

Summary of Q&A at JPX FY2017 Financial Results Briefing

(held on May 7, 2018)

(1)

Q : You announced your plan to sell your stake in Singapore Exchange (SGX) while announcing trilateral memorandum of understanding among JPX, Korea Exchange, and Taiwan Stock Exchange Corporation. What made you reach these decisions and how are you going to use the proceeds from the sale of SGX shares?

A : Japan's Corporate Governance Code was introduced in June 2015 when I became the CEO. Considering the principles of the Code, TSE now requires listed companies to adopt management practices that focus on capital efficiency and costs. We set up a project team to discuss the possibility of business cooperation after discussing benefits of holding SGX shares and talking with SGX's CEO. We reached the conclusion that the existing cooperative relationship with SGX would continue even without holding the shares of SGX and decided to sell the shares.

At around the same time, a trilateral memorandum of understanding (MOU) was signed among three exchanges in Asia, which is a completely separate matter. Under the MOU, the three exchanges will cooperate through information sharing, personnel exchanges, and joint market promotion.

JPX will sell the shares over a period of three years at an expected asset inflow of approximately JPY 10 billion annually. We will make strategic use of said inflows as needed. If equity capital exceeds the required amount, we will flexibly increase returns to shareholders by providing a special dividend or acquiring our own shares.

(2)

Q : You set a target increase in operating revenue of JPY 15 billion regardless of market conditions in the 2nd Medium-Term Management Plan. What progress has been made after two years since the release of the Plan and are there any updated target figures?

A : Please understand that it is quite difficult to split revenue increase into that resulting from JPX's own efforts and from cyclical economic fluctuations of the market; however, let me explain our revenue increases in three business areas: cash equities, derivatives, and new/peripheral businesses. For our new/peripheral businesses, we see a higher-than-expected increase in revenues due in part to inflows from OTC clearing services, system provision to Tokyo Commodity Exchange, index licensing, and usage of a network to connect to JPX systems. Such growth is expected to continue in FY2018. Revenues from cash equities business have also increased as much as expected, while revenues from derivatives business fell slightly short of the expected figures. Consequently, we expect the increase in overall operating revenue for FY2018 will be as expected at the time when the 2nd Medium-Term Management Plan was released.

(3)

Q : When comparing with the earnings forecast for FY2018 and the initial target figures in the 2nd Medium-Term Management Plan, operating revenue and income remain unchanged, while the assumptions used in the forecasts, such as the average daily trading value of cash equities, are set higher in the forecasts for FY2018. If operating revenue is expected to increase by JPY 15 billion as planned, don't you think the revenue and income forecasts for FY2018 are rather conservative?

A : Among the aforementioned three business areas, revenues from new/peripheral businesses have grown much more than expected, and for cash equity business, we have revised the average daily trading value, which is the assumption used in the forecasts, to JPY 3.45 trillion. For derivatives businesses, on the other hand, the average daily trading values and volumes have come short of previous expectations. Thus, please understand that, despite the increase in assumption for cash equities trading, the earnings forecast remains unchanged due to other factors.

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Q : Regarding shareholder returns, are there updates on whether any progress has been made on your examining the required capital for Japan Securities Clearing Corporation (JSCC)? Also, are there any factors, other than the required capital for JSCC, affecting your shareholder return policy, such as an investment plan in your next Medium-Term Management Plan?

A : We have yet to reach a decision on our response to global regulatory guidance related to the central clearing party, but we are close to setting our direction. Based on such circumstances, we decided to pay a commemorative dividend. We will make a final decision on our response by the end of June 2018.

As for our investment, the capital expenditure made in FY2017 amounted to approx. JPY 14 billion. We expect the capital expenditure made in FY2018 would increase by several billion yen at a maximum. However, there is a possibility that the investment amount will be slightly less after discussions with market participants and other relevant parties.

(5)

Q : What are the possible risks related to dark pools for JPX?

A : In the US and European countries, dark pools are regulated as markets. On the other hand, in Japan, there is no framework for regulating dark pools as markets. Although dark pools are essentially functioning as markets in Japan, transactions at dark pools are put forward to the TSE ToSTNeT market for execution; and, as such, those transactions are called dark pool transactions. Therefore, JPX's revenue is not necessarily totally reduced by the amount of profit that would otherwise come from orders that flows out to dark pools.

Although there would be slight concern if dark pools expand as over-the-counter transactions for professional players such as institutional investors, there are possible cases where it is difficult to know whether dark pool transactions are advantageous or disadvantageous for individual investors, because it takes time for the completion of transactions, for example. In this sense, I think that we will need to address the issue of dark pools in a cautious manner.

However, there are also functions that only dark pools can provide; and, as such, we cannot completely rule them out.

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Q : What is JPX's policy for responding to cryptocurrencies?

A : It is very difficult to calculate and evaluate the value of cryptocurrencies, and the method of their accounting processing is yet to be determined internationally or domestically. As such, we hope that listed companies will carefully deal with the issue of handling cryptocurrencies and ICO. We at JPX would also like to take a very careful approach for the time being in terms of market credibility. Meanwhile, we have been conducting proof of concept (PoC) testing for distributed ledger technology (DLT), which is an infrastructural technology for cryptocurrencies, in cooperation with a wide range of stakeholders in the financial industry. Going forward, we will proactively continue to work on making use of technology developments.

(7)

Q : What impact does MiFID II have on JPX as a listed company? Is it affecting JPX's approach for investors? Doesn't the MiFID II implementation provide business chances to JPX?

A : So far, there has been no large impact on JPX. However, we will have a close look at any possible impact. With regard to the latter aspect, some overseas investors have provided us with various proposals on businesses such as having JPX charge TSE-listed companies to arrange IR activities for them. However, we have to take into account the regulations over the scope of exchange businesses.

(8)

Q : I have a question in connection with the review of current market sections for listed companies, which is one of the initiatives listed in the 2nd Medium-Term Management Plan. What is the meaning for maintaining the two markets for emerging companies with different listing standards from a medium- to long-term viewpoint?

A : With respect to Mothers and JASDAQ, their historical backgrounds and features differ, and we also need to consider possible impacts on ETFs and investment trusts linked to stock price indices based on these two markets. As such, there are very difficult issues to address if we were to integrate these markets. We are contemplating the idea of gathering insights from experts on what the market sections should be like. Presently, however, we are not yet in a phase where we can formulate a specific plan to integrate the two markets.