

Notes on Media Briefing by Akira Kiyota, Director and Representative Executive Officer, Group CEO, Japan Exchange Group, Inc., on February 21, 2018

First, I would like to talk about the candidates for directors and executive officers. Our new management team takes office from April 1. The tenure of current JPX executive officers ends on March 31, 2018. The same applies to TSE, OSE, and JSCC (JPX Group companies).

I would like to begin with JPX.

Mr. Yoshinori Karino will leave the positions of senior executive officer at JPX and TSE, as well as of director and senior executive officer at OSE.

Next, I will move to TSE.

Mr. Satoshi Takura, who is currently director of the IT Development Department at OSE, will assume the positions of executive officer at TSE and OSE overseeing IT Development (Information).

Mr. Mikio Hinoide, who is currently director of the Risk Management Office at JSCC, will assume the positions of executive officer at TSE, OSE and JSCC and be responsible for Tokyo Site Contingency in Osaka.

Next, for retiring members, in addition to Senior Executive Officer Mr. Karino whom I mentioned earlier, Mr. Masayuki Murata will also be leaving his executive officer post.

There will also be a change in title for Mr. Moriyuki Iwanaga, who is currently a director and senior executive officer at TSE. He will assume the position of executive vice president, overseeing Equities Business Development in addition to Equities and Financial Literacy Support.

Now, I shall move on to OSE.

Mr. Kazuo Fukuda, who is a senior executive officer, will assume the posts of director and senior executive officer, adding on Osaka Site Contingency as a new area of responsibility.

As I mentioned, Mr. Takura and Mr. Hinoide will assume new positions as executive officers. Mr. Takura will oversee IT Development (Derivatives) and Mr. Hinoide for Market Operations.

Lastly, there is JSCC.

Mr. Hinoide will assume the post of executive officer responsible for Tokyo Site Contingency.

Executive Officer Mr. Tatsuya Kamiki will be retiring from his post at JSCC and remain as an executive officer responsible for IT Services at TSE and

OSE and Tokyo Site Contingency at TSE.

For more information about areas of responsibilities of the new team, please refer to the relevant handout.

Next, I would like to talk about "Principles for Preventing Corporate Scandals".

JPX-R has published "Principles for Preventing Corporate Scandals" and started inviting public comments today.

In recent years, the media has reported that a large number of corporate scandals have emerged at listed companies. These scandals not only injure the reputation and corporate value of the company but can also eventually damage the credibility of a capital market where such corporate scandals occur.

JPX-R published the "Principles for Responding to Corporate Scandals" in February 2016, which presented guidelines on how to address corporate scandals to immediately restore confidence and unequivocally recover corporate value.

However, it is becoming increasingly necessary for listed companies to take effective measures to prevent the occurrence of corporate scandals. Thus, JPX-R has established principles for measures before the fact in order to support listed companies in preventing corporate scandals.

[Q&A]

Q: As U.S. long-term interest rates and VIX rose since the beginning of February, stock prices around the world plummeted and fluctuated. Could you give us your comments on the market fluctuation and the rising yen?

A: The market was very strong with stock prices in the U.S. and other countries hitting record highs since last year and that of Japan reaching a 26-year high. Stock prices around the world have largely fallen since the beginning of February after the sharp drop in the U.S. stock market.

I assume that this was triggered by the results of U.S. jobs data, which were far better than expected. Wage growth had been slow for a long time despite a favorable job climate but saw a significant year-on-year boost which made investors wary of interest rate rises.

More investors became cautious about rising U.S. government spending and large tax cuts, as well as additional issuance of U.S. government bonds and lower confidence in the currency associated with a worsening fiscal situation, among other factors. The DJIA plunged 1,175 points. Although the percentage loss was hardly historic, it was the largest point decline ever.

Moreover, within a couple of days after that, it fell again by more than 1,000 points. Global markets were largely shaken by the successive plunges, but U.S. stock prices have begun to recover since then. They may take a while to stabilize but are unlikely to keep falling.

Stock prices tend to rise when corporate performance or economic conditions are good. They are currently falling, because such conditions are too good, which means that the fall is associated with factors other than corporate value.

As investors considered U.S. stock prices relatively high in terms of PER, I believe that the market just waited for a chance to be corrected and would not continue its decline. Having hit a 26-year high, the stock market in Japan has entered a large correction territory as with that of the U.S. Thus, it will also take time to stabilize.

Unlike the U.S. stock market, Japanese stocks were not overvalued. The P/E ratio was in the 14 to 15 range, and then fell further to around 12, which can be considered undervalued. As such, I don't think we need to be too wary of Japanese stock price movements.

The exchange rate, however, which you brought up in your second question, may have an adverse effect on corporate performance in the future. The yen has slightly weakened since yesterday, but it had once moved to between JPY 111 and 114 and then temporarily appreciated to the JPY 105 level. As such, it may also take time to stabilize.

As U.S. interest rate rose, so did expectations of a stronger U.S. dollar against the yen, which was reflected by greater differences in interest rates.

However, receding concerns over deteriorating fiscal conditions in the U.S. and over diminished confidence in the currency can be thought to have contributed to the growing movement to buy back previously sold off yen and unload U.S. dollars.

Still, as BOJ Governor Kuroda was nominated for another term, it is

expected that Japan will continue its monetary easing while the U.S. will continue pulling back its program. As such, the yen will not endlessly continue to appreciate against the U.S. dollar. It will stabilize. I know it is a positive outlook, but this is how I view the market.

Q: The registration scheme for low latency traders will be adopted this coming April in light of the revised Financial Instruments and Exchange Act. How many traders who currently trade on TSE and/or OSE would be required to register? Will JPX provide any support to or conduct on-going monitoring of such traders? Has the FSA issued any instructions on the matter?

A: Approximately 60 to 70 low latency traders are expected to register. The introduction of the registration scheme for low latency trading is part of a global trend, not only in Japan but also in the U.S. and Europe. Securities firms did not know details of low latency trading transactions, which alarmed general investors who often casted low latency traders as villains. When the market fluctuated, we did not know details of transactions low latency traders made. However, with the introduction of the registration regime, we will be able to obtain information on how and when low latency trading transactions are made after names of investors are aggregated. As each low latency trader will have a unique code, low latency trading transactions will be more transparent. Low latency traders will no longer be suspected of making and be less likely to make undue profits.

It is common knowledge that low latency trading firms main role is to serve as market makers who trade various stocks tens of thousands of times on a daily basis to accumulate small profit. Thus, low latency traders have no objection to the introduction of the regime.

Q: I would like to ask about cryptocurrency. At the previous media briefing, you mentioned that you did not have a negative view of cryptocurrencies per se and understood that some viewed the area as promising as long as it was based on safety and reliability. The cryptocurrency industry is planning to set up a self-regulatory body. While the securities industry regards having such a function as normal,

the cryptocurrency industry has no such function, which is being considered a problem. Could you share your comments on this development?

A: When I was asked for comments on cryptocurrency at the last media briefing, I said that the issue of how each company was supposed to manage cryptocurrency has nothing to do with the issue of the reliability of a cryptocurrency itself and that I did not reject cryptocurrencies per se. Also, as the area seems promising, we look forward to monitoring the developments.

The media reported that the cryptocurrency industry was planning to establish a self-regulatory function. Such a function will increase transparency in transactions of cryptocurrencies.

Price formation of cryptocurrencies is more like that of negotiated transactions over the counter than that of markets of securities exchanges. Bonds in Japan, including JGBs, are traded over the counter. Everyone now trusts the price formation, but the bond market was not that great from the beginning. In fact, the bond market only started to enjoy liquidity from 1977. Thus, concerning price formation or other issues, even though the current cryptocurrency market is not that great, that does not mean the market may not prosper in the future.

Having said that, unlike bonds, their products are not centrally managed by a certain body and do not have things like yields that are clearly presented as economic returns. Thus, investors might suffer unexpected losses unless they fully understand the risks in terms of reliability and transparency of prices formed through negotiated transactions. I hope people invest with caution. They should determine whether to invest or not with careful consideration.

Q: I have two questions. The first one is about the changes in the management team. Have the members for the new fiscal year been fixed?

The second question is about your efforts to realize the listing of Saudi Aramco in Tokyo. Has there been any breakthrough in the negotiations? If not, does JPX have plans to take any action?

A: Regarding the new management team, as the next fiscal year is the final year of the Medium-Term Management Plan, we are not planning to make any significant changes to our plan. Still, there might be some minor adjustments in terms of outside directors, for example. As such, technically speaking, it has not been completely fixed, but changes in personnel have been completed.

Regarding the listing of Saudi Aramco, we all heard that the company had selected the exchanges where it wanted to list on last fall and was poised to launch its IPO within 2018. Various events have occurred since then. For instance, then Deputy Crown Prince Mohammed bin Salman (MBS) has become the Crown Prince, and there are political issues, according to the media. I have heard such political issues may slow down the process.

The situation might have changed since then Deputy Crown Prince MBS came to Japan. However, every time there was news or rumors spread that not TSE but somewhere else might be selected for the IPO, or that the company might give up its plan to list its shares and instead offer part of them to a gigantic Chinese investor, our staff has contacted the company or the Saudi government. The only answers we received were always that their plan has remained the same or that they have yet to reach a conclusion. In the interim, Aramco has also contacted our staff to ask about practical matters or confirm certain inquiries, which means that no final decisions have been made yet.

Moreover, when it comes to launching an IPO valued at possibly JPY 10 trillion or more, there are not very many markets that can attract and absorb such an enormous listing at once on their own. Even in Japan, which has a huge capital market, the largest public offering ever was about JPY 2.5 trillion by NTT DoCoMo. Thus, the Japan market can handle an IPO valued at JPY 2 to 3 trillion without any problem, but not one possibly worth JPY 10 trillion. I think it is pretty hard to handle such a large IPO at a single exchange.

In terms of the market size of the Saudi Stock Exchange (Tadawul), its market capitalization is JPY 40 or 50 trillion. Thus, if Saudi Aramco is going to indeed launch its IPO, it should do so on huge global markets. However, we know nothing about whether Saudi Aramco will be able to complete preparations to list its shares on multiple markets

at the same time despite the differences in accounting standards and languages or about which markets it is going to select. We mean to continue showcasing the Japanese market's attractiveness, which lies in its diverse retail investor base.