

CHAPTER XVI

The Information Disclosure System and Investor Protection

1. The Information Disclosure System in the Securities Market

When a company lists its security on the financial instrument market opened on a stock exchange, the issuer of such security is required by the Financial Instruments and Exchange Act and by the rules of the stock exchanges to disclose information concerning certain matters of its business. Such rules are called disclosure requirements, and they consist of statutory disclosure rules under the Financial Instruments and Exchange Act and the timely disclosure required by the securities exchanges.

There are four types of statutory disclosures that the issuers of securities are required to make: (1) issuance disclosure, which requires companies to disclose information concerning certain matters when they publicly offer securities on the primary market; (2) periodic disclosure, which requires companies whose securities are listed and traded on the securities market to disclose information concerning certain matters on a continuing and regular basis; (3) tender offer disclosure; and (4) large volume holding disclosure (shareholdings of 5% or more). Timely disclosure, which is required by the stock exchanges, obliges companies to continuously disclose their information after listing their securities on the exchanges, and the type of information required is classified by the target of disclosure into (1) information on listed companies; (2) information on subsidiaries, etc.; and (3) other information, such as supplemental information on majority shareholders, etc. Information is categorized by the nature as (1) facts decided, (2) facts occurred, and (3) information on financial results. At present, both statutory and timely disclosures are made via an electronic disclosure system using the Internet. Statutory disclosure is made via the EDINET (Electronic Disclosure of Investors' NETwork) while timely disclosure is made using the TDnet (Timely Disclosure network).

Companies that are required to make issuance disclosure and periodic disclosure are also required by the Companies Act to disclose certain information. The disclosure of accounting documents required to be made by the

Chart XVI-1. The Scheme of the Disclosure System on the Securities Market

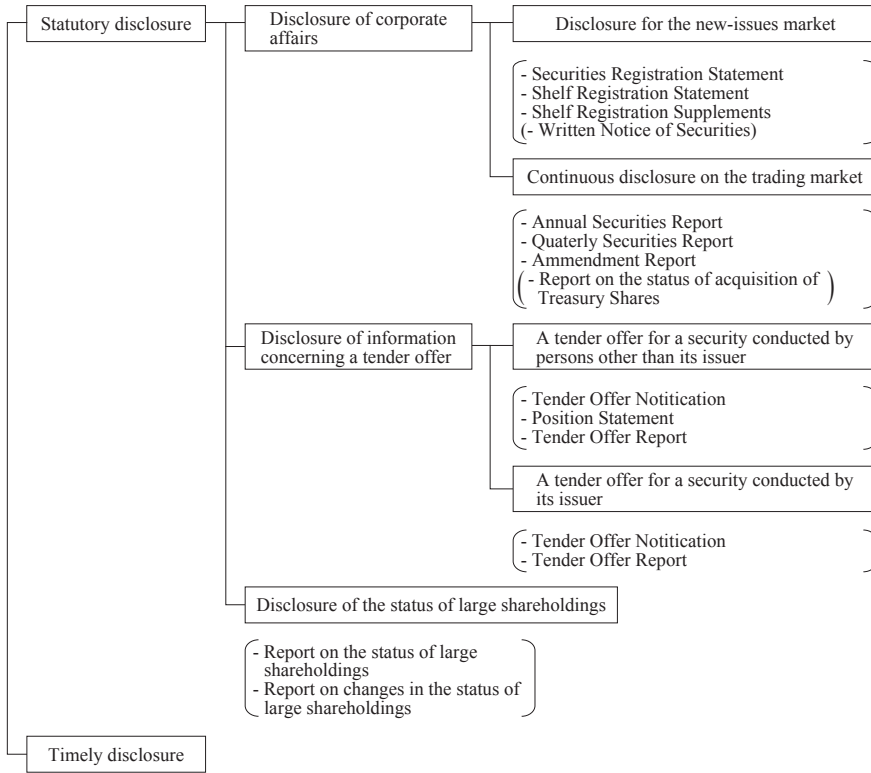


Table XVI-1. Disclosure Systems under the Companies Act and under the Financial Instruments and Exchange Act

Disclosure System under the Financial Instruments and Exchange Act		Disclosure System under the Companies Act
Furnishing information necessary for investors to make an investment judgment	Purpose of disclosure	Report on profits available for dividends and the company's capacity for offering security for loans (solvency)
Investors (including those who are not shareholders of the company at a given time)	Targets for which the disclosure is intended	Shareholders and creditors
Providing disclosure through EDINET and stock exchanges, replying to investor requests for disclosure	Method of disclosure	making of financial documents, keeping of such documents at the head office, and publication of a summary of annual settlement of accounts

Companies Act is aimed at protecting the interest of creditors and at regulating the amount that can be paid in dividends. In contrast, the disclosure required to be made under the Financial Instruments and Exchange Act and under exchanges' regulations is designed to disclose information concerning the state of business of listed companies to help the investors to make informed and reasonable investment decisions.

2. Disclosure of Corporate Affairs under the Financial Instruments and Exchange Act

Issuance Disclosure

When a company publicly offers, or makes a secondary distribution of, securities whose aggregate value is ¥100 million or more, the issuer of such securities must, in principle, file a securities registration statement with the Prime Minister. Information at issuance is disclosed through the securities registration statement. This shall describe (1) matters pertaining to said offering or secondary distribution, and (2) information relating to the issuing company (equivalent information as described in the Securities Report below). In addition, when a securities company solicits investors for the purchase of newly issued securities, it is required to provide investors with a prospectus that furnishes them with information concerning the issue that is deemed necessary for them to assess its value and to make an informed investment decision.

Periodic Disclosure

Issuers of securities listed on stock exchanges must file with the Prime Minister an annual securities report for each business year within three months after the expiration of such business year. The annual securities report constitutes the main document of statutory disclosure for the secondary market. More specifically, it must provide (1) key information on the issuer (such as trends in key management indicators and history), (2) situation of issuer's business (including management policy, business environment, issues to be addressed, approach to sustainability, business risks, etc.), (3) information on the operational status of the issuer (details of shares issued, corporate governance, etc.), and (4) the financial position of the issuer. In addition, companies that are subject to continuous disclosure requirements must file quarterly reports within 45 days of the end of each quarter, and, if necessary, extraordinary reports and reports on their share repurchases.

Issuers in the financial instruments market are expected to make full disclosure of all information necessary for investment decisions to ensure that fair prices are formed for their securities. If they do not disclose information that is to their disadvantage, the prices of their securities will be formed on

Table XVI-2. Statutory Disclosure Documents Required to be Filed

Classification	Documents filed	Cases requiring the filing of documents (a summary)	
Disclosure of corporate affairs, etc.	Issuance Disclosure Securities Registration Statement	<p>If a company issuing new shares or making a secondary distribution of shares through an offering whose total issuing or secondary distribution price is ¥100 million or more plans to solicit 50 or more investors for the purchase of its new shares or plans to sell to or solicit 50 or more investors for the secondary distribution on uniform terms and conditions, it must file a registration statement.</p> <p>* Small amount offering: In the case of a company issuing new shares or making secondary distribution of shares through an offering whose total issuing or secondary distribution price is less than ¥500 million the contents of the securities registration statement required to be filed by such company are simplified.</p> <p>* Incorporating system: A company that has been filing Annual Securities Reports continuously for one year may substitute the information therein and in the quarterly securities reports other than matters relating to the offering or secondary distribution of securities for securities registration statement securities report and quarterly securities reports filed in its place.</p> <p>* Reference system: When transactions of issued securities fulfill certain requirements of the securities market with which the issuer has been filing Annual Securities Reports for a year and the issuer's corporate information has broadly been disclosed, the description that one should refer to the last Annual Securities Reports, etc., may be substituted for a securities registration statement concerning matters other than the offering or secondary distribution of securities.</p>	
		Shelf Registration Statement	<p>When any issuer who is authorized to file a securities registration statement under the reference system plans to issue new shares or make a secondary distribution of shares through an offering whose total issuing or secondary distribution prices are ¥100 million or more, such issuer may in advance file a shelf-registration statement of its shares.</p>
		Shelf Registration Supplement	<p>When a shelf-registration statement of a security is in effect, and when the issuer of such security plans to issue new shares or make a secondary distribution of shares whose total issuing or secondary distribution prices are ¥100 million or more, such issuer is required to file supplementary documents relating thereto.</p>
	Periodic disclosure	Annual Securities Report	<p>Any of (1) the issuer of securities listed on a stock exchange; (2) the issuer of securities stipulated by cabinet order as that similar to distribution conditions in (1); (3) the issuer of securities who is required to file a securities registration statement when it issues new shares or makes a secondary distribution of shares through an offering; or (4) the issuer of securities the number of whose owners was 1,000 or more at the end of any of the latest five years (excluding certain cases), is required to file a securities report.</p>
		Quarterly Securities Report	<p>Of the companies required to submit Annual Securities Reports, the issuers of securities listed on stock exchanges or stipulated by cabinet order as being similar in terms of distribution conditions must file quarterly securities reports.</p>
		Extraordinary Report	<p>If any material fact has occurred in a company submitting Annual Securities Reports.</p>
		Share Buyback Report	<p>Any issuer of a security listed on a stock exchange or stipulated by cabinet order as being similar in terms of distribution conditions and that has passed a resolution at a general meeting of its shareholders or at a board of directors' meeting to acquire its own shares must file this report.</p>

the basis of an erroneous assessment of their value that does not reflect such withheld information. This is why the law requires the issuers of securities to periodically disclose all pertinent information, good or bad, in their annual securities reports, and why it contains penal provisions to discipline issuers who file an annual securities report containing false statements.

3. Other Disclosures to Be Made under the Financial Instruments and Exchange Act

Disclosure Relating to a Tender Offer

The act of soliciting an unspecified large number of persons through a public notice for an offer to purchase or to sell shares and of purchasing such shares off the exchange is called a “tender offer.” If any person other than the issuer who is required to file an annual securities report proposes the purchase of such shares outside the market of a stock exchange, and in cases that fall within the purview of certain requirements, such as the purchase will result in the ownership of more than 5% of the securities, etc., the person must purchase such shares through a tender offer. The tender offeror is obligated to serve a public notice of (1) the purpose of the tender offer; (2) the purchase prices, etc.; (3) the number of shares to be purchased; (4) the period during which shares will be purchased; and (5) other items stipulated in other cabinet ordinances (“public notice for commencing tender offer”) and must also file the tender offer notification with the Prime Minister. In addition, the tender offeror must, on the day immediately following the day on which the tender offer period has expired, serve a public notice or make an announcement indicating the number of shares offered to sell, the number of shares it has actually purchased, and the method of settlement and file with the Prime Minister a tender offer report furnishing information about such matters.

The regulation on tender offers is designed to disclose information for investors in advance and give shareholders equal opportunities to sell their stocks from the standpoint of ensuring the transparency and fairness of off-exchange trading when the transactions would have effects on the control of the target corporation.

Disclosure of Status of Large Volume Holding of Share Certificates, etc.

When the number of shares of a listed company held by a person exceeds 5% of its outstanding shares (large-volume holders), such person is required to file a Report of Possession of Large Volume with the Prime Minister within five days (excluding Sundays and other holidays as may be stipulated in cabinet orders) from the date when such person’s holding rate is above 5% (called the “5% rule”). The Report of Possession of Large Volume must fur-

Table XVI-3. Transitions in Tender Offer Bid (TOB) System

	Major Developments
1971	<ul style="list-style-type: none"> • Public tender offer system introduced
1990	<ul style="list-style-type: none"> • Principles set down for forcing tender offers • Percentage share offer that triggers obligation to make tender offer decreased (from 10% to 5%) • Prior notification system abolished • Duration of offer extended • Shareholders' withdrawal rights expanded
2001	<ul style="list-style-type: none"> • Along with the deregulation, in principle, of purchasing treasury shares, system for making tender offers for a company's own shares introduced
2003	<ul style="list-style-type: none"> • Scope of acquisitions exempt from the TOB system enlarged
2004	<ul style="list-style-type: none"> • TOBs restricted to companies with equity securities • Electronic notification system introduced
2005	<ul style="list-style-type: none"> • ToSTNeT transactions made independent of market transactions
2006	<ul style="list-style-type: none"> • Disclosure for TOBs upgraded (purpose of acquisition, basis of price calculation, disclosure for MBOs) • Regulations implemented concerning the combined acquisition of shares on and offmarket • Obligating a third party possessing a large stake in a company to make a TOB, if the party increases its possession during the TOB period • Acceptance for lowering TOB price when share split occurs • Reasons for withdrawing TOB expanded • Obligating targeted company to submit a Position Statement • Obligating the offeror to answer targeted company's questions (reply to submitted questions) for the purpose of submitting a Position Statement • Calculation of duration of TOB set using business days • Targeted company allowed to demand extension of TOB period • Obligating the offeror to acquire all tendered shares
2008	<ul style="list-style-type: none"> • Specified listed securities added to securities eligible for TOBs • Monetary surcharge system introduced regarding TOB rules

nish information concerning (1) matters relating to the ratio of shares held by such person, (2) matters relating to the funds acquired by such person for the purpose of purchasing such shares; and (3) the purpose for which such person has acquired such shares. And when the percentage of shareholdings of such person who must submit the report increases or decreases by 1% or more, such person must file a Change Report indicating the change that occurred in the percentage of such person's holdings of such shares. This disclosure is required because the actions of a single person holding a large volume of shares can have large effects on the formation of stock prices at the market.

4. Timely Disclosure System of Financial Instruments Exchanges (Stock Exchanges)

As described at the start of this chapter, stock exchanges require listed companies to disclose corporate information by their rules. For example, the Tokyo Stock Exchange stipulates in its Listing Rules that listed companies shall, in a timely manner, disclose information having effects on investors' decisions and defines concrete matters to be disclosed and procedures for disclosing such matters (see Table XVI-4). Listed companies need to disclose both the resolutions and decisions adopted by their executive body promptly after such resolutions or decisions were adopted and any incidents caused by external factors at the time the companies had learned of such incidents.

Promptness is a feature of timely disclosure. For example, stock exchanges require listed companies to disclose their financial results immediately after their determination. In response, the listed companies disclose earnings reports (*kessan tanshin*) according to the given format. The earnings report carries more importance in terms of helping investors to learn about financial results because it is released earlier than the annual securities report.

In addition, listed companies are obliged to provide stock exchanges with concise information on inquiries from the stock exchanges immediately if required and to disclose the details of information immediately when the stock exchanges deem it necessary and proper. For example, in the case where there is a broadcast or rumor regarding corporate information but the accuracy of such information is unconfirmed, the stock exchange concerned may make a query to the company about the accuracy of information and require the company to disclose the response to such query.

The Tokyo Stock Exchange has put in place a system for issuing alerts where if the TSE identifies any unclear piece of information among the information about a listed company that can have a material impact on investment decisions of investors and the listed company requires time before offering proper information disclosure regarding the aforesaid unclear piece of information or can disclose only certain information immediately, the TSE issues an alert to investors.

5. Ensuring the Appropriateness of Information Disclosure

In order to ensure the effectiveness of the Listing Rules, including the rules on timely disclosure, stock exchanges may implement prescribed measures against violations found, such as when the disclosed information contains false statements or when there is a violation of matters to be observed under

Table XVI-4. Main Points of Corporate Information Required by Timely Disclosure (in the case of the Tokyo Stock Exchange)

1. Decisions by Listed Companies	<ol style="list-style-type: none"> 1. Offering of new shares to be issued, treasury shares to be disposed of, issued subscription Rights/warrants, or offering to entities who will subscribe to treasury subscription rights/warrants to be disposed of, or a secondary distribution of shares or subscription rights/warrants 2. Shelf-registration and the commencement of a demand survey 3. Decrease in amount of capital 4. Decrease in amount of capital reserve or profit reserve 5. Acquisition of one's own stock 6. Gratis allotment of shares or gratis allotment of subscription warrants 7. Shelf-registration concerning gratis allotment of subscription rights/warrants or commencement of a demand survey or a survey on intention to exercise the warrants 8. Share split or reverse share split 9. Dividend from surplus 10. Organizational restructuring such as mergers, etc. 11. Takeover bid or take over bid for own shares 12. Announcement of opinions about a takeover bid, etc. 13. Transfer or acquisition of all or part of a business 14. Dissolution (excluding dissolution by means of merger) 15. Commercialization of a new product or new technology 16. Business alliance or dissolution of business alliance 17. Transfer or acquisition of shares or equity interest accompanied by a change in a subsidiary or other matters accompanied by a change in a subsidiary 18. Transfer or acquisition of fixed assets, lease of fixed assets 19. Suspension or abolishment of all or part of a business 20. Application for delisting 21. Petition for commencement of bankruptcy, commencement of rehabilitation proceedings, or commencement of reorganization proceedings 22. Commencement of a new business 23. Change in representative directors or representative executive officers 24. Rationalization such as personnel reduction 25. Change in a trade name or a corporate name 26. Change in the number of shares for a share unit of a stock, or abolition/introduction of provisions for the number of shares for a share unit 27. Change in accounting period (change in the end date of the business year) 28. Petition to the Prime Minister stating an excess of liabilities or possibility of the halt of repayment of deposit, etc. (petition under the provisions of Article 74, Paragraph 5 of the Deposit Insurance Act) 29. Petition for mediation in accordance with specified mediation procedures pursuant to the Act on Specified Mediation for Promoting Adjustment of Specified Liabilities, etc. 30. Early redemption of listed bonds, etc., the convocation of bondholders' meetings, or other important matters relating to rights relating to listed bonds, etc. 31. Change in certified public accountants, etc. 32. Putting notes on matters related to the going concern assumption 33. Submission of application for approval of deadline extension for submission of annual securities report or quarterly securities report 34. Cancellation of entrustment of shareholding services to a shareholding service proxy institution 35. Submission of internal control reports containing content to the effect that there is a material deficiency or that the evaluation result cannot be stated 36. Amendment to the articles of incorporation 37. Acquisition of all classified stocks subject to whole acquisition clause 38. Approval or rejection of a special controlling shareholder's request for sale of shares, etc. 39. Other important matters related to listed company operations, business, assets, or listed company stock certificates, etc.
2. Facts which Occurred for a Listed Company	<ol style="list-style-type: none"> 1. Damage arising from a disaster or in the performance of its operations 2. Change in major shareholders or the largest shareholder 3. Fact which causes delisting 4. Filing of a lawsuit or a court decision 5. Petition for provisional disposition or decision on such petition, etc. 6. Cancellation of a license, suspension of a business or any other disciplinary action corresponding to these on the basis of laws and regulations by an administrative agency or accusation of violation of laws and regulations by an administrative agency 7. Change in a parent company, change in controlling shareholders (excluding a parent company) or change in other related company 8. Petition or notification for commencement of bankruptcy proceedings, commencement of rehabilitation proceedings, commencement of reorganization proceedings, or execution of enterprise mortgage 9. Dishonor of a bill or check or suspension of trading by a clearing house 10. Petition for commencement of bankruptcy proceedings, commencement of rehabilitation proceedings, commencement of reorganization proceedings, or execution of enterprise mortgage pertaining to a parent company, etc. 11. Default on obligations or delay in collection 12. Suspension of trade with a business partner 13. Financial support, such as exemption of obligations 14. Discovery of natural resources 15. Special controlling shareholder's request for sale of shares, etc. 16. Claim for suspension of issue of stock or subscription rights/warrants 17. Demand for convocation of a general shareholders meeting 18. Unrealized loss of securities held 19. Acceleration of obligations pertaining to a corporate bond 20. Convocation of a bondholders' meeting for a listed bond, etc. and other important facts pertaining to rights of a listed bond, etc. 21. Change in certified public accountants, etc. 22. Delay in submission of annual securities report or the quarterly securities report 23. Approval, etc. of deadline extension for submission of the annual securities report or quarterly securities report 24. The fact that an audit report attached to financial statements, etc. contains an "adverse opinion", "opinions are not expressed", or a "qualified opinion" with making issues concerning a going concern assumption as exceptions 25. An internal control audit report contains an "adverse opinion" or the fact that "opinions are not expressed" 26. Receipt, etc. of a notice of canceling a shareholder services agent agreement 27. Other important matters related to operation, business or assets of such listed company or related to a listed stock certificates, etc.
3. Listed Company Earnings Information	<ol style="list-style-type: none"> 1. Earnings reports (kessan tanshin), quarterly earnings reports (shihankei kessan tanshin) 2. Amendments to performance estimates, differences in estimates and earnings results 3. Amendments to dividend estimates, revision of estimates, etc.

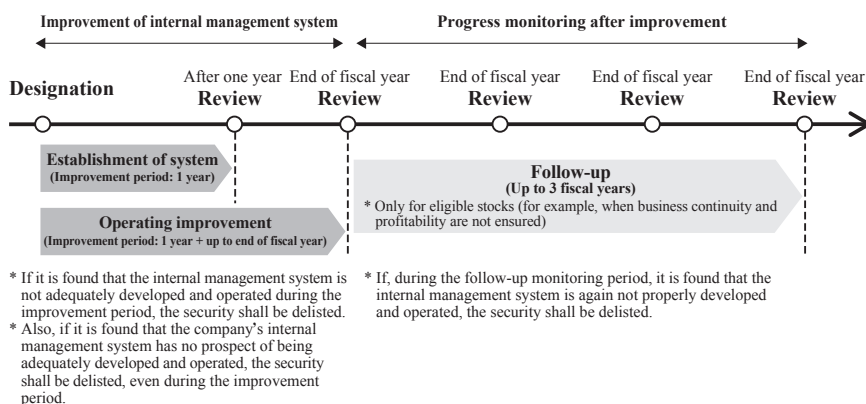
Note: In addition to the above, listed companies are required to disclose important decisions and new developments related to subsidiaries and other matters relating to controlling shareholders, etc.

Source: Tokyo Stock Exchange, *Securities Listing Requirements, Guidebook for the Timely Disclosure of Corporate Information*.

Table XVI-5. Measures to ensure effectiveness

<ul style="list-style-type: none"> ○ Penalty measures • Public Announcement Measure • Penalty on breach of the listing agreement 	<ul style="list-style-type: none"> ○ Improvement measures • Improvement Report, Improvement Status Report • Designation as Security on Alert
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Chart XVI-2. Flow from designation as security on special alert to cancellation of designation



the Code of Corporate Conduct. These measures to ensure the effectiveness are classified into two categories: improvement measures and penalties. The former requires the listed company concerned to make improvements while the latter imposes a penalty on the listed company.

Improvement measures are categorized into the designation as a security on special alert and the submission of Improvement Report/Improvement Status Report. For example, if a listed company has made a false statement in its securities report, etc. and a stock exchange recognizes that there is a strong need for the listed company to make improvements to its internal management system, etc., the listed company is designated as a security on special alert. In the case of designation as a security on special alert, the designation will, in principle, be lifted if the TSE finds the internal management system, etc. to be adequately developed and implemented within the prescribed period for improvement. If the TSE finds that the company's internal management system is not adequately developed or no longer finds it likely that the company's internal management system will be adequately implemented, the company will be delisted. In addition, in cases where the company has not ensured business continuity and profitability, the designation will

remain in place for up to three business years even after improvements have been made to monitor progress, and the status of development and implementation of the internal management system will be monitored on a continuous basis. If it is found that there is difficulty in maintaining order on the market unless a stock is immediately delisted, the stock in question is delisted without receiving the designation as a security on special alert.

Meanwhile, if the stock exchange finds that there is a strong need for a listed company to make improvements even when the status of the listed company does not indicate the need for designation as a security on special alert, which can lead to possible delisting, the stock exchange may require the listed company to submit an Improvement Report containing the circumstances behind the misconduct and improvement measures. The listed company that has submitted the Improvement Report must submit an Improvement Status Report containing the status of implementation and operation of improvement measures in a timely way after six months have passed since the submission of the initial Improvement Report. The Improvement Report and the Improvement Status Report submitted by the listed company concerned are made available for public inspection on the website of the stock exchange.

Meanwhile, penalties are categorized into a penalty (a fine) against a breach of listing contract and a disclosure measure. Depending on the degree of damage given to the trust that shareholders and investors place in the market, a judgment will be made on whether to apply the penalty (a fine) against a breach of contract, which is the more serious treatment.

6. Recent Moves of Information Disclosure

Review of quarterly disclosure

Currently, listed companies are required to disclose financial results and other information on a quarterly basis. Historically, this began in 1999 when the TSE made it mandatory for companies on the Mothers market to disclose quarterly financial reports (this was expanded to other markets in 2003). Subsequently, quarterly securities reporting became a statutory requirement with the enactment of the Financial Instruments and Exchange Act in 2006.

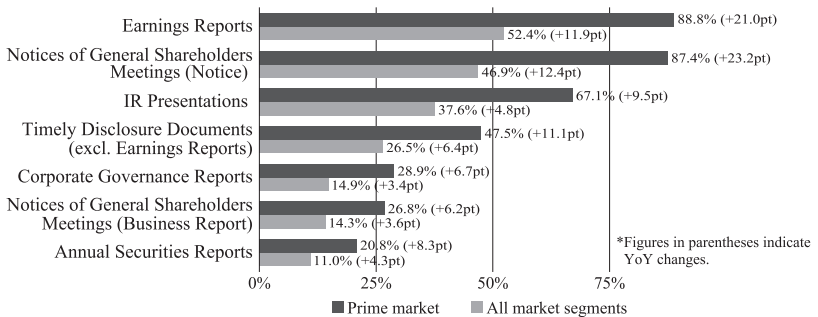
The report by the Working Group on Corporate Disclosure of the Financial System Council released in June 2022 highlighted the duplication of content and proximity of disclosure timing between quarterly financial reports based on exchange rules and quarterly securities reports in accordance with the Financial Instruments and Exchange Act. So from the perspective of cost reduction and improvement of disclosure efficiency, it was decided that Q1 and Q3 disclosures should be integrated into a single quarterly financial report

Table XVI-6. Direction of each issue related to revision of quarterly disclosure

Content of Quarterly Earnings Reports	To ensure that this revision is not perceived as withholding information, the exchange may consider adding items for which investors have particularly strong requests (segment information, cash flow information, etc.) to Quarterly Financial Reports, while ensuring that the information is timely.
Partial Obligation of Auditor Review	To ensure quick response times, etc., it is conceivable that review by an auditor may not be uniformly required . For example, in the event of accounting irregularities (including cases where statutory disclosure documents are submitted late due to such irregularities), or when deficiencies in a company’s internal controls are discovered, a review by an auditor could be mandated for a certain period of time under exchange rule to ensure credibility.
Enforcement in Case of Mis-statements	Enforcement may be more appropriately implemented by the exchange. With regard to statutory enforcement - (omitted) - given that there have been very few surcharge payment orders targeting only Quarterly Securities Reports to date and that statutory enforcement will be maintained in Semiannual Securities Reports and Annual Securities Reports after the abolition of 1st and 3rd Quarterly Securities Reports, it can be is possible that this will be unnecessary at this stage.

Source: Compiled by Tokyo Stock Exchange based on the Financial Services Agency’s “Report by the Working Group on Corporate Disclosure of the Financial System Council (FY2022)”.

Chart XVI-3. Percentage of English-language disclosures implemented by material



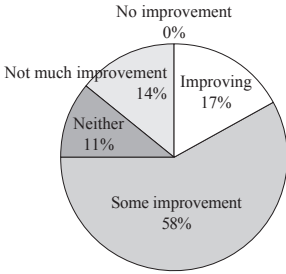
Source: Summary Report of the English Disclosure Implementation Status Survey January 2023.

based on stock exchange rules.

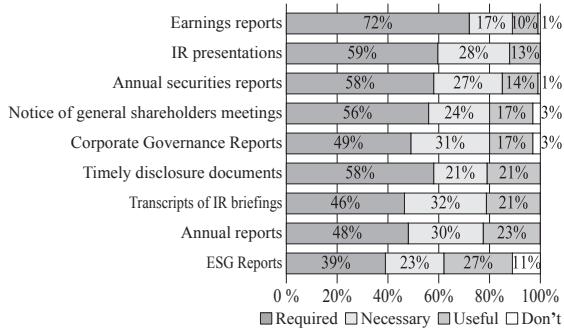
In December 2022, the Group’s report presented specifics for this proposal, including the content of quarterly financial statements after the integration and requirements for the mandatory review. As of September 2023, the TSE is examining these issues further based on these specifics.

Chart XVI-4. Questionnaire Survey on English Disclosure to Foreign Investors

(1) Evaluation of English disclosure by listed companies in recent years



(2) Investment materials



Source: Tokyo Stock Exchange, Report of the Survey to Overseas Investors on English Disclosure by Japanese Companies (August 2023).

Enhancing disclosure of sustainability information

Initiatives related to sustainability have recently become a central theme in corporate management in terms of increasing corporate value over the medium to long term, and investor interest in these initiatives is increasing worldwide. In response to this trend, the Corporate Governance Code was revised in June 2021 and established a new principle that requires companies to appropriately disclose their sustainability initiatives. In January 2023, the Cabinet Office Ordinance on Disclosure of Corporate Affairs, was revised to add a new section in the annual securities report and other securities statements stating the company’s “approach and initiatives to sustainability” and to require the disclosure of indicators such as the ratio of female managers in the “Information on Employees” section.

Enhancing English-language disclosure

Moreover, as the percentage of shares traded and held by overseas investors rises, companies are increasingly expected to improve their English-language disclosure. According to a survey conducted by the TSE as of the end of December 2022, 88.8% of companies listed on the Prime Market responded that they disclose financial statements in English (up 21.0% from the previous year), showing that the companies are making significant progress with their initiatives. On the other hand, the feedback from overseas investors is that they would like to see more improvement, including publication of other materials, and the TSE is currently considering making English disclosure mandatory for the Prime Market.