



**TSE Explanatory Material**  
*Study Group to review Minority Shareholder Protection  
and other Framework of Quasi-Controlled  
Listed Companies (Second Phase, Second Meeting)*

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**Exchange & beyond**  
**Tokyo Stock Exchange, Inc.**

March 22, 2023

# Items for Discussion

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- Based on the previous discussion on disclosure, TSE would like to receive your comments on the direction of measures to enhance disclosure and the content to be enhanced, as described on the following pages.

## List of Items for Discussion

- **Direction of Measures to Enhance Disclosure**

- **Content to be Enhanced**

- Approach to and policy on corporate group management, etc.
- Policy and measures for ensuring independence and protecting minority shareholders, etc.
- Extension of disclosure rules to other associated/affiliated companies
- Disclosure for listed companies with non-listed parent companies or non-corporate controlling shareholders

# Direction of Measures to Enhance Disclosure

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# TSE's Current Disclosure Framework

	Listed company with listed subsidiary (listed parent company)	Listed company with parent company (listed subsidiary)
<b>Approach to and policy on corporate group management</b>	○ • Approach to and policy on corporate group management	<b>Today's Discussion</b> △ • (Parent company's) approach to and policy on corporate group management
<b>Position and significance within corporate group</b>	○ • Reasons for having subsidiary remain listed	
<b>Policy and measures for ensuring independence and protecting minority shareholders</b>	○ • Measures to ensure effectiveness of governance framework for listed subsidiary	
<b>Contract or agreement on governance</b>	△	△
Periodic disclosure of "Matters Concerning Controlling Shareholders, etc."	—	• Position within corporate group and other relationships with group companies (including business constraints, risks and benefits, impact on management and business activities) • Transaction status with controlling shareholders • Implementation status of measures specified in guidelines above, etc.

Note: "○" indicates items for which disclosure is mandated and "△" indicates items for which disclosure is encouraged.

# Current Status of Disclosure and Direction of Measures

	Listed parent company/listed subsidiary	Listed company that holds a certain proportion of voting rights/has a certain proportion held by another company
Current disclosure framework	<ul style="list-style-type: none"> <li>Disclosure of matters that are material for shareholders to make investment decisions, mainly in the CG report Listed parent company⇒Own shareholders Listed subsidiary⇒Own minority shareholders</li> </ul>	<ul style="list-style-type: none"> <li>Not subject to disclosure in the CG report</li> </ul>
Current status of disclosure	<ul style="list-style-type: none"> <li>Adequate disclosure from some companies</li> <li>Inadequate disclosure from the majority of listed companies</li> </ul>	
Direction of measures	<ul style="list-style-type: none"> <li>First, to ensure adequate disclosure in the CG Report, its effectiveness could be improved through the below measures:                             <ul style="list-style-type: none"> <li>➢ <b>Setting out points to be included in each disclosure item</b> (to spread awareness of what contents are expected)</li> <li>➢ <b>Requesting listed parent companies to cooperate with disclosure efforts at their listed subsidiaries</b></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><b>First, on a request basis, the scope of disclosure could be extended to those with other associated/affiliated company relationships</b> (20% ownership or 15% ownership + substantial influence)</li> </ul>

- After today's study group, TSE will promptly **publish a revised version of the Corporate Governance Reporting**, along with **example disclosures**, that reflect today's discussion

⇒ Thereafter, **TSE will continue to follow up on the status of disclosure and update the example disclosures in order to promote and deepen disclosure**

- We will continue to consider how listed companies should be responsible for protecting minority shareholders, including the responsibility for listed parent companies to cooperate with disclosure efforts at listed subsidiaries.
- With respect to the disclosure of governance-related agreements, amendments to the Cabinet Office Ordinance on Disclosure of Corporate Information, etc. regarding material agreements in Annual Securities Reports are currently being considered. TSE will consider this matter in accordance with this amendment.

## Disclosure regarding companies with controlling shareholders (general)

- **There is a need for more proactive disclosure than that by companies without controlling shareholders, given the possibility that parent-subsidiary listing(s) may create conflicts of interest.**
- **The information currently being disclosed by listed parent companies is targeted not to shareholders of their subsidiaries, but to the investors and shareholders of their own company.** If TSE start to directly require parent companies to disclose information toward the general shareholders of its subsidiaries, there will need to be some logic behind it, and listed parent companies will need to make clear which information is disclosed to general shareholders of its subsidiaries and which information is disclosed to their own shareholders.
- **The content to be disclosed is to some extent determined from the perspective of what matters are important to minority shareholders of subsidiaries and what matters are important to shareholders of parent companies.**
- TSE's self-regulation could clearly state that even though the management of the listed subsidiaries is bound by the policies of the corporate group, **parent companies must cooperate so that the listed subsidiaries make disclosures (especially regarding agreements between subsidiaries and parent companies) for the general investors who have invested in them.**

## Disclosure of governance-related agreements

- **The issue of governance-related contracts should be considered as a different type of disclosure item from the group management approach and policies that have been disclosed so far.**
- This is non-financial information, **so if disclosure of non-financial information in statutory securities reports progresses, this should naturally be the premise of the discussion here. We need to sort out whether disclosure should be made, for instance, promptly after annual general meetings and as needed, or once a year.**
- TSE's self-regulations differ from statutes in the way the confidentiality obligations in contracts between listed companies and its shareholders can be waived. **In that sense, we need to fundamentally sort out what is the relationship between what we are trying to do this time and what is done under statutes.**

- The level of influence of the quasi-controlling shareholder should not be an issue, as long as companies are only required to disclose the details of agreements with the quasi-controlling shareholder if agreements have been entered into, or the fact that no such agreements have been entered into. **Investigations into the existence of agreements will not incur significant costs, so the scope of disclosure could be extended to all shareholders.** However, if this is not the case, one idea would be to set a threshold of shareholding ratio of, say, 20%.
- It appears that contracts exist extensively regardless of the percentage of the shareholding, and that the percentage of companies which have contracts is numerically the same between companies in which major shareholders own less than 20% and companies in which major shareholders own 40% or more. **According to the discussions of the Working Group on Corporate Disclosure, the percentage of holdings is irrelevant when disclosing information in annual securities reports, so if TSE puts emphasis on the percentage of holdings, the scope of disclosure rules will be narrowed.**
- When there is a significant conflict of interest with general shareholders of a subsidiary, **a possibility arises that the direction of group management decided by the parent company will be opposed or resisted by the subsidiary or the subsidiary's general shareholders, and that it will be impossible to properly make decisions. The parent company should methodically disclose this as a risk to the parent company's shareholders.**
- TSE should **make disclosure of material agreements a requirement rather than a request.**
- Items (1) to (9) of TSE's survey are all very important items. If there is an agreement with the parent company or shareholders regarding each item, it would be good to disclose the details of that agreement, **and if there is no agreement, it would be good to disclose that there is no agreement.**
- **Disclosure of agreements on restriction of the ownership and sale of shares is absolutely crucial**, in addition to issues directly related to governance such as the nomination of candidates for the board. **This is because such agreements may have a direct impact on investment decisions on whether to even buy the company's shares in the first place.**
- **Given that actual disclosure examples vary widely, disclosure of the contract itself is the best way forward.**
- Since a company's interests may be harmed by disclosure of the full text of the agreements, **if the statutory disclosure only requires disclosure of a summary, it would be unbalanced if the self-regulation requires disclosure of the full text.**
- What companies should be properly explaining is how the content of the agreement will be accomplished if, for example, shareholders with less than a 20% holding were to be involved with the election of directors. **Information on what is the ultimate goal of the parent companies or the shareholders should be disclosed.**



# Approach To and Policy On Corporate Group Management

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# Disclosure by Listed Parent Companies (Approach to and policy on corporate group management)

Current status:  
Disclosure of "Approach to and policy on corporate group management" is mandated.

- No extra guidance given on the contents.

	Listed parent company	Listed subsidiary
Approach to and policy on corporate group management	Approach to and policy on corporate group management	(Parent company's) approach to and policy on corporate group management
Position and significance within corporate group	Reasons for having subsidiary remain listed	

Items to be newly indicated as points for inclusion:

**Examples: Reference 1-1 to 1-9**

- Describe **the basic policy on and approach to business portfolio strategy and the group management system** as overall and general description of group management.
- Explain the following details regarding the business portfolio strategy:
  - **Strategic use of wholly owned subsidiaries, listed subsidiaries, equity method affiliates, etc. (e.g., use of listed companies as a transitional group structure)**
  - **Policies and ideas regarding the coordination and allocation of business opportunities and business areas within the group**
- **Policy and approach for reviewing and revising the business portfolio (review process, methods and perspectives for conducting reviews, frequency of conducting reviews) and actual implementation status**

Note: If there are details that are difficult to disclose (e.g., if they are undetermined, or if they would interfere with the company's management), the company is expected to explain to that effect and the reason, or to describe them in a certain degree of abstraction.

(Previous opinions)

- Information disclosure can be enhanced in ways including disclosure regarding **(i) approaches to and policies on how the controlling shareholder or quasi-controlling shareholder operate the listed company's business** and **(ii) (a) agreements on and implementation of coordination and allocation of business opportunities and business fields within the corporate group** and **(b) approaches to and policies on minority shareholder protection** when such coordination and allocation is made.
- **Companies should clearly disclose the strategy of the corporate group. Parent companies, in particular, are strongly requested to do so.**
- **It would be appropriate for parent companies, not subsidiaries, to explain the coordination and allocation of business areas across the entire group.**
- While rules should be made wherever possible, there are quite a few things that are not determined by a company. **The answer "not yet determined" should be accepted.**
- If matters that fall into the concept of "internal control system" under the Companies Act are disclosed in too much detail, internal information will be revealed to hostile companies or to potential counterparts of transactions. **It should be recognized that some internal information is more profitable to keep internal.**

# Disclosure by Listed Parent Companies (Reasons for having subsidiary remain listed)

Current status:  
Disclosure of "Reasons for having subsidiary remain listed" based on the group's approach to and policy on corporate group management is mandated.

- If the company has multiple listed subsidiaries, disclosure for each separately.
- Reasons from the perspective of maximizing corporate value as a group

	Listed parent company	Listed subsidiary
Approach to and policy on corporate group management	Approach to and policy on corporate group management	(Parent company's) approach to and policy on corporate group management
Position and significance within corporate group	Reasons for having subsidiary remain listed	

Items to be newly indicated as points for inclusion:

**Examples: Reference 1-2 to 1-7, 1-9, 1-10**

- Describe **the significance of each listed subsidiary** in the context of the Group's strategy and policies.
- Explain not only the rationale for having the subsidiary (e.g., business synergies), but also **the rationale for keeping the subsidiary listed** from the following perspectives:
  - What are the **benefits of listing**?
  - What are your thoughts on **the constraints and costs associated with the need to consider structural conflict of interest risks**, and the **outflow of the subsidiary's economic benefits to others**?
  - How do you think **the benefits of listing outweigh the constraints and costs**?
  - **How does listing compare to if the company was a wholly owned subsidiary?**

Note: It is not required to describe the holding policies of individual listed subsidiaries (future sales, conversions to wholly owned subsidiary, etc.).

(Previous opinions)

- There are a relatively large number of explanations about having subsidiaries, but **not so many about why it is necessary to list subsidiaries**. This is a major talking point and issue for discussion.
- Parent companies still explain the meaning of having a subsidiary or the meaning of listing a subsidiary by **emphasizing only the economic synergy aspect. No deep thought is given to structural conflicts of interest with minority shareholders of subsidiaries under their control.**
- **Companies cannot answer about the holding policy of individual listed subsidiaries, barring established facts, considering the impact on the market.**

Current status:  
 Disclosure of "Parent company's approach to and policy on corporate group management" is encouraged.  
 ➤ No extra guidance given on the contents.

	Listed parent company	Listed subsidiary
Approach to and policy on corporate group management	Approach to and policy on corporate group management	(Parent company's) approach to and policy on corporate group management
Position and significance within corporate group	Reasons for having subsidiary remain listed	

Items to be newly indicated as points for inclusion:

**Examples: Reference 1-11 to 1-16**

- Description of the parent's approach and policies to group management that have a significant impact on the entity.
  - **Position of the entity in the parent's group management strategy**
  - **Current status and future prospects for separation of operations**

(Previous opinions)

- Information disclosure can be enhanced in ways including disclosure regarding **(i) agreements on and implementation of coordination and allocation of business opportunities and business fields within the corporate group** and **(ii) approaches to and policies on minority shareholder protection** when such coordination and allocation is made.
- **Listed subsidiaries should disclose details of the coordination and allocation of business areas across the entire group to the extent that it relates to them.**

# Policy and Measures for Ensuring Independence and Protecting Minority Shareholders

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### Current status:

Disclosure of "Measures to ensure the effectiveness of the listed subsidiary's governance framework" is mandated.

- Including (1) policy regarding the parent company's involvement in the establishment and operation of the listed subsidiary's governance framework, and (2) measures to ensure the independence of the listed subsidiary that are necessary from the perspective of protecting minority shareholders

	listed parent company	listed subsidiary
Policy and measures for ensuring independence and protecting minority shareholders	Measures to ensure the effectiveness of the listed subsidiary's governance framework	Policy and measures to ensure independence from parent company Guidelines on measures to protect interests of minority shareholders when executing transactions, etc. with controlling shareholder

Note: Given that listed parent companies are required to give due consideration to ensuring listed subsidiaries' independence, this requests an explanation to all investors, including the company's own shareholders, of how this is done.

### Items to be newly indicated as points for inclusion:

**Examples: Reference 2-1 to 2-5**

- With respect to the parent company's involvement in the establishment and operation of governance frameworks at listed subsidiaries, describe the parent company's **views and policies with respect to voting on the election and removal of independent officers at listed subsidiaries and whether the parent company is involved in the nomination process for independent officers at listed subsidiaries.**
  - In particular, if the listed subsidiary has a **nomination committee** (statutory or voluntary), **explain on that basis**

### (Previous opinions)

- There is a problem with the way nomination committees at listed subsidiaries are being used. **Establishing a nomination committee appears that the company is giving consideration to governance, but there are considerable differences among companies in terms of the actual situation. The role that can be expected of nomination committee is very different from that of a normal company when a parent company or controlling shareholder controls most of the voting rights at general meetings of shareholders.**
- In cases where a listed subsidiary has a nomination committee, **it is not such a simple choice between whether the parent company makes the decision or whether the parent company is not involved because the decision is made by the subsidiary's independent directors. Not allowing the parent company to be involved is an excessive restriction from the perspective of whether the minority shareholders of the subsidiary are being harmed.**

## Policy and measures to ensure independence from the parent company

Current status:

Disclosure of "Policy and measures to ensure independence from parent company" is mandated.

- No extra guidance given on the contents.

	listed parent company	listed subsidiary
Policy and measures for ensuring independence and protecting minority shareholders	Measures to ensure the effectiveness of the listed subsidiary's governance framework	Policy and measures to ensure independence from parent company Guidelines on measures to protect interests of minority shareholders when executing transactions, etc. with controlling shareholder

## Guidelines on measures to protect interests of minority shareholders when executing transactions, etc. with controlling shareholder

Current status:

Disclosure of "Guidelines on measures to protect interests of minority shareholders when executing transactions, etc. with controlling shareholder" is mandated.

- Specific disclosure of policies for establishing internal systems, internal decision-making procedures, use of external organizations, and conclusion of contracts (e.g., those that stipulate that the terms and conditions of transactions will be the same as those for arm's length transactions), etc.
- In accordance with Supplementary Principle 4.8.3 of the Code, if the company appoints at least one-third (a majority in the case of Prime-listed companies) independent directors who are independent from controlling shareholders, or if the company establishes a special committee composed of independent persons including independent directors, the company is encouraged to state so.

Items to be newly indicated as points for inclusion:

**Examples: Reference 2-6 to 2-9**

- **If a special committee is established, describe the composition of the committee members, specific items to be discussed, its authority and roles, how its composition ensures independence, whether it is permanent or non-permanent, and details of its activities (frequency of meetings, main items discussed, attendance of individual committee members, etc.).**

(Previous opinions)

- From the perspective of ensuring effectiveness of special committees, **it could be good to require disclosure of details of their activities as a minimum.**
- With respect to special committees, a more balanced approach that requires listed subsidiaries to consider which transactions are important to the interests of listed subsidiaries and minority shareholders and **to disclose the situations in which the special committee plays an important role** would be more conducive to protecting the interests of minority shareholders.
- It is necessary for companies that are responding to the Supplementary Principle 4-8-3 of the Corporate Governance Code by establishing special committees **to disclose the content of special committee meetings, such as what topics are discussed and details on the meetings being held.**
- **It is extremely important to ensure transparency regarding what matters were discussed at special committee meetings.**

# **Extension of Disclosure Rules to Other Associated Companies/Affiliated Companies**





# Extension of Disclosure Rules to Other Associated Companies/Affiliated Companies

- **The scope of disclosure could be extended to companies with other associated/affiliated company relationships (20% ownership or 15% ownership + substantial influence)**

- Generally, this covers cases where the company is under group management, and there is a possibility that significant influence is being exercised through the ratio of voting rights exercised, shareholder composition, or contracts signed, etc.
- The number of listed companies with major shareholders (companies) holding 20% or more is on the rise.

Note: In the listing examination at TSE, if a newly listing company has other associated companies, it is considered to have potential conflicts of interest, and the examination looks at how they ensure independence.

- **The first step will be disclosure on a request basis.**

- This will be a request for **disclosure of items and details similar to those for listed parent companies and listed subsidiaries**, while taking into account individual circumstances such as the status of group management and the strength of its influence.

- If there are items the company considers unnecessary, they should state to this effect and the reasons for it.
  - ✓ In particular, if a company believes that its situation does not allow the exercise of significant influence, **an explanation to that effect and the reasons for it** is highly useful to minority shareholders.

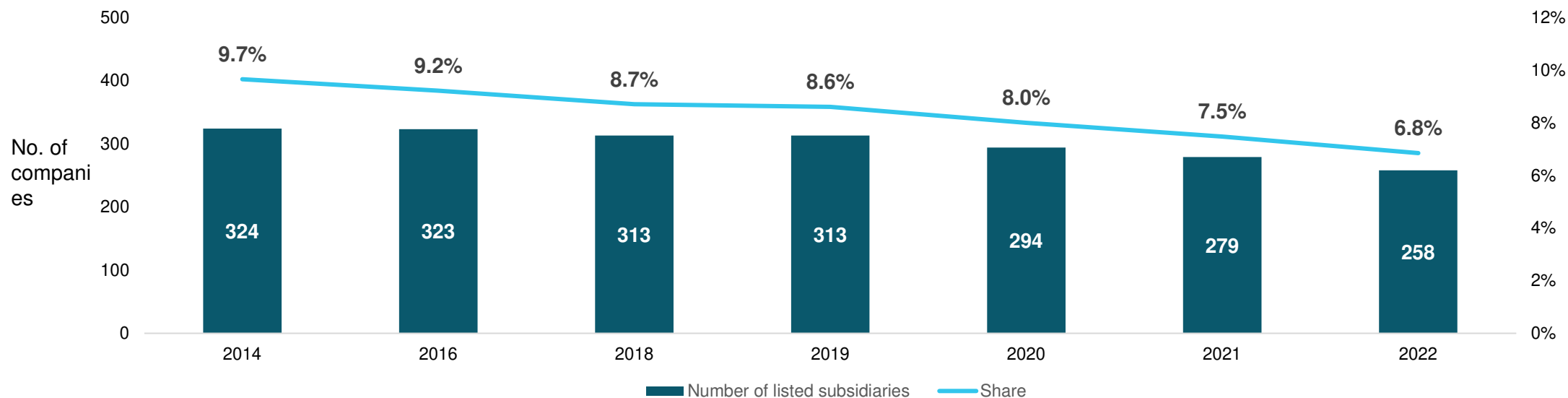
Before	Listed companies with listed affiliated companies	Listed companies with other associated companies	After	Listed companies with listed affiliated companies	Listed companies with other associated companies
Approach to and policy on corporate group management	—	—	Approach to and policy on corporate group management	Approach to and policy on corporate group management	(Other associated company's) approach to and policy on corporate group management
Position and significance within corporate group	—		Position and significance within corporate group	Reasons for having affiliated company remain listed	
Policy and measures for ensuring independence and protecting minority shareholders	—	—	Policy and measures for ensuring independence and protecting minority shareholders	Measures to ensure the effectiveness of the listed affiliated company's governance framework	Policy and measures to ensure independence from other associated company Guidelines on measures to protect interests of minority shareholders when executing transactions, etc. with other associated company



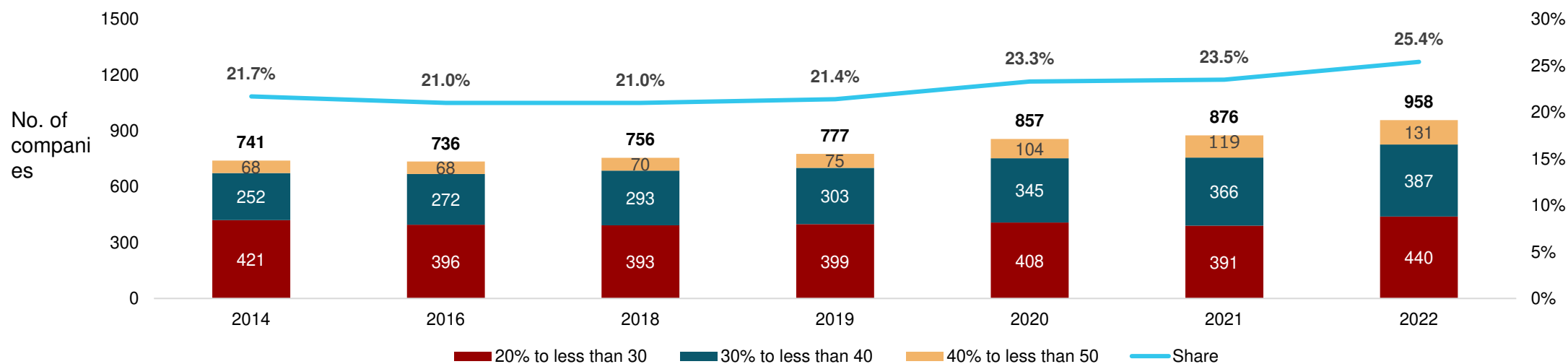
# (Reference) Trends in Listed Subsidiaries, etc.

- The share of listed subsidiaries has declined moderately. On the other hand, the number and share of listed companies with major shareholders (excluding non-corporate shareholders) holding 20% or more of their shares is gradually increasing.

## Number of listed subsidiaries



## Number of listed companies with major shareholders (excluding non-corporate shareholders)



# **Disclosure by Listed Companies with an Unlisted Parent Company or a Non-Corporate Controlling Shareholder**



# Disclosure by Listed Companies with an Unlisted Parent Company or Non-Corporate Controlling Shareholder

- The current disclosure framework is the same as for listed subsidiaries, and the points for disclosure by listed subsidiaries (as discussed in this study group) are considered to apply in the same way.

	(Listed parent company)		(Unlisted parent company)		(Non-corporate CS)			
	Listed parent company	Listed subsidiary	Unlisted parent company	Listed company with unlisted parent company	Non-corporate controlling shareholder	Listed company with non-corporate controlling shareholder		
Approach to and policy on corporate group management	Approach to and policy on corporate group management	(Parent company's) approach to and policy on corporate group management	No disclosure requirement under listing rules	(Parent company's) approach to and policy on corporate group management *	No disclosure requirement under listing rules	—		
Position and significance within corporate group	Reasons for having subsidiary remain listed						Policy and measures to ensure independence from parent company	Policy and measures to ensure independence from parent company
Policy and measures for ensuring independence and protecting minority shareholders	Measures to ensure effectiveness of the listed subsidiary's governance framework						Guidelines on measures to protect interests of minority shareholders when executing transactions, etc. with controlling shareholder	Guidelines on measures to protect interests of minority shareholders when executing transactions, etc. with controlling shareholder
Disclosure for all								

\*However, depending on the shareholder situation, there could be some differences to listed subsidiaries (for example, if the non-listed parent company, such as an asset management company, is a **non-operating company and does not conduct group management, an explanation to that effect** is requested).

Note: As in the case of having other affiliated companies that are listed (page 16 of this document), if a company has **other affiliated companies that are unlisted or a non-corporate shareholder owning 20% or more, it will also be subject to information disclosure on a request basis.**

(Previous opinions)

- In principle, disclosure in this case is the same as when a company has a listed parent company, but there are some points where the principle cannot be followed.
- The listing rules do not apply to non-listed parent companies and non-corporate controlling shareholders. **Information relating to such controlling shareholders will unavoidably have to be disclosed through listed companies.**
- The discussion may be complicated, but when it comes to **non-listed parent companies and individuals, the situation can vary, so there needs to be careful consideration of separate cases.**