



**Japan Exchange Group, Inc. and its subsidiaries
Consolidated Financial Statements under IFRS
and Independent Auditor's Report**

For the year ended March 31, 2015

Japan Exchange Group, Inc.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Japan Exchange Group, Inc.:

We have audited the accompanying consolidated statement of financial position of Japan Exchange Group, Inc. and its subsidiaries as of March 31, 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the fiscal year from April 1, 2014 to March 31, 2015, and notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Japan Exchange Group, Inc. and its subsidiaries as of March 31, 2015, and the consolidated results of their operations and their cash flows for the fiscal year then ended in accordance with International Financial Reporting Standards.

Deloitte Touche Tohmatsu LLC

June 9, 2015

Consolidated Financial Statements

Consolidated Statement of Financial Position

		Date of transition to IFRS As of April 1, 2013	As of March 31, 2014	As of March 31, 2015
	Notes	Millions of yen	Millions of yen	Millions of yen
Assets				
Current assets				
Cash and cash equivalents	8, 24	29,308	50,713	60,114
Trade and other receivables	9, 24	11,188	9,080	10,300
Clearing business financial assets	24	587,508	16,049,798	25,635,085
Specified assets for deposits from clearing participants	10, 24	961,304	1,128,362	1,795,095
Specified assets for legal guarantee funds	10, 24	600	522	492
Income tax receivables		359	1,411	4,693
Other financial assets	11, 24	91,501	53,903	42,869
Other current assets		1,538	1,282	1,844
Total current assets		1,683,308	17,295,075	27,550,495
Non-current assets				
Property and equipment	12	8,673	7,066	8,573
Goodwill	13	67,374	67,374	67,374
Intangible assets	13	23,370	23,878	27,631
Retirement benefit assets	14	1,728	3,730	5,424
Investments accounted for using the equity method	15	8,318	6,443	6,806
Specified assets for default compensation reserve funds	10, 24	27,948	27,948	27,948
Other financial assets	11, 24	34,166	32,968	39,682
Other non-current assets		5,868	5,693	5,605
Deferred tax assets	16	9,243	9,767	7,230
Total non-current assets		186,691	184,871	196,276
Total assets		1,870,000	17,479,946	27,746,771

	Notes	Date of transition to IFRS As of April 1, 2013	As of March 31, 2014	As of March 31, 2015
		Millions of yen	Millions of yen	Millions of yen
Liabilities and equity				
Liabilities				
Current liabilities				
Trade and other payables	17, 24, 25	4,551	5,431	4,712
Loans payable	18, 24, 25	105,069	32,500	32,500
Clearing business financial liabilities	24, 25	587,508	16,049,798	25,635,085
Deposits from clearing participants	10, 24, 25	961,304	1,128,362	1,795,095
Legal guarantee funds	10, 24, 25	600	522	492
Trading participant security money	10, 24, 25	3,169	4,783	7,437
Income tax payables		6,312	17,600	7,852
Other current liabilities		3,992	5,506	5,626
Total current liabilities		1,672,509	17,244,506	27,488,802
Non-current liabilities				
Loans payable	18, 24, 25	–	10,000	–
Retirement benefit liabilities	14	6,888	6,717	7,039
Other non-current liabilities		922	983	2,488
Deferred tax liabilities	16	5,193	4,961	6,875
Total non-current liabilities		13,004	22,662	16,403
Total liabilities		1,685,514	17,267,169	27,505,206
Equity				
Share capital	19	11,500	11,500	11,500
Capital surplus	19	59,726	59,726	59,726
Treasury shares	19	–	(5)	(5)
Other components of equity	19	9,732	9,225	14,828
Retained earnings	10, 19	100,978	126,655	149,562
Total equity attributable to owners of the parent company	25	181,937	207,101	235,611
Non-controlling interests		2,548	5,675	5,954
Total equity		184,485	212,777	241,565
Total liabilities and equity		1,870,000	17,479,946	27,746,771

Consolidated Statement of Income

		Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
	Notes	Millions of yen	Millions of yen
Revenue			
Operating revenue	20	113,846	106,167
Other revenue		206	318
Total revenue		114,052	106,486
Expenses			
Operating expenses	13, 14, 21, 28	59,244	52,863
Other expenses	12, 13	1,520	610
Total expenses		60,764	53,473
Share of income of investments accounted for using the equity method	15	55	516
Operating income		53,343	53,529
Financial income	22	1,524	1,400
Financial expenses	22	81	41
Income before income tax		54,786	54,887
Income tax expense	16	21,244	20,171
Net income		33,541	34,716
Net income attributable to			
Owners of the parent company		33,304	34,427
Non-controlling interests		236	288
Net income		33,541	34,716
Earnings per share			
Basic (Yen)	23	121.31	125.41
Diluted (Yen)	23	-	-

Consolidated Statement of Comprehensive Income

		Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
	Notes	Millions of yen	Millions of yen
Net income		33,541	34,716
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	24	(506)	5,631
Remeasurements of defined benefit plan	14	1,157	803
Share of other comprehensive income of investments accounted for using the equity method	15	0	(0)
Other comprehensive income, net of tax	26	650	6,435
Comprehensive income		34,191	41,152
Comprehensive income attributable to			
Owners of the parent company		33,954	40,863
Non-controlling interests		236	288
Comprehensive income		34,191	41,152

Consolidated Statement of Changes in Equity

		Equity attributable to owners of the parent company				
		Share capital	Capital surplus	Treasury shares	Other components of equity	
					Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plan
	Notes	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance as of April 1, 2013		11,500	59,726	–	9,732	–
Net income		–	–	–	–	–
Other comprehensive income, net of tax		–	–	–	(506)	1,157
Total comprehensive income		–	–	–	(506)	1,157
Acquisitions of treasury shares	19	–	–	(5)	–	–
Dividends paid	27	–	–	–	–	–
Changes of interests in subsidiaries without losing control		–	–	–	–	–
Transfer from other components of equity to retained earnings		–	–	–	–	(1,157)
Total transactions with the owners		–	–	(5)	–	(1,157)
Balance as of March 31, 2014		11,500	59,726	(5)	9,225	–
Net income		–	–	–	–	–
Other comprehensive income, net of tax		–	–	–	5,631	803
Total comprehensive income		–	–	–	5,631	803
Dividends paid	27	–	–	–	–	–
Transfer from other components of equity to retained earnings		–	–	–	(29)	(803)
Total transactions with the owners		–	–	–	(29)	(803)
Balance as of March 31, 2015		11,500	59,726	(5)	14,828	–

		Equity attributable to owners of the parent company			Non- controlling interests	Total equity
		Other components of equity	Retained earnings	Total		
		Total				
Notes		Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
	Balance as of April 1, 2013	9,732	100,978	181,937	2,548	184,485
	Net income	–	33,304	33,304	236	33,541
	Other comprehensive income, net of tax	650	–	650	–	650
	Total comprehensive income	650	33,304	33,954	236	34,191
	Acquisitions of treasury shares	19	–	(5)	–	(5)
	Dividends paid	27	(8,785)	(8,785)	(2)	(8,787)
	Changes of interests in subsidiaries without losing control	–	–	–	2,892	2,892
	Transfer from other components of equity to retained earnings	(1,157)	1,157	–	–	–
	Total transactions with the owners	(1,157)	(7,627)	(8,790)	2,890	(5,899)
	Balance as of March 31, 2014	9,225	126,655	207,101	5,675	212,777
	Net income	–	34,427	34,427	288	34,716
	Other comprehensive income, net of tax	6,435	–	6,435	–	6,435
	Total comprehensive income	6,435	34,427	40,863	288	41,152
	Dividends paid	27	(12,353)	(12,353)	(10)	(12,364)
	Transfer from other components of equity to retained earnings	(832)	832	–	–	–
	Total transactions with the owners	(832)	(11,521)	(12,353)	(10)	(12,364)
	Balance as of March 31, 2015	14,828	149,562	235,611	5,954	241,565

Consolidated Statement of Cash Flows

	Notes	Fiscal year ended	Fiscal year ended
		March 31, 2014	March 31, 2015
		Millions of yen	Millions of yen
Cash flows from operating activities			
Income before income tax		54,786	54,887
Depreciation and amortization		13,792	11,365
Impairment losses (or reversal of impairment losses)		1,203	301
Financial income		(1,524)	(1,400)
Financial expenses		81	41
Share of income of investments accounted for using the equity method		(55)	(516)
(Increase) decrease in trade and other receivables		2,224	(1,219)
Increase (decrease) in trade and other payables		(297)	(327)
(Increase) decrease in retirement benefit assets		(2,002)	(1,694)
Increase (decrease) in retirement benefit liabilities		(170)	321
Other		4,504	5,080
Subtotal		72,544	66,840
Interest and dividends received		1,802	1,563
Interest paid		(82)	(42)
Income taxes paid		(11,542)	(31,015)
Cash flows generated from operating activities		62,722	37,346
Cash flows from investing activities			
Payments into time deposits		(65,700)	(65,100)
Proceeds from withdrawal of time deposits		104,100	76,100
Purchase of property and equipment		(1,808)	(3,623)
Purchase of intangible assets		(9,825)	(13,232)
Net cash increase from acquisition of subsidiaries	7	3,592	–
Other		(322)	292
Cash flows generated from (used in) investing activities		30,035	(5,563)
Cash flows from financing activities			
Proceeds from loans payable		42,500	–
Repayments of loans payable		(105,069)	(10,000)
Dividends paid		(8,785)	(12,353)
Other		(7)	(10)
Cash flows used in financing activities		(71,362)	(22,364)
Net increase (decrease) in cash and cash equivalents		21,395	9,418
Cash and cash equivalents at the beginning of the year		29,308	50,713
Effect of changes in exchange rate on cash and cash equivalents		8	(17)
Cash and cash equivalents at the end of the year	8	50,713	60,114

Notes to Consolidated Financial Statements

1. Reporting Entity

Japan Exchange Group, Inc. (hereinafter the “Company”) is a stock company based in Japan, and the address of the registered head office is 2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo. The Company’s consolidated financial statements, the reporting date of which is March 31, 2015, are composed of financial statements of the Company and its subsidiaries (hereinafter the “Group”) and the Group’s interests in associates. The Group operates its businesses under regulations of the Financial Instruments and Exchange Act and related laws and regulations, and its major line of business is establishing and operating financial instruments exchange markets and assuming financial instruments obligations.

2. Basis of Preparation

(1) Compliance with IFRS and First-time Adoption

Since the Company satisfies all the requirements prescribed in Article 1-2 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976; hereinafter the “Ordinance on CFS”), the Group’s consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter “IFRS”) pursuant to the provision of Article 93 of the Ordinance on CFS. The Group first adopted IFRS for the fiscal year ended March 31, 2015, and the date of transition to IFRS (hereinafter the “Date of Transition”) is April 1, 2013. The effect of transition to IFRS on the Group’s financial position, operating results, and cash flows as of the Date of Transition and for the fiscal year ended March 31, 2014 is stated in Note “32. First-time Adoption of IFRS.”

(2) Approval of Consolidated Financial Statements

The Group’s consolidated financial statements were approved by Atsushi Saito, Director and Representative Executive Officer, Group CEO, and Moriyuki Iwanaga, Senior Executive Officer & CFO, on June 9, 2015.

(3) Basis of Measurement

As stated in Note “3. Significant Accounting Policies,” the Group’s consolidated financial statements are prepared on the historical cost basis, except for certain financial instruments, etc. measured at fair value.

(4) Functional Currency and Presentation Currency

The Group’s consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company, and amounts less than ¥1 million are rounded down.

(5) Early Adoption of New Accounting Standards

The Group has early adopted IFRS 9 “Financial Instruments” (revised in October 2010) (hereinafter “IFRS 9 (2010)”) from the Date of Transition (April 1, 2013).

IFRS 9 (2010) replaces IAS 39 “Financial Instruments: Recognition and Measurement” (hereinafter “IAS 39”) and provides two measurement categories for financial instruments: amortized cost and fair value. Changes in fair value of financial assets measured at fair value are recognized in profit or loss. However, for investments in equity instruments that are not held for trading, it is allowed to make an irrevocable election to recognize subsequent changes in the fair value of those investments as other comprehensive income at initial recognition.

3. Significant Accounting Policies

(1) Basis of Consolidation

1) Subsidiaries

A subsidiary is an entity that is controlled by the Group. In the determination of whether an entity is a subsidiary, various elements related to assessment of control such as holding of voting rights, composition of members of a governing body including the board of directors and influence over decision making on financial and operating policies are taken into account comprehensively.

All subsidiaries are consolidated from the date on which the Group obtains control until the date on which the Group loses the control.

The balances of receivables from, payables to, and transactions with subsidiaries, and unrealized gains that arise from intragroup transactions are eliminated in the preparation of the consolidated financial statements.

2) Associates

An associate is an entity which is not controlled by the Group but for which the Group has significant influence over the financial and operating policies. If the Group holds 20% or more and 50% or less of an entity's voting power, it is presumed that the Group has significant influence over the entity.

Investments in associates, which are accounted for using the equity method, are measured at cost at the time of acquisition, and subsequently the amount of the investments is changed according to changes in the Group's share of net assets of the associates. In this case, the amount equivalent to the Group's share of net profit or loss of associates is recorded in the consolidated statement of income. The amount equivalent to the Group's share of other comprehensive income of associates is recorded as other comprehensive income in the consolidated statement of comprehensive income.

Profits on significant internal transactions are eliminated in proportion to the share in the associate.

(2) Business Combinations

Business combinations are accounted for using the acquisition method.

Consideration transferred in a business combination is measured as the sum of the acquisition-date fair values of the assets transferred, the liabilities assumed and the equity instruments issued by the Company in exchange for control over an acquiree. On the acquisition date, identifiable assets and liabilities are recognized at fair value as of the acquisition date, except for assets and liabilities to be measured at an amount other than fair value under IFRS 3 "Business Combinations," such as deferred tax assets, deferred tax liabilities and assets and liabilities on employee benefits, which are recognized at the value specified in IFRS 3 "Business Combinations."

For each business combination, the Group chooses whether non-controlling interests are measured at fair value or the proportionate share of identifiable net assets of the acquiree on the acquisition date.

When the total of the consideration transferred and the amount of non-controlling interests in an acquiree exceeds the fair value of identifiable assets and liabilities on the acquisition date, the excess is recognized as goodwill in the consolidated statement of financial position. On the other hand, when the total is lower than the fair value of identifiable assets and liabilities, the difference is immediately recognized as profit in the consolidated statement of income. Acquisition-related costs incurred are accounted for as expenses. In the case of a business combination in which control is achieved in stages, the equity interests in the acquiree previously held by the Group are revalued at fair value as of the acquisition date and any resulting gain or loss is recognized in profit or loss.

(3) Foreign Currency Translation

Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency at the rates of exchange prevailing at the dates of transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of each fiscal year are translated into the functional currency at the rates of exchange prevailing at the end of the fiscal year. Differences arising from the translation are recognized in profit or loss. However, exchange differences arising from the translation of financial assets measured at fair value through other comprehensive income are recognized as other comprehensive income.

(4) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments that are readily convertible to cash and subject to insignificant risk of changes in value and due within three months from the date of acquisition.

(5) Financial Instruments

1) Financial Assets

(i) Initial Recognition and Measurement

The Group recognizes a financial asset when the Group becomes a party to the contractual provisions of the financial instrument.

The Group classifies financial assets as those measured at amortized cost if both of the following conditions are met on the basis of facts and circumstances that existed at initial recognition of the assets. Otherwise, financial assets are classified as those measured at fair value through profit or loss.

- The asset is held within a business model whose objective is to hold the asset in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition, the Group may make an irrevocable designation of recognizing subsequent changes in fair value of investments in equity instruments as other comprehensive income.

All financial assets are initially measured at fair value plus transaction costs that are directly attributable to the financial assets, except for when they are classified as financial assets measured at fair value through profit or loss.

For classifications of financial assets in transition to IFRS, please refer to Note “24. Financial Instruments.”

(ii) Subsequent Measurement

After initial recognition, financial assets are measured based on the following classifications:

(a) Financial Assets Measured at Amortized Cost

Financial assets measured at amortized cost are measured using the effective interest method.

(b) Financial Assets Measured at Fair Value through Profit or Loss

Financial assets measured at fair value through profit or loss are measured at fair value, and changes in the fair value are recognized in profit or loss.

(c) Financial Assets Measured at Fair Value through Other Comprehensive Income

Financial assets measured at fair value through other comprehensive income are measured at fair value, and changes in the fair value are recognized as other comprehensive income. When such a financial asset is derecognized or the decline in its fair value compared to its acquisition cost is significant, the amount recognized in other comprehensive income is transferred directly to retained earnings, not being recognized in profit or loss.

However, dividend income from the financial assets is recognized in profit or loss.

(iii) Derecognition

Financial assets are derecognized when contractual rights to cash flows from the financial assets expire, or when contractual rights to receive cash flows generated from the financial assets are transferred in a transaction where substantially all the risks and rewards of the ownership of those financial assets are transferred.

2) Impairment of Financial Assets Measured at Amortized Cost

In accordance with IAS 39, the Group assesses at the end of each fiscal year whether there is any objective evidence that financial assets measured at amortized cost are impaired. Objective evidence of impairment includes significant financial difficulty of the borrower, a default or delinquency in interest or principal payments, and bankruptcy.

The Group assesses evidence of impairment of financial assets measured at amortized cost for each individual asset as well as collectively for these financial assets. Significant financial assets are assessed for impairment individually. For significant financial assets for which impairment is not necessary on an individual basis, the Group collectively assesses whether there is any evidence of impairment that has occurred but not been identified.

If there is objective evidence that impairment exists, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

When impairment is recognized, the carrying amount of the financial assets measured at amortized cost is reduced through use of an allowance for doubtful account and impairment loss is recognized. The carrying amount of the financial assets measured at amortized cost is directly reduced for impairment when they are expected to become uncollectible in the future and all collateral is realized or transferred to the Group. If, in a subsequent period, the estimated amount of impairment loss changes due to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is adjusted through use of an allowance for doubtful account.

3) Financial Liabilities

(i) Initial Recognition and Measurement

The Group recognizes a financial liability when the Group becomes a party to the contractual provisions of the financial instrument.

As a general rule, financial liabilities are classified as financial liabilities measured at amortized cost. However, derivative liabilities and financial liabilities held for trading are classified as financial liabilities measured at fair value through profit or loss. The classification is determined at initial recognition of financial liabilities.

All financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured at amortized cost are measured at fair value less transaction costs that are directly attributable to the financial liabilities.

(ii) Subsequent Measurement

After initial recognition, financial liabilities are measured based on the following classifications:

(a) Financial Liabilities Measured at Amortized Cost

Financial liabilities measured at amortized cost are measured using the effective interest method.

(b) Financial Liabilities Measured at Fair Value through Profit or Loss

Financial liabilities measured at fair value through profit or loss are measured at fair value, and changes in the fair value are recognized in profit or loss.

(iii) Derecognition

Financial liabilities are derecognized when the contractual obligation is discharged, canceled or expired.

4) Clearing Business Financial Assets and Clearing Business Financial Liabilities

As a financial instruments clearing organization, Japan Securities Clearing Corporation, the Company's subsidiary, presents receivables and payables related to transactions to be cleared as clearing business financial assets and clearing business financial liabilities (hereinafter "clearing business financial assets and liabilities") and provides a settlement guarantee by assuming obligations for the transactions conducted by market participants and acting as a party to the transactions.

For cash equity transactions at financial instruments exchanges, and sales and purchase transactions of Japanese government bonds at over-the-counter markets, clearing business financial assets and liabilities are initially recognized and simultaneously derecognized on the settlement date basis.

Futures transactions are initially recognized as clearing business financial assets and liabilities on the transaction date. Subsequently, those transactions are measured at fair value and their valuation differences are recognized in profit or loss. Since this company receives and pays such profit or loss as net settlements from and to clearing participants on a daily basis, the clearing business financial assets and liabilities are derecognized upon receipt or payment.

Option transactions are initially recognized on the transaction date, while interest rate swap transactions and credit default swap transactions at over-the-counter markets (hereinafter "OTC derivative transactions") are initially recognized on the date when the obligation is assumed. Subsequently, these transactions are measured at fair value and their valuation differences are recognized in profit or loss.

Over-the-counter transactions of Japanese government bonds that are transactions with repurchase or resale agreements and cash-secured bond lending or borrowing transactions (hereinafter "repo transactions") are initially recognized on the commencement date of transactions and subsequently measured at fair value.

Clearing business financial assets and liabilities recognized are offset and presented as a net amount in the consolidated statement of financial position when the company currently holds a legally enforceable right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Because clearing business financial assets and liabilities are recognized at the same amount, profit or loss arising from changes in their fair value is also the same amount. Hence, the profit or loss is eliminated and is not presented in the consolidated statement of income.

(6) Property and Equipment

Property and equipment are measured by using the cost model. After initial recognition, they are stated at cost less accumulated depreciation and accumulated impairment losses.

The acquisition cost includes any costs directly attributable to the acquisition of the asset.

Depreciation of property and equipment is recorded using the straight-line method over their estimated useful lives. The estimated useful lives of major asset items are as follows:

- Buildings: 2 to 50 years
- Information system equipment: 5 years

The estimated useful lives, residual values and depreciation method are reviewed at least at each fiscal year end and when any changes are made, such changes are applied prospectively as changes in accounting estimates.

Property and equipment are derecognized when they are disposed of, or when future economic benefits are no longer expected from their continued use or disposal. A gain or loss arising from derecognition of an item of property and equipment is recognized in profit or loss when the respective asset item is derecognized.

(7) Goodwill and Intangible Assets

1) Goodwill

Measurement of goodwill at initial recognition is described in Note “3. Significant Accounting Policies (2) Business Combinations.” After initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized. It is tested for impairment at the end of each fiscal year or whenever there is any indication of impairment, and impairment losses are recognized, if any. No reversal of impairment losses is made.

2) Intangible Assets

Intangible assets are measured by using the cost model. After initial recognition, intangible assets are measured at cost less accumulated amortization and accumulated impairment losses.

Expenditures in the development phase are recognized as intangible assets when all of the following have been demonstrated: 1) the Group has the ability to measure those expenditures reliably, 2) the technical feasibility of completing the intangible asset, 3) the intent and ability to use or sell the intangible asset, 4) the availability of adequate resources to use or sell the intangible asset, and 5) when there is a high probability that the intangible asset will generate future economic benefits.

Amortization of intangible assets is recorded using the straight-line method over their estimated useful lives. The estimated useful life of software, a major asset item, is five years.

The estimated useful lives, residual values and amortization method are reviewed at least at each fiscal year end and when any changes are made, such changes are applied prospectively as changes in accounting estimates.

(8) Leases

Leases are classified as finance leases whenever substantially all the risks and rewards incidental to ownership are transferred to the Group, and other leases are classified as operating leases.

In finance lease transactions, leased assets and lease liabilities are recognized in the consolidated statement of financial position at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease.

Lease payments are apportioned between the financial expenses and the reduction of the lease liabilities based on the interest method, and the financial expenses are recognized in the consolidated statement of income. Leased assets are depreciated using the straight-line method over either their estimated useful lives or lease terms, whichever is shorter.

In operating lease transactions, lease payments are recognized as an expense on a straight-line basis over the lease terms.

(9) Impairment of Non-financial Assets

The Group assesses at the end of each fiscal year whether there is any indication that an asset may be impaired. If any such indication exists or in cases where an impairment test is required to be performed each fiscal year, the recoverable amount of the asset is estimated. In cases where the recoverable amount cannot be estimated for an individual asset, it is estimated for the cash-generating unit to which the asset belongs. The recoverable amount is determined at the higher of an asset's or cash-generating unit's fair value less costs to sell it or its value in use. If the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, an impairment loss is recognized, and the carrying amount is reduced to its recoverable amount. In determining value in use, estimated future cash flows are discounted to the present value, using pretax discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell of an asset or cash-generating unit, the Group uses an appropriate valuation model supported by available fair value indicators.

The Group assesses at the end of each fiscal year whether there is any indication that an impairment loss recognized in prior years for an asset other than goodwill may have decreased or may no longer exist. If any such indication exists, the recoverable amount of the asset or cash-generating unit is reestimated. In cases where the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, the impairment loss is reversed up to the lower of the recoverable amount determined or the carrying amount (net of depreciation) that would have been determined if no impairment loss had been recognized in prior years.

Information on goodwill is described in Note "13. Goodwill and Intangible Assets (4) Impairment Test for Goodwill."

(10) Employee Retirement Benefits

The Company and some of its subsidiaries have introduced contract-type defined benefit corporate pension plans and lump-sum retirement benefit plans as defined benefit plans, and defined contribution plans.

1) Defined Benefit Plans

For each plan, the Group calculates the present value of defined benefit obligations, and related current service cost and past service cost using the projected unit credit method. A discount rate is determined by reference to the market yields as of the end of the fiscal year, depending on the expected date of benefit payment in each plan, on high-quality corporate bonds.

Net defined benefit liability (asset) is calculated by deducting the fair value of the plan assets (including adjustments for the asset ceiling for defined benefit plan and minimum funding requirements, if necessary) from the present value of the defined benefit obligation. The net amount of interest on the net defined benefit liability (asset) is recognized as operating expenses.

Remeasurements of defined benefit plans are recognized in full as other comprehensive income in the period when they are incurred and transferred to retained earnings immediately. Past service costs are recognized in profit or loss in the period when they are incurred.

Except when the Group has a legally enforceable right to use surplus in defined benefit plans to settle obligations under the other plans, assets and liabilities are not set off between the plans.

2) Defined Contribution Plans

Cost for retirement benefits is recognized as expenses at the time of contribution.

(11) Revenue

Revenue is recognized at fair value of the consideration received or receivable.

The Group is primarily engaged in the financial instruments exchanges business and its revenue consists mainly of revenue related to the rendering of services, such as trading services revenue and clearing services revenue.

For transactions involving the rendering of services, revenue is recognized by reference to the stage of completion of the transaction as of the end of the fiscal year when all the following conditions are met and the outcome of the transaction can be estimated reliably:

- the amount of revenue can be measured reliably;
- it is probable that economic benefits associated with the transaction will flow to the Group;
- the stage of completion of the transaction at the end of the fiscal year can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Dividend income is recognized when the shareholder's right to receive payment is established.

(12) Income Taxes

Income taxes consist of current taxes and deferred taxes and are recognized in profit or loss, except for items arising from business combinations and items that are recognized in other comprehensive income or directly in equity.

Current taxes are the amount expected to be paid or recovered on taxable profit for the current fiscal year, which is calculated using the tax rates that have been enacted or substantively enacted by the end of the fiscal year, with any tax adjustments for prior years.

Deferred taxes are recognized for temporary differences between the carrying amount of assets or liabilities for accounting purposes and the amount of assets or liabilities for tax purposes in accordance with the asset and liability approach. Deferred taxes are not recognized for the following temporary differences arising from:

- the initial recognition of goodwill
- deductible temporary differences arising from investments in subsidiaries and associates to the extent that it is probable that the temporary differences will not reverse in the foreseeable future
- taxable temporary differences arising from investments in subsidiaries and associates to the extent that the timing of the reversal of the temporary differences are controlled and that it is probable that the temporary differences will not reverse in the foreseeable future

Deferred taxes are measured using the tax rates for the fiscal year when the temporary difference is expected to reverse in accordance with the laws that have been enacted or substantively enacted by the end of the fiscal year.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to set off current tax assets against current tax liabilities and income taxes are levied by the same taxation authority on the same taxable entity.

Deferred tax assets are recorded for tax loss carryforwards for tax purposes, refunds by carrying back tax losses and deductible temporary differences to the extent that it is probable that sufficient taxable profits will be available against which they can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

(13) Treasury Shares

Treasury shares are measured at cost and deducted from equity. No gain or loss is recognized on the purchase, sale or cancellation of treasury shares. Any difference between the carrying amount and the consideration paid is recognized in equity.

(14) Contingent Liabilities

The Group discloses contingent liabilities in the notes to the consolidated financial statements if it has possible obligations at the end of the fiscal year but cannot confirm whether they are obligations as of that date, or if the obligations do not meet the recognition criteria of a provision (a present obligation (legal or constructive obligation) is held as a result of past events, it is probable that the settlement of the obligation is required, and the amount of that obligation can be reliably estimated).

4. Significant Accounting Estimates and Judgments Involving Estimations

In preparing consolidated financial statements in accordance with IFRS, the management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. Given their nature, actual results may differ from these estimates.

Estimates and their underlying assumptions are continuously reviewed. The effects of a change in any accounting estimate are recognized in the fiscal period of the change and future periods.

Judgments and estimates made by the management that may have a significant effect on the amounts recognized in the consolidated financial statements are as follows:

- Estimated useful lives of property and equipment and intangible assets (Note 3. Significant Accounting Policies (6) and (7))
- Impairment of non-financial assets (Notes 12. Property and Equipment and 13. Goodwill and Intangible Assets)
- Recoverability of deferred tax assets (Note 16. Income Taxes)
- Measurement of defined benefit obligations (Note 14. Employee Benefits)
- Fair value measurement of financial instruments (Note 24. Financial Instruments)
- Contingencies (Note 30. Contingencies)

Changes in accounting estimates

Tokyo Stock Exchange, Inc. has reviewed the useful lives of property and equipment, and intangible assets that are shortened from the initial estimates due to the decision to launch new IT systems.

The effect of this change in estimates was to decrease operating income and income before income tax each by ¥126 million.

5. New Accounting Standards Not Yet Applied by the Group

By the date of approval of the consolidated financial statements, major new accounting standards and new interpretations that have been issued or revised but have not been early applied by the Group are as follows.

The impact that application of the following will have on the consolidated financial statements is under review.

IFRS	Mandatory application (for the fiscal year beginning on or after)	To be applied by the Group	Description of new standards/revisions
IFRS 9 Financial Instruments	January 1, 2018	Fiscal year ending March 31, 2019	Amendment for classification, measurement, recognition and impairment of financial instruments

6. Operating Segments

(1) General Information

This information is omitted since the Group has a single segment consisting of the financial instruments exchange business.

(2) Information about Products and Services

This information is omitted since similar information is disclosed in Note “20. Operating Revenue.”

(3) Information about Geographical Areas

1) Operating Revenue

This information is omitted since operating revenue from external customers in Japan makes up most of operating revenue recorded in the consolidated statement of income.

2) Non-current Assets

This information is omitted since the amount of non-current assets located in Japan makes up most of the amount of non-current assets recorded in the consolidated statement of financial position.

(4) Information by Major Customer

This information is omitted since there is no single customer that makes up 10% or more of the operating revenue recorded in the consolidated statement of income.

7. Business Combinations

The overview of business combinations in the fiscal year ended March 31, 2014 is as follows.

No company was acquired in connection with a business combination in the fiscal year ended March 31, 2015.

(1) Business Combination through Acquisition (Share Acquisition and Share Exchange)

1) Summary of Business Combination

(i) Name of Acquiree and Details of Its Business

Name of acquiree	Japan Government Bond Clearing Corporation
Details of business	Financial instruments obligation assumption service, etc. for Japanese government bonds

(ii) Primary Reasons for Business Combination

The business combination was carried out with the aim of contributing to increasing the international competitiveness of Japan's financial and capital markets by enhancing the convenience, efficiency, and security of the markets through further improving the quality of clearing operations including improved operational efficiency and systems interfaces.

(iii) Date of Business Combination

September 30, 2013

(iv) Legal Form of Business Combination

- Share acquisition
- Share exchange in which Japan Securities Clearing Corporation is the wholly-owning parent and Japan Government Bond Clearing Corporation is the wholly-owned subsidiary

(v) Name of Company after Combination

There is no change.

(vi) Ratio of Voting Rights Acquired

Ratio of voting rights immediately before share acquisition and share exchange:	35.63%
Ratio of voting rights acquired additionally due to share acquisition and share exchange:	64.37%
Ratio of voting rights after acquisition:	100.00%

(vii) Main Grounds for Determining Acquirer

Due to Japan Securities Clearing Corporation making Japan Government Bond Clearing Corporation its wholly-owned subsidiary by holding 100% of voting rights of Japan Government Bond Clearing Corporation

(viii) Other Matters regarding Outline of Transaction

An absorption-type merger was conducted on October 1, 2013, in which Japan Securities Clearing Corporation was the surviving company and Japan Government Bond Clearing Corporation was the absorbed company.

2) Period of Inclusion of Financial Result of Acquiree Included in Consolidated Financial Statements

From April 1, 2013 to September 30, 2013

Due to the application of the equity method to the acquiree for the above period, the financial result of the acquiree for that period was included in "Share of income of investments accounted for using the equity method."

3) Fair values of the consideration for acquisition, pre-existing interest, and assets acquired and liabilities assumed as of the acquisition date are as follows:

Cash	484 million yen
Class D shares of Japan Securities Clearing Corporation delivered on date of business combination	2,904 million yen
Fair value of consideration for acquisition	3,388 million yen
Fair value of pre-existing interest	1,897 million yen
Total	5,285 million yen
Cash and cash equivalents	4,076 million yen
Clearing business financial assets	13,690,864 million yen
Specified assets for deposits from clearing participants	100,815 million yen
Other	1,279 million yen
Total assets	13,797,035 million yen
Clearing business financial liabilities	(13,690,864 million yen)
Deposits from clearing participants	(100,815 million yen)
Other	(70 million yen)
Total liabilities	(13,791,750 million yen)
Total net assets	5,285 million yen

4) Share Exchange Ratio by Class of Shares and Calculation Method Thereof and Number of Shares Delivered

(i) Share Exchange Ratio by Class of Shares

Class D share of Japan Securities Clearing Corporation	Ordinary shares of Japan Government Bond Clearing Corporation
1 share	0.11704 shares

(ii) Calculation Method of Share Exchange Ratio

Values of Japan Securities Clearing Corporation Class D shares and Japan Government Bond Clearing Corporation ordinary shares were calculated based on the respective net assets per share because both companies were unlisted, and the share exchange ratio was determined after discussion between the two companies.

Specifically, the value of Japan Securities Clearing Corporation Class D shares was ¥500,000 per share (calculated based on net assets per share as of the effective date of the share exchange) and the value of Japan Government Bond Clearing Corporation ordinary shares was ¥58,222 per share (calculated based on net assets per share as of March 31, 2013). The share exchange ratio was calculated by dividing the latter value by the former value. Both companies obtained separate equity valuations from independent third-party institutions.

(iii) Number of Shares Delivered

5,808 shares

5) Profit and loss information about the acquiree on and after the acquisition date and revenue and net profit or loss of the combined company for the fiscal year ended March 31, 2014 if the business combination is assumed to have been conducted at the beginning of the fiscal year ended March 31, 2014 are omitted because their effects on the consolidated financial statements are not significant.

(2) Net Cash Increase from Acquisition of Subsidiaries

Cash consideration	(484 million yen)
Cash and cash equivalents held by acquiree at the time of acquisition	4,076 million yen
Net cash increase from acquisition of subsidiaries	<u>3,592 million yen</u>

8. Cash and Cash Equivalents

The breakdown of “Cash and cash equivalents” is as follows:

	Date of Transition As of April 1, 2013	As of March 31, 2014	As of March 31, 2015
	Millions of yen	Millions of yen	Millions of yen
Cash and cash equivalents			
Cash and deposits	29,308	50,713	60,114
Total	<u>29,308</u>	<u>50,713</u>	<u>60,114</u>

9. Trade and Other Receivables

The breakdown of “Trade and other receivables” is as follows:

	Date of Transition As of April 1, 2013	As of March 31, 2014	As of March 31, 2015
	Millions of yen	Millions of yen	Millions of yen
Operating accounts receivable	11,183	9,057	10,280
Other	14	35	30
Allowance for doubtful accounts	(9)	(12)	(10)
Total	<u>11,188</u>	<u>9,080</u>	<u>10,300</u>

(Note) Trade and other receivables are presented in the amount after deduction of allowance for doubtful accounts in the consolidated statement of financial position.

10. Assets and Liabilities Based on Various Rules for Ensuring Safety of Financial Instruments Trading

Deposits from clearing participants are collateral that Japan Securities Clearing Corporation requires clearing participants to deposit (clearing deposit for clearing fund, etc., clearing margin, initial margin and variation margin) in order to provide for possible losses incurred by the company in the event of settlement default of clearing participants.

Legal guarantee funds are collateral that Tokyo Stock Exchange, Inc. and Osaka Exchange, Inc. require trading participants to deposit to provide for possible losses incurred by entrustors of securities trading, etc. in the event of default by trading participants.

Trading participant security money is collateral that Tokyo Stock Exchange, Inc. and Osaka Exchange, Inc. require trading participants to deposit to provide for possible losses incurred by these companies in the event of default by trading participants.

Each type of collateral is deposited in the form of cash or substitute securities (only those permitted by each company’s rules). For collateral that is deposited in the form of cash, an asset and a corresponding liability are recorded in the consolidated statement of financial position.

On the other hand, collateral deposited in the form of substitute securities is not recorded in the consolidated statement of financial position. Fair values of substitute securities for the collateral are as follows:

	Date of Transition As of April 1, 2013	As of March 31, 2014	As of March 31, 2015
	Millions of yen	Millions of yen	Millions of yen
Substitute securities for deposits from clearing participants	2,009,217	2,819,191	3,070,924
Substitute securities for legal guarantee funds	1,582	1,435	1,739
Substitute securities for trading participant security money	1,929	2,097	3,295

Default compensation reserve funds are reserve funds to cover losses incurred by Japan Securities Clearing Corporation in association with clearing operations.

11. Other Financial Assets

(1) The breakdown of “Other financial assets” is as follows:

	Date of Transition As of April 1, 2013	As of March 31, 2014	As of March 31, 2015
	Millions of yen	Millions of yen	Millions of yen
Current assets			
Debt securities	–	802	769
Time deposits	91,500	53,100	42,100
Other	1	0	–
Total	<u>91,501</u>	<u>53,903</u>	<u>42,869</u>
Non-current assets			
Equity securities	32,335	31,445	38,935
Debt securities	1,583	1,279	505
Other	423	382	378
Allowance for doubtful accounts	(177)	(138)	(138)
Total	<u>34,166</u>	<u>32,968</u>	<u>39,682</u>

Other financial assets are presented in the amount after deduction of allowance for doubtful accounts in the consolidated statement of financial position.

Equity securities are classified as financial assets measured at fair value through other comprehensive income, and time deposits and debt securities are classified as financial assets measured at amortized cost.

(2) Investee name of significant financial assets measured at fair value through other comprehensive income and their fair values are as follows:

	Date of Transition As of April 1, 2013	As of March 31, 2014	As of March 31, 2015
	Millions of yen	Millions of yen	Millions of yen
Shares in Singapore Exchange	30,951	30,160	37,759

The above shares are held mainly for business relationship purposes. Therefore, they are designated as financial assets measured at fair value through other comprehensive income.

Fair value at the time of sale and cumulative gain or loss of other comprehensive income recognized in equity are as follows:

As of March 31, 2014		As of March 31, 2015	
Fair value	Cumulative gain or loss of other comprehensive income recognized in equity	Fair value	Cumulative gain or loss of other comprehensive income recognized in equity
Millions of yen	Millions of yen	Millions of yen	Millions of yen
100	–	141	29

(Note) The cumulative gain or loss of other comprehensive income recognized in equity is transferred to retained earnings when the financial assets are sold or their fair value declines significantly.

12. Property and Equipment

(1) Schedule of Property and Equipment

The schedules of the carrying amount, acquisition cost and accumulated depreciation and accumulated impairment losses of “Property and equipment” are as follows:

1) Carrying Amount

	Buildings	Information system equipment	Land	Other	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2013	2,519	3,399	1,587	1,167	8,673
Individual acquisition	103	1,321	–	227	1,652
Acquisition in business combinations	7	43	–	17	68
Depreciation	(352)	(1,665)	–	(145)	(2,163)
Impairment losses	(862)	–	(289)	(2)	(1,155)
Sale or disposal	(0)	(2)	–	(7)	(10)
As of March 31, 2014	1,414	3,097	1,297	1,256	7,066
Individual acquisition	191	2,953	–	386	3,530
Depreciation	(284)	(1,557)	–	(179)	(2,021)
Sale or disposal	–	–	–	(2)	(2)
As of March 31, 2015	1,321	4,493	1,297	1,461	8,573

2) Acquisition Cost

	Buildings	Information system equipment	Land	Other	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2013	9,443	15,988	2,851	3,841	32,125
As of March 31, 2014	9,270	12,995	2,851	3,952	29,070
As of March 31, 2015	9,566	13,197	2,851	4,076	29,693

3) Accumulated Depreciation and Accumulated Impairment Losses

	Buildings	Information system equipment	Land	Other	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2013	6,923	12,588	1,264	2,674	23,452
As of March 31, 2014	7,856	9,897	1,554	2,696	22,004
As of March 31, 2015	8,244	8,704	1,554	2,615	21,120

(2) Impairment Losses

The grouping of property and equipment is based on the smallest identifiable group of assets that generates cash inflows that are largely independent.

The Group recognized impairment losses of ¥1,155 million as “Other expenses” in the consolidated statement of income for the fiscal year ended March 31, 2014.

The impairment losses recognized in the fiscal year ended March 31, 2014 mainly represent a reduction of the carrying amounts of buildings and land to their recoverable amounts, due to a decision to halt their use. The recoverable amounts of these assets are calculated at their fair values less costs of disposal (real estate appraisal values by an independent professional).

No impairment loss was recorded in the fiscal year ended March 31, 2015.

13. Goodwill and Intangible Assets

(1) Schedule of Goodwill and Intangible Assets

The schedules of the carrying amount, acquisition cost and accumulated amortization and accumulated impairment losses of “Goodwill” and “Intangible assets” are as follows:

1) Carrying Amount

	Goodwill	Intangible assets		
		Software	Other	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2013	67,374	20,420	2,949	23,370
Individual acquisition	–	9,169	2,072	11,241
Acquisition in business combinations	–	764	292	1,057
Amortization	–	(11,587)	(42)	(11,629)
Impairment losses	–	(48)	–	(48)
Sale or disposal	–	–	(111)	(111)
As of March 31, 2014	67,374	18,719	5,159	23,878
Individual acquisition	–	8,520	4,875	13,396
Amortization	–	(9,184)	(159)	(9,343)
Impairment losses	–	–	(301)	(301)
Sale or disposal	–	–	1	1
As of March 31, 2015	67,374	18,055	9,575	27,631

(Note) Amortization of intangible assets is included in “Operating expenses” in the consolidated statement of income.

2) Acquisition Cost

	Goodwill	Intangible assets		
		Software	Other	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2013	67,374	60,922	3,290	64,213
As of March 31, 2014	67,374	68,178	5,564	73,742
As of March 31, 2015	67,374	59,183	10,336	69,519

3) Accumulated Amortization and Accumulated Impairment Losses

	Goodwill	Intangible assets		
		Software	Other	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2013	–	40,501	341	40,843
As of March 31, 2014	–	49,458	404	49,863
As of March 31, 2015	–	41,127	760	41,888

(2) Material Goodwill

Goodwill recorded in the consolidated statement of financial position arose in the business combination between Tokyo Stock Exchange Group, Inc. and Osaka Securities Exchange Co., Ltd.

(3) Impairment Losses

The grouping of intangible assets is based on the smallest identifiable group of assets that generates cash inflows that are largely independent.

The Group recognized impairment losses of ¥48 million for the fiscal year ended March 31, 2014 and ¥301 million for the fiscal year ended March 31, 2015 as “Other expenses” in the respective consolidated statements of income. These impairment losses represent reductions of the carrying amounts of other intangible assets to its recoverable amounts, due mainly to a decision to halt their use.

(4) Impairment Test for Goodwill

The Group performs an impairment test for goodwill at the end of each fiscal year or whenever there is any indication of impairment. The recoverable amount in an impairment test is calculated based on the value in use.

The value in use is calculated by discounting estimated future cash flows based on the management plan, etc. at the discount rate on the basis of the weighted-average cost of capital of the relevant cash-generating unit. Cash flows in the period beyond the final fiscal year of the management plan are assumed to remain at the same level as the final fiscal year, taking into account future uncertainty.

For goodwill arising in business combinations, the entire Group is identified as a cash-generating unit and is tested for impairment.

14. Employee Benefits

(1) Employee Post-employment Benefits

The Company and some of its subsidiaries have introduced contract-type defined benefit corporate pension plans and lump-sum retirement benefit plans as defined benefit plans, and defined contribution plans.

1) Reconciliation of Defined Benefit Obligations

The reconciliation of the defined benefit obligations is as follows:

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
	Millions of yen	Millions of yen
Balance at the beginning of the year	23,246	22,367
Current service cost	989	974
Interest expense	302	312
Increase (decrease) due to remeasurements	(349)	778
Actuarial gains and losses — effect of changes in demographic assumptions	(21)	132
Actuarial gains and losses — effect of changes in financial assumptions	(484)	705
Actuarial gains and losses — experience adjustments	155	(59)
Benefits paid	(1,822)	(1,476)
Balance at the end of the year	<u>22,367</u>	<u>22,955</u>

2) Reconciliation of Plan Assets

The reconciliation of the plan assets is as follows:

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
	Millions of yen	Millions of yen
Balance at the beginning of the year	18,086	19,379
Interest income	253	290
Increase (decrease) due to remeasurements	1,447	1,969
Return on plan assets (excluding amounts included in interest income)	1,447	1,969
Contributions by the employer	665	674
Benefits paid	(1,073)	(972)
Balance at the end of the year	<u>19,379</u>	<u>21,340</u>

3) Reconciliation of Defined Benefit Obligations and Plan Assets

The reconciliation between the defined benefit obligations and plan assets and the retirement benefit liabilities and assets recognized in the consolidated statement of financial position is as follows:

	Date of Transition As of April 1, 2013	As of March 31, 2014	As of March 31, 2015
	Millions of yen	Millions of yen	Millions of yen
Funded defined benefit obligations	16,358	15,649	15,916
Plan assets	(18,086)	(19,379)	(21,340)
Subtotal	(1,728)	(3,730)	(5,424)
Unfunded defined benefit obligations	6,888	6,717	7,039
Net amount of liabilities and assets recognized in consolidated statement of financial position	<u>5,159</u>	<u>2,987</u>	<u>1,614</u>
Retirement benefit liabilities	6,888	6,717	7,039
Retirement benefit assets	(1,728)	(3,730)	(5,424)
Net amount of liabilities and assets recognized in consolidated statement of financial position	<u>5,159</u>	<u>2,987</u>	<u>1,614</u>

4) Breakdown of Defined Benefit Cost

The breakdown of defined benefit cost is as follows:

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
	Millions of yen	Millions of yen
Current service cost	989	974
Interest expense	302	312
Interest income	(253)	(290)
Total	<u>1,039</u>	<u>996</u>

(Note) Defined benefit cost is included in "Operating expenses."

5) Major Breakdown of Plan Assets

The Group's investment policy is to manage plan assets for ensuring sufficient return on investment in the long term within the Group's risk tolerance in order to secure the future benefit payments, including pension benefits and lump-sum payments. Specifically, setting a target rate of return which exceeds the

assumed rate of return in pension funds in order to maintain sound management of pension plans in the future, the Group adopts an asset composition in light of the risk tolerance taking into account predictions of the expected rate of return, the employer's financial capacity and other factors.

The Group also pays adequate attention to risk management in line with the asset composition introduced to achieve the target for investment and maximize returns under the assumed risk.

The breakdown of plan assets by major category is as follows:

	As of March 31, 2014	As of March 31, 2015
	Millions of yen	Millions of yen
Assets with quoted market prices in active markets		
Equity instruments	6,772	7,628
Domestic stocks	4,404	5,146
Foreign stocks	2,367	2,482
Debt instruments	5,282	6,104
Domestic bonds	2,073	2,315
Foreign bonds	3,209	3,788
Other	1,657	1,880
Subtotal	13,713	15,613
Assets without quoted market prices in active markets		
Corporate pension insurance contracts	5,666	5,727
Subtotal	5,666	5,727
Total plan assets	19,379	21,340

In the fiscal year ending March 31, 2016, the Group will contribute approximately ¥412 million to the plan assets as contributions.

The weighted-average duration of the defined benefit obligations as of March 31, 2015 was 16 years.

6) Matters Related to Actuarial Assumptions

The major actuarial assumptions are as follows:

	As of March 31, 2014	As of March 31, 2015
	%	%
Discount rate as of March 31	1.2 to 1.5	0.9 to 1.2

(Note) The valuation of defined benefit obligations reflects judgments regarding uncertain future events. The sensitivities of defined benefit obligations as of March 31, 2015 that are affected by changes in discount rates are as follows. These sensitivities assume that other variables remain fixed; however, in fact, they do not always change independently. Negative figures represent decreases in defined benefit obligations, while positive figures represent increases.

	As of March 31, 2014	As of March 31, 2015
	Millions of yen	Millions of yen
Rise of 0.5%	(1,040)	(1,335)
Drop of 0.5%	1,154	1,483

7) Defined Contribution Plans

The amounts recognized as expenses for defined contribution plans were ¥64 million and ¥64 million for the fiscal years ended March 31, 2014 and 2015.

(2) Short-term Employee Benefits

The amounts of short-term employee benefits included in the consolidated statements of income for the fiscal years ended March 31, 2014 and 2015 were ¥14,947 million and ¥15,040 million, respectively.

15. Investments Accounted for Using the Equity Method

Associates

Information on aggregation of the Group's interests in associates is as follows:

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
	Millions of yen	Millions of yen
Share of income of investments accounted for using the equity method	55	516
Share of other comprehensive income of investments accounted for using the equity method	0	(0)
Total share of comprehensive income	55	516
Total carrying amount of the Group's interests in associates	6,443	6,806

16. Income Taxes

(1) Deferred Tax Assets and Deferred Tax Liabilities

The breakdown and movements of "Deferred tax assets" and "Deferred tax liabilities" by major cause of their occurrence are as follows:

Fiscal year ended March 31, 2014

	As of April 1, 2013	Recognized in profit or loss	Recognized in other comprehensive income	As of March 31, 2014
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Deferred tax assets				
Post-employment benefits	1,943	(201)	(640)	1,100
Fixed assets	1,970	383	–	2,354
Enterprise taxes payable	521	684	–	1,205
Accrued expenses	466	40	–	507
Loss on litigation	4,709	–	–	4,709
Other	830	92	–	922
Subtotal	10,440	997	(640)	10,798
Unrecognized deductible temporary differences	(252)	–	–	(252)
Total	10,187	997	(640)	10,546
Deferred tax liabilities				
Fair value of financial assets measured at fair value through other comprehensive income	(5,389)	–	280	(5,108)
Other	(748)	115	–	(633)
Total	(6,137)	115	280	(5,741)

Fiscal year ended March 31, 2015

	As of April 1, 2014	Recognized in profit or loss	Recognized in other comprehensive income	As of March 31, 2015
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Deferred tax assets				
Post-employment benefits	1,100	(150)	(387)	562
Fixed assets	2,354	(1,244)	–	1,109
Enterprise taxes payable	1,205	(604)	–	601
Accrued expenses	507	(2)	–	505
Loss on litigation	4,709	(436)	–	4,273
Other	922	329	–	1,252
Subtotal	10,798	(2,107)	(387)	8,304
Unrecognized deductible temporary differences	(252)	23	–	(228)
Total	10,546	(2,084)	(387)	8,075
Deferred tax liabilities				
Fair value of financial assets measured at fair value through other comprehensive income	(5,108)	–	(1,978)	(7,087)
Other	(633)	–	–	(633)
Total	(5,741)	–	(1,978)	(7,720)

In recognizing deferred tax assets, the Group takes into account whether deductible temporary differences can be utilized from future taxable profits.

Deductible temporary differences for which deferred tax assets have not been recognized were ¥707 million as of the Date of Transition, March 31, 2014, and 2015. There were no tax loss carryforwards for tax purposes or significant temporary differences arising from investments in subsidiaries and investments accounted for using the equity method for which deferred tax liabilities have not been recognized.

(2) Income Tax Expense

The breakdown of “Income tax expense” is as follows:

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
	Millions of yen	Millions of yen
Current tax expense	22,357	18,087
Deferred tax expense	(1,112)	2,084
Total	21,244	20,171

Deferred tax expense increased by ¥260 million in the fiscal year ended March 31, 2014, and ¥831 million in the fiscal year ended March 31, 2015, due to the effect of the change in tax rates in Japan.

(3) Reconciliation of Effective Tax Rate

The Group is subject to corporate tax, inhabitant tax, and enterprise tax. The effective statutory tax rates calculated based on these taxes are primarily 38.0% for the fiscal year ended March 31, 2014 and 35.6% for the fiscal year ended March 31, 2015. The difference between the effective statutory tax rate and the actual tax rate in the consolidated statement of income is as follows:

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
	%	%
Effective statutory tax rate	38.0	35.6
Other	0.8	1.1
Actual tax rate	<u>38.8</u>	<u>36.8</u>

17. Trade and Other Payables

The breakdown of “Trade and other payables” is as follows:

	Date of Transition As of April 1, 2013	As of March 31, 2014	As of March 31, 2015
	Millions of yen	Millions of yen	Millions of yen
Operating accounts payable	3,221	2,994	2,618
Other payable	1,330	2,436	2,093
Total	<u>4,551</u>	<u>5,431</u>	<u>4,712</u>

18. Loans Payable

The breakdown of “Loans payable” is as follows:

	Date of Transition As of April 1, 2013	As of March 31, 2014	As of March 31, 2015	Average interest rate (Note)	Due
	Millions of yen	Millions of yen	Millions of yen	%	
Short-term loans payable	18,670	32,500	22,500	0.11	–
Current portion of long-term loans payable	86,399	–	10,000	0.13	–
Long-term loans payable	–	10,000	–	–	–
Total	<u>105,069</u>	<u>42,500</u>	<u>32,500</u>		
Current liabilities	105,069	32,500	32,500		
Non-current liabilities	–	10,000	–		
Total	<u>105,069</u>	<u>42,500</u>	<u>32,500</u>		

(Note) The interest rate and outstanding balance used to calculate the average interest rate are as of March 31, 2015.

There are no financial covenants associated with loans payable that have material impacts on the Group’s financing activities.

19. Equity and Other Equity Items

(1) Share Capital and Treasury Shares

	Date of Transition As of April 1, 2013	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
	Share	Share	Share
Authorized shares	290,000,000	1,090,000,000	1,090,000,000
Issued shares (Note)	54,906,910	274,534,550	274,534,550
Treasury shares	–	2,655	2,655

(Note 1) The shares issued by the Company are non-par value ordinary shares that have no restriction on any rights.

(Note 2) The Company conducted a 5-for-1 stock split of its ordinary shares with an effective date of October 1, 2013.

(2) Surplus

1) Capital Surplus

The Companies Act of Japan stipulates that 50% or more of the amount paid for share issue shall be incorporated into share capital and the remaining amount shall be incorporated into capital reserves included in capital surplus. Capital reserves may be incorporated into share capital by resolution of the shareholders meeting.

2) Retained Earnings

The Companies Act of Japan provides that until the sum of capital reserves included in capital surplus and retained earnings reserves included in retained earnings reaches 25% of share capital, 10% of the surplus distributed as dividends needs to be set aside either as capital reserves or retained earnings reserves. Accumulated retained earnings reserves may be used to cover a deficit. Retained earnings reserves may be reduced by resolution of the shareholders meeting.

If any investment in equity securities designated as the category in which changes in fair value are recognized through other comprehensive income is derecognized or the fair value decreases significantly, any gain or loss on sale or valuation loss is transferred from “Other comprehensive income” to “Retained earnings.”

20. Operating Revenue

The breakdown of “Operating revenue” is as follows:

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
	Millions of yen	Millions of yen
Trading services revenue	54,155	48,698
Clearing services revenue	20,334	20,092
Listing services revenue	12,308	12,249
Information services revenue	16,116	16,311
Other	10,931	8,815
Total	113,846	106,167

21. Operating Expenses

The breakdown of “Operating expenses” is as follows:

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
	Millions of yen	Millions of yen
Personnel expenses	15,101	15,265
System maintenance and operation expenses	11,642	9,947
Depreciation and amortization	13,413	10,803
Rent expenses on real estate	5,900	5,959
Other	13,185	10,888
Total	59,244	52,863

22. Financial Income and Financial Expenses

The breakdown of “Financial income” and “Financial expenses” is as follows:

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
	Millions of yen	Millions of yen
Dividend income	1,275	1,283
Interest income	248	116
Total financial income	1,524	1,400
Interest expenses	81	41
Total financial expenses	81	41

23. Earnings per Share

Basic earnings per share for the fiscal year ended March 31, 2015 was calculated based on the net income attributable to owners of the parent company of ¥34,427 million (fiscal year ended March 31, 2014: ¥33,304 million) and the weighted-average number of ordinary shares outstanding of 274,531 thousand shares (fiscal year ended March 31, 2014: 274,533 thousand shares). Diluted earnings per share are not presented because there were no potential shares.

Since a 5-for-1 stock split was conducted with an effective date of October 1, 2013, basic earnings per share was calculated based on the number of shares that were adjusted retrospectively on the basis of the number of shares after the stock split.

24. Financial Instruments

The Group applied IFRS 7 “Financial Instruments: Disclosures” and IFRS 9 (2010) on the Date of Transition. In its early adoption of IFRS 9 (2010), the Group classified financial assets held by the Group as of April 1, 2013, the Date of Transition, based on the facts and circumstances of the business model whose objective is to hold those financial assets.

(1) Classification of Financial Assets and Liabilities

Carrying amounts and accounting classification of financial assets and liabilities are as follows:

Date of Transition (As of April 1, 2013)

1) Financial Assets

	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortized cost
	Millions of yen	Millions of yen	Millions of yen
Cash and cash equivalents	–	–	29,308
Trade and other receivables	–	–	11,188
Clearing business financial assets	587,508	–	–
Specified assets for deposits from clearing participants	–	–	961,304
Specified assets for legal guarantee funds	–	–	600
Specified assets for default compensation reserve funds	–	–	27,948
Other financial assets	–	32,545	93,122
Total	587,508	32,545	1,123,471

2) Financial Liabilities

	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost
	Millions of yen	Millions of yen
Trade and other payables	–	4,551
Loans payable (current)	–	105,069
Clearing business financial liabilities	587,508	–
Deposits from clearing participants	–	961,304
Legal guarantee funds	–	600
Trading participant security money	–	3,169
Total	<u>587,508</u>	<u>1,074,695</u>

As of March 31, 2014

1) Financial Assets

	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortized cost
	Millions of yen	Millions of yen	Millions of yen
Cash and cash equivalents	–	–	50,713
Trade and other receivables	–	–	9,080
Clearing business financial assets	16,049,798	–	–
Specified assets for deposits from clearing participants	–	–	1,128,362
Specified assets for legal guarantee funds	–	–	522
Specified assets for default compensation reserve funds	–	–	27,948
Other financial assets	–	31,654	55,217
Total	<u>16,049,798</u>	<u>31,654</u>	<u>1,271,844</u>

2) Financial Liabilities

	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost
	Millions of yen	Millions of yen
Trade and other payables	–	5,431
Loans payable (current)	–	32,500
Clearing business financial liabilities	16,049,798	–
Deposits from clearing participants	–	1,128,362
Legal guarantee funds	–	522
Trading participant security money	–	4,783
Loans payable (non-current)	–	10,000
Total	<u>16,049,798</u>	<u>1,181,600</u>

As of March 31, 2015

1) Financial Assets

	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortized cost
	Millions of yen	Millions of yen	Millions of yen
Cash and cash equivalents	–	–	60,114
Trade and other receivables	–	–	10,300
Clearing business financial assets	25,635,085	–	–
Specified assets for deposits from clearing participants	–	–	1,795,095
Specified assets for legal guarantee funds	–	–	492
Specified assets for default compensation reserve funds	–	–	27,948
Other financial assets	–	39,139	43,411
Total	25,635,085	39,139	1,937,362

2) Financial Liabilities

	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost
	Millions of yen	Millions of yen
Trade and other payables	–	4,712
Loans payable (current)	–	32,500
Clearing business financial liabilities	25,635,085	–
Deposits from clearing participants	–	1,795,095
Legal guarantee funds	–	492
Trading participant security money	–	7,437
Total	25,635,085	1,840,238

(2) Fair Value Hierarchy

IFRS 13 “Fair Value Measurement” requires entities to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used to measure fair value.

The hierarchy of fair value used to measure fair value (fair value hierarchy) is defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2: Fair value that is calculated using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Fair value that is calculated using unobservable inputs for the asset or liability

The level of the fair value hierarchy for financial instruments is determined based on the lowest level of significant inputs used in the measurement of fair value.

The fair value hierarchy of financial assets and financial liabilities measured at fair value on a recurring basis in the consolidated statement of financial position according to the above definition is as follows:

As of March 31, 2014

	Level 1	Level 2	Level 3
	Millions of yen	Millions of yen	Millions of yen
Clearing business financial assets	580,708	15,469,090	–
Other financial assets	30,160	–	1,493
Total	610,869	15,469,090	1,493
Clearing business financial liabilities	580,708	15,469,090	–
Total	580,708	15,469,090	–

As of March 31, 2015

	Level 1	Level 2	Level 3
	Millions of yen	Millions of yen	Millions of yen
Clearing business financial assets	739,609	24,895,475	–
Other financial assets	37,759	–	1,380
Total	777,369	24,895,475	1,380
Clearing business financial liabilities	739,609	24,895,475	–
Total	739,609	24,895,475	–

The carrying amounts, fair values and fair value hierarchy of financial assets and financial liabilities that are not measured at fair value in the consolidated statement of financial position are as follows:

As of March 31, 2014

	Carrying amount	Fair value	Fair value hierarchy
	Millions of yen	Millions of yen	
Other financial assets	55,217	55,237	Based on Level 1
Total	55,217	55,237	
Loans payable (non-current)	10,000	10,000	Based on level 2
Total	10,000	10,000	

As of March 31, 2015

	Carrying amount	Fair value	Fair value hierarchy
	Millions of yen	Millions of yen	
Other financial assets	43,411	43,433	Based on Level 1
Total	43,411	43,433	

For financial assets and financial liabilities that are not measured at fair value in the consolidated statement of financial position, since the following items are all short term and their carrying amounts reasonably approximate the fair values, their fair values are not disclosed.

- Cash and cash equivalents
- Trade and other receivables
- Specified assets for deposits from clearing participants
- Specified assets for legal guarantee funds
- Specified assets for default compensation reserve funds
- Trade and other payables
- Loans payable (current)

- Deposits from clearing participants
- Legal guarantee funds
- Trading participant security money

(3) Method for Measuring Fair Value

Fair values of financial assets and financial liabilities are as follows:

1) Clearing Business Financial Assets and Liabilities

The fair values of these instruments are estimated by each method in accordance with the following classification:

- For futures transactions, option transactions and OTC derivative transactions, fair value is estimated based on clearing prices at the end of the fiscal year.
- For repo transactions, fair value is estimated by discounting amounts of delivery settlement as of the settlement date of transactions.

2) Other Financial Assets

Fair values for marketable shares are estimated using market prices, and those for marketable bonds are estimated based on the Reference Statistical Prices (Yields) for OTC Bond Transactions publicized by Japan Securities Dealers Association.

3) Loans Payable

For loans payable with long periods to maturity, fair value is estimated by discounting future cash flows using the discount rate that reflects the Group's credit standing.

(4) Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and presented as a net amount in the consolidated statement of financial position only when the Group holds a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The effects of offsetting on clearing business financial assets and liabilities in the consolidated statement of financial position are as follows:

As of March 31, 2014

1) Financial Assets

	Gross amount of recognized financial assets	Gross amount of financial assets offset in the consolidated statement of financial position	Balance in the consolidated statement of financial position
	Millions of yen	Millions of yen	Millions of yen
Repo transactions	33,162,837	17,707,955	15,454,882
Listed option transactions	3,069,153	2,525,414	543,738
Other	3,660,793	3,609,614	51,178
Total	39,892,784	23,842,985	16,049,798

2) Financial Liabilities

	Gross amount of recognized financial liabilities	Gross amount of financial liabilities offset in the consolidated statement of financial position	Balance in the consolidated statement of financial position
	Millions of yen	Millions of yen	Millions of yen
Repo transactions	33,162,837	17,707,955	15,454,882
Listed option transactions	3,069,153	2,525,414	543,738
Other	3,660,793	3,609,614	51,178
Total	39,892,784	23,842,985	16,049,798

As of March 31, 2015

1) Financial Assets

	Gross amount of recognized financial assets	Gross amount of financial assets offset in the consolidated statement of financial position	Balance in the consolidated statement of financial position
	Millions of yen	Millions of yen	Millions of yen
Repo transactions	51,520,084	26,650,693	24,869,391
Listed option transactions	3,692,950	3,021,067	671,882
Other	12,943,612	12,849,800	93,812
Total	68,156,647	42,521,561	25,635,085

2) Financial Liabilities

	Gross amount of recognized financial liabilities	Gross amount of financial liabilities offset in the consolidated statement of financial position	Balance in the consolidated statement of financial position
	Millions of yen	Millions of yen	Millions of yen
Repo transactions	51,520,084	26,650,693	24,869,391
Listed option transactions	3,692,950	3,021,067	671,882
Other	12,943,612	12,849,800	93,812
Total	68,156,647	42,521,561	25,635,085

Under certain conditions, including the settlement default of any clearing participant, the amounts of clearing business financial assets and liabilities recorded in the consolidated statement of financial position are set off by appropriating securities and money for which delivery to the defaulting clearing participant is suspended and deposits from clearing participants in accordance with the designated methods established by each instrument.

25. Management of Financial Risks

(1) Capital Management

It is the Group's basic policy for capital management to maintain an appropriate capital level and composition of liabilities and equity that are commensurate with the risks of the business for the purpose of achieving sustainable growth and maximization of the corporate value while ensuring stability of the financial base for business operations in order to carry out its mission as a public infrastructure in the Japanese securities market. Equity represents "equity attributable to owners of the parent company."

A certain amount of surplus has been set aside in accordance with the guidelines for clearing institutions, in order to ensure the continuity of the clearing institution and the functioning of settlement guarantee schemes.

Under the Financial Instruments and Exchange Act, restrictions are placed on the acquisition of and holding shares of the Company, which is a financial instruments exchange holding company.

(2) Management of Financial Risks Arising from Financial Instruments

The Group is exposed to financial risks arising from financial instruments, such as credit risk, liquidity risk and market risk, in the course of business activities. The Group seeks to avoid or mitigate such risks by identifying and analyzing risks and comprehensively managing them in an appropriate manner.

Major risks recognized by the Group are credit risk and liquidity risk arising from the clearing operations of Japan Securities Clearing Corporation. The following shows risk management for the Group's clearing operations and other risk management by financial risk.

1) Credit Risk Management

Credit risk is the risk that the Group may incur financial losses due to a counterparty's failure to fulfill a contract and other reasons. Japan Securities Clearing Corporation is exposed to credit risks of clearing participants for clearing business financial assets that are receivables acquired by assuming obligations for the transactions conducted by market participants, and has established a system to respond to the risks, including the qualification system and collateral requirement system for clearing participants. Please refer to "[Appendix] Framework for Ensuring Implementation of Settlement" for details of Japan Securities Clearing Corporation's settlement execution system and Note "10. Assets and Liabilities Based on Various Rules for Ensuring Safety of Financial Instruments Trading" for fair values of substitute securities including deposits from clearing participants.

Specified assets for deposits from clearing participants that are deposited as collateral by clearing participants are exposed to credit risks of entities where the assets are kept and funds are managed. As a general rule, such assets are deposited into bank settlement accounts and a Bank of Japan current account, which are free from credit risks. For asset management, the Group also avoids the risks by funding only call loans collateralized by Japanese government bonds to financial institutions.

2) Liquidity Risk Management

Liquidity risk is the risk that the Group may incur financial losses due to inability to secure necessary funds and other reasons.

Japan Securities Clearing Corporation is exposed to liquidity risks for clearing business financial liabilities because it needs to cover the fund shortage and complete the settlement even in the case of a clearing participant's settlement default. However, it has established a system to ensure sufficient liquidity for such risks by concluding contracts on provision of liquidity with fund settlement banks and other measures.

For specified assets for deposits from clearing participants that have been deposited as collateral by each clearing participant, the Group avoids liquidity risks at the time of return of collateral by keeping and managing the funds as highly liquid, short-term financial assets.

Furthermore, the Group raises funds through loans payable and is exposed to liquidity risk of failing to repay the debts by the due date. The Group avoids such risks by monitoring its financial condition and forecast and flexibly accommodating group companies with funds within the Group.

The financial liability balance by maturity is as follows:

Date of Transition (As of April 1, 2013)

	Book balance	Contractual cash flow	Due within one year
	Millions of yen	Millions of yen	Millions of yen
Trade and other payables	4,551	4,551	4,551
Loans payable	105,069	105,069	105,069
Clearing business financial liabilities	587,508	587,508	587,508
Deposits from clearing participants	961,304	961,304	961,304
Legal guarantee funds	600	600	600
Trading participant security money	3,169	3,169	3,169
Total	1,662,204	1,662,204	1,662,204

As of March 31, 2014

	Book balance	Contractual cash flow	Due within one year	Due after one year through two years
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Trade and other payables	5,431	5,431	5,431	–
Loans payable	42,500	42,500	32,500	10,000
Clearing business financial liabilities	16,049,798	16,049,798	16,049,798	–
Deposits from clearing participants	1,128,362	1,128,362	1,128,362	–
Legal guarantee funds	522	522	522	–
Trading participant security money	4,783	4,783	4,783	–
Total	17,231,399	17,231,399	17,221,399	10,000

As of March 31, 2015

	Book balance	Contractual cash flow	Due within one year
	Millions of yen	Millions of yen	Millions of yen
Trade and other payables	4,712	4,712	4,712
Loans payable	32,500	32,500	32,500
Clearing business financial liabilities	25,635,085	25,635,085	25,635,085
Deposits from clearing participants	1,795,095	1,795,095	1,795,095
Legal guarantee funds	492	492	492
Trading participant security money	7,437	7,437	7,437
Total	27,475,323	27,475,323	27,475,323

3) Market Risk Management

(Market price risk and foreign exchange risk)

The Group holds shares in Singapore Exchange for the purpose of building a close partnership. Because fluctuations in market prices of the shares in Singapore Exchange and exchange rates affect the Group's equity and comprehensive income, the Group is exposed to market price risk and foreign exchange risk and continuously monitors fluctuations in the market prices of shares in Singapore Exchange and other situations by periodically reporting such fluctuations to the Board of Directors and other methods.

The effects of a price fluctuation on equity in the consolidated statement of financial position when the fair value of shares in Singapore Exchange declines by 10% are as follows:

	Date of Transition As of April 1, 2013	As of March 31, 2014	As of March 31, 2015
	Millions of yen	Millions of yen	Millions of yen
Effect on equity	(1,992)	(1,941)	(2,554)

26. Other Comprehensive Income

The amount arising during the year, reclassification adjustments to profit or loss and tax effects for each component of “Other comprehensive income” are as follows:

Fiscal year ended March 31, 2014

	Amount arising during year	Reclassifica- tion adjustments	Before tax effects	Tax effects	Net of tax effects
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Net loss on revaluation of financial assets measured at fair value through other comprehensive income	(787)	–	(787)	280	(506)
Remeasurements of defined benefit plan	1,797	–	1,797	(640)	1,157
Share of other comprehensive income of investments accounted for using the equity method	0	–	0	(0)	0
Total	<u>1,010</u>	<u>–</u>	<u>1,010</u>	<u>(360)</u>	<u>650</u>

Fiscal year ended March 31, 2015

	Amount arising during year	Reclassifica- tion adjustments	Before tax effects	Tax effects	Net of tax effects
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Net gain on revaluation of financial assets measured at fair value through other comprehensive income	7,628	–	7,628	(1,996)	5,631
Remeasurements of defined benefit plan	1,190	–	1,190	(387)	803
Share of other comprehensive income of investments accounted for using the equity method	(0)	–	(0)	0	(0)
Total	<u>8,818</u>	<u>–</u>	<u>8,818</u>	<u>(2,383)</u>	<u>6,435</u>

27. Dividends

(1) Dividends Paid

(Resolution)	Class of shares	Total amount of dividends	Amount of dividends per share	Basis date	Effective date
		Millions of yen	Yen		
Board of Directors (May 14, 2013)	Ordinary shares	4,392	(Note) 80.00	March 31, 2013	May 29, 2013
Board of Directors (October 23, 2013)	Ordinary shares	4,392	(Note) 80.00	September 30, 2013	December 2, 2013
Board of Directors (May 13, 2014)	Ordinary shares	7,412	27.00	March 31, 2014	May 28, 2014
Board of Directors (October 31, 2014)	Ordinary shares	4,941	18.00	September 30, 2014	December 1, 2014

(Note) The amount of dividends per share is based on the basis date of September 30, 2013 and does not include the effect of the stock split conducted on October 1, 2013.

(2) Dividend with a Basis Date That Belongs to the Current Fiscal Year and with an Effective Date That Will Belong to the Following Fiscal Year

(Resolution)	Class of shares	Total amount of dividends	Amount of dividends per share	Basis date	Effective date
		Millions of yen	Yen		
Board of Directors (May 13, 2015)	Ordinary shares	8,785	32.00	March 31, 2015	May 26, 2015

28. Operating Lease

The Group leases office buildings, etc. as cancellable operating leases. The total of these lease payments is ¥5,900 million for the fiscal year ended March 31, 2014 and ¥5,959 million for the fiscal year ended March 31, 2015.

29. Related Parties

(1) Major Subsidiaries and Associates

Major subsidiaries and associates are as follows:

Name	Address	Ratio of voting rights owned (%)
(Consolidated subsidiaries)		
Tokyo Stock Exchange, Inc.	Chuo-ku, Tokyo	100.0
Osaka Exchange, Inc.	Chuo-ku, Osaka-shi, Osaka	100.0
Japan Exchange Regulation	Chuo-ku, Tokyo	100.0
Japan Securities Clearing Corporation	Chuo-ku, Tokyo	(Note 2)
TOSHO SYSTEM SERVICE Co., Ltd.	Chuo-ku, Tokyo	80.0 (80.0)
(Associates accounted for under the equity method)		
ICJ, Inc.	Chiyoda-ku, Tokyo	50.0 (50.0)
Tosho Computer Systems Co., Ltd.	Chiyoda-ku, Tokyo	35.0 (35.0)
Japan Securities Depository Center, Inc.	Chuo-ku, Tokyo	24.4

(Note 1) Figures in parentheses in the ratio of voting rights owned column indicate the figures of indirectly owned voting rights within the totals.

(Note 2) Class A shares: 99.2% / Class B shares: 100.0% / Class C shares: 58.2% / Class D shares: 52.9%

(2) Compensation for Key Management Personnel

Category	Amount paid
Directors (of which, outside directors)	95 million yen (42 million yen)
Executive officers	451 million yen

30. Contingencies

Guarantee Liabilities

The Group provides debt guarantees for loans of employees from financial institutions for their housing acquisition as follows:

Date of Transition As of April 1, 2013	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
Millions of yen	Millions of yen	Millions of yen
2,824	2,528	2,133

Litigation

Mizuho Securities Co., Ltd. filed a lawsuit against Tokyo Stock Exchange, Inc., the Company's subsidiary, claiming damages of ¥41,578 million with respect to an erroneous order for the sales of shares of J-COM Co.,

Ltd. placed by Mizuho Securities Co., Ltd. on December 8, 2005. With regard to this case, on July 24, 2013, the Tokyo High Court issued an appeals court judgment altering the original judgment in the first instance that ordered Tokyo Stock Exchange, Inc. to pay damages (¥10,712 million and delinquency charges), and ordering Mizuho Securities Co., Ltd. to return to Tokyo Stock Exchange, Inc. the difference of ¥342 million between ¥13,213 million paid by Tokyo Stock Exchange, Inc. in order to be exempt from compulsory execution based on the judgment in the first instance and the ordered amount of ¥12,870 million in this judgment.

Against this judgment, Mizuho Securities Co., Ltd. filed a final appeal and the petition for acceptance of the final appeal to the Supreme Court, and Tokyo Stock Exchange, Inc. filed an incidental final appeal and the petition for acceptance of the incidental final appeal to the Supreme Court. This case is currently in litigation.

31. Subsequent Events

As of June 9, 2015, which is the date of issuing the consolidated financial statements for the fiscal year ended March 31, 2015, there are no significant subsequent events.

32. First-time Adoption of IFRS

The Group discloses the consolidated financial statements under IFRS for the first time for the fiscal year ended March 31, 2015. The most recent consolidated financial statements prepared in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”) are those for the fiscal year ended March 31, 2014. The Date of Transition is April 1, 2013.

Exemption Prescribed in IFRS 1 “First-time Adoption of International Financial Reporting Standards”

IFRS requires first-time adopters, in principle, to retrospectively adopt standards required under IFRS. However, for some of the standards required under IFRS, IFRS 1 “First-time Adoption of International Financial Reporting Standards” specifies standards for which the exemption is applied mandatorily and those for which the exemption is applied voluntarily. The effect of the application of these exemptions was adjusted in retained earnings as of the Date of Transition. The items of exemption adopted by the Group in transitioning from Japanese GAAP to IFRS are as follows:

Business Combination

The Group chose not to apply IFRS 3 retrospectively to business combinations carried out before the Date of Transition. Consequently, for goodwill arising from business combinations conducted before the Date of Transition, the amount as of the Date of Transition is the carrying amount under Japanese GAAP as of that date. In addition, an impairment test with regard to goodwill was conducted as of the Date of Transition, regardless of any indication of impairment.

Early Adoption of IFRS 9 (2010)

The Group has early adopted IFRS 9 (2010). The Group assessed business models based on facts and circumstances that existed as of the Date of Transition and determined cash flow requirements in consideration of such as contractual provisions at initial recognition.

Reconciliations that are required to be disclosed under the first-time adoption of IFRS are as follows:

Reconciliation of equity as of April 1, 2013 (Date of Transition)

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Assets				Assets		
Current assets				Current assets		
Cash and deposits	120,808	(91,500)	–	29,308	(8)	Cash and cash equivalents
Operating accounts receivable	8,716	4	2,467	11,188	(1)(8)	Trade and other receivables
Work in process	2,467	–	(2,467)	–	(1)	
Deferred tax assets	1,282	(1,282)	–	–	(8)	
	–	–	587,508	587,508	(6)	Clearing business financial assets
	–	960,288	1,015	961,304	(6)(8)	Specified assets for deposits from clearing participants
Margin funds for derivatives, etc. and when-issued transactions	789,201	(789,201)	–	–	(8)	
Deposits for clearing funds	161,086	(161,086)	–	–	(8)	
Deposits as collateral for facilitating settlement	10,000	(10,000)	–	–	(8)	
	–	600	–	600	(8)	Specified assets for legal guarantee funds
	–	359	–	359	(8)	Income tax receivables
	–	91,501	–	91,501	(8)	Other financial assets
Other	1,912	(374)	–	1,538	(8)	Other current assets
Allowance for doubtful accounts	(9)	9	–	–	(8)	
Total current assets	1,095,466	(682)	588,524	1,683,308		Total current assets
Non-current assets				Non-current assets		
Property, plant and equipment	8,673	–	–	8,673		Property and equipment
Goodwill	67,374	–	–	67,374		Goodwill
Other intangible assets	23,370	–	–	23,370		Intangible assets
	–	8,318	–	8,318	(8)	Investments accounted for using the equity method
Investment securities	41,304	(41,304)	–	–	(8)	
Long-term loans receivable	37	(37)	–	–	(8)	
Deferred tax assets	2,682	1,282	5,278	9,243	(3)(8)	Deferred tax assets
	–	2,917	(1,189)	1,728	(5)(8)	Retirement benefit assets
Legal guarantee funds	600	(600)	–	–	(8)	
Special assets for default compensation reserve funds	27,948	–	–	27,948		Specified assets for default compensation reserve funds
	–	33,166	1,000	34,166	(2)(8)	Other financial assets
Other investments	9,105	(3,237)	–	5,868	(8)	Other non-current assets
Allowance for doubtful accounts	(177)	177	–	–	(8)	
Total non-current assets	180,919	682	5,089	186,691		Total non-current assets
Total assets	1,276,386	–	593,613	1,870,000		Total assets

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Liabilities						Liabilities
Current liabilities						Current liabilities
Operating accounts payable	3,221	1,330	–	4,551	(8)	Trade and other payables
Short-term loans payable	18,670	86,399	–	105,069	(8)	Loans payable
Current portion of long-term loans payable	86,399	(86,399)	–	–	(8)	
Income taxes payable	6,312	–	–	6,312		Income tax payables
Provision for bonuses	1,223	(1,223)	–	–	(8)	
Provision for directors' bonuses	252	(252)	–	–	(8)	
	–	–	587,508	587,508	(6)	Clearing business financial liabilities
	–	960,288	1,015	961,304	(6)(8)	Deposits from clearing participants
Margin funds received for derivatives, etc. and when-issued transactions	789,201	(789,201)	–	–	(8)	
Deposits received for clearing funds	161,086	(161,086)	–	–	(8)	
Deposits received as collateral for facilitating settlement	10,000	(10,000)	–	–	(8)	
	–	600	–	600	(8)	Legal guarantee funds
Deposits received as trading participant security money	3,169	–	–	3,169		Trading participant security money
Other	3,620	145	227	3,992	(4)(8)	Other current liabilities
Total current liabilities	1,083,157	600	588,751	1,672,509		Total current liabilities
Non-current liabilities						Non-current liabilities
Deferred tax liabilities	5,047	–	146	5,193		Deferred tax liabilities
	–	7,580	(692)	6,888	(5)(8)	Retirement benefit liabilities
Provision for retirement benefits	7,580	(7,580)	–	–	(8)	
Returnable legal guarantee funds	600	(600)	–	–	(8)	
Other	922	–	–	922		Other non-current liabilities
Total non-current liabilities	14,151	(600)	(546)	13,004		Total non-current liabilities
Total liabilities	1,097,308	–	588,205	1,685,514		Total liabilities
Net assets						Equity
Capital stock	11,500	–	–	11,500		Share capital
Capital surplus	59,726	–	–	59,726		Capital surplus
Retained earnings	96,213	–	4,764	100,978	(7)	Retained earnings
	–	9,088	643	9,732	(8)	Other components of equity
Total accumulated other comprehensive income	9,088	(9,088)	–	–	(8)	
				181,937	(8)	Total equity attributable to owners of the parent company
Minority interests	2,548	–	–	2,548		Non-controlling interests
Total net assets	179,077	–	5,408	184,485		Total equity
Total liabilities and net assets	1,276,386	–	593,613	1,870,000		Total liabilities and equity

Notes on Reconciliation (April 1, 2013)

(1) Adjustment to Work in Process

With regard to fees for system development, the Group adopted the completed contract method under Japanese GAAP. However, under IFRS, the Group has adopted the cost recovery method and recognizes the costs as expenses when incurred.

(2) Adjustment to Financial Instruments

Listed equity instruments held by the Group were converted at the average market price and exchange rate for one month before the end of the fiscal year under Japanese GAAP. However, such instruments are converted at the market price and exchange rate at the end of fiscal year under IFRS.

Unlisted equity instruments were measured at cost in principle under Japanese GAAP. However, such instruments are measured at fair value in principle under IFRS.

(3) Adjustment to Deferred Tax Assets

Under Japanese GAAP, deferred tax assets are recognized based on the classification of companies specified in the Japanese Institute of Certified Public Accountants Audit Committee Report No. 66, "Audit Treatment on Determining the Recoverability of Deferred Tax Assets." Under IFRS, deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that the management determined it is probable that future taxable income will be available against which the deductible temporary difference can be utilized.

(4) Adjustment to Unused Paid Absences

The Group recognizes unused paid absences, for which accounting treatment is not required under Japanese GAAP, as liabilities under IFRS and adjustments are made to retained earnings.

(5) Adjustment to Defined Benefit Plans

With regard to actuarial gains or losses under Japanese GAAP, the Group amortized them from the fiscal year following the year in which they were incurred, using the straight-line method over certain years determined based on the employees' average remaining service periods. However, under IFRS, the Group fully recognizes remeasurements of the net defined benefit liabilities (assets) when incurred in other comprehensive income and immediately transfers them to retained earnings. Retirement benefit obligations are recalculated in accordance with IFRS. Adjustments for the gain or loss that is incurred due to the periodic allocation method of retirement benefit obligations are made to retained earnings.

(6) Adjustment to Clearing Business Financial Assets and Liabilities

The Group did not recognize clearing business financial assets and liabilities, and variation margin included in deposits from clearing participants under Japanese GAAP. However, under IFRS, the Group recognizes clearing business financial assets and liabilities and aforementioned variation margin.

(7) Adjustment to Retained Earnings

Adjustment of tax effects	5,229 million yen
Adjustment to unused paid absences	(145 million yen)
Adjustment to employee retirement benefits	(319 million yen)
Total adjustment to retained earnings	<u>4,764 million yen</u>

(8) Reclassification

In addition to the above, the Group makes reclassifications to comply with the provisions of IFRS. The major reclassifications are as follows:

- Items presented as “margin funds for derivatives, etc. and when-issued transactions,” “deposits for clearing funds,” and “deposits as collateral for facilitating settlement” under Japanese GAAP are reclassified to “specified assets for deposits from clearing participants” under IFRS.

Also, items presented as “margin funds received for derivatives, etc. and when-issued transactions,” “deposits received for clearing funds”, and “deposits received as collateral for facilitating settlement” under Japanese GAAP are reclassified to “deposits from clearing participants” under IFRS.

- All of the current portions of “deferred tax assets” and “deferred tax liabilities” are reclassified to non-current portions.
- Financial assets and financial liabilities are presented separately in accordance with IFRS.
- “Retirement benefit assets” and “retirement benefit liabilities” are partially reclassified based on the definitions and requirements under IFRS.

Reconciliation of equity as of March 31, 2014

(the date of the latest consolidated financial statements prepared under Japanese GAAP)

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	103,813	(53,100)	–	50,713	(9)	Cash and cash equivalents
Operating accounts receivable	8,995	23	61	9,080	(1)(9)	Trade and other receivables
Securities	802	(802)	–	–	(9)	
Work in process	61	–	(61)	–	(1)	
Deferred tax assets	2,168	(2,168)	–	–	(9)	
	–	–	16,049,798	16,049,798	(7)	Clearing business financial assets
	–	1,112,672	15,690	1,128,362	(7)(9)	Specified assets for deposits from clearing participants
Margin funds for derivatives, etc. and when-issued transactions	913,437	(913,437)	–	–	(9)	
Deposits for clearing funds	188,734	(188,734)	–	–	(9)	
Deposits as collateral for facilitating settlement	10,500	(10,500)	–	–	(9)	
	–	522	–	522	(9)	Specified assets for legal guarantee funds
	–	1,411	–	1,411	(9)	Income tax receivables
	–	53,903	–	53,903	(9)	Other financial assets
Other	2,729	(1,446)	–	1,282	(9)	Other current assets
Allowance for doubtful accounts	(12)	12	–	–	(9)	
Total current assets	1,231,231	(1,645)	16,065,489	17,295,075		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	7,066	–	–	7,066		Property and equipment
Goodwill	63,932	–	3,442	67,374	(2)	Goodwill
Other intangible assets	23,878	–	–	23,878		Intangible assets
	–	6,443	–	6,443	(9)	Investments accounted for using the equity method
Investment securities	37,344	(37,344)	–	–	(9)	
Long-term loans receivable	29	(29)	–	–	(9)	
Net defined benefit asset	2,914	–	815	3,730	(6)	Retirement benefit assets
Legal guarantee funds	522	(522)	–	–	(9)	
Deferred tax assets	3,006	2,168	4,591	9,767	(4)(9)	Deferred tax assets
Special assets for default compensation reserve funds	27,948	–	–	27,948		Specified assets for default compensation reserve funds
	–	31,075	1,893	32,968	(3)(9)	Other financial assets
Other investments	5,977	(283)	–	5,693	(9)	Other non-current assets
Allowance for doubtful accounts	(138)	138	–	–	(9)	
Total non-current assets	172,482	1,645	10,743	184,871		Total non-current assets
Total assets	1,403,713	–	16,076,233	17,479,946		Total assets

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Liabilities						Liabilities
Current liabilities						Current liabilities
Operating accounts payable	2,994	2,436	–	5,431	(9)	Trade and other payables
Short-term loans payable	32,500	–	–	32,500		Loans payable
Income taxes payable	17,600	–	–	17,600		Income tax payables
Provision for bonuses	1,420	(1,420)	–	–	(9)	
Provision for directors' bonuses	366	(366)	–	–	(9)	
	–	–	16,049,798	16,049,798	(7)	Clearing business financial liabilities
	–	1,112,672	15,690	1,128,362	(7)(9)	Deposits from clearing participants
Margin funds received for derivatives, etc. and when-issued transactions	913,437	(913,437)	–	–	(9)	
Deposits received for clearing funds	188,734	(188,734)	–	–	(9)	
Deposits received as collateral for facilitating settlement	10,500	(10,500)	–	–	(9)	
	–	522	–	522	(9)	Legal guarantee funds
Deposits received as trading participant security money	4,783	–	–	4,783		Trading participant security money
Other	5,937	(649)	218	5,506	(5)(9)	Other current liabilities
Total current liabilities	1,178,274	522	16,065,708	17,244,506		Total current liabilities
Non-current liabilities						Non-current liabilities
Long-term loans payable	10,000	–	–	10,000		Loans payable
Deferred tax liabilities	4,448	–	513	4,961		Deferred tax liabilities
Net defined benefit liability	7,465	–	(747)	6,717	(6)	Retirement benefit liabilities
Returnable legal guarantee funds	522	(522)	–	–	(9)	
Other	983	–	–	983		Other non-current liabilities
Total non-current liabilities	23,420	(522)	(234)	22,662		Total non-current liabilities
Total liabilities	1,201,694	–	16,065,473	17,267,169		Total liabilities
Net assets						Equity
Capital stock	11,500	–	–	11,500		Share capital
Capital surplus	59,726	–	–	59,726		Capital surplus
Retained earnings	117,264	–	9,390	126,655	(8)	Retained earnings
Treasury shares	(5)	–	–	(5)		Treasury shares
–	–	7,857	1,367	9,225	(9)	Other components of equity
Total accumulated other comprehensive income	7,857	(7,857)	–	–	(9)	
				207,101	(9)	Total equity attributable to owners of the parent company
Minority interests	5,675	–	–	5,675		Non-controlling interests
Total net assets	202,018	–	10,758	212,777		Total equity
Total liabilities and net assets	1,403,713	–	16,076,233	17,479,946		Total liabilities and equity

Notes on Reconciliation (March 31, 2014)

(1) Adjustment to Work in Process

With regard to fees for system development, the Group adopted the completed contract method under Japanese GAAP. However, under IFRS, the Group has adopted the cost recovery method and recognizes the costs as expenses when incurred.

(2) Adjustment to Amortization of Goodwill

Under Japanese GAAP, the Group estimated substantially the amortization period and goodwill was amortized over the years estimated; however, since amortization is suspended after the Date of Transition, adjustments are made to retained earnings under IFRS.

(3) Adjustment to Financial Instruments

Listed equity instruments held by the Group were converted at the average market price and exchange rate for one month before the end of the fiscal year under Japanese GAAP. However, such instruments are converted at the market price and exchange rate at the end of fiscal year under IFRS.

Unlisted equity instruments were measured at cost in principle under Japanese GAAP. However, such instruments are measured at fair value in principle under IFRS.

(4) Adjustment to Deferred Tax Assets

Under Japanese GAAP, deferred tax assets are recognized based on the classification of companies specified in the Japanese Institute of Certified Public Accountants Audit Committee Report No. 66, "Audit Treatment on Determining the Recoverability of Deferred Tax Assets." Under IFRS, deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that the management determined it is probable that future taxable income will be available against which the deductible temporary difference can be utilized.

(5) Adjustment to Unused Paid Absences

The Group recognizes unused paid absences, for which accounting treatment is not required under Japanese GAAP, as liabilities under IFRS and adjustments are made to retained earnings.

(6) Adjustment to Defined Benefit Plans

Retirement benefit obligations are recalculated in accordance with IFRS. Adjustments for the gain or loss that is incurred due to the periodic allocation method of retirement benefit obligations are made to retained earnings.

(7) Adjustment to Clearing Business Financial Assets and Liabilities

The Group did not recognize clearing business financial assets and liabilities, and variation margin included in deposits from clearing participants under Japanese GAAP. However, under IFRS, the Group recognizes clearing business financial assets and liabilities and aforementioned variation margin.

(8) Adjustment to Retained Earnings

Adjustment of tax effects	5,232 million yen
Adjustment to amortization of goodwill	3,442 million yen
Adjustment to unused paid absences	(140 million yen)
Adjustment to employee retirement benefits	857 million yen
Total adjustment to retained earnings	<u>9,390 million yen</u>

(9) Reclassification

In addition to the above, the Group makes reclassifications to comply with the provisions of IFRS. The major reclassifications are as follows:

- Items presented as “margin funds for derivatives, etc. and when-issued transactions,” “deposits for clearing funds,” and “deposits as collateral for facilitating settlement” under Japanese GAAP are reclassified to “specified assets for deposits from clearing participants” under IFRS.

Also, items presented as “margin funds received for derivatives, etc. and when-issued transactions,” “deposits received for clearing funds,” and “deposits received as collateral for facilitating settlement” under Japanese GAAP are reclassified to “deposits from clearing participants” under IFRS.

- All of the current portions of “deferred tax assets” and “deferred tax liabilities” are reclassified to non-current portions.
- Financial assets and financial liabilities are presented separately in accordance with IFRS.

Reconciliation of profit or loss and comprehensive income (fiscal year ended March 31, 2014)
(the latest fiscal year of consolidated financial statements prepared under Japanese GAAP)

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Consolidated Statement of Income						
Operating revenue	116,251	–	(2,405)	113,846	(3)	Operating revenue
	–	206	–	206	(1)	Other revenue
				114,052		Total revenue
Operating expenses	65,131	–	(5,887)	59,244	(2)(3) (4)(5)	Operating expenses
	–	1,520	–	1,520	(1)	Other expenses
				60,764		Total expenses
	–	55	–	55	(1)	Share of income of investments accounted for using the equity method
Operating income	51,120	(1,258)	3,482	53,343		Operating income
	–	1,524	–	1,524	(1)	Financial income
	–	81	–	81	(1)	Financial expenses
Non-operating income	1,786	(1,786)	–	–	(1)	
Non-operating expenses	105	(105)	–	–	(1)	
Extraordinary losses	1,497	(1,497)	–	–	(1)	
Income before income taxes and minority interests	51,304	–	3,482	54,786		Income before income tax
Total income taxes	21,231	–	13	21,244		Income tax expense
Income before minority interests	30,072	–	3,468	33,541		Net income
Minority interests in income	236	–	–	236		Net income (attributable to non-controlling interests)
Net income	29,835	–	3,468	33,304		Net income (attributable to owners of the parent company)
Consolidated Statement of Comprehensive Income						
Income before minority interests	30,072	–	3,468	33,541		Net income
Other comprehensive income						Items that will not be reclassified to profit or loss
Valuation difference on available-for-sale securities	(1,082)	–	575	(506)	(6)	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
Share of other comprehensive income of entities accounted for using equity method	0	–	–	0		Share of other comprehensive income of investments accounted for using the equity method
	–	–	1,157	1,157		Remeasurements of defined benefit plan
Total other comprehensive income	(1,082)	–	1,732	650		Other comprehensive income, net of tax
Comprehensive income	28,990	–	5,201	34,191		Comprehensive income

Notes on Reconciliation (Comprehensive Income for the Fiscal Year Ended March 31, 2014)

(1) Adjustment to Non-operating Income, Non-operating Expenses, and Extraordinary Losses

Items presented as “non-operating income,” “non-operating expenses,” and “extraordinary losses” under Japanese GAAP are presented as “financial income” or “financial expenses” for financial-related items, and as “other revenue,” “other expenses,” and “share of income of investments accounted for using the equity method” for those other than financial-related items under IFRS.

(2) Adjustment to Amortization of Goodwill

Under Japanese GAAP, the Group estimated the amortization period and goodwill was amortized over the years estimated; however, amortization is suspended under IFRS.

(3) Adjustment to Fees for and Cost of System Development

With regard to fees for system development, the Group adopted the completed contract method under Japanese GAAP. However, under IFRS, the Group has adopted the cost recovery method and recognizes the cost when incurred.

(4) Adjustment to Unused Paid Absences

The Group recognizes unused paid absences, which is not recognized under Japanese GAAP, as expenses under IFRS and adjustments are made to operating expenses.

(5) Adjustment to Defined Benefit Plans

With regard to actuarial gains or losses under Japanese GAAP, the Group amortized them from the fiscal year following the year in which they were incurred, using the straight-line method over certain years determined based on the employees’ average remaining service periods. However, under IFRS, the Group fully recognizes remeasurements of the net defined benefit liabilities (assets) when incurred in other comprehensive income and immediately transfers them to retained earnings.

(6) Adjustment to Financial Instruments

Listed equity instruments held by the Group were converted at the average market price and exchange rate for one month before the end of the fiscal year under Japanese GAAP. However, such instruments are converted at the market price and exchange rate at the end of fiscal year under IFRS.

Unlisted equity instruments were measured at cost in principle under Japanese GAAP. However, such instruments are measured at fair value in principle under IFRS.

Reconciliation of cash flows for the fiscal year ended March 31, 2014 (the latest fiscal year of consolidated financial statements prepared under Japanese GAAP)

There are no material differences between the consolidated statements of cash flows that are disclosed in accordance with Japanese GAAP and the consolidated statements of cash flows that are disclosed in accordance with IFRS.

[Appendix]

Framework for Ensuring Implementation of Settlement

There are four financial instruments exchanges¹ for trading securities in Japan including the Tokyo Stock Exchange. For transactions in securities at these exchanges, all the clearing operations are conducted by Japan Securities Clearing Corporation. This company also covers transactions in securities in PTS² in its clearing operations. In addition, the company also performs the clearing of futures and options trading at the Osaka Exchange and covers credit default swap transactions and interest rate swap transactions at over-the-counter markets (hereinafter “OTC derivative transactions”) and OTC traded Japanese government bonds in the clearing operations.

As a financial instruments clearing organization, Japan Securities Clearing Corporation provides a settlement guarantee by assuming obligations for transactions conducted by market participants and acting as the counterparty to each side of the transactions. This enables market participants to conduct transactions without regard to credit risk of their counterparties, while if a clearing participant fails to fulfill the settlement, Japan Securities Clearing Corporation is obliged to implement the clearing with other clearing participants. Therefore, in cases where Japan Securities Clearing Corporation incurs a loss due to settlement default by a clearing participant, the company basically follows the principle of self-responsibility under which the loss is compensated for with collateral pledged by the clearing participant who failed to fulfill the settlement. In the event of any shortage, Japan Securities Clearing Corporation uses its own funds and has the compensation system where this company also requires other clearing participants to share the burden.

Japan Securities Clearing Corporation’s efforts for ensuring implementation of clearing and the overview of the loss compensation system are as follows:

Measures for Ensuring Settlement

(1) Clearing participant system and monitoring

In order to reduce credit risks of clearing participants, Japan Securities Clearing Corporation has provided for eligibility requirements for clearing by type of eligibility and established criteria for acquisition and maintenance of eligibility in the requirements. A clearing participant must have a certain financial base, management structure and business execution structure. The status of such criteria for clearing participants is monitored periodically. If it is found that there is any problem for a clearing participant, Japan Securities Clearing Corporation may stop the assumption of obligations of the clearing participant and revoke the status of the participant for clearing.

The company also monitors the status of clearing participants’ positions periodically and controls whether or not credit risks are overly concentrated in some clearing participants. If an undue position is taken, the company considers measures as needed.

(2) Collateral requirement system

In order to prepare for possible losses incurred due to settlement default by clearing participants, Japan Securities Clearing Corporation requires clearing participants to deposit collateral. Collateral includes clearing deposit for clearing fund³, etc., clearing margin⁴, initial margin⁵ and variation margin⁶. The company confirms the adequacy of collateral periodically, and verifies and reviews the calculation model for the required amount of collateral as appropriate.

In addition, the company has set certain qualification requirements for money or substitute securities deposited as collateral, and daily assesses collateral value.

(3) Delivery Versus Payment (“DVP”) settlement

The settlement of securities between Japan Securities Clearing Corporation and its clearing participants are conducted via the DVP settlement system, in which the delivery of securities and the payment of funds are linked, that is, securities can be delivered on the condition that the corresponding payment is completed, while payment can be received on the condition that the corresponding securities are delivered. Consequently, should settlement defaults occur, the counterparty will not be left with non-receipt of securities or funds.

(4) Ensuring liquidity

In order to secure liquidity required in cases of settlement defaults by clearing participants, Japan Securities Clearing Corporation has entered into agreements on liquidity supply with fund settlement banks.

In addition, the company confirms the adequacy of liquidity lines for funds periodically.

[Overview of the Loss Compensation System]

In cases where a clearing participant fails to make a settlement, Japan Securities Clearing Corporation stops the assumption or sharing of obligations for the clearing participant as a party as well as the delivery of securities and money that Japan Securities Clearing Corporation should deliver to the clearing participant, and at the same time, appropriates the securities and money for which the delivery is stopped as compensation for the clearing participant's settlement default.

In cases where Japan Securities Clearing Corporation's losses are not eliminated even after the above process, the company makes up for the losses by the following methods. This compensation for losses is made individually for losses incurred on each clearing of securities trading, futures and option transactions, OTC derivative transactions and OTC traded Japanese government bonds, according to the clearing qualifications of the defaulting clearing participant.

If losses on settlement default are incurred in clearing of securities trading and futures and option transactions, the losses will be compensated under the following multi-tiered scheme:

- 1) Compensation by collateral deposited by the defaulting clearing participant (clearing funds and clearing margin)
- 2) Compensation from loss compensation by financial instruments exchanges, etc.⁷
- 3) Compensation by Japan Securities Clearing Corporation
- 4) Compensation by clearing funds contributed by non-defaulting clearing participants (futures and option transactions only)
- 5) Mutual guarantee by non-defaulting clearing participants

Hence, in cases where Japan Securities Clearing Corporation incurs losses due to settlement default by a clearing participant and the company's losses cannot be fully made up for even through the measure in 1), the Group may incur losses due to compensation made by Tokyo Stock Exchange, Inc. or Osaka Exchange, Inc. up to the amount stipulated in the loss compensation contract (cash equities: ¥10.4 billion, futures and option transactions: ¥17.4 billion) for the measure in 2), or compensation made by Japan Securities Clearing Corporation up to the amount funded as a settlement guarantee reserve for securities trading, etc. (the amount as of the end of March 2015: ¥17.3 billion) for the measure in 3).

If losses on settlement default are incurred in clearing of OTC derivative transactions, the losses will be compensated under the following multi-tiered scheme:

- 1) Compensation by collateral deposited by the defaulting clearing participant (initial margin and clearing funds)
- 2) Compensation by Japan Securities Clearing Corporation (first-tier settlement guarantee reserve)
- 3) Compensation by clearing funds contributed by non-defaulting clearing participants and by Japan Securities Clearing Corporation (second-tier settlement guarantee reserve)
- 4) Compensation by special clearing charges collected from non-defaulting clearing participants
- 5) Compensation by non-defaulting clearing participants who are the recipients of variation margin after the default

Hence, in cases where Japan Securities Clearing Corporation incurs losses due to settlement default by a clearing participant for an OTC derivative transaction and the company's losses cannot be fully made up for even through the measure in 1), the Group may incur losses for each clearing operation due to compensation made by Japan Securities Clearing Corporation up to the amount funded as the first-tier settlement guarantee reserve (¥2 billion each) for the measure in 2), or compensation made by Japan Securities Clearing Corporation up to the amount funded as the second-tier settlement guarantee reserve (credit default swap transaction: ¥1 billion, interest rate swap transaction: ¥2 billion) for the measure in 3).

Moreover, if losses on settlement default are incurred in clearing of OTC traded Japanese government bonds, the losses will be compensated under the following multi-tiered scheme:

- 1) Compensation by collateral deposited by the defaulting clearing participant (initial margin and clearing funds)
- 2) Compensation by Japan Securities Clearing Corporation (first-tier settlement guarantee reserve)
- 3) Compensation by clearing funds contributed by non-defaulting clearing participants and by Japan Securities Clearing Corporation (second-tier settlement guarantee reserve)
- 4) Compensation by special clearing charges collected from non-defaulting clearing participant
- 5) Compensation by clearing funds contributed by clearing participants subject to original transaction proration⁸ and by Japan Securities Clearing Corporation (second-tier settlement guarantee reserve that is not used in 3))
- 6) Compensation by special clearing charges collected from clearing participants subject to original transaction proration
- 7) Compensation by non-defaulting clearing participants who are the recipients of variation margin after the default

Hence, in cases where Japan Securities Clearing Corporation incurs losses due to settlement default by a clearing participant for an OTC traded Japanese government bond and the company's losses cannot be fully made up for even through the measure in 1), the Group may incur losses due to compensation made by Japan Securities Clearing Corporation up to ¥1.75 billion, which has been funded as the first-tier settlement guarantee reserve, for the measure in 2), or compensation made by Japan Securities Clearing Corporation up to ¥1.75 billion, which has been funded as the second-tier settlement guarantee reserve, for the measures 3) and 5).

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- ¹ Financial instruments exchanges for buying and selling securities: Tokyo Stock Exchange, Nagoya Stock Exchange, Sapporo Securities Exchange and Fukuoka Stock Exchange
- ² PTS: PTS (Proprietary Trading System) operated by SBI Japannext Co., Ltd. and Chi-X Japan Limited
- ³ Clearing funds: Clearing participants are required to deposit these funds in order to ensure their performance of obligations to Japan Securities Clearing Corporation. The required amount in securities trading is calculated to cover reconstruction expense risk based on past price fluctuations and each clearing participant's actual amount outstanding of unsettled transactions, in light of principal risk being avoided by the introduction of DVP settlement. The required amount in futures and option transactions, OTC derivative transactions and OTC traded Japanese government bonds is calculated to cover losses that may be incurred due to shortage of margin, etc. deposited by the defaulting clearing participants in cases including the one where multiple clearing participants defaulted on clearing obligations in an extreme, but possible market situation.
- ⁴ Clearing margin: Clearing participants are required to deposit these funds in order to secure their performance of obligations for futures and option transactions to Japan Securities Clearing Corporation. The required amount is at least the amount derived by deducting the total amount of net option value from the amount calculated by SPAN@* for open positions of futures and options trading.
- * SPAN@: SPAN, which is an abbreviation of Standard Portfolio Analysis of Risk, is a methodology that calculates margin developed by Chicago Mercantile Exchange. The amount of margin is calculated according to risks arising from open positions of the entire futures and options trading.
- ⁵ Initial margin: Clearing participants are required to deposit this margin in order to ensure their performance of obligations for futures and option transactions to Japan Securities Clearing Corporation. The required amount is calculated by adding the amount to cover certain risks to the amount of losses expected from fluctuations in the price (yield curb for interest rate swap transactions) in the period up to completion of the position processing in cases where a clearing participant defaults on each transaction.
- ⁶ Variation margin: For the position of each clearing participant, the fluctuation portion of position value from the previous day is received in the form of cash as variation margin in order to cover a daily fluctuation in the price. Clearing participants for whom the fluctuation portion is negative pay that portion to Japan Securities Clearing Corporation, while those for whom the fluctuation portion is positive receive that portion from Japan Securities Clearing Corporation.
- ⁷ Compensation from loss compensation of financial instruments exchanges, etc.: Under loss compensation contracts concluded between Japan Securities Clearing Corporation and financial instruments exchanges, etc., losses are compensated for up to the amount stipulated in those contracts. For agreements on cash equities, there are contracts between Japan Securities Clearing Corporation and five financial instrument exchanges as well as contracts between Japan Securities Clearing Corporation and each PTS. The maximum compensation amount totals ¥11.3 billion, of which ¥10.4 billion is the total maximum compensation amount in the contracts with Tokyo Stock Exchange, Inc. and Osaka Exchange, Inc., group companies. Contracts on futures and options trading have been concluded between Japan Securities Clearing Corporation, and Tokyo Stock Exchange, Inc. and Osaka Exchange, Inc. The maximum compensation amount under these contracts totals ¥17.4 billion.
- ⁸ Clearing participants subject to original transaction proration: These participants are clearing participants who have a trust account.