

Compliance with IOSCO Principles for Financial Benchmarks

2016/7/29

Tokyo Stock Exchange, Inc.

In July 2013, IOSCO (The International Organization of Securities Commissions) published “Principles for Financial Benchmarks” (the “Principles”). The Principles stipulate that Benchmark Administrators should disclose their status of compliance with the Principles annually.

The following is a summary of Tokyo Stock Exchange, Inc.’s (“TSE”) compliance with the Principles regarding the stock price indices it calculates and publishes, such as TOPIX (Tokyo Stock Price Index). There are no substantial changes to the summary that was disclosed on July 31, 2015.

1. General Remarks

TSE stipulates, documents, and publishes the calculation methodology for TOPIX and all other indices it calculates. The stock prices used for TSE’s indices are formed based on fair trading conducted according to the fully disclosed and transparent rules of the exchange. In addition, TSE’s stock price indices are automatically calculated and published using the exchange’s index calculation system and market information system, respectively. As there is no room for arbitrariness or conflicts of interest in the process of calculation and disclosure, TSE is confident that it complies with the Principles.

2. TSE Perspective on the Principles

The Principles consist of 19 criteria divided into 4 categories (“Governance”, “Quality of the Benchmark”, “Quality of the Methodology” and “Accountability”). The following is TSE’s perspective on the Principles according to each category. Please also refer to

the attached sheet for TSE's views with regard to each individual criterion.

(1) Governance

As a corporation, TSE has established an appropriate corporate governance structure which clearly separates business execution and oversight functions. Both calculation and publication of stock price indices are subject to an internal audit within the exchange's internal control framework, and compliance with relevant rules and validity of business execution are both subject to regular verification.

(2) Quality of the Benchmark

Stock price indices calculated and published by TSE apply fair trading prices determined competitively within the regulated on-exchange market. For that reason, sufficient data and transparency are ensured.

(3) Quality of the Methodology

TSE establishes detailed rules on calculating stock price indices and publishes the methodology on the exchange's website. Whenever necessary, TSE reviews the methodology, and if changes are made, provides notification with sufficient lead time in accordance with the degree of importance. In addition, TSE seeks public comment with respect to any significant change as needed.

(4) Accountability

Both outside auditors and the Internal Auditors Office periodically audit the TSE's stock price index calculation operations within our internal control framework. Also, documentation and data used to calculate stock price indices are recorded and retained for an appropriate period of time. TSE is prepared to submit such records promptly upon regulatory authorities' request.

3. Jointly-developed index

Beginning January 2014, TSE and Nikkei Inc. have jointly calculated and published the JPX-Nikkei Index 400. This index is also calculated and published through a transparent process according to a pre-determined methodology. TSE considers this index as also being compliant with the Principles.

4. Externally-calculated indices

TSE consigns calculation and publication operations for some stock price indices to an external provider. These stock price indices are calculated and published under a contract with pre-approved, credible administrators. These administrators also operate within an appropriate governance structure and are subject to external audit. TSE believes that these indices are also compliant with the Principles.

Compliance with IOSCO Principles for Financial Benchmarks

No.	Principles	Compliance with Principles
1	Overall Responsibility of the Administrator	<p>TSE specifies clear rules with regard to the calculation of TOPIX and other stock price indices. These rules are documented and published in an Index Methodology booklet on the TSE website.</p> <p>As a corporation, TSE has established an appropriate corporate governance structure which clearly separates business execution and oversight functions. Therefore, stock price indices are stably and appropriately calculated and published.</p>
2	Oversight of Third Parties	<p>TSE consigns operation of calculation and publication of some stock price indices to third parties. Regarding such indices, a contract defines third parties' roles and duties and ensures that the third party operates under appropriate governance subject to external audit.</p>
3	Conflicts of Interest for Administrators	<p>TSE uses public information and data for constituent selection and other processes according to transparent, high-objective rules. TSE documents and publishes the index calculation methodology in order to exclude arbitrariness and conflicts of interest.</p> <p>In addition, indices are calculated and published automatically through TSE's index calculation system and market information system.</p>

4	Control Framework for Administrators	<p>TSE uses public information and data for constituent selection and other processes according to transparent, high-objective rules. TSE documents and publishes the index calculation methodology in order to exclude arbitrariness and conflicts of interest.</p> <p>In addition, indices are calculated and published automatically through TSE's index calculation system and market information system.</p> <p>Stock price indices calculated and published by TSE are not based on submission.</p>
5	Internal Oversight	<p>TSE publishes transparent calculation rules in the index methodology. Such methodologies, including changes made to existing methodologies, are determined by authorized staff approval.</p> <p>In addition, indices are calculated and published automatically through TSE's index calculation system and market information system.</p> <p>Calculation and publication of stock price indices are subject to periodical internal audit within TSE's internal control framework.</p>
6	Benchmark Design	<p>Stock price indices calculated by TSE are designed to accurately reflect actual market conditions. TSE continuously endeavors to improve this reflection.</p> <p>TOPIX is a market capitalization-weighted index composed of all issues listed on the TSE 1st Section and appropriately reflects the Japanese stock market. It is also used as leading indicator of business conditions as published by the Cabinet Office.</p> <p>The JPX-Nikkei Index 400 which launched in January 2014 is composed of companies selected based on ROE and other fundamental factors. It is used as a benchmark for passive investment in addition to TOPIX.</p>
7	Data Sufficiency	<p>Stock prices used for index calculation are determined in the regulated on-exchange market.</p> <p>Data credibility is therefore ensured.</p>

8	Hierarchy of Data Inputs	<p>Stock price indices calculated and published by TSE are not based on submission.</p> <p>These stock price indices are calculated based on a transparent, published methodology using fair prices determined in the regulated on-exchange market.</p>
9	Transparency of Benchmark Determinations	<p>Stock price indices calculated and published by TSE are calculated using fair prices determined in the regulated on-exchange market.</p>
1 0	Periodic Review	<p>TSE reflects corporate actions made by a constituent company when necessary based on index rules without delay.</p> <p>In addition, if changes are made to index methodology, TSE provides notification with sufficient lead time in accordance with the degree of importance.</p>
1 1	Content of the Methodology	<p>TSE stipulates and publishes the calculation methodology for its indices on its website. TSE considers the content to be sufficiently detailed.</p>
1 2	Changes to the Methodology	<p>TSE seeks for broad public comments before making changes to index methodologies which are expected to have a significant impact on investors.</p>
1 3	Transition	<p>TSE does not plan to suspend the calculation of current stock price indices. However, TSE will seek public comment or take other appropriate action should it suspend such calculation with a plan to develop a new index.</p>
1 4	Submitter Code of Conduct	<p>Stock price indices calculated and published by TSE are not based on submission.</p>
1 5	Internal Controls over Data Collection	<p>Stock price indices calculated and published by TSE are based on stock prices determined on the market. TSE does not collect data from outside sources to calculate them.</p>
1 6	Complaints procedures	<p>TSE receives opinions or questions about its business in general through its website and call center.</p>
1 7	Audits	<p>Outside auditors and the Internal Auditors Office periodically audit the TSE's stock price index calculation operations within our internal control framework.</p>

1 8	Audit Trail	Documentation and data used to calculate stock price indices are recorded and retained for an appropriate period of time.
1 9	Cooperation with Regulatory Authorities	TSE is prepared to submit documents etc. required under the Principles promptly upon request by Regulatory Authorities.