



Japan Exchange Group, Inc.

Earnings Conference for FY2023

May 1, 2024 11:00～11:30

Takahashi: Thank you very much for joining us today despite your busy schedules. We are beginning the Japan Exchange Group's conference call for the mid-term management plan 2024, update for FY2024, and FY2023 earnings. This time, the event is being held in a hybrid format, combining a physical venue and a live webinar broadcast.

First, regarding today's proceedings, we will start with our presentation, followed by a Q&A session. Please note that the transcript and the English translation of both the presentation and the Q&A will be prepared by our group company, SCRIPTS Asia, and will be distributed and posted on our website.

Next, I would like to introduce our attendees. We have Yamaji Hiromi, Director and Representative Executive Officer, Group CEO. We also have Tabata Atsushi, Senior Executive Officer .

First, Mr. Yamaji will explain an overview of the mid-term management plan 2024, the update for FY2024, and FY2023 earnings.

I . Medium-Term Management Plan 2024

Update for FY2024



Yamaji: I am Yamaji, the Group CEO of Japan Exchange Group. Today, I will first discuss the FY2024 update of the mid-term management plan 2024.

JPX formulated the three-year mid-term management plan 2024 in March 2022 and has been advancing its initiatives under the slogan, "Exchange & Beyond". We are now two years into the three-year plan. As is customary, we update the plan annually based on the current environmental changes, and I will explain the key points of this update.

Policy Updates Moving Into the Final Year of the Plan

Updated Policy

- While paying attention to various changes in its business environment and signs of such changes, JPX will maintain the overall framework of the Medium-Term Management Plan 2024 and, moving into the final year of the plan, complete its initiatives in focus areas.
- In light of the government's new policies such as "Promoting Japan as a Leading Asset Management Center" and the launch of the new NISA, JPX will expand its activities related to these in order to play a more proactive role than before in the realization of government policy and invigoration of the financial and capital markets.
- JPX will also use this year to prepare for the second stage of progress toward our long-term vision (the next Management Plan from FY2025) with various discussions and research and strengthening of internal structures and investment with a mind to further progress in the next plan.

Please look at the update policy. This fiscal year marks the final year of the plan. While keeping an eye on changes in the business environment, including revisions to the Bank of Japan's monetary policy, we will maintain the overall direction of the plan and steadily complete our initiatives in focus areas.

In light of the government's new policies such as "Promoting Japan as a Leading Asset Management Center" and the launch of the new NISA, we will expand related measures to invigorate the market. Furthermore, we will make various considerations, and strengthen internal structures and investments aimed at further progress in the next plan.

Focus 1 | Review of the First/Second Years of the Plan and Main Activities for the Final Year

■ We will support sustainable growth and value enhancement of companies and encourage mid- to long-term asset building among the public through the provision of attractive products as well as financial and economic education, thereby contributing to the "virtuous cycle of growth and distribution" that the Doubling Asset-based Incomes Plan aims for.

	Review of the First/Second Years of the Plan	Main Activities for the Final Year
Develop an environment that supports sustainable growth at companies	<ul style="list-style-type: none"> Requested that companies take actions to implement management that is conscious of cost of capital and stock price Examined ways to make the Growth Market better fulfill its functions Published outline of specifications for mandatory English disclosure Published outline of specifications for the revisions to the quarterly disclosure system Launched JPX Prime 150 Index and listed linked index futures and ETFs Revised listing rules and other rules regarding IPOs Conducted capital and business alliance agreement with Minsetsu, Inc. and made SCRIPTS Asia, K.K. a wholly owned subsidiary 	<ul style="list-style-type: none"> Promoting management that is conscious of cost of capital and constructive dialogue between listed companies and investors Advancing efforts to make the Growth Market better fulfill its functions Implementing measures to support efforts by listed companies to enhance their corporate value Promoting the use and adoption of the JPX Prime 150 Index Promoting constructive dialogue between listed companies and investors with SCRIPTS Asia, K.K., ICI, Inc. and Minsetsu, Inc.
Develop products and rules to contribute to asset formation	<ul style="list-style-type: none"> Listed active ETFs Optimized tick sizes for medium liquidity stocks Requested issuers to lower investment units and removed the minimum desired investment unit level Advanced TOPIX revisions Launched "JPX Manebu Lab," a comprehensive financial and economic education portal site that provides information from a fair and neutral standpoint 	<ul style="list-style-type: none"> Exploring further development of active ETFs Steadily implementing the transition of TOPIX and determining rules for post-transition In light of the launch of the new NISA among other factors, promoting the appeal of Japanese stocks through collaboration with industry players Further promoting financial and economic education in cooperation with related organizations
Further improve convenience and resilience as a market infrastructure	<ul style="list-style-type: none"> Advanced development for upgrading the cash equity trading system Completed construction of the secondary data center in the Kansai area in preparation for the predicted large earthquake under Tokyo Conducted a global drill to simulate the potential default of a large-sized financial institution (Global Fire Drill) 	<ul style="list-style-type: none"> Upgrading the cash equity trading system and extending trading hours along with the upgrade Enhancing effectiveness of the BCP system to improve resilience

In the following pages, I would like to briefly touch on the key points for the final year of the plan, which are highlighted in yellow.

We are committed to steadily implementing measures such as promoting management that is conscious of cost of capital and constructive dialogue between listed companies and investors, promoting the appeal of Japanese stocks, upgrading the cash equity trading system scheduled for November 5 this year, and implementing associated measures such as the extension of trading hours.

Focus 2 | Review of the First/Second Years of the Plan and Main Activities for the Final Year

- We will further invigorate the derivatives market through the enhancement of interest rate derivatives and small lot products, as well as creating new markets and services utilizing digital technology and using information in a more sophisticated way, thereby contributing to the efficiency of asset management.

	Review of the First/Second Years of the Plan	Main Activities for the Final Year
Strengthen functionality of interest rate-related markets	<ul style="list-style-type: none"> Listed short term interest rate futures linked to the Bank of Japan's TONA Introduced cross margining between short-term interest rate futures and interest rate swaps 	<ul style="list-style-type: none"> Enhancing convenience of interest rate-related derivatives and increasing their liquidity
Invigorate the derivatives market	<ul style="list-style-type: none"> Launched holiday trading to enhance investor convenience by providing hedging opportunities Listed Nikkei 225 micro Futures and Nikkei 225 mini Options Introduced a new margin calculation method (VaR Method) for futures and options 	<ul style="list-style-type: none"> Research into further improving convenience of small lot products Changing derivatives trading hours in light of the extension of cash equity trading hours Starting development of the next generation derivatives trading system to enhance the derivatives market Promoting use of single stock options, e.g., improving convenience for retail investors Considering introduction of new derivatives products
Advance digitization and enhance information usage	<ul style="list-style-type: none"> Undertook preparation for creating a digital securities market (Digitally Tracked Green Bond, investment in security token platform, etc.) Enhanced paid-for data offering and released J-Quants API (an API data distribution service for individuals and corporations) Started providing information about listed companies using generative AI on a trial basis Implemented DLT technology for settlement by physical delivery and payment of rubber futures contracts Launched multiple indices in response to investment demand 	<ul style="list-style-type: none"> Promoting wider use of Digitally Tracked Green Bonds Considering provision of services to enhance efficiency of primary market for corporate bonds Promoting wider use of J-Quants Further enhancing paid-for data offering and diversifying means of dissemination including by using new channels Creating a portal site to improve convenience of information and data services provided by the entire JPX Group Using blockchain technology to further enhance settlement efficiency and future readiness

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Additionally, from a medium to long-term perspective, we aim to expand the market for new products such as short-term interest rate futures that were listed last year, and to promote and increase the adoption of new data services.

Focus 3 | Review of the First/Second Years of the Plan and Main Activities for the Final Year

- We will contribute to the creation of a sustainable society by promoting sustainable finance through the use of ESG-related information or other means.

	Review of the First/Second Years of the Plan	Main Activities for the Final Year
Strengthen dissemination of sustainability-related information	<ul style="list-style-type: none"> Launched ESG Bond Information Platform to improve convenience for market users and visibility of the products Officially launched "JPX ESG Link," which provides a list of links to reports containing ESG information 	<ul style="list-style-type: none"> Enhancing convenience of the ESG Bond Information Platform by strengthening its functions Considering initiatives on sustainability-related information such as provision of services to support listed companies' disclosure Participating in global discussions within the financial sector about climate-related information and transition to a low-carbon economy
Calculate ESG indices and list related ETFs/futures	<ul style="list-style-type: none"> With FTSE, launched FTSE JPX Net Zero Japan Index Series, an index series using environmental metrics Listed futures on ESG-related indices Reviewed contract unit of Silver Futures and Palladium Futures to enhance convenience of trading 	<ul style="list-style-type: none"> Raising awareness of ESG-related indices and futures and discussing measures to further increase and enhance their product-lineups
Vitalize the energy market, advance the creation of an emissions trading market	<ul style="list-style-type: none"> Launched Electricity Futures as a permanent listing and started trading of weekly contracts Signed MoU with Japan Electric Power Exchange (JEPX) Launched LNG Futures as a trial listing Launched a carbon credit market and trialed a market maker scheme 	<ul style="list-style-type: none"> Promoting the electricity futures market and collaborating on specific projects with JEPX Preparing for a permanent listing of LNG Futures Implementing rules for stimulating the carbon credit market and discussing new products to make available for trading

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Furthermore, we plan to steadily advance initiatives aimed at evolving into a global comprehensive finance and information platform, which is our long-term vision. This includes promoting the electricity futures market and a carbon credit market.

Financial Targets, CAPEX, and Capital Policy

- We have achieved our financial targets before the final year begins.
- We will maintain appropriate management of expenses by prioritizing projects, while continuing to invest for stable market operations and future growth.

	Financial targets for the final fiscal year	FY2023 results	FY2024 forecast
Operating Revenue	JPY 147.0 bil.	JPY 152.8 bil.	JPY 152.0 bil.
Net Income (attributable to owners of the parent company)	JPY 53.0 bil.	JPY 60.8 bil.	JPY 53.5 bil.
ROE	At least 15%	19.0%	Approx. 16%

CAPEX
<ul style="list-style-type: none"> While working on enhancing market convenience and resilience, we will invest in building the foundations of a global, comprehensive finance and information platform.
<p>Total CAPEX over 3 years Approx. JPY 50 bil.</p>

- Capital policy**
- Support the sustainable development and evolution of the market by making constant investment while keeping a balance between shareholder returns and financial resilience for stable market operations
 - Irrespective of market conditions, maintain **ROE of 10%** exceeding capital cost over the mid- to long-term

- Return to shareholders
- Dividend payout ratio of approx. 60%**
 - Flexibly implement further shareholder returns in consideration of future investments, etc.



Regarding financial targets, I will explain the details of the financial results later. Due to increasing interest in Japanese stocks both domestically and internationally, trading in the Japanese stock market has been performing well, and we have achieved the financial targets set in the mid-term management plan 2024 ahead of schedule, without waiting for the final year of the plan.

This fiscal year, we aim to continue controlling costs effectively through prioritization of projects, while also maintaining stable market operations and investing in further growth for the future.

That concludes the update on the mid-term management plan.

II. Overview of Earnings for FY2023 [IFRS] (April 1, 2023 – March 31, 2024)

* This document is not subject to the audit procedures required under the Financial Instruments and Exchange Act.
Please note that its contents have not been audited on a consolidated basis in accordance with the Act as of the time of disclosure.



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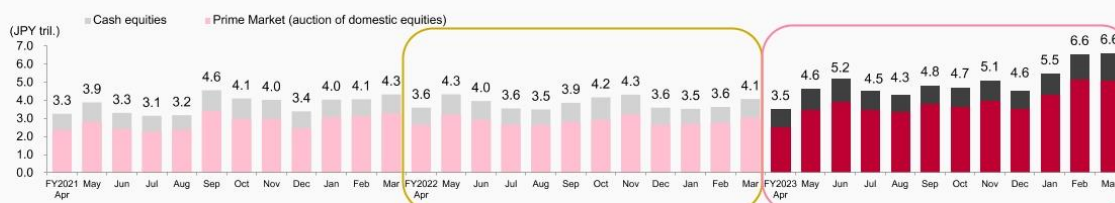
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Next, I will provide an overview of the FY2023 financial results.

Market Trends (Cash Equities)



Cash Equities Average Daily Trading Value (April 2021 – March 2024)



Daily Average Trading Value by Market Division (JPY)

		FY2021	FY2022	FY2023	
		Annual Ave.	Annual Ave.	Annual Ave.	y/y
Auction	Prime Market (prev. 1st Sec.) Domestic Stocks* ¹	2.78 tril.	2.85 tril.	3.87 tril.	+35.8 %
	Standard Market (prev. 2nd Sec. + JQ Standard) * ¹	77.2 bil.	85.1 bil.	132.0 bil.	+55.0 %
	Growth Market (prev. Mothers + JQ Growth) * ¹	160.9 bil.	142.5 bil.	152.0 bil.	+6.7 %
	ETFs / ETNs	261.1 bil.	251.9 bil.	244.6 bil.	(2.9 %)
Off-auction		425.4 bil.	463.8 bil.	556.4 bil.	+20.0 %
Cash Equities (auction/off-auction) Total* ²		3.76 tril.	3.84 tril.	5.00 tril.	+30.2 %

*¹ Trading value from before April 1, 2022 has been reclassified to match the new market segments.

*² Average daily trading value of auction and off-auction trades of common stock on the Prime, Standard, and Growth Markets (1st/2nd Sections, Mothers, and JASDAQ up to FY2021) and TOKYO PRO Market, as well as ETFs/ETNs/REITs, etc.

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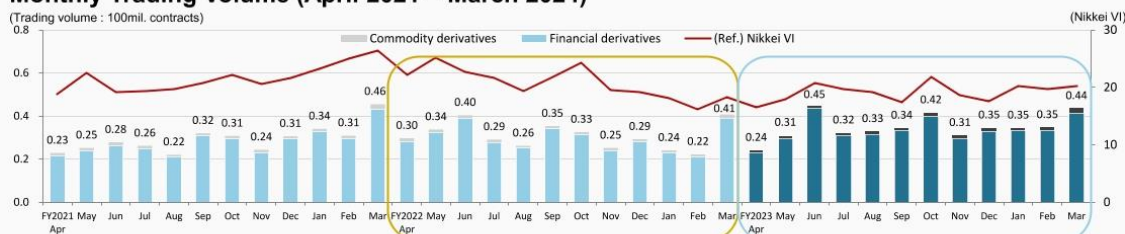
Regarding the trends in the cash equities market, the trading value for FY2023 was buoyant throughout the year, supported by strong stock prices, including the Nikkei 225 reaching an all-time high.

Compared to the previous fiscal year, the trading value increased by 30.2% to JPY5 trillion, marking the third consecutive year of record highs.

Market Trends (Derivatives)



Monthly Trading Volume (April 2021 – March 2024)



Average daily trading volume/value of major products

(Trading volume : 10,000 contracts)

	FY2021	FY2022	FY2023	
	Annual Ave.	Annual Ave.	Annual Ave.	y/y
TOPIX Futures	9.6	10.4	11.1	+6.4 %
Nikkei 225 Futures (Large)	7.6	8.8	8.7	(0.3 %)
Nikkei 225 mini	98.9	104.6	104.6	+0.1 %
Nikkei 225 Options *Excluding Weekly Options.	JPY 23.6 bil.	JPY 25.7 bil.	JPY 26.3 bil.	+2.4 %
10-year JGB Futures	3.3	3.2	4.2	+29.7 %
Total Trading Volume for Financial Derivatives	335 mil. contracts	352 mil. contracts	402 mil. contracts	+13.9 %
Gold Futures (standard)	2.7	2.9	3.3	+16.3 %
Platts Dubai Crude Oil	1.5	0.9	0.7	(16.7 %)
Total Trading Volume for Commodity Derivatives	1,692	1,583	1,772	+11.9 %

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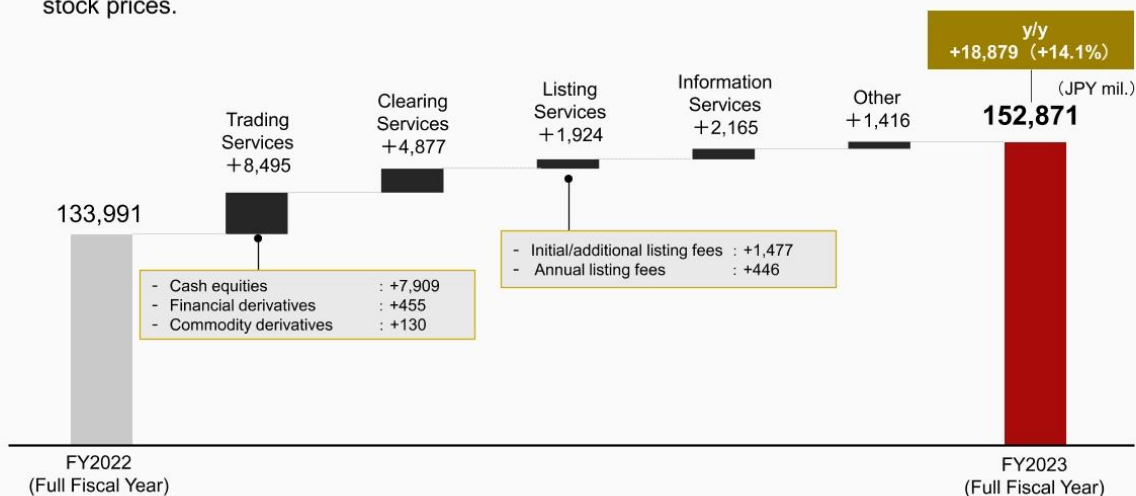
Regarding the trends in the derivatives market, the trading volume of financial derivatives increased due to speculation on the Bank of Japan's monetary policy, with JGB futures trading increasing. Compared to the previous fiscal year, it rose by 13.9% to 402 million contracts.

Additionally, the trading volume of commodity derivatives, including precious metals such as gold futures, has been performing well. Compared to the previous fiscal year, it increased by 11.9% to 17.72 million contracts.

Operating Revenue



- All revenue items increased due to the lively Japanese stock market. In particular, revenue from trading services and clearing services increased significantly.
- Revenue from listing services and information services increased due mainly to the impact of higher stock prices.



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In response to these market trends, the situation with operating revenue has improved as mentioned earlier, with all revenue categories showing increases due to the buoyancy in the Japanese stock market.

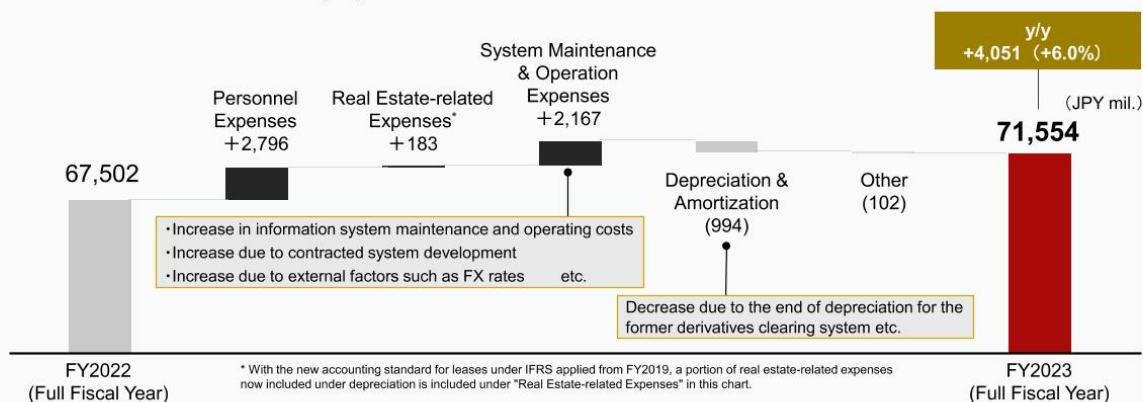
Specifically, there have been significant increases in trading services revenue and clearing services revenue. Additionally, the rising stock prices have led to increases in listing services revenue and information services revenue. Moreover, other operating revenues have also increased.

As a result, the total operating revenue reached JPY152.8 billion, up JPY18.8 billion or 14.1% compared to the previous fiscal year, marking a record high.

Operating Expenses



- Personnel expenses increased due to factors such as wage increases.
- System maintenance and operation expenses increased due to an increase in maintenance and operation expenses for information systems, as well as contracted system development and external factors such as FX rates.
- On the other hand, depreciation & amortization decreased due to the end of depreciation for the former derivatives clearing system.



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Regarding operating expenses, first, personnel expenses have increased due to implemented wage raises. Additionally, system-related expenses have increased due to the maintenance and operation expenses of information systems, as well as contracted system development and external factors such as FX rates.

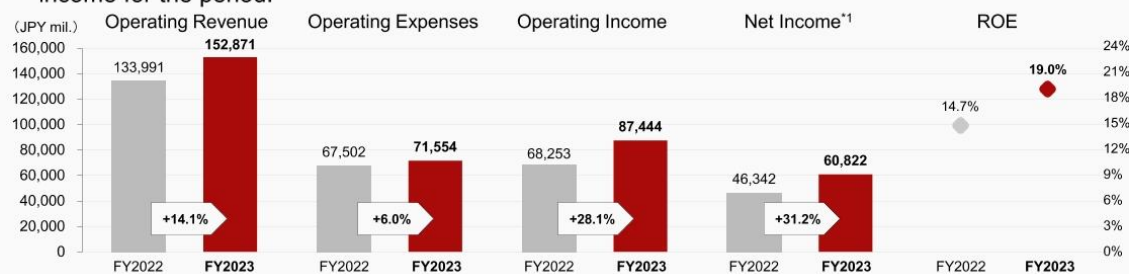
On the other hand, depreciation and amortization expenses have decreased due to the end of depreciation for the former derivatives clearing system.

As a result, total operating expenses amounted to JPY71.5 billion, an increase of JPY4 billion or 6.0% compared to the previous fiscal year.

Highlights



- While there was an increase in operating expenses such as personnel and system maintenance and operation expenses, this was more than offset by an increase in operating revenue due to the lively Japanese stock market, among other things, resulting in a 31.2% year-on-year increase in net income for the period.



^{*1} Net Income attributable to owners of the parent company.

■Average Daily Trading Volume/Value of Major Products

	FY2022	FY2023	
			y/y
Cash Equities ^{*1} (trading value)	JPY 3,836.9 bil.	JPY 4,997.3 bil.	+30.2 %
TOPIX Futures (trading volume)	104,415 contracts	111,051 contracts	+6.4 %
Nikkei 225 Futures ^{*2} (trading volume)	192,187 contracts	192,001 contracts	(0.1 %)
Nikkei 225 Options ^{*3} (trading value)	JPY 25.7 bil.	JPY 26.3 bil.	+2.4 %
10-year JGB Futures (trading volume)	32,191 contracts	41,737 contracts	+29.7 %

^{*1} Average daily trading value of auction and off-auction trades of common stock on the Prime, Standard, and Growth Markets and the TOKYO PRO Market, as well as ETFs/ETNs/REITs, etc.

^{*2} Contracts of Nikkei 225 mini are calculated using a factor of 1/10.

^{*3} Excluding Weekly Options.

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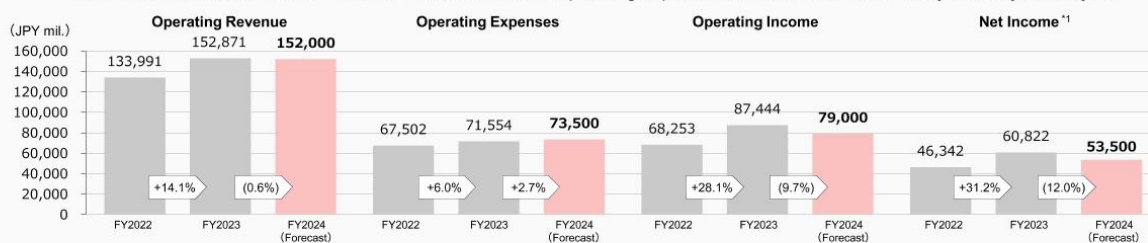
The highlights of the financial results are as follows. As mentioned earlier, while operating expenses increased, primarily due to personnel expenses and system maintenance and operation expenses, the growth in operating revenue, driven by the buoyancy of the Japanese stock market, exceeded the increase in expenses. As a result, operating income reached JPY87.4 billion, an increase of JPY19.1 billion or 28.1% compared to the previous fiscal year.

Furthermore, net income amounted to JPY60.8 billion, an increase of JPY14.4 billion or 31.2%.

FY2024 Forecast



- Operating revenue is expected to be at roughly the same level as the previous year, based on the assumption that the average daily trading value of cash equities will be at the same level as the previous year.
- Operating expenses increased by 2.7% year-on-year, mainly because the next-generation cash equities trading system is scheduled to go live in November 2024.
- Operating income decreased by 9.7% year-on-year due to a decrease back down from the previous year, when income was recorded from the sale of some assets, and an increase in operating expenses. Net income decreased by 12.0% year-on-year.



^{*1} Net Income attributable to owners of the parent company.

■Average Daily Trading Volume/Value of Major Products

	FY2022	FY2023		FY2024 (Forecast)	
			y/y		y/y
Cash Equities (trading value) ^{*1}	JPY 3,836.9 bil.	JPY 4,997.3 bil.	+30.2 %	JPY 5 trn.	+0.1 %
TOPIX Futures (trading volume)	104,415 contracts	111,051 contracts	+6.4 %	108,000 contracts	(2.7 %)
Nikkei 225 Futures (trading volume) ^{*2}	192,187 contracts	192,001 contracts	(0.1 %)	189,000 contracts	(1.6 %)
Nikkei 225 Options (trading value) ^{*3}	JPY 25.7 bil.	JPY 26.3 bil.	+2.4 %	JPY 24.5 bil.	(7.0 %)
10-year JGB Futures (trading volume)	32,191 contracts	41,737 contracts	+29.7 %	45,000 contracts	+7.8 %

^{*1} Average daily trading value of auction and off-auction trades of common stock on the Prime, Standard, and Growth Markets and the TOKYO PRO Market, as well as ETFs/ETNs/REITs, etc.

^{*2} Contracts of Nikkei 225 mini are calculated using a factor of 1/10. ^{*3} Excluding Weekly Options.

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For the forecast for FY2024, assuming market conditions are similar to the previous fiscal year, we expect the average daily trading value of cash equities to remain at last year's levels, with operating revenue projected to be approximately JPY152 billion, about the same as the previous year.

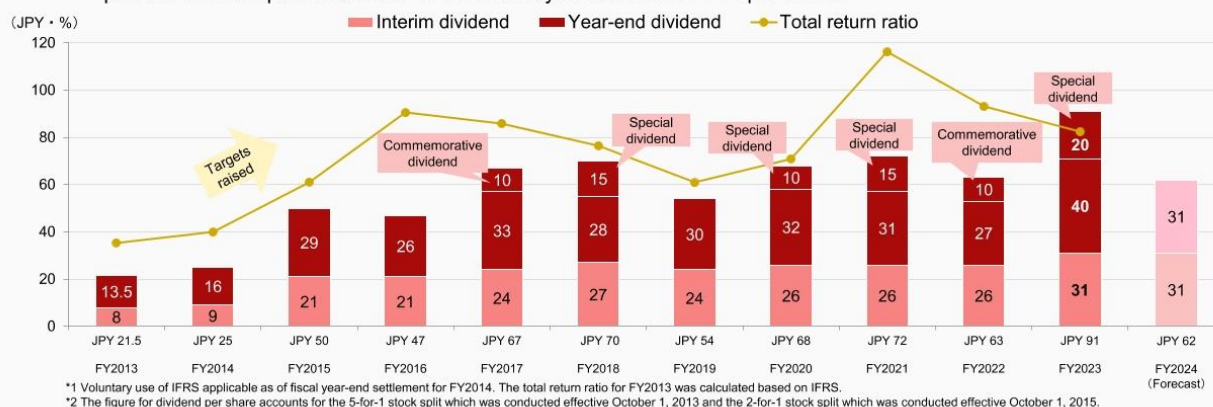
However, due to the planned operation of the new cash equity trading system in November 2024, operating expenses are expected to increase by 2.7% over the previous year to JPY73.5 billion.

Additionally, due to a decrease back down from the previous year, when income was recorded from the sale of some assets, and an increase in operating expenses, operating income is expected to be JPY79 billion, down 9.7% compared to the previous year, and net income is anticipated to be JPY53.5 billion, down 12.0% from the previous year.

Dividends, etc.



- Since FY2015, JPX has raised its target dividend payout ratio from approx. 40% to approx. 60%.
- JPX acquired approx. JPY 20 billion worth of its own shares between each of a) July 2016 and May 2017 and b) April and September 2021. It then acquired JPY 12.6 billion worth of its own shares between January and April 2023.
- For FY2023, as JPX achieved its highest ever net income and achieved the management and financial figures set forth in the Medium-Term Management Plan 2024 one year ahead of schedule, a special dividend of JPY 20 per share will be paid in addition to the ordinary dividend of JPY 71 per share.



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Our basic policy for dividend payout ratio is set at 60%. Based on this, the ordinary dividend for FY2023 will be JPY71 per share for the full year.

Additionally, as I mentioned earlier during the mid-term management plan update, we have achieved the financial targets set in the mid-term management plan 2024, and our performance has reached a record high.

Therefore, as announced in March this year, in appreciation of our shareholders' support, we will implement a special dividend of JPY20 per share, resulting in a total annual dividend of JPY91 per share. For the FY2024, we plan an ordinary dividend of JPY62 per share for the full year.

That concludes my presentation.

Question & Answer

Takahashi: We will now begin the Q&A session. First, could we have a question from the person at the front of the venue?

Watanabe: This is Watanabe from Daiwa Securities. Thank you for your presentation. I have two questions.

First, regarding capital policy. Even considering dividend payouts, it seems there is nearly JPY50 billion in excess capital against a minimum capital level of JPY250 billion. This term, the additional return was limited to a special dividend of JPY20 per share, totaling just over JPY10 billion.

Could you explain how you plan to use this JPY50 billion excess capital? The materials mention that it will be flexibly allocated for additional returns, but could you elaborate on the specific plans?

Tabata: Thank you for your question.

As you pointed out, with respect to shareholder returns and the use of equity, after accounting for the year-end dividend, the necessary equity amounts to just over JPY250 billion, plus approximately JPY30 billion for the year-end dividend, totaling around JPY280 billion plus. This situation leaves us with an excess of about JPY40 billion.

We plan to continue considering shareholder returns while observing opportunities for growth investments, investments, and M&A. Therefore, if you look at FY2023 as a whole, we have issued a special dividend and also conducted a share buyback last spring. In that sense, we believe we are appropriately returning value to shareholders.

On the other hand, there is also a need for as much growth investment as possible. This is something that the board of directors also discusses frequently, and given the relatively good financial results, there is a demand for focusing on growth investments looking forward. So, we are exploring growth opportunities with one eye, while intending to continue returning the excess to shareholders as much as possible.

Watanabe: Just to clarify, should we assume that there are fairly certain items in the growth investment pipeline in the near term?

Tabata: I can't give a definite answer on that part until things are formalized, but we are exploring various possibilities.

Yamaji: Regarding M&A, as you know, it involves a counterpart, and given our nature, we can't just forcefully make things happen. It's difficult to give you a timeline for what can be achieved by a certain time. However, we are considering various investments aimed at growth and have created a shortlist of potential areas to explore.

Watanabe: My second question concerns the benefits of rising interest rates. On the business side, for example, we might see an increase in the trading volume of short-term interest rate futures, or in terms of the balance sheet, an increase in the management profits from deposited collateral. I assume these are possible channels of impact.

For the former, I'd like to know about the upside potential. For the latter, how much would the management profits increase if interest rates rise by a certain amount? If you have any quantitative data, it would be helpful.

Yamaji: This is a point often raised by international investors as well. For instance, we frequently discuss the management profits from various deposits held at JSCC. However, as you know, these are deposits from participants and it's not possible to use them for speculative purposes. We can only invest them in very stable or safe assets.

In Japan, as you are aware, short-term interest rates are no longer negative, but they are not incredibly positive like the dollar, for example. It's quite difficult to predict the revenue that this will generate.

Furthermore, with rising interest rates, it's natural to expect that trading in JGB futures or the TONA futures introduced last year will likely become more active. However, the last time JGB futures and OTC JGB trading were very active was in the 2000s. The market environment has changed significantly since then. For example, the participants known as HFTs had not yet entered the market at that time.

In this sense, the market environment has changed too much. So, I can say that if we assume certain conditions, this will happen, but as to how probable it is, we ourselves cannot be too confident.

However, as I mentioned earlier, whether it's JGB futures or TONA futures, under the current environment, with an increase in investors such as new HFTs, we have already sufficiently increased the capacity of our derivatives trading system. Therefore, we are in a position to benefit from increased trading volumes without further investment.

Niwa: I'm Niwa from Citigroup Global Markets. I have two questions.

Firstly, related to Mr. Watanabe's earlier question about investment and M&A. From the perspective of investment capacity, I would like to know how much we should envision. I understand about the excess capital of JPY40 billion, but I believe there is also borrowing capacity.

In terms of what I'm interested in, my question is not just about the amount, but whether you are considering significant changes that could transform your company's business on a large scale, or if you are thinking more along the lines of supporting organic growth. I would appreciate a comment on this.

Yamaji: Our most important mission is to provide fair trading opportunities and stable market operations. Therefore, if you ask whether we might consider an M&A that could significantly deviate from our primary mission, like one in a different type of business as you mentioned, it's a bit difficult. In that sense, we do consider investments that reinforce our current mission or that slightly push the boundaries.

In response to your question about whether approximately JPY40 billion in capital could go further with leverage, we have received similar questions and opinions from related parties. We are thinking about these issues, considering the profitability of the business and the stability of our current finances.

Niwa: For the second point, from a different perspective, I'm interested in the average daily trading value of cash equities trading. It is assumed to be JPY5 trillion per day in FY2024, and I am wondering if this is sufficient in terms of providing liquidity. Comparatively, I believe that the liquidity and trading volume of Japanese stocks could be higher, even when looking at other developed countries. Is my understanding correct?

Thus, while I understand that JPY5 trillion is reasonable given the current market activity, I am curious whether there is still potential for an upside here. For instance, if the CPI reaches 2% and the Japanese economy truly improves, should we expect further increases in trading volumes from this point, or should we view JPY5 trillion as a potential peak within the cycle?

I've mentioned several points, but I would appreciate your comments on whether you believe sufficient liquidity is being provided.

Yamaji: Indeed, with about 3,800 companies listed on the Tokyo Stock Exchange, the stocks with the highest liquidity are probably those included in the TOPIX100, followed by TOPIX500. For these top-ranked companies, I believe the liquidity is likely sufficient.

Regarding the capacity of our matching engine, such as “arrowhead” for cash equities, even if the volume were to exceed double the current level, it would not compromise stability. Therefore, we aim to continue promoting the attractiveness of Japan’s market and our current position and goals, both domestically and internationally, to encourage more use from investors.

However, I believe there is still room for improvement in liquidity for companies outside the top 1,000. Therefore, there are challenges that even if the exchange vigorously promotes these companies, it amounts to little if investors do not follow suit.

We have been facilitating initiatives like realizing management conscious of capital costs and stock prices, always aiming to provide investors with useful information. We intend to continue these efforts moving forward.

Niwa: As a follow-up question, what conditions do you see as necessary for increasing the trading value?

Yamaji: Trading value is calculated by multiplying stock price by trading volume. For example, if we talk about the current figures, the TOPIX is around 2,700 points, and the Nikkei 225 is about 38,000 yen today. Thus, even if the same number of shares were traded, the trading value would be higher now compared to last year at this time, when the Nikkei 225 was probably around 28,000 yen.

Therefore, as stock prices increase, the transaction value increases even with the same number of shares traded. In this way, an increase in stock prices under the current circumstances can lead to higher trading value. Additionally, increasing the trading volume can also raise the trading value.

However, we cannot easily control whether stock prices rise or fall. Therefore, in that sense, it will continue to be necessary to convey the appeal of Japanese companies and the Japanese market to both domestic and international investors to increase trading volume.

Niwa: I’d like to inquire about the ROE in consideration for your next mid-term plan. I believe that targeting an ROE above the current 15% or higher might be feasible. Could you share your thoughts on this?

Tabata:

Regarding ROE, for FY2023, performance was very good, and we also had some asset sales, so it was 19%. For FY2024, based on the already published performance forecasts, ROE is about 16%. We would like to hear the views of investors and shareholders on this, and decide how to proceed based on these opinions.

Takahashi: Thank you. It seems we have addressed all questions, so we will conclude the Q&A session here.

This concludes today’s conference call. Thank you very much for your participation.

[END]
