

October 31, 2022

Institutional Investors Collective Engagement Forum

## Comments Concerning the Follow-up of Market Restructuring

We, The Institutional Investors Collective Engagement Forum (IICEF), have submitted the following opinions in response to the “Call for Comments Concerning the Follow-up of Market Restructuring” by Tokyo Stock Exchange, Inc.

### **Call for comments on 1. Prime Market**

We would like to see the Prime Market, as the face of the Japanese market, aim for the criteria that satisfy “high liquidity and governance standards as well as constructive dialogue with global investors.” Specifically, the criteria should include:

- (1) market capitalization and liquidity suitable for investment by numerous institutional investors,
- (2) ensuring a higher level of corporate governance, and
- (3) encouraging constructive dialogue with investors and proactive initiatives to the medium- to long-term improvement of corporate value.

The following are examples of representative opinions and suggestions by the Participating Investors of IICEF on the Prime Market.

#### (1) Market capitalization and liquidity

- Review of the criteria of tradable share market capitalization

From the perspective of a global investor, the standard should be market capitalization of at least ¥200 billion or more and tradable share market capitalization of ¥100 billion or more.

- Raising the criteria of tradable share ratio

Regardless of the size of market capitalization, from the perspective of the formation of an appropriate share price and the exercise of market discipline, it is preferable that more than half of the shares issued be tradable.

#### (2) Ensuring a higher level of corporate governance

- Outside directors should account for one-third or more of the board

In the long term, we expect the majority of the board to comprise outside directors but for the time being, we request that outside directors account for one-third or more of the board,

as stipulated in the Corporate Governance Code.

- Diversity of the board including at least one female director and mandatory disclosure of the board's skills matrix
- Mandatory appointment of a majority of independent outside directors at so-called listed subsidiaries

(3) Encouraging constructive dialogue with investors and incentives to improve corporate value

We believe that listed companies' sincere engagement with the capital market and promotion of constructive dialogue with investors both in Japan and abroad will lead to the efforts to improve their medium- to long-term corporate value.

- Mandatory participation in the electronic voting rights exercise platform
- Mandatory English disclosures (especially the annual securities report)
- Enhancing the disclosure of the Corporate Governance Report

Especially disclosures of basic capital policies, specific plans and results of reducing cross-shareholdings, and the policy to not prevent sales when a cross-shareholder indicates the intent to dispose of the shares, etc.

**Call for comments on 4. Transitional Measures**

We request that transitional measures/plans to meet the continued listing criteria clarify the effective period of about three years as a target.

**Call for comments on 5. Others**

We make the following four requests to all listed companies.

- Encouraging dialogue between outside directors/corporate auditors and investors  
For example, recommending that outside directors, etc., participate in the dialogue with investors, and the selection of outside directors as contacts for dialogue with investors. These initiatives should become mandatory especially for companies listed on the Prime Market, which are expected to engage in dialogue with global investors.
- Disclosures of the status of dialogue with investors (Separate disclosures of the status of dialogue with outside directors, etc.)

Engaging in dialogue with investors will provide outside directors, etc. with an opportunity to deepen their knowledge of the company concerned, which leads to better exercise of their functions at the board of directors meetings. Also, improving skills and capabilities of the outside directors, etc. through the dialogue with investors are expected to greatly contribute to the enhancement of corporate value and sustained growth of Japanese companies as a whole.

- Including the email address of the IR contact in the *kessan tanshin* reports or company websites  
We request better access for investors when contacting the persons in charge of IR.
- Including the PBR data in the *kessan tanshin* reports  
We believe that the PBR is appropriate as a simple indicator to see whether a company is generating positive corporate value and we ask companies with PBRs of 1x or less to draw up improvement plans. Especially with regard to companies listed on the Prime Market, we suggest making such improvement plans mandatory.

<Reference> Interim Report (June 13, 2022, p.15) of the Committee on New Direction of Economic and Industrial Policies, Industrial Structure Council

“Companies with PBRs of 1x or less are required to formulate and disclose concrete and rational plans for a certain period (e.g. 5 years) in order to exceed 1x (i.e. their corporate value exceeds their net assets).”

(Note) To eliminate the effects of short-term share price fluctuations, the average PBR for a certain period (e.g. 5 years) is observed. For industries that tend to have PBRs below 1x from a global perspective, companies in such industries are not bound to aim to uniformly exceed 1x but aim to overtake global competitors.

End

Contact information:

Institutional Investors Collective Engagement Forum

Directors in charge: Yuki Kimura, Representative Executive Director and Chairman; Naomi Yamazaki, Representative Executive Director and Administration Manager; Ryusuke Otori, Executive Director; and Hiromitsu Kamata, Executive Director

Address: Tokyo Entre Salon, Shinmaki-chou Building Annex 1, 3-2-14, Nihonbashi, Chuo-ku, Tokyo 103-0027 JAPAN

E-mail: [info@iiccf.jp](mailto:info@iiccf.jp)