies that have decided to transfer will move to the Standard Market on October 20. The number of companies in each market segment thereafter is shown in the pie chart below right. The Prime Market is expected to reach 1,659 companies and the Standard Market 1,621 companies. A total of 515 firms, or 24% of the total, are expected to move from the traditional Market Division 1 to the Standard Market, 338 at last year's transition to the new market classification and 177 at this restructuring.

The slides that follow are for reference only. Page two shows the distribution of market capitalization after the market segment transfers.

Page three shows selection results by market capitalization and tradable share ratio.

The last page, page four, presents the status of companies subject to transitional measures after the market segment transfers. As stated here, 115 companies in the Prime Market and 379 companies in the three markets will remain as companies subject to transitional measures after the market segment transfers.

We will continue to monitor the financial condition of companies subject to transitional measures.

[Kikuchi, Director, Listing Department, TSE]

We would now like to receive questions or comments about what we have just explained.

[Kanda, member]

My impression is that the situation (number of companies) is almost as expected. However, although there may be no need to worry so much about transitional measures companies in the Prime Market, I felt that the TSE should tell companies with market capitalization of less than JPY5 billion what they will do in the future.

Also, the biggest problem is companies subject to transitional measures in the Standard Market, which has no place to go, and the transitional period will soon end. Whether this should also be left as self-responsibility is a point of contention, and I feel that if there is a way, it would be better to take action as soon as possible.

[Ando, member]

Looking again at the first page of Document 3, I believe that we should evaluate the results of the market segmentation restructuring.

In other words, I think it is commendable that the companies themselves made the decision to change or shift market segments without being forced to do so by anyone. I have always said that corporate autonomy is most important for good corporate governance. I think it is significant that this has been accomplished in this way.

I believe that these decisions are deliberated by the Boards of Directors of each company, and as a side effect, I believe that this has led to the revitalization of the Board of Directors in terms of the nature of the board meetings and the involvement of

outside directors. I recognize, with some hope, that such positive effects will be seen in the future, at least for those companies that decide to transfer.

[Nagami, member]

I agree with Mr. Kanda about page four. First of all, as a grand design for corporate management, I think it is to be expected that the number of companies subject to transitional measures will gradually decrease and also stay at the Standard.

It is important to be prepared to communicate to these companies in the Standard down the road, for example, to work with the local exchanges, or, I think a little further down the road, to communicate what the process is for a company that is listed to go private and what will happen.

[Okina, member]

I think it is important to create an environment in which companies that do not meet the Standard criteria can restructure their business and reconsider their business model, including going private.

[Kikuchi, Director, Listing Department, TSE]

Thank you very much. We would like to continue with the presentation on the expansion of English disclosure in the Prime Market, based on Document 4.

[Nakamura, Associate, Listing Department, TSE]

I would like to explain about Document 4.

Page four is about the current status of English-language disclosure by Prime-Market-listed companies.

In light of the application of the revised code, Prime-Market-listed companies are making progress in their efforts to disclose information in English. On the other hand, overseas investors have complained about the difference in the volume of information compared to Japanese, the time lag in disclosure, and the lack of English-language disclosure for small- and mid-cap stocks.

Page five is a recap of the discussions to date at the follow-up meetings. At the end of January, we announced our policy to make English disclosure mandatory upon the expiration of the transitional measures.

Page six is about trends in English disclosure in other countries. In Taiwan and South Korea, there is a step-by-step movement to require English disclosure.

Next, we will present data on demand for English disclosure from overseas investors and the status of English disclosure by Prime-Market-listed companies.

We have conducted a questionnaire survey on both foreign investors and listed companies, and page eight shows the contents of the survey.

The results are shown on the following pages and beyond. Page nine shows the status by document. For example, there is a gap between the demand from investors and the status of corporate initiatives in timely disclosure materials.

Page 10 shows the status of the companies' initiatives by market capitalization and percentage of ownership by foreign investors. The red boxes in the lower left graph indicate companies with a market capitalization of JPY100 billion or more, and there is a difference in the status of efforts between companies with a market capitalization of less than JPY100 billion and those with a market capitalization of more than JPY100 billion.

Pages 11 through 15 show the status by item and information in the document.

Page 11 is for the earnings reports, page 12 is for the annual securities report, page 14 is for timely disclosure, and page 15 is for the notice of convocation of the general meeting of shareholders.

So far this is regarding the scope of the document, and page 16 is about the timing of the disclosure.

In many materials, there is a gap between the demand from investors and the status of corporate initiatives.

The next two pages, pages 18 and 19, present opinions received from listed companies in promoting English-language disclosure.

We have received comments such as that documents subject to mandatory disclosure should be prioritized, that simultaneous same-day disclosure is difficult due

to internal resources, etc., as well as practical comments such as the need for know-how regarding English-language disclosure.

Based on these considerations, the items we would like you to discuss are listed on page 21.

First, a general discussion of how to do it. While there is a high demand from overseas investors for English-language disclosure for a wide range of documents, the status of corporate efforts varies greatly from one document to another, so we believe it is appropriate to gradually expand English-language disclosure.

For example, how about making documents that are particularly needed by investors mandatory for all listed companies in the Prime Market, and then making it an effort requirement for documents where there is a discrepancy between the needs of investors and the status of corporate efforts to promote corporate efforts? We have also presented our viewpoints on whether, in such a case, it is possible to differentiate the degree of disclosure based on market capitalization and the percentage of shares held by foreign investors.

The second is itemized discussion. We would like to receive your respective opinions on the scope of the documents, the timing of disclosure, as well as the timing of the mandate, etc.

The following pages contain information on TSE's efforts to disclose information in English for reference purposes. I will skip the explanation.

As a general note, since this is the first time discussing English disclosure in detail, we would like to receive a wide range of opinions.

[Kikuchi, Director, Listing Department, TSE]

Now I would like to get some feedback from you.

[Kumagai, member]

When I talk with foreign investors, they often cite the lack of English disclosure as a reason for not investing in Japanese companies, and I feel that this is a very big opportunity loss. In particular, the current situation is a phase in which Japanese companies are undergoing major changes in light of the TSE's request. Such changes

should be a great investment opportunity for investors, and such information should be actively communicated through English-language disclosure.

Considering that there are no penalties for errors in English disclosure documents, I believe that the best way to assist in the preparation of English disclosure documents is, while taking the utmost care, of course, not be overly concerned with infallibility, and to make good use of translation software that makes use of artificial intelligence.

Personally, I feel that the quality of recent translation software is very high, and I expect that effective use of such software will dramatically increase the rate of English-language disclosure by companies.

With these considerations in mind, I would like to offer my opinions on the general and specific issues on page 21.

First, as shown in the left chart on page nine, the scope of English-language disclosure should be prioritized for mandatory disclosure, with candidates for the highest percentage of mandatory disclosure by overseas investors being financial statements, IR presentation materials, annual securities reports, and timely disclosure materials.

While [the list of] securities reports is [high] compared to other documents, in some cases the amount of information to be translated is large, so it would be acceptable to prioritize items that foreign investors expect to be translated into English.

While it is conceivable that the annual securities report could be translated into English as is, one possible measure would be to allow presentation materials that summarize the content of items required to be translated into English in order to make them more visually appealing and easier to understand. This is envisioned as a straightforward document, such as the "Business Plan and Growth Potential Matters" required in the Growth Market.

I also think that disclosure could be made mandatory in a tiered manner depending on the size of the company, as in Taiwan and Korea. The TSE document dated January 30 of this year states "with a view to making English disclosure of necessary information mandatory as the transitional measures expire," and since companies should be preparing for this, I believe it is appropriate to make it mandatory in a phased manner starting in March 2025. However, we should work to share our expertise in English disclosure with many companies so that they can disclose as quickly as possible.

It would also be beneficial to re-share the existing Handbook of English Disclosure Practices. In doing so, I think it is best to refrain from differentiating the types of disclosure documents according to market capitalization or the percentage of shares held by foreign investors. This is because I believe that companies that can handle this kind of thing should be listed on the Prime Market because of the Prime Market concept of constructive dialogue with global investors.

Finally, regarding the timing of disclosure, it goes without saying that it is desirable to have the disclosure coincide with the Japanese-language materials as much as possible, but we may also consider dividing the timing according to the nature of the materials and the timing of the phased-in mandate.

For example, financial statements and timely disclosure materials are materials that require immediacy, and as shown on pages 11 and 14, all items have high English disclosure needs of overseas investors, so it is desirable that the timing of the announcement be simultaneous with the Japanese language.

[Nagami, member]

I agree with the mandate itself for the Prime Market, and basically, like Mr. Kumagai, I think it should be the same timing on the same day. If the same timing is difficult, then within the same day would be preferable.

Opinions differ slightly on the documents to be disclosed. I believe that the English translation of securities reports is quite burdensome for issuers, while the needs of investors are not so high.

For example, taking our company as an example, the ratio of overseas investors is about 40%, and the English translations actually disclosed are summaries of financial statements, timely disclosure documents, and financial results briefing materials, and no further English translations have been requested in the five years since our company was listed.

For these reasons, I believe that disclosure in English of securities reports is a low priority, although it may be necessary in due course.

[Sampei, member]

First, as a general comment, I agree that priority should be given to mandating documents that are in high need for all Prime-listed companies.

On the other hand, I have an objection to the text that follows. The higher the needs of investors and the greater the discrepancy between the company's efforts and the needs of the investors, the more quickly the discrepancy must be resolved.

Also, if it is based on the ratio of foreign investors' holdings, it would be a chicken-and-egg relationship. If we want to attract foreign investor needs in the future, we should remove this measure because we cannot attract foreign investors without English disclosure.

I will now move on to the individual issues. First, as far as I am aware, foreign investors are quite frustrated with the disadvantage they have due to the disparity in the amount and timing of information compared to the Japanese, rather than because of a lack of information.

With this in mind, what catches the eye on page nine is the timely disclosure material. 79% of investors require it, while 48% of companies have implemented it. This is an extremely serious discrepancy considering the importance of the material of timely disclosure.

Also, on page 16, it is stated that 88% of investors require simultaneous, same-day disclosure, while only 34% do, and in English it is not timely disclosure. I think this is a substantial problem. Therefore, I believe that these large deviations need to be eliminated as soon as possible.

And on page 12, the important items in the annual report are listed, and I understand that these items have been pointed out in the past. However, in the future, it will be required that material contracts in individual areas of management be included in the annual securities report. Until now, there may not have been a need for English translations because there were so many N/A cases, but I think the need for this part will increase in the future.

Also, I felt uncomfortable with the data on page 15. In my many years of experience as an institutional investor, I have only had to actually read business reports and financial statements in Japanese twice. There are not many cases to read them, other than the cases in which we need to find notes in the business report, which is audited, regarding financial accounting procedures that do not have notes in the financial report. I don't think reading business reports and financial statements is part of the normal institutional investor flow. So I assume that this is probably the result of investors who

have never seen such a thing in English and responded to the question as they would like to see such a thing if it exists.

And as you mentioned earlier, on page 14, you have itemized the status of timely disclosure. All of these items are very much in demand by investors. Therefore, I would like to see you get to grips with timely disclosure as soon as possible.

Also, in the discussions of the Disclosure Working Group of the Financial System Council and later the TSE's Quarterly Practices Study Group, there is a discussion that if timely disclosure becomes more substantial, it may be acceptable to make quarterly disclosure voluntary in the future. Looking at this situation, I still think that the attitude toward timely disclosure has been too low, and we need to demand more serious action on timely disclosure.

Also, there is talk about how difficult it is to translate into English, but I don't think it is an excuse to say that translating into English causes delays. Earlier, there was a comment that software has evolved a lot recently. If we take into account the use of generative AI, I think it is no longer a matter of translating a text into English.

While the English translation itself is relatively easy, it is necessary to have a system in place to decide what parts of the English text will be checked when it is published. I don't think it is a matter of the English translation process. I believe that there are areas where companies need to change their mindset as well.

[Ando, member]

The principle that English-language disclosure is a must for Prime-listed companies is a basic premise, but there are many issues regarding the disclosure of management information, not limited to English-language disclosure, and there is too much difference between what it should be and what it actually is.

Therefore, there is a concern that if we proceed with the discussion with only the ideal in mind, we will not be able to promote truly high-quality English-language disclosure. Moreover, it is unreasonable to expect Japanese companies to disclose AI-translated documents as they are, given their mindset. In particular, companies make a variety of disclosures, including disclosures under the Companies Act and the FIEA, as well as voluntary disclosures. Moreover, the number of disclosure items is increasing every year, so it is imperative to prioritize each disclosure material. Of

course, even without guidelines, if a company voluntarily wishes to disclose in English and actively attract foreign investors, it should simply leave it to its own initiative.

As the secretariat discusses on page 21 of Document 4, the idea of proceeding in stages is very important. I would suggest that you consider the possibility of differentiating by the percentage of foreign investor holdings. According to a survey by the TSE, the shareholding ratio of foreign corporations, etc. as of the end of FY2022 is 30.1%, and 30.8% in the Prime Market only. Using this as a guide, I believe that it would be practical to move mountains regarding inadequate English disclosure by promoting English disclosure by companies whose foreign investor ownership ratio is 30% or more in accordance with the order of priority.

If English disclosure, which is supposed to be a means, becomes an end in itself, resulting in inferior swords made by mass production, foreign investors' trust in Japanese companies' English disclosure will, in turn, touch bottom. As has been the case for more than a decade, there are always discrepancies if the translation is outsourced to a translation company and disclosed as is. We need to understand that the related practices of companies require considerable process and time, as the content must always be checked internally.

Therefore, unless we proceed in stages, the gap between what it should be and the reality will not be bridged. This includes not only English disclosure, but also discussion of timely disclosure as Mr. Sampei mentioned. So I am concerned that focusing only on the need for English disclosure may not produce results, or may produce poor results.

This point should be discussed carefully before deciding how to proceed, and collaboration with the Disclosure Working Group of the Financial System Council is essential. We believe that this follow-up meeting should, by all means, take the lead in order to proceed in a unified manner.

[Kuronuma, member]

I think each of the valuable points raised by Mr. Ando are valid. I hope you will take this as a statement based on that, or rather, with that understanding, of course.

Based on the needs of investors and in line with the concept of the Prime Market, I believe that English disclosure should be promoted and that TSE rules should first

make English disclosure mandatory for financial statements, at least for summary information and timely disclosure.

In such a case, simultaneous disclosure of timely disclosure is desirable, and I believe this is possible by following the various services currently provided by the TSE regarding disclosure in English. I believe that they remain in this state because they are not currently required to do so under the regulations.

However, I believe that in the timely disclosure, the issuance of shares, stock acquisition rights, etc. includes something like a gratis allotment of stock acquisition rights as a takeover defense measure. This is quite complex for some plans and would be difficult to translate into English. I think it is acceptable to disclose such items in English at the same time, even if it is just an outline.

On the other hand, it is surprising to me that only 44% of the revisions to earnings forecasts are disclosed in English. After all, this system is extremely unfriendly to foreign investors. I believe that the TSE system should first be amended to make English disclosure mandatory.

[Koike, member]

Thank you very much. First, why is English disclosure necessary? I believe that we are at a very good time.

With the Kishida administration's announcement that it is aiming to become an "invested country" under the banner of "Asset Management Nation," I believe that English language disclosure is the minimum social infrastructure to become an invested country. In that sense, I agree with the policy of making it mandatory. On the other hand, as Mr. Sampei mentioned, what frustrates foreign investors is the asymmetry of information, the fact that some major companies disclose information while others do not, and the fact that even among those that do disclose, the documents they disclose vary widely. I feel that the differences have pushed down the overall market valuation, and that the first step is to unify the variations.

On the other hand, since the hurdle is too high to require all companies to comply, one possible solution would be to make it mandatory in stages. Another key point is where to start. First, I believe that making disclosure content and quality consistent with a sense of uniformity and level of quality mandatory for companies that foreign investors consider as part of the universe, companies included in the TOPIX500 and

JPX Prime 150 indexes, and expanding from there, will lead to an improvement in the confidence of foreign investors and their evaluation of Japan's stock market. If we look at some companies that are not included in that category, companies that are not large in market capitalization and are owned by foreign investors, for example, activist-owned companies, they do not disclose in English. If vocal activists raised their voices about the lack of disclosure by Japanese companies, those companies would take on reputational risk. Although there is an issue of accuracy of data, I think it would be a good idea to promote it within the framework of an effort requirement, which is different from a mandate, after establishing a recommendation level based on the ratio of holdings by foreign investors and other factors. On the other hand, as Mr. Sampei mentioned, companies that wish to attract foreign investors should actively use the market as a place to distribute information, and the emergence of such companies is desirable for the capital market. Therefore, I think it is preferable to request English disclosure in two categories: mandatory/effort-mandatory.

[Matsumoto, member]

Since the market is open to the world, I think it is natural to promote English disclosure. However, I thought it is somewhat lost in translation, or that it is necessary to delve a little deeper into the circumstances and opinions of both sides to find out what foreign institutional investors really need, or what the problems are on the issuer side that are delaying the process.

For example, are foreign institutional investors really asking for everything to be disclosed in English? I think it contains some nuance. AI-based translation is something that investors as well as issuers can do, and with technology advancing so rapidly, what are the real needs on both sides? I think we need to do more than just a survey; we need to carefully delve deeper, such as inviting several foreign institutional investors to discuss the issue. This is fine for general discussions, but for each issue, I think we need to increase the resolution in that area so that we don't get too much labor and not enough merit.

[Okina, member]

I think the way we proceed on this is important. For the first time, more than 70% of foreign investors expressed dissatisfaction with English-language disclosure by

Japanese companies, and the difference between the actual situation and their needs became clear. I think it is important to ask how Prime Market companies view this and what they think about it. According to the survey results, many companies still question why they have to disclose in English. I think it is important to encourage a change in the mindset that English disclosure is necessary to be valued by the market, and to have people firmly accept that there is a gap between the needs of foreign investors and the actual situation. I think it is important to have the mindset that if you don't do it, it is bad for corporate management, not that you have to do it because it is mandatory.

In terms of how to do this, I think careful research is necessary, as Mr. Matsumoto pointed out, but TSE needs to come up with the desired priorities as quickly as possible. In listening to today's discussion, I felt that it would be desirable to disclose financial statements and timely disclosure at the same time and in the same quantity, and I think it would be a good idea to indicate such a desirable order at an early stage.

Also, as we can see on page 19, I think there are various things that TSE can do for companies. You should consider how you can support English disclosure, such as by summarizing the opinions of overseas investors, and then implement it. You should also take such steps to make it mandatory in a phased manner.

[Kanda, member]

It is a very difficult question, and I think what Mr. Ando and Ms. Okina said is important.

I think the way to do it is to have it formatted first, as with the Corporate Governance Code, and then make it "comply or explain."

In reality, it is meaningless without quality, but I am saying this on the assumption that the actual situation will progress gradually. I think it can only be done in phases, but it needs to be consistent with the concept of the Prime Market, which declares that it will be an investment destination for foreign investors. I think we should start with the formality of English disclosure for all listed companies in the Prime Market, even in the form of "comply or explain."

Regarding the scope of documents, etc., I am very shocked that there is a gap between the investors' needs and the companies' efforts with regard to timely disclosure materials, and I think that statutory disclosure documents such as timely disclosure materials, financial statements, and annual securities reports should be the

basis for English-language disclosure. As I mentioned before, legal disclosure documents have to disclose things that are inconvenient for companies, and I think it would be a risk for companies if only some of the information is written in English. Therefore, they should at least aim to disclose the full text of the annual securities report, the most detailed legal disclosure document, in English, and the same can be said for timely disclosure materials.

Regarding timing, I would say that they should aim for simultaneous disclosure. But this is a trade-off, and there is the question of whether it can actually be done. One possible approach would be the use of AI and software, but as Mr. Ando pointed out earlier, if there is resistance on the part of companies to disclosing machine translations as they are, as Mr. Matsumoto said, investors can also use software, so you could provide them with such information. Also, 6% of companies disclose the full text of their annual reports in English, and about 2% of companies disclose the full text on the same day. I suggest that you receive know-how from these companies so that other companies can use them as a reference. Since it is probably not a trade secret, I believe it would be worth considering that you receive their know-how.

[Sampei, member]

Mr. Matsumoto mentioned earlier that the resolution of the actual situation on the issuer's side and the user's side should be improved, and I would like to provide some additional explanation to this.

Regarding the status of the convocation notice on page 15, looking only at the discrepancy between investor needs and the status of corporate initiatives, it seems to be a high priority. In reality, however, since the convocation notice is a necessary document for exercising voting rights, the contents must be digested, and exercise decisions made within the limited time of three weeks to four weeks. So there is no such thing as waiting for a company to translate into English, but a voting advisory company will translate the necessary parts into English. The system is built in such a way that the English translations are automatically included in the flow as data, so there is no need to be troubled by the lack of English translations. For example, the business report may be used in a situation where a representative director is reappointed and entrusted to make executive compensation decisions, and an investor who believes that this is problematic reads the business report and decides against the

reappointment proposal. In this case, the flow is to tell the voting advisory company in advance that you want them to flag and tell you, and the voting advisory company will translate the information into English. The 81% figure may be due to the fact that it is more pleasant to read the full text, but in practice it works that way. I think that identifying and understanding each of these things, and then considering priorities, is what raises the resolution.

[Kumagai, member]

Regarding the first point, I agree with what Mr. Kanda said, and I think that is the principle of what kind of market the Prime Market must be firmly based on.

On the other hand, as others have mentioned, I think it is also necessary to conduct detailed interviews with companies and investors. In addition, in making the actual decision, we must proceed in a detailed and realistic manner, such as by introducing the system in stages or, as Mr. Koike mentioned, by separating the mandatory and effort-requiring systems.

Third, regarding the use of software to create English disclosures, I am not saying that machine translations can be published as is. I was just saying that the use of software is a considerable reduction in the administrative burden, and that if the prepared work is checked by in-house experts to make sure it is to the point and then presented, the workload would be greatly reduced.

I got the impression that, although there may be some differences in temperature with regard to the first and second points, there is probably a certain degree of agreement among the members on the general direction.

[Matsumoto, member]

Although unrelated to this case, I am wondering what will be discussed at the future follow-up meetings. TSE make a schedule, but it would be good for you to hear our opinions at the meeting. Incidentally, I believe that the existence of a controlling shareholder is an issue in many situations and should be discussed thoroughly. For example, many companies do not respond to requests to achieve cost-of-capital and stock price conscious management, and this is often the case with companies that have chosen the Standard Market, so the problem of companies with controlling shareholders is one that cannot be overlooked.

[Kikuchi, Director, Listing Department, TSE]

Thank you very much.

With that, we will now conclude today's meeting.

Finally, we will explain Document 5 and the schedule for the next meeting.

[Ikeda, Senior Manager, Listing Department]

Thank you very much for your active discussion today.

Finally, I would like to provide a brief explanation of Document 5.

In light of the numerical targets, etc., for the ratio of female board members in the Prime Market in the government's "Intensive Policy for Gender Equality and the Empowerment of Women," the rules were revised and came into effect yesterday.

The background is the fact that domestic and foreign investors are increasingly focusing on the ratio of female board members of companies in their investment decisions, while approximately 20% of companies do not have female board members even in the Prime Market, where a higher standard of governance is expected, with a view to interacting with global investors. In terms of content, they should aim to increase the ratio of female board members to at least 30% by 2030. As a first step toward this goal, they should strive to appoint at least one female board member by 2025. We then recommend the development of an action plan to achieve these goals. We have included this in the desired items section of the Code of Corporate Conduct.

The background of the fact that we included it in the desired items section is that it is quite difficult to ask for "comply or explain" or require disclosure based on the CG Code when there is a discrepancy between the goals and the current situation. In any case, we hope to receive your comments again on the Code of Corporate Conduct, as it is a topic for future discussion, including its relationship with the CG Code.

We will also discuss the agenda for the next follow-up meeting in another preliminary briefing. Thank you for your cooperation.

[Sampei, member]

Overseas investors have commented that the use of the word "officer" is ambiguous in its definition, such as whether it refers to a statutory officer or includes executive

officers and others who are not. I am sure the TSE has received feedback on this. I think you should seek clarification on what kind of institutional design can include what position. The document says "may include executive officers or equivalent officers," but "equivalent" is not clear and should be explained more clearly. I have also been asked by foreign investors what the word "equivalent" means and whether the company can decide as it pleases, and I am forced to answer vaguely. So I would appreciate it if you could define it more clearly.

[Ikeda, Senior Manager, Listing Department]

The point is based on comments that companies have different situations, for example, some people are called "fellows," and it would be more in line with the actual situation if such people could also be included. In the future, we will take your points into consideration and try to indicate them as clearly as possible.

[Kuronuma, member]

As Mr. Kanda pointed out earlier, I also feel a great deal of discomfort in the fact that this was not formulated as a corporate governance code.

You mentioned earlier that it doesn't fit in with the "comply or explain," but I don't think so at all. I would also like to ask you to explain the process of establishing such specific figures as a Code of Corporate Conduct in response to the government decision. We hope to have such a forum in the future.

[Ikeda, Senior Manager, Listing Department]

Thank you very much. I understand.

[Kikuchi, Director, Listing Department, TSE]

With that, we will conclude today's meeting. Thank you very much for all your input today. We look forward to working with you again next time.