



Tokyo Stock Exchange Reorganization: What Listed Companies and Investors Need to Know

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On April 4, 2022, the Tokyo Stock Exchange (TSE) reorganized its five segments into three markets: the Prime Market for global companies, Standard Market for medium-sized companies, and Growth Market for emerging companies. The reorganization aims to make the markets more attractive for investors and encourage listed companies to improve their mid- to long-term corporate value. Our prior briefing on the [“Key Points Concerning the Revision to Japan’s Corporate Governance Code”](#) outlined the 2021 revision of the TSE rules that preceded the reorganization. This post covers the notable changes brought by this reorganization and the schedule of upcoming events.

notable changes in tSe reorganiZation^[1]

1. Strict listing criteria

The TSE has changed the criteria for listed companies to continue to be listed on their selected markets. Listed companies are subject to an annual listing assessment based on the new criteria. In the old markets, the delisting criteria were lower than the initial listing criteria, and the criteria for transfers from other markets to the top market were less strict than the criteria for initial listing on the top market. The TSE’s analysis suggested that this system did not motivate listed companies to continuously develop their corporate value. Therefore, the new markets have adopted nearly identical criteria for initial listing, delisting, and transfers to higher markets. For example, companies must meet the following strict criteria to be newly listed or continue to be listed on the new markets:

- Prime Market: market capitalization of tradable shares is at least 10 billion yen, and a tradable-share ratio is at least 35%.
- Standard Market: market capitalization of tradable shares is at least 1 billion yen, and a tradable-share ratio is at least 25%.
- Growth Market: market capitalization of tradable shares is at least 500 million yen, and a tradable-share ratio is at least 25%.

Despite these changes, however, as part of the transition to the new system, listed companies transferring from the corresponding old markets can apply for relaxed listing criteria if they fail to meet the criteria to continue to be listed. This exception is a transitional measure instituted to reduce the burden associated with market changes for listed companies. The TSE intends to continue this transitional measure for the time being and has not yet set an expiration date for it.

As of April 4, 2022, of the 3,771 TSE-listed companies, 1,839 selected the Prime Market, 1,466 selected the Standard Market, and 466 selected the Growth Market, with the transitional measure applied to 16% of the Prime Market, 14% of the Standard Market, and 10% of the Growth Market.

2. Redefinition of tradable shares

Under the new listing standard, shares owned by Japanese commercial banks, insurance companies, or business corporations do not constitute tradable shares even if their ownership is less than 10%. Shares owned by special interested parties other than directors and officers similarly are not considered tradable shares. This revision aims to improve the liquidity of listed companies' shares.

3. Revision of TOPIX

The TSE will calculate the Tokyo Stock Price Index (TOPIX)—a leading benchmark for the Japanese markets—independently of market segments. The TOPIX will gradually reduce the weight of companies with a market capitalization of less than 10 billion yen beginning October 2022 and will eventually remove those companies from the TOPIX in January 2025. The TSE expects that this revision will improve the significance of the TOPIX.

4. Revised Corporate Governance Code

Listed companies must comply with the revised Corporate Governance Code (CGC)—a set of corporate governance guidelines for TSE-listed companies—or explain why they are not in compliance. For an overview of the revision to the CGC in June 2021, please see our prior briefing, [“Key Points Concerning the Revision to Japan’s Corporate Governance Code.”](#)

upcoming Schedule

1. Assessment for continued listing^[2]

As discussed above regarding the new strict listing criteria, the TSE will assess all listed companies for criteria to continue to be listed annually at the end of each company's fiscal year. Listed companies that fail to meet the continued listing criteria can continue to be listed on their market under the transitional measure by disclosing a plan for compliance with continued listing criteria. The TSE has not yet set the expiration date of the transitional measure.

2. Disclosure of compliance progress

Listed companies under the transitional measure must disclose their progress in complying with the listing criteria within three months after the end of each company's fiscal year. However, given the high interest of investors in compliance progress, the TSE recommends that companies disclose their compliance progress as of March 31, 2022, by the end of June 2022.

3. TOPIX reassessment

The TOPIX reassessments explained above are scheduled three times: the first one was in July 2021, the second will be in October 2022, and the third will be in October 2023. Any company with a market capitalization of tradable shares assessed to be 10 billion yen or more in the first revision round will not be subject to the second and third revision rounds.

4. Corporate Governance report

Companies listed on the Prime Market must submit a corporate governance report after their annual shareholders' meeting. For further details, please see our prior briefing, "[Key Points Concerning the Revision to Japan's Corporate Governance Code](#)."

conclusion

This restructuring has streamlined the TSE markets and will encourage listed companies to sustainably increase their corporate value. Listed companies and investors are expected to promote mutual dialogue and further develop the Japanese markets considering these major reforms. In addition, listed companies must keep in mind the schedule of key events described above and respond appropriately.

This article was co-authored by Toru Aoyagi, former advisor in Winston & Strawn's New York office.

▣ The details of each point are available in English on the TSE webpages below:

- Listing criteria: <https://www.jpx.co.jp/english/equities/listing/index.html>
- Tradable shares: <https://www.jpx.co.jp/english/equities/listing/continue/details/02.html>
- Revision of TOPIX: <https://www.jpx.co.jp/english/equities/market-restructure/revisions-indices/index.html>

▣ The details of assessment for continued listing are available in English at <https://www.jpx.co.jp/english/equities/listing/continue/details/01.html>.

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