

CHAPTER XI

Financial Instruments Exchange, etc. (2)

1. An Outline of the OTC Stock Market

(1) What is OTC trading?

In addition to shares traded on stock exchanges (market transactions), shares are also traded over the counter. As only those listed issues that meet certain listing standards may be traded on exchanges, shares that are not eligible for exchange trading need to be traded elsewhere, outside exchanges. Such shares are traded between securities companies serving as brokers/dealers or between customers and brokers/dealers over the counter in negotiated transactions known as “over-the-counter (OTC) transactions.”

OTC transactions include transactions in unlisted shares (including unlisted class shares issued by listed companies); transactions effected in the OTC securities market; and off-exchange transactions in exchange-listed shares.

(2) An Outline of the OTC Stock Market

As OTC trading becomes active, information about quotes and prices is exchanged among securities companies and distributed to investors, and the market becomes more organized. After the war, OTC trading remained active even after the reopening of stock exchanges. In 1961, actively traded OTC issues were moved to the Second Section of the stock exchanges, but stocks continued to be actively traded over the counter to such an extent, in fact, that an OTC stock market, an organized market where OTC securities that meet the registration requirements of the JSDA are traded, was launched in February 1963.

As solicitation for investments was restricted in the early years, the OTC stock market was generally characterized as a market for the liquidation of stock holdings. To remedy the situation, the legal framework was enhanced by the 1971 amendment to the Securities and Exchange Act, and, in 1983, the OTC stock market was defined as a market that complements exchange markets and was reorganized drastically into the JASDAQ market for trading shares of mid-tier small-to-medium sized enterprises with reasonable track records. The JASDAQ market has since grown larger as a market for emerg-

Table XI-1. A Brief History of the OTC Market

1945	Group trading in shares emerges spontaneously after the war.
1949	A system of trading in OTC-authorized issues is launched in June under the rules of the JSDA.
1961	The stock exchanges create the Second Section, into which OTC-authorized issues are absorbed, and the OTC authorizing system is terminated.
1963	The OTC registration system is launched in February.
1976	The OTC market broker, Japan OTC Securities, Inc., is established.
1983	A new OTC Stock Market (the JASDAQ market) is launched in November.
1991	The JASDAQ system comes into operation.
1992	The Prohibited Acts Rule is applied to the JASDAQ market.
1997	The green sheet system is launched.
1998	The JASDAQ market becomes the OTC securities market for the purpose of the Securities and Exchange Act (currently, the Financial Instruments and Exchange Act).
2001	Japan OTC Securities changes its name to JASDAQ, Inc., and takes charge of the market.
2004	The JASDAQ market becomes a securities exchange in December and the OTC securities market is closed.
2005	Green sheet issues become “to-be-handled securities” for the purpose of the Securities and Exchange Act in April, and the regulations of insider trading are applied to green sheet issues.
2008	The Phoenix issue system is spun off from the green sheet system into an independent system.
2015	Equity Crowdfunding Scheme and Shareholders Community System are established in May.
2018	The Green Sheet system is abolished in March.
2022	Launch of J-Ships stock system for professional investors in July.

ing companies, and it was redefined as an “OTC securities market” under the Securities and Exchange Act in 1998. But the designation of “OTC securities market” exists only in law following the upgrading of the JASDAQ market into the JASDAQ Securities Exchange in December 2004.

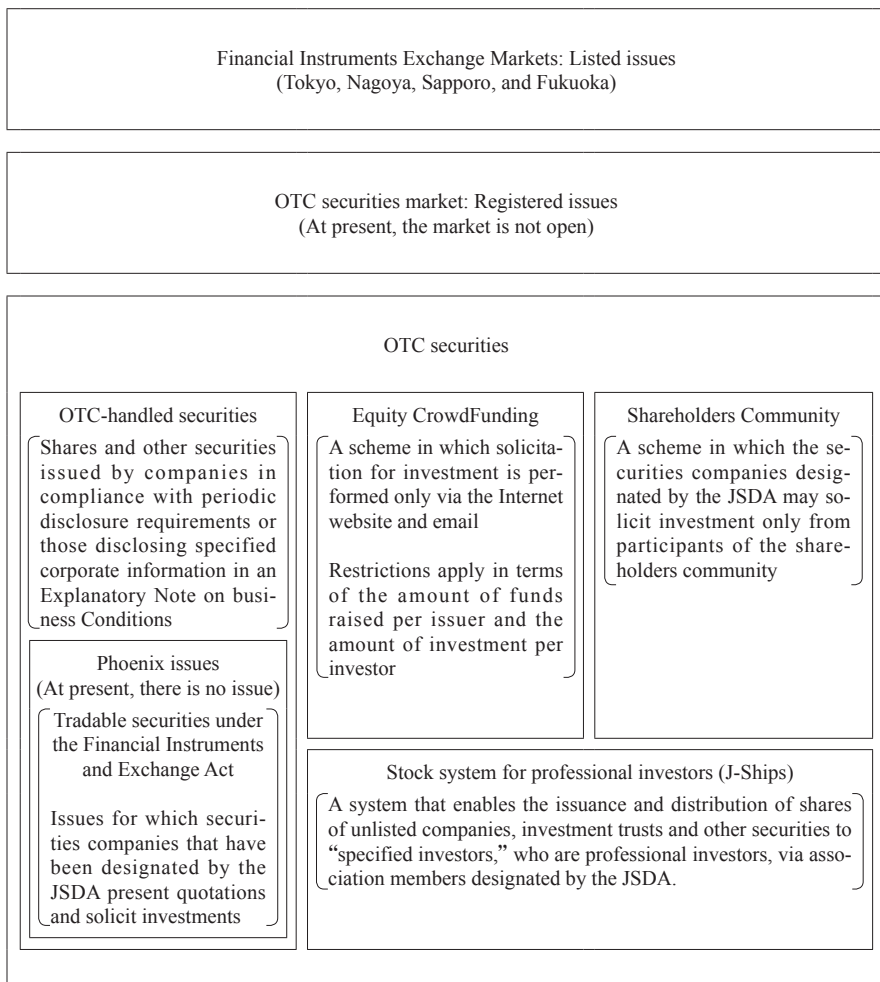
Because a need arose for trading unregistered or unlisted stocks also outside the JASDAQ market, the JSDA established the green sheet system in July 1997. Following the abolishment of the green sheet at the end of March 2018, JSDA created the crowd funding system for equities along with the shareholders community system in May, 2015. In addition, in July 2022, it established the stock system for professional investors (J-Ships).

2. OTC Securities, Etc.

(1) Unlisted/Unregistered Issues

Issuers of unlisted or unregistered stocks are not required by law to disclose

Chart XI-1. Relationships Between OTC Securities and Listed/Registered Issues



their corporate information, and, in principle, JSDA rules prohibit securities companies from soliciting investment in such issues. This is because soliciting the investing public, including individual investors, for an order to buy or sell a security on which no pertinent corporate information is available would subject the public to significant risks and cause various problems from the standpoint of the protection of investors, and such self-regulatory rules have been in place for a long time.

However, brokers/dealers may accept unsolicited orders for such issues

and trade them with customers as OTC securities in negotiated transactions. The rules pertaining to such transactions (including those prohibiting them from accepting market orders or affecting when-issued or margin trading) are contained in the Rules Concerning Over-the-Counter Securities of the JSDA.

The April 2004 amendment to the Securities and Exchange Act authorized a company to issue an equity product in private placements limited to qualified institutional investors. Under this amendment, the ban on solicitation was lifted for so-called “qualified institutional investor private placements” and “private offerings” on the condition that they do not resell their holdings to anyone other than Qualified Institutional Investors.

(2) OTC-handled Securities

Securities whose issuers regularly disclose specified corporate information in the form of an Explanatory Note on Business Conditions are considered to carry less risk than other unregistered issues. And the rules of the JSDA define them as “over-the-counter-handled securities,” regarded as candidate securities to be eligible for solicitation.

An Explanatory Note on Business Conditions is a type of disclosure material required by the JSDA and prepared in accordance with the format for the “corporate information” section of a securities report pursuant to the Financial Instruments and Exchange Act. It shall be accompanied by annual financial statements with an audit report that includes the opinion of certified public accountants or persons with equivalent designation that the company’s financial statements are unqualified or qualified in light of the provisions of the Financial Instruments and Exchange Act or in conformity with those of the Companies Act. Such explanatory note shall also contain forward-looking statements as to the outline of the company’s business plan, its feasibility, and other aspects. In the case of a company in compliance with periodic disclosure requirements, a securities report or a securities registration statement with an unqualified or qualified opinion of the auditor can be substituted for the Explanatory Note on Business Conditions.

At present, the ban on solicitation for the purchase of OTC-handled securities is partially lifted for primary or secondary offerings of securities on the condition that the issuer publishes an Explanatory Note on Business Conditions. The ban is fully lifted for unlisted securities of listed companies based on the condition that the issuer publishes an Explanatory Document on Securities Information, etc.

3. OTC securities transactions for the purpose of transferring management control, etc.

(1) Transactions in OTC securities for the purpose of transferring management control, etc.

As described previously, securities companies are prohibited in principle from soliciting investment for OTC securities under JSDA rules. On the other hand, business succession has recently become a social challenge for non-listed companies. Based on these circumstances, the ban on solicitation of investment for trading OTC securities for the purpose of transferring management control, etc., including business succession, was lifted in August 2019.

Transactions of OTC securities for the purpose of transferring management rights, etc. refer to transactions in OTC securities, or an intermediary service thereto, aimed at acquiring a majority of the voting rights of all shareholders or a majority of the total number of issued shares of the issuing company.

The principal requirements for such transactions are that securities companies must obtain consent from the issuing company concerning the attributes of prospective buyers and shall tell prospective buyers that they have the right to carry out a pre-trade inspection of the issuer.

(2) Solicitation for investment in OTC securities for professional investors who can assess corporate value

The ban on solicitation of investment in OTC securities was lifted in November 2020 to professional investors who can assess corporate value, etc. in order to facilitate the supply of risk funding to new growing companies.

“Solicitation for investment in OTC securities for professional investors who can assess corporate value” refers to allowing securities companies handling private placements (small private placements) and soliciting investment from large-scale investors (corporate venture capital, overseas funds, etc.) who are capable of assessing corporate value on their own under certain conditions.

The main requirements for such solicitation of investment are that securities companies obtain written representations and affirmations from their customers that they are solely responsible for their own assessment of corporate value and that securities companies provide the customers with information about the issuers.

Table XI-2. Article 3-2 of the Rules Concerning Over-the-Counter Securities of the JSDA's Self-Regulatory Rules

Main contents of the investment solicitation for transaction of Over-the-Counter Securities for the purpose of transferring management control, etc.

1. Can investment solicitation for transaction of Over-the-Counter Securities for the purpose of transferring management control, etc.
2. To obtains the consent for the attributes, etc. of the customer who is subject to investment solicitation related to purchase from the issuer
3. Due diligence
 - The issuer cooperates with the Due diligence
 - To explains for the candidate for purchase that Due diligence is possible
 - To provides a summary of the Due diligence results to the another customer who is subject to investment solicitation through the securities companies, etc. when the candidate for purchase investigates
4. Confirmation before transaction/Prior explanation
 - To confirms before transaction that there is the prospect that the purpose of transferring management control, etc. set forth, etc. before transaction
 - To explain in advance that transaction is not executed when there is no prospect that the purpose of transferring management control, etc. set forth, etc.
5. Reports to the JSDA before and after

Table XI-3. Article 4-2 of the Rules Concerning Over-the-Counter Securities of the JSDA's Self-Regulatory Rules

Main contents of the investment solicitation for Acquisition of Over-the-Counter Securities which is made to professional investors who can evaluate the corporate value

Association members

1. Can conduct investment solicitation for Over-the-Counter securities to professional investors who are able to evaluate the corporate value on their own responsibility
2. Must obtain written representations and warranties from customers that they will evaluate the corporate value of the issuing company on their own responsibility and will make an investment based on such evaluation.
3. Must provide following information of the company
 - The company profile
 - Business description
 - Financial information
 - In the case of private placemnts, future perspective
4. Reports to the JSDA before and after

4. Stock system for professional investors (J-Ships) (1)

(1) Explanation of the stock system for professional investors (J-Ships)

The stock system for professional investors (J-Ships) was launched in July 2022 to allow securities companies to issue and distribute unlisted corporate stocks, investment trusts and other securities to professional investors, or

Chart XI-2. Stock system for professional investors (J-Ships)

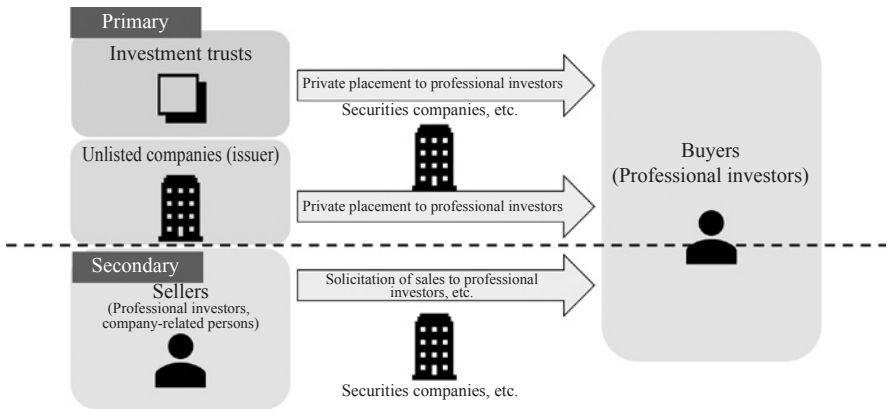
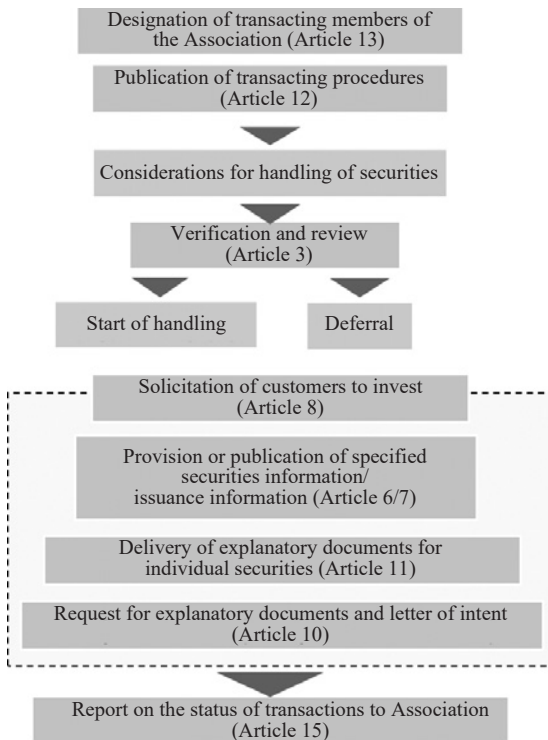


Chart XI-3 Flow of J-Ships transactions (excluding PTS transactions)



“specified investors.” This system has been enabled to handle private placement with professional investors, private distribution with professional investors, and the related businesses of unlisted stocks and investment trusts. In July, 2023, this system was also enabled to handle PTS trading of securities for professional investors.

The issues that can be traded via J-Ships are OTC securities (stock certificates, stock acquisition rights certificates and corporate bonds with stock acquisition rights) as well as investment trusts and similar securities (investment trust beneficiary certificates, investment securities and certificates of investment equity subscription rights).

The same provisions apply mutatis mutandis to foreign stock certificates, foreign investment trusts and other securities as for domestic securities.

(2) Designation of transacting association members

In order for securities companies, etc. to solicit investment from professional investors based on this system, they must submit a notification to the Japan Securities Dealers Association and be designated as a transacting association member. However, if deemed necessary due to reasons such as a violation of laws and regulations or self-regulatory rules by the securities company, this designation may not be made. However, soliciting investment of only securities for professional investors for trading on a PTS, the above process for designation as a transacting association member is not required.

(3) Establishment of a business management system

Transacting association members and securities companies seeking to become transacting association members must prepare an internal set of rules and establish a business management system to ensure that business based on this system is executed in an appropriate manner. In addition, transacting association members must prepare and publish handling guidelines that describe their company’s business methods.

(4) Examination and verification

The transacting association member must examine the stock certificates or investment trusts and other securities for which new investment is solicited concerning private placement or private distribution to professional investors. The transacting association member must fully understand the characteristics of the investment and the risks involved and verify whether it is appropriate to solicit investment and the range of customers to whom solicitation is to be made. In addition, it must establish an agreement for exclusion of anti-social forces (organized crime) after examination of whether this is applicable.

5. Stock system for professional investors (J-Ships) (2)

(5) Specified securities information and issuer information

When private placement or private distribution to professional investors is carried out based on the J-Ships system, specified securities information must be provided or made available to customers. In addition, issuer information must be provided or made available at least once every business year to customers who hold securities as a result of such solicitation.

The JSDA specifies the format of these documents for each securities category. Section I consists of specified securities information, Section II consists of corporate information (fund information in the case of investment trusts), and Section III has an overview of the investment trust management companies, etc. (only for investment trust beneficiary certificates). Issuer information consists of corporate information (fund information in the case of investment trust beneficiary certificates) and an overview of the investment trust management company (only for investment trust beneficiary certificates), which corresponds to sections II and III of the specified securities information.

(6) Issuance of instructions and request for confirmation at the start of the transaction

The transacting association member shall provide a document describing the risks according to the classification of securities to customers purchasing stock certificates or investment trusts or other issues for the first time under this system, and explain the risks, and ensure that the customer understands the details. They must also obtain written confirmation that the customer understands and is carrying out the transaction at their own discretion and responsibility.

For example, in the case of stock certificates, the following items may be considered as items to be described in the explanatory statement: (1) extremely low liquidity, (2) the difficulty of calculating stock prices due to the lack of market prices, and (3) the relatively high risk of bankruptcy compared to listed stocks. In the case of investment trusts, for example, opportunities for redemption may be limited depending on the product, and the range of assets included in the trust may be broader than for publicly offered investment trusts.

(7) Delivery of explanatory documents for individual securities

When soliciting investments based on this system, the transacting association member must deliver an explanatory document for individual issues and explain the content of the document. The items to be explained in the document

Table XI-4. Items described in the specified securities information

Classification	Item
OTC Securities	<p>【Section 1: Securities Information】 New issue securities (number and type of issue), method and conditions of solicitation for acquisition (total issue value, subscription period, stated capital, details of brokerage agreements for acquisition, etc.), use of proceeds, securities to be sold (type of securities, total offer value, etc.), conditions of sale (offer price, subscription period, details of brokerage agreements for sale, etc.), business risks, etc.</p> <p>【Section 2: Corporate Information】 Corporate overview (history, business description, etc.), status of the issuer (status of shares, etc., status of directors, status of corporate governance), status of accounting (balance sheet, etc.), status of shareholders, etc.</p>
Investment Trust Beneficiary Certificates	<p>【Section 1: Securities information】 Fund name, form of beneficiary certificate, maximum amount of trust money, issue price, subscription fee, subscription unit, subscription period, subscription and payment handling location, payment date, matters concerning book-entry transfer institution, etc.</p> <p>【Section 2: Fund information】 Characteristics of the fund (features, structure), investment policy (investment targets, distribution policy, etc.), investment risks, fees and taxes, investment status (assets under management, investment performance), subscription and cancellation procedures, asset management overview, beneficiary rights, etc.</p> <p>【Section 3: Overview of investment trust companies, etc.】</p>
Investment securities, etc.	<p>【Section 1: Securities Information】 Fund name, form of beneficiary certificate, maximum amount of trust money, issue price, subscription fee, subscription unit, subscription period, subscription and payment handling location, payment date, matters concerning book-entry transfer institution, etc.</p> <p>【Section 2: Fund information】 Overview of investment company (features, structure, organization, investors' capital contribution, status of major investors), investment policy (investment targets, distribution policy, etc.), investment risks, fees and taxes, status of investments status (investment assets, investment results), outline of procedures, etc., overview of asset management and operation</p>

Issuer information is the same as Section II and Section III above.

include the range of expected customers, the details of the risk of loss, and the conditions for redemption and cancellation, as stipulated by the self-regulatory rules.

6. Equity Crowdfunding (1)

(1) What is Equity Crowdfunding?

The term “crowdfunding” is a coined word composed of “crowd” and raising funds or “funding.” It refers to the practice of funding start-ups and growth

Chart XI-4. Concept Diagram of Equity Crowdfunding

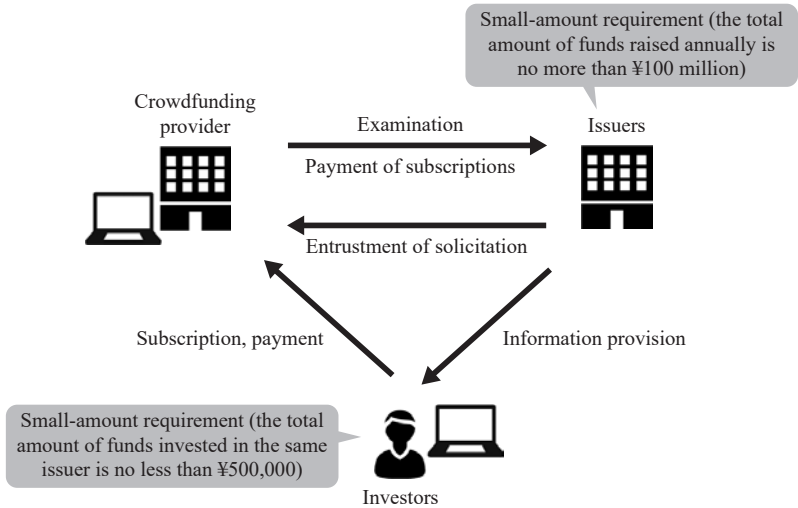


Table XI-5. JSDA's Self-Regulatory Rules
Key components of the Rules Concerning Equity Crowdfunding Operations

1. Solicitation for investments conducted by members of the JSDA (securities companies and Type I Small Amount Electronic Subscription Handling Agents) under the equity crowdfunding scheme is permitted as an exception to the prohibition of investment solicitation relating to unlisted stocks.
2. Examination of issuers and measures to eliminate antisocial forces
3. Indication of equity crowdfunding deals on the website
4. Issuance of document prior to conclusion of contract
5. Request for letter of intent from investors purchasing unlisted stocks for the first time under the equity crowdfunding scheme
6. Small-amount requirements (total amount of funds raised per issuer: less than ¥100 million a year; investment per investor for one issuer: no more than ¥500,000 a year)
7. Prohibition of simultaneous use of solicitation method other than the Internet (e.g., telephone and face-to-face contact)
8. Conclusion of an agreement to the effect that the issuer provides proper information on a periodical basis to investors after the completion of handling of investment under the equity crowdfunding, and confirmation of information provision
9. Establishment of an operation management system
10. Reporting and publication of monthly results

companies by asking a large number of people to each contribute a small amount of money, often performed via Internet-mediated registries.

With the use of the Internet, crowdfunding makes it possible to raise funds, even on a small scale, at low cost and over a wide range by collecting a small amount of money from a large number of contributors. Thus crowdfunding, primarily the purchase-type and lending-type, has rapidly become a popular option for raising funds in the last few years. Given the circumstances, an equity crowdfunding system was introduced in May 2015 with a view to promoting provision of risk money to start-ups and growth companies and enabling such companies to raise capital by issuing OTC securities.

The equity crowdfunding scheme may be used only by securities companies and intermediaries specializing in small-amount equity crowdfunding (Type I Small-Amount Electronic Public Offering Service Operators) that are registered as Type I Financial Instruments Business Operators.

(2) Small Amount Requirements and Prohibition of Concurrent Use of Unspecified Solicitation Methods

In terms of the nature of equity crowdfunding of raising a small amount of funds from each of a large number of investors, certain restrictions apply in the equity crowdfunding system. The amount of funds raised per issuer must be less than ¥100 million per year and the amount of funds contributed per investor (excluding professional investors) to an issuer must not exceed ¥500,000 per year. In addition, considering that investment frauds involving unlisted stocks and corporate bonds continue to take place, the method of solicitation for investment is limited to using (i) the website and (ii) email assuming the use of the aforesaid website, and solicitation by telephone and visits by securities companies, etc. are prohibited.

(3) Examination of Issues and Issuers

In handling OTC securities using the equity crowdfunding scheme, securities companies, etc. may handle such issues as deemed proper after careful examinations of issuers, the nature of their business, financial standing, appropriateness of business plan, intended use of funds, etc. in accordance with their internal rules. Securities companies, etc. also enter into a contract with each issuer to the effect that the issuer is not an antisocial force and must not use an equity crowdfunding scheme if it is recognized that an issuer corresponds to an antisocial force.

7. Equity Crowdfunding (2)

(4) Provision of Information via Website and Receipt/Delivery of Documents

While using the equity crowdfunding system, securities companies, etc. must provide information on issuers and fund raising as well as on risks, etc. specific to the acquisition of OTC securities issued by the issuers (such as no obligation to provide disclosure comparable to that prescribed by the Financial Instruments and Exchange Act or to the timely disclosure required by stock exchanges) via the website for perusal by investors.

Furthermore, in order to receive confirmation from investors purchasing OTC securities for the first time under the equity crowdfunding scheme of their understanding of risks, commission, etc. involved and of making the investment based on their judgment and responsibility, securities companies, etc. must provide advance explanations of these matters, request a letter of intent from each investor, and deliver the document prior to conclusion of contract containing at minimum the matters to be informed via the website concerning individual issues for every investment handled.

(5) Periodical Subsequent Information Offering by Issuer

Securities companies, etc. must have an agreement with each respective issuer that it shall regularly provide appropriate information on its business after the completion of equity crowdfunding.

(6) Reporting and Announcement of Investment Status

Securities companies, etc. must report the status of investments made under the equity crowdfunding scheme on a monthly basis to the JSDA, and the JSDA publishes the information reported.

(7) Business Control Measures by Securities Companies

Securities companies, etc. must formulate internal rules and put in place business control measures necessary for properly carrying out equity crowdfunding in conformity with laws and regulations and their self-regulatory rules. In addition, securities companies, etc. are required to prepare an outline of their equity crowdfunding procedure and publish it on the company's website to enable investors to view the information.

When a securities company etc. violates laws and self-regulatory rules and is ordered to improve its business control measures, the securities company cannot be engaged in equity crowdfunding until the ordered improvements, etc. are completed.

Chart XI-5. Provision of information/receipt of written document on equity-based crowdfunding (conduct by offer handling agent)

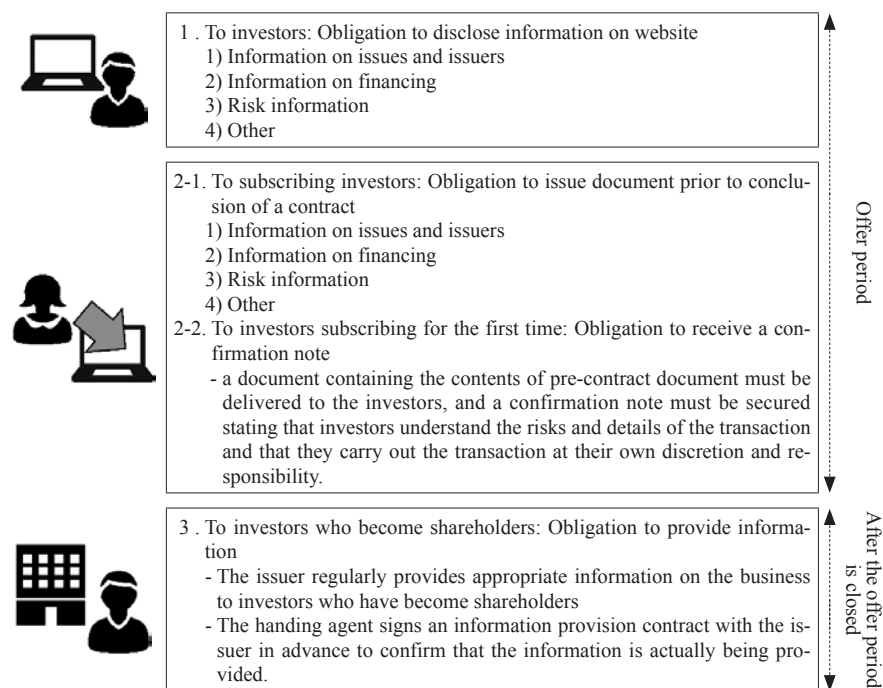


Table XI-6. Handling of Equity Crowdfunding

As of December 31, 2023

	Number of registered firms (companies)	Number of deals handled (deals)	Amount of financing (¥1,000)
2016	—	—	—
2017	3	18	514,740
2018	3	59	1,470,395
2019	3	54	951,590
2020	6	100	2,179,624
2021	5	159	3,736,570
2022	5	164	2,506,901
2023	5	84	1,896,110

8. Shareholders Community (1)

(1) What Shareholders Community is

The JSDA established the Shareholders Community System in May 2015 as a system for unlisted stock trading and fund-raising in place of the Green Sheet system that was abolished at the end of March 2018.

Shareholders Community was established as a mechanism in which a securities company creates a shareholders community by OTC issue and accepts investments only from investors that proactively declare and participate in the community. Since the scope of solicitation and trading is limited to participants of the Shareholders Community, and thus the distribution is limited the System is not subject to the application of insider trading regulations.

(2) Designation of Operating Members

In order for a securities company to create and operate a shareholders community, it must register with the JSDA and receive designation as an operating member. The JSDA may decide not to grant designation if the securities company is found to be in violation of law or self-regulatory rules.

(3) Development of business management system

Operating members and securities companies intending to become operating members must formulate internal regulations and put in place a business management system necessary for properly operating shareholders communities. In addition, operating members are required to prepare an outline of their shareholders community operating method, etc. and publish this outline.

(4) Exceptions to prohibition of solicitation for participation in a shareholders community

Operating members may not solicit investors who are not shareholders community participants to participate in a shareholders community. However, if an investor falls under any of the following categories: (1) shareholder of the issuer (2) officer or employee of the issuer (3) former shareholder or former officer or employee (4) relative of an officer or employee (5) officer or employee of a group company of the issuer or (6) professional investor, the operating members can conduct solicitation regarding participation in the shareholders community.

(5) Examination of Issues and Issuers

In handling OTC securities for which a shareholders community is to be created, operating members may strictly examine each issuer and verify the nature of their business, etc. in accordance with their internal rules and handle

Chart XI-6. Basic Mechanism of Shareholders Community

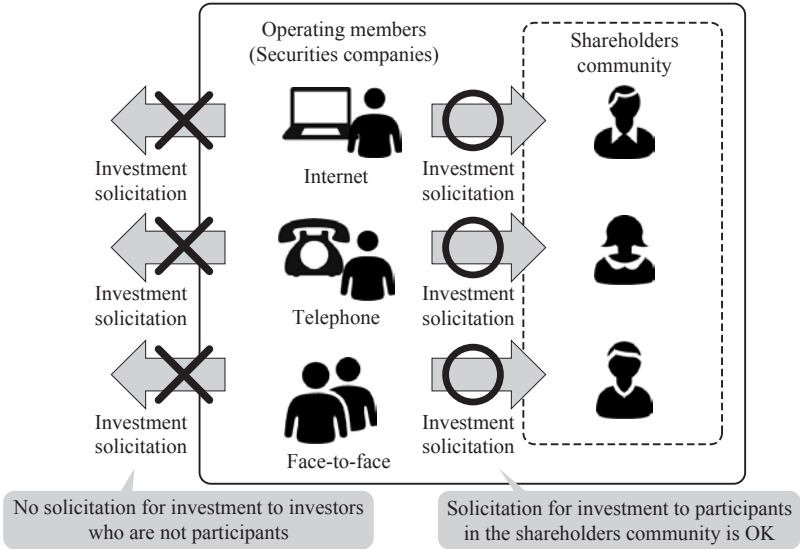


Table XI-7. Major Components of the JSDA's Self-Regulatory Rules regarding Shareholders Community

1. Securities companies construct a shareholders community for an unlisted stock. Investors intending to invest in the unlisted stock participate in the shareholders community.
 - Assumed principal participants include officers and employees and their families of the issuer; shareholders and business partners of the issuer; and users and customers of the issuer's business.
2. Securities companies structuring and operating a shareholders community receive designation by the JSDA as operating members.
3. Solicitation for investment is allowed only toward investors who participate in a shareholders community.
 - Solicitation for participation in a shareholders community is allowed only toward the executives and employees of the issuer and the issuer's shareholders and other company-related persons.
 - Only limited information is available to investors who are not participants in the shareholders community.
4. Examination of issuers and measures to eliminate antisocial forces
5. Investors participating in a shareholders community are provided with financial statements, business reports and other information based on the Companies Act in regard to the issuer.
6. Issuance of document prior to conclusion of contract
7. Investors who participate in a shareholders community for the first time are requested to submit a letter of intent.
8. Establishment of an operation management system
9. Weekly reporting and public disclosure of trades

only such issuers as they find proper. Operating members shall enter into a contract with each issuer to the effect that the issuer is not an antisocial force.

9. Shareholders Community (2)

(6) Provision of Information Regarding Shareholders Community Issues and Receipt/Delivery of Documents

Operating members are to provide investors with the necessary information on shareholders community issues in accordance with their level of involvement in the shareholders community (participation/declaration of participation in the shareholders community or otherwise; request for information or otherwise).

Furthermore, in order to receive confirmation from investors executing OTC transactions of shareholders community issues for the first time on their understanding of risks, commission, etc. involved and of making the investment based on their judgment and responsibility, operating members must provide advance explanations of these matters, request a letter of intent from each investor, and deliver the document prior to conclusion of contract containing at minimum the risks specific to such OTC transactions and other matters (e.g., no disclosure obligation comparable to the disclosure prescribed in the Financial Instruments and Exchange Act or to the timely disclosure required by stock exchanges is imposed) concerning individual issues, and explain the contents thereof.

(7) Exceptions to the prohibition on investment solicitations for shareholders community issues

In principle, operating members are prohibited from soliciting investors who are not members of the shareholders community to invest in issues of the shareholders community, except in the following cases.

- When small group private placements are made to investors who can be solicited as set out in 4) above on the condition that they participate in the shareholders community and acquire the relevant shareholders' community issues.
- When soliciting investment from company-related parties, etc. on the condition that they participate in the shareholders community and acquire the relevant shareholders community issues.
- When soliciting investments related to sales to existing shareholders.

(8) Withdrawal from and Dissolution of Shareholders Community

Operating members shall perform the withdrawal procedure when notified by a participant of the shareholders community of the participant's intent to

Chart XI-7. Provision of information and delivery/receipt of documents related to shareholders community issues (by operating members)



1. For all investors: Disclosure obligation/provision of information
 - 1) Name of issue
 - 2) URL of issuer's website (or telephone number, if the issuer does not have a particular website)
 - 3) Benefits for shareholders (shareholder incentives)
 - 4) If handling an offering, private placement or secondary distribution, the fact thereof and the application period
 - 5) When soliciting participation in OTC securities, the details of the clients from whom participation is being solicited
 - 6) Type of business of the issuer
 - 7) Location of the issuer's head office
 - 8) Outline of the issuer's business
 - 9) Whether or not the issuer is obliged to submit a securities report



2. For investors who request information: Provision of information
 - 1) Public information on the issuer
 - 2) Unpublished information on the issuer where the issuer has consented to provide
 - 3) Information on previous contracts



- 3-1. For investors who have applied to participate in a shareholders community: Obligation to provide information
 - 1) Basic information on the issuer (business year, timing of annual general meeting of shareholders, and record date of voting rights of annual general meeting of shareholders)
 - 2) Method of receiving information on issuers or inspecting such information
- 3-2. For investors participating in a shareholders community for the first time: Obligation to secure a confirmation note
 - a document containing the contents of pre-contract document must be delivered and explained to the investors, and a confirmation note must be secured stating that investors understand the risks and details of the transaction and that they carry out the transaction at their own discretion and responsibility.



4. For investors who execute transaction in shareholders community issues: Obligation to issue pre-contract documents
 - 1) Issue pre-contract documents
 - 2) Convey to participants that they may request explanations on the contents of the specified documents and materials (see 5)



5. For investors participating in a shareholders community: Obligation to provide information and make it readily accessible
 - 1) Securities Registration Statement, Annual Securities Report, Quarterly Securities Report, Amendment Report
 - 2) Without the above, Financial statements and business report* provided for in the Companies Act Information conforming to "Business risks, etc." and "Overview of stock administration of the submitting company" of the Annual Securities Report and (if handling an offering, etc.) information conforming to "Securities information" of the Securities Registration Statement
 - 3) Other information recognized as necessary by the operating member

*Non-public companies are requested to comply with the requirements that public companies are obligated under the Companies Act in preparing these documents

Table XI-8. Handling of Shareholders Community

As of December 31, 2023

	Number of operating members (companies)	Number of portfolio issues (issues)	Trading amount (¥1,000)
2015	2	11	71,149
2016	3	13	441,599
2017	3	16	551,013
2018	5	20	499,065
2019	6	19	500,798
2020	6	21	2,497,624
2021	7	29	1,182,991
2022	8	39	1,554,241
2023	9	41	1,441,147

withdraw or when there are other reasons as prescribed in the handling guide.

If an operating member's designation is cancelled by the JSDA, the operating member must immediately dissolve all shareholders communities it operates.

(9) Special provisions related to intermediary services for delisted issues

With respect to issues that become shareholders community issues after delisting from a stock exchange, securities companies other than the operating member of the shareholders community may solicit sales to customers on the condition that they act as intermediaries, etc., for the operating member.

10. TOKYO PRO Market

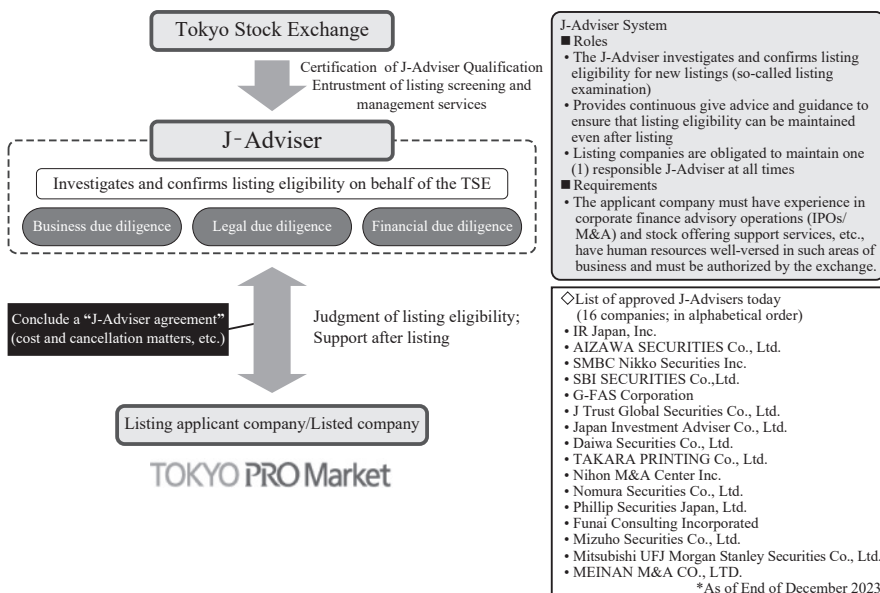
The TOKYO PRO Market is a market for professional investors now operated by the Tokyo Stock Exchange (TSE). Its origin is the TOKYO AIM, which was founded jointly by the TSE and the London Stock Exchange (LSE) in June 2009. TOKYO AIM, Inc., was originally operated as a partnership (ownership: TSE 51%; LSE, 49%). In March 2012, however, the TSE acquired LSE's stake and merged Tokyo AIM with the TSE in July 2012. TOKYO AIM is operated under the professional investor market system provided for by the enactment of the December 2008 revision of the Financial Instruments and Exchange Act (FIEA).

Placing orders on traditional exchanges is not limited to any special category of investor. The professional investor market system, conversely, re-

Table XI-9. Overview of TOKYO PRO Market Listing System

Disclosure language	• Japanese or English	
Listing criteria	• No quantitative criteria	
Subject of evaluation	• J-Adviser (Conducts review and check on listing eligibility on behalf of the exchange)	
Period from listing application to listing approval	• As a general rule, ten (10) business days • (provided, however, that there is a check procedure by the exchange to J-Adviser 30 business days prior to application)	
Audit certification	Latest one (1) year	
Internal control report	Optional	
Quarterly disclosure	Optional	
Investors	• Professional investors (Note) and non-residents <i>Note: Professional investor refers to:</i>	
	Specified investors (<i>Tokutei Tousehika</i>)	Qualified Institutional Investors (e.g., financial institutions); National government; Bank of Japan
	Specified investors (<i>Tokutei Tousehika</i>) (may shift to general investors)	Listed companies and corporations with paid-in-capital of no less than ¥500 million
	“Deemed” specified investors	Corporation other than the above specified investors Individuals who meet certain requirements

Chart XI-8. Role of J-Adviser



stricts trading to professional investors and nonresidents. Where fund procurement is limited to professional investors, securities registration statements are not required, and issuers need only make public financial information, etc. (called specified securities information), using the format and method stipulated by the TSE. Companies already listed on the exchange, moreover, need not submit annual securities reports and need only make public financial information, etc. (issuer information), using the TSE-stipulated format and method. The submission of internal control system reports and quarterly disclosure is voluntary. By premising requirements on the fact that only professional investors—those capable of analysis and making investment decisions—will invest in the market, the cost burden of issuing has been reduced in comparison with traditional stock exchanges.

The statutory penalties for falsifying financial information, etc., and for insider trading apply as much to the professional investor market system on the report of possession of large volume and tender offer systems. The page on the right shows details of how the TOKYO PRO Market aims to provide a flexible but disciplined market system for issuers and investors through the J-Adviser system (approved adviser system) within the previously mentioned legal framework. This operational method, which has the J-Adviser system at its core, has been drawn substantially from the Nomad (Nominated Adviser) system of the LSE's Alternative Investment Market (AIM). Under the system, specialists in corporate finance, etc., who have been approved as J-Advisers are required to guide a company through the admission process and to fulfill a duty to provide advice and instruction on timely disclosure and other regulatory matters following listing.

As of December 31, 2023, the TOKYO PRO Market had 16 J-Advisers and 47 listed companies.

11. Market Making Scheme in the ETF Market

The TSE introduced a market-making scheme (hereinafter referred to as the “scheme”) in the ETF (Exchange Traded Funds) market on July 2, 2018 to improve the liquidity of ETFs. Under the scheme, market makers who are designated by the exchange place constant orders on the basis of continuous quote obligation as prescribed, thereby enabling investors to trade on a timely basis at appropriate prices. The scheme covers all ETFs except leveraged/inverse ETFs. Market makers select at least five stocks and display quotes for these.

Continuous quote obligation and incentives

Market makers can earn incentives in exchange for placing constant orders

Table XI-10. Overview of ETF Market Making Incentive Scheme

Category	Item	Description
Target	ETFs excluding Leveraged/Inverse ETFs	<ul style="list-style-type: none"> • ETNs and Leveraged/Inverse ETFs are not included in this scheme.
Qualifications	Prop Desk of TSE Trading Participant Or Registered Low Latency Trader	<ul style="list-style-type: none"> • Prop Desk of TSE Member Firm (Type 1 Financial Instruments/Foreign Securities Broker) • Agency (Registered as Low Latency Trader) Either can sign up as an ETF Market Maker. The firm must apply through a TSE trading participant to sign up as an agency market maker. • Dedicated Virtual Server is needed.
Obligation (Quote display obligation)	(1) Number of ETFs for Continuous Quoting	<ul style="list-style-type: none"> • Must show quotes for at least the number of ETFs designated
	(2) Quoting Time	<ul style="list-style-type: none"> • At least 80% of the time during continuous auction. Exempt from obligation during trading halts or Special Quote periods.
	(3) Spread & Minimum Quantity	<ul style="list-style-type: none"> • Depends on type of ETF
Incentives	1. Proportional to Trading Value	<ul style="list-style-type: none"> • Price rate differs by liquidity (Average Trading Value).
	2. Waiver of Access Fee	<ul style="list-style-type: none"> • Access fee is partially waived for eligible issues.
	3. Waiver of Virtual Server Fee	<ul style="list-style-type: none"> • Server fee is partially waived when continuously quoting at least the number of ETFs designated.

Source: Tokyo Stock Exchange, Inc.

on the basis of continuous quote obligations as prescribed. There are three types of quote obligations: 1) the number of issues for continuous quoting, 2) quoting time period, and 3) spread and minimum quantity. By fulfilling all, a market maker can obtain incentives proportional to trading value and partial exemptions on transaction costs. While incentives proportional to trading value are set higher for less liquid/newly listed ETFs, none will be payable for issues with a daily trading volume in excess of ¥5 billion. This is to encourage more participants in the market making of less liquid issues.

The constant orders placed by the market makers on the basis of continuous quote obligations lead to a narrowing of spreads and an increase in volumes for a number of issues on an ongoing basis in the auction market, thereby providing an environment that is conducive to trading for investors.

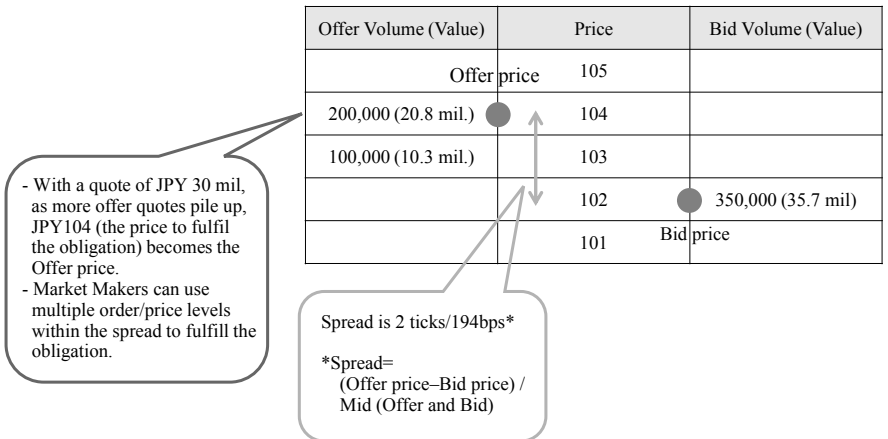
Table XI-11. Continuous Quoting Obligation and Delivers a of number of Incentives

As of October 1, 2023

Type	Issue	Maximum Bid-Ask Spread (whichever is larger)	Minimum Quantity
A	ETFs tracking Nikkei 225, TOPIX, JPX Nikkei 400 (excl. leveraged/inverse type)	20 bps OR 2 ticks	JPY 30 mil.
B	ETFs tracking other domestic stocks, REITs, bonds, Leveraged inverse ETFs tracking domestic stocks, REITs and bonds, Actively managed ETFs mainly comprised of domestic stocks, REITs and bonds.	50 bps OR 3 ticks	JPY 10 mil.
C	Foreign index and commodity ETFs, Leveraged/inverse ETFs that do not fall under type B, Actively managed ETFs mainly comprised of foreign assets and commodities.	50 bps OR 3 ticks	JPY 5 mil.
D	Individually designated ETFs	80 bps OR 4 ticks	JPY 5 mil.

Source: Tokyo Stock Exchange, Inc.

Chart XI-9. Quote Display Sample



Source: Tokyo Stock Exchange, Inc.

Sponsored ETF Market Making Scheme

While the TSE scheme offers one-size-fits-all obligations and incentives across the board to ensure equal treatment of each ETF in the same category, a sponsored ETF market making scheme is also being implemented which enables asset managers to set their own additional quote obligations and incentives for market makers. It is expected to encourage more market makers to sign up for issues that are harder to trade in and bringing in higher level of quote obligations, leading to more liquidity in such ETFs.