

Listing System Improvement Action Plan 2009

September 29, 2009
Tokyo Stock Exchange, Inc.

< Introduction >

The Tokyo Stock Exchange (TSE) intends to pursue a comprehensive revision of the listing rules from the perspective of the proper fulfillment of secondary market functions, and our role in supporting listed companies with improving corporate value and global competitiveness, while protecting and valuing investors. In order to achieve this, the TSE has been making improvements to the listing system from 2007 based on the basic policy as described below.

- To ensure the soundness of the market, the TSE will develop a system that encourages a further awareness among listed companies and other market participants of their role as members comprising the securities market.
- The TSE will ensure greater transparency by further improving disclosure of corporate information.
- The TSE will respond appropriately to corporate activities from the perspective of protecting investors and appropriately fulfilling market functions.
- The TSE will be committed to developing a more user-friendly market for listed companies and other market participants.
- In achieving the above goals, the TSE will take into consideration consistency with global practices.

In fiscal year 2009, the TSE will work on, among others, the following two themes based on this policy.

I Improving conditions to enhance the corporate governance of listed companies

The TSE has mentioned “facilitate enhanced corporate governance of listed companies” as part of our basic strategies in the medium-term management plan of the TSE group from fiscal year 2008 onwards. Based on these basic strategies, in fiscal year 2008, the TSE has strived to provide an environment where investors can have confidence in making investment by placing principal emphasis on the issue of improving conditions to enhance corporate governance of listed companies, establishing measures early in response to the issue of third-party allotments, which in particular is strongly viewed as a problem by domestic and foreign investors, and such corporate activities which significantly undermine the rights of existing shareholders.

While these are part of the efforts in improving conditions to enhance the corporate governance of listed companies, there are many topics on the issue of corporate governance, such as ensuring the independence of directors, auditors and such supervisory bodies, the problem of

governance structures and how to further enhance accountability, which the TSE need to examine into the future. Coincidentally, there has been a new development indicating the direction on enhancing corporate governance in June this year with the Study Group Report released by the Financial Services Agency's Financial System Council (henceforth referred to as "study group report") and the Corporate Governance Study Group Report released by the Ministry of Economy, Trade and Industry.

II Improving the system and practices pertaining to timely disclosure in light of changes in the environment

Disclosure, in particular improvements to the system in the field of timely disclosure, is a pillar of the system aimed at achieving proper market operations. The TSE is constantly looking to improve the system for disclosure, increase the transparency brought about by measures to ensure its effectiveness, and respond swiftly to the ever-changing environment and the needs of parties who prepare and use such information.

In recent years, quarterly reporting and the internal control report system for financial reports have been introduced, and methods to ensure the effectiveness of various listing rules (public announcement and listing agreement violation penalty), etc., including timely disclosure have been established. With these changes, there is a demand for a response in the form of a more efficient and effective system for timely disclosure and an improvement of disclosure practices.

In addition, amidst worldwide discussions surrounding the International Financial Reporting Standards (IFRS), listed companies in Japan will be able to voluntarily use IFRS from the financial term ending March 2010. The adoption of IFRS is an important milestone in the globalization of Japan's capital market. In light of this, the cooperation between the TSE and related parties need to be made in such way that listed companies which voluntarily use IFRS will be able to smoothly adapt their business practices, and necessary improvements to the system have become a pressing issue which need to be addressed.

The TSE aims to increase its global competitiveness through gathering quality domestic and foreign risk money and attractive investment targets. In view of these circumstances, in this fiscal year, the TSE will seek to improve the listing system with a principal emphasis on the issues of "Improving conditions to enhance the corporate governance of listed companies" and "Improving the system and practices pertaining to timely disclosure in light of changes in environment".

< Concrete approach for consideration of matters >

Individual issues of each theme have been organized into the following 3 classifications. The TSE will promptly act on these matters after presenting the Listing System Improvement Action Plan 2009.

1. Matters for prompt implementation

- Matters for subsequent implementation of measures such as development of rules and frameworks and requests to listed companies after public announcement of this Action Plan (With regards to matters whose measures have specified concrete contents, the TSE will give priority to the implementation of such measures, considering listed companies' administrative schedule, etc. for the annual general shareholders' meeting pertaining to account settlement ending March next year.)

2. Matters to consider for actual implementation

- Matters for consideration and discussion with knowledgeable persons where necessary, with a view to implement concrete measures or policies in spring next year such as development of rules and frameworks and requests to listed companies

3. Matters for continued consideration

- Matters for continued consideration for actual implementation, such as listing all fundamental problems, etc.

< Action Plan >

I Improving conditions to enhance the corporate governance of listed companies

Item	Matters for prompt implementation	Matters to consider for actual implementation	Matters for continued consideration
1. The structure of board of directors	<ul style="list-style-type: none"> • The TSE will present a model of corporate governance which is regarded as suitable for the majority of listed companies for securing the confidence of shareholders, investors and others in accordance with a point of views described in the Study Group Report. Based on this, the TSE will require listed companies to sufficiently disclose the details of their respective governance systems and the reasons for selecting a particular system in the corporate governance report. 	<ul style="list-style-type: none"> • From the perspective of further securing the confidence of shareholders, investors and others, with the aim of enhancing disclosure relating to the details of their governance system and the reason for selecting such a system, the TSE will consider options such as presenting a compilation of case studies of good disclosure practices. • Taking into account recent trends, the TSE will consider revisions to the corporate governance principles for listed companies, clarification of their positioning in the TSE regulations, and a review of description items in the corporate governance report. 	
2. Strengthening the function of statutory auditors	<ul style="list-style-type: none"> • For the purpose of promoting listed companies to implement measures including the following items to strengthen the functions of statutory auditors, the TSE will stipulate these measures as desirable in the corporate governance principles of listed companies and develop frameworks for disclosing the status of each listed company in the corporate governance report. 1. Maintain adequate human resources and infrastructure to support the statutory 		

Reference Translation

Item	Matters for prompt implementation	Matters to consider for actual implementation	Matters for continued consideration
	<p>auditors who carry out audits (cooperating with internal audit and internal control divisions for this purpose);</p> <p>2. Appoint highly independent outside auditors; and</p> <p>3. Appoint auditors with an in-depth knowledge of finance/accounting.</p>		
3. Independence of outside directors and auditors	<ul style="list-style-type: none"> • The TSE will require the disclosure of more specific details on the relationships that outside directors and auditors have with the company. It also requires appropriate disclosures of the company's views on the independence of the persons in question. 		
4. Selection of independent directors/auditors	<ul style="list-style-type: none"> • For the purpose of protecting general shareholders, the TSE will require listed companies to introduce the independent directors/auditors who the listed companies deem are unlikely to give rise to conflicts of interest in relation to general shareholders. 	<ul style="list-style-type: none"> • In a situation where a conflict of interest may arise between the management of the listed company and its shareholders, depending on the case, the role expected of independent directors/auditors may vary. The TSE will consider presenting the expected role of independent directors/auditors in each situation. 	
5. Disclosure by listed companies of ballot results at general shareholder	<ul style="list-style-type: none"> • With regard to the results of individual resolutions at shareholder meetings, the TSE will request listed companies to disclose the number of votes cast for and against, in addition to disclosing whether the resolution 	<ul style="list-style-type: none"> • The TSE will consider making a set of rules relating to the disclosure of ballot results for each resolution at a general shareholder meeting, taking into account the developments for revisions in laws and 	

Reference Translation

Item	Matters for prompt implementation	Matters to consider for actual implementation	Matters for continued consideration
meetings	was accepted or rejected.	regulations.	
6. Promoting the use of electronic voting platforms		<ul style="list-style-type: none"> • With respect to promoting the use of electronic voting platforms, the TSE will consider measures, including requiring certain listed companies to use such platforms. 	
7. Response to company grouping by listed companies	<ul style="list-style-type: none"> • The TSE will implement necessary improvements in light of enhancing corporate governance of not only the parent company but also the company group as a whole. • The TSE will review the corporate governance principles of listed companies in order to clarify that the corporate governance should be realized as the corporate group of the listed company as a whole. • In the event that a listed company has a core subsidiary, when such subsidiary decides an important management issue, the TSE will require the listed company to conduct appropriate disclosure of views of the subsidiary's management as well as its own views so that they will discharge accountability as a corporate group. 		
8. Response to		<ul style="list-style-type: none"> • In light of the recent circumstances 	

Reference Translation

Item	Matters for prompt implementation	Matters to consider for actual implementation	Matters for continued consideration
subsidiary listings in light of recent trends		<p>surrounding subsidiary listings, the TSE will reexamine what the listing of subsidiaries should be like.</p> <ul style="list-style-type: none"> • In light of the above examination, regarding the listing of subsidiaries, the TSE will consider the development of effective rules, such as requiring the selection of outside directors and auditors who will sufficiently consider the interests of minority shareholders who are not from the parent company or fellow subsidiary, to appropriately manage conflicts of interest, and effectively prevent abuse of rights by the parent company. 	
9. Response to cross shareholdings		<ul style="list-style-type: none"> • Taking into account developments in revisions to laws and regulations, the TSE will consider establishing a system for the disclosure of the cross shareholding situation that is based on expressed or implied mutual or multilateral agreements. 	

II Improving the system and practices pertaining to timely disclosure in light of changes in circumstances

Item	Matters for prompt implementation	Matters to consider for actual implementation	Matters for continued consideration
<p>1. Promote more effective and efficient disclosure in light of enhancements/changes to disclosure system and changes in investor needs in recent years</p>	<ul style="list-style-type: none"> • In light of current market conditions, etc. where investment evaluation and business administration are based on a consolidated basis, the TSE will request for proactive disclosure of company information which is significant on a consolidated basis. • With regards to the preparation of timely disclosure materials, the TSE will clarify the minimum disclosure content required based on the listing rules, and enhance listed companies' awareness of measures that may be taken against them, to ensure effectiveness of listing rules. • With respect to timely disclosure, etc. pertaining to corporate information of unlisted parent companies, etc., the TSE will consolidate it into disclosure of details of transactions with the controlling shareholder or matters relating to controlling shareholder, etc. (which have been improved in recent years), in order to improve efficiency of business practices. • Taking into account the situation after the introduction of the internal control report system pertaining to financial reporting, the 	<ul style="list-style-type: none"> • Taking into account the situation after the introduction of the quarterly reporting system, from the perspective of achieving swift disclosure with respect to timely disclosure of quarterly financial statements, the TSE will consider a review aimed at improving efficiency and effectiveness of business practices. 	<ul style="list-style-type: none"> • Taking into account how established it is in business practices of listed companies as well as the state of deliberation by related authorities, the TSE will consider the content of amendment to listing rules and date of implementation so that companies that prepare them on a consolidated basis, shall, as a general rule, use figures in consolidated financial statements to determine the level of significance (de minimis criteria) for the disclosure of corporate information of the listed company itself. • In light of the fact that some point out an excessive burden on small scale corporations like emerging companies, the TSE will examine the business practices of quarterly disclosure and internal control in which the state and structure of company organization, and business scale, etc. • Taking into account the trends in international discussions, the TSE

Reference Translation

Item	Matters for prompt implementation	Matters to consider for actual implementation	Matters for continued consideration
	<p>following cases will be included as items to be included in matters requiring timely disclosure by listed companies.</p> <ul style="list-style-type: none"> (i) a case where the management executive finds a material weakness in the internal control system; and (ii) a case where the management executive deems the evaluation result of the internal control system cannot be disclosed. 		<p>will consider a more desirable quarterly disclosure system.</p> <ul style="list-style-type: none"> • In light of the discussion on disclosure of earnings forecasts, the TSE will consider more suitable methods, etc. for disclosure of such forecasts. • Taking into account the needs of investors, the TSE will consider whether improvements can be made to the content provided in financial statements, etc., and the methods of provision, etc.
<p>2. Response to introduction of IFRS</p>	<ul style="list-style-type: none"> • From the perspective of increasing the global competitiveness of the TSE market, the TSE will extend necessary cooperation to actions of parties concerned in order to facilitate the adoption of IFRS by listed companies. • In order to support the discussion on adoption of IFRS, the TSE will clearly state in the Code of Corporate Conduct (desired matters) that listed companies will strive to cooperate in activities pertaining to the development and revision of accounting standards which form the basis for appropriate preparation of disclosure materials, as well as the promoting 	<ul style="list-style-type: none"> • In light of the fact that both domestic and foreign listed companies may voluntarily use IFRS from the financial period ending March 2010, the TSE will make necessary review on the existing listing system (e.g., criteria for profit used to determine disclosure of corporate information) and disclosure format of earnings digest, etc. so that they can apply to companies which use IFRS as well. • In conjunction with the fact that both domestic and foreign listed companies will be allowed to voluntarily use of IFRS, the TSE will consider taking necessary actions on the range 	<ul style="list-style-type: none"> • The TSE will conduct research on measures regarding listing and disclosure system of various foreign countries that have adopted (or have announced adoption of) IFRS, and sum up issues foreseen in Japan.

Reference Translation

Item	Matters for prompt implementation	Matters to consider for actual implementation	Matters for continued consideration
	the education of accounting standards.	of the voluntary use as well as listing examination criteria, etc. so that IFRS can be used in the new listing examinations.	