Coffee-break Column - Reform of the Tokyo Stock Exchange Growth Market: Towards a More Attractive Market

Written by Hiroyuki Ueno, Chief Strategist

The TSE has embarked on reforms of its Growth Market

On 22nd April, the "Council of Experts Concerning the Follow-up of Market Restructuring" of the Tokyo Stock Exchange (TSE) held a meeting to discuss ways to help companies listed on the Growth Market achieve sustained high growth. The TSE has previously requested companies listed on the Prime and Standard Markets to take "action to implement management that is conscious of the cost of capital and stock price." The aim of this initiative is to revitalise the Growth Market. In the market restructuring which took place in April 2022, the TSE positioned the Growth Market oriented to companies with high growth potential. However, in reality, the Growth Market today is dominated by stocks with low market capitalisation due to falling stock prices post-listing.

Prime	Standard	Growth
The market oriented to companies which centre their business on constructive dialogue with global investors	The market oriented to companies with sufficient liquidity and governance levels to be investment instruments	The market oriented to companies with high growth potential

Source: Japan Exchange Group

The key points of the improvement measures are as follows:

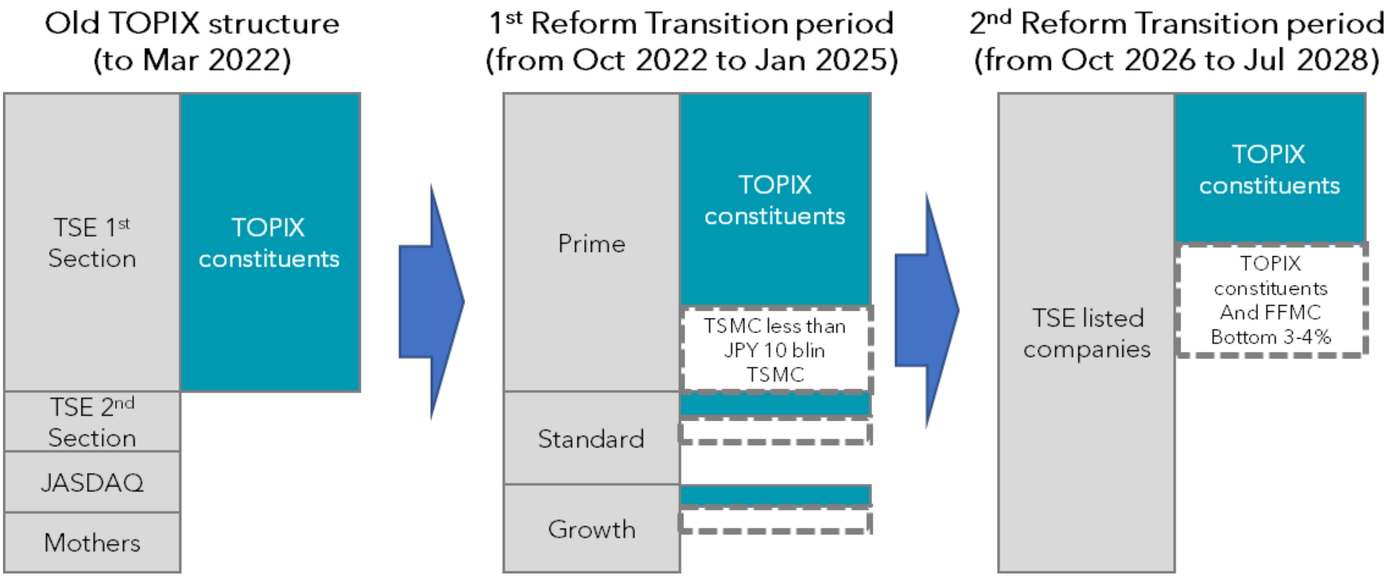
The first point is to encourage "Management That Strives for High Growth." There are concerns that start-up companies, after going public, fail to increase their corporate value and treat listing as the ultimate goal, a phenomenon known as the "listing goal" problem. To address this issue, companies will be required to analyse their post-listing growth performance and disclose specific factors and countermeasures if they are not achieving the expected growth. Furthermore, since these disclosures are required to be made at least once a year on an ongoing basis, this is expected to place significant pressure on companies whose post-listing performance is unsatisfactory.

The second point is the revision of the continued listing criteria. The current criteria, which require a market capitalisation of at least 4 billion yen after 10 years of listing, will be significantly raised to a market capitalisation of at least 10 billion yen after five years of listing. Listed companies are expected to place greater emphasis on their stock price (market capitalisation) along with M&A activity. Additionally, the 10-billion-yen market capitalisation threshold is intended to ensure that companies remain attractive investments for institutional investors who can engage with companies and offer suggestions to management and exert influence through the exercise of voting rights in response to poor management. By setting such strict criteria, the TSE aims to raise the overall level of the Growth Market.

With stricter conditions, there is the possibility that the number of IPOs will decrease in the short run due to a wait-and-see attitude. On the other hand, as investor sentiment towards the Growth Market improves, funding opportunities are expected to increase, leading to a higher number of start-ups aiming to list on the Growth Market over the medium term.

Overall Japanese stock market to be more active

The TSE's measures aimed at improving the Growth Market are expected to contribute to the revitalisation of the Japanese stock market as a whole, particularly for small and mid-sized companies. There are many companies listed on the Prime and Standard Markets whose earnings and share prices have stagnated after going public. With the qualitative improvement of the Growth Market, these companies are likely to face increased pressure and disclosure requirements on their growth potential and will lead to frequent engagement with institutional investors. Looking ahead, all TSE-listed stocks will be subject to review for inclusion in the next-generation TOPIX slated to take place in 2028. Competition to enhance corporate value is expected to intensify as companies aim for inclusion in the new indices, regardless of market division.



Source: Japan Exchange Group

It is not only the TSE that is working to promote emerging companies. The government is also relaxing regulations on trading of unlisted shares to foster start-ups. In line with this policy, the Investment Trust Association revised its rules in February 2024 to allow public investment trusts to include a portion in unlisted shares. If the barriers between unlisted and listed markets are removed and the growth of emerging companies is promoted, this would not only enhance the appeal of the growth market but also contribute to the overall attractiveness of Japan's stock market. Going forward, we will continue to closely monitor the collaborative efforts of the government, financial authorities and industry associations to promote the development of the stock market.

Major Measures for emerging companies

- **The Investment Trusts Association**
  - Launching crossover funds as an option to invest in unlisted equities
- **Japan Securities Dealers Association**
  - Revising the IPO offering price setting process
- **Tokyo Stock Exchange**
  - Disclosing business plans during the IPO stage, detailing a roadmap for achieving high growth
  - Including Growth Market-listed stocks as potential candidates for inclusion in TOPIX
  - Tightening the listing criteria for the Growth Market from JPY 4 billion in market capitalisation

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Hiroyuki Ueno is Chief Strategist at Sumitomo Mitsui Trust Asset Management Co., Ltd., (SuMi TRUST AM).

Hiroyuki began his SuMi TRUST career at Sumitomo Trust and Banking Co., Ltd. in 2002. With over 20 years of experience in the investment industry, he is well-versed in the asset management business and has cultivated a strong network within the industry, as well as with financial authorities.

Hiroyuki's primary focus is macroeconomic and financial market analysis. His insight is based on his own analysis combined with information collected from his broad network, and is widely acclaimed.

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