

Summary of Q&A at JPX FY2017 Q2 Financial Results Briefing

(held on October 31, 2017)

(1)

Q : Regarding your capital policy, please tell us why you have decided to put off announcing a share buyback this time. Is this because your stock price or valuation is now slightly expensive or you have already achieved your targeted capital structure balance?

A : Besides the two points you mention, (as an exchange group with a clearing organization) we are also examining our response to global regulatory guidance related to clearing organizations, which covers matters including tools to replenish the financial resources a clearing organization has for guaranteeing clearing when they have been exhausted. We are targeting next spring to reach a decision on our direction, based on which we will then think about our capital.

(2)

Q : Can you share with us how much progress has been made on the operating revenue target set out in the 2nd Medium-Term Management Plan, and also your view on how this might change over the next fiscal year?

A : We are making steady progress in our peripheral businesses. On the other hand, our derivatives business is struggling with factors including lower volatility levels worldwide. If we look at overseas exchanges, we see relative growth in commodity and energy derivatives, while activity in financial derivatives is comparatively low. I think future volatility levels will have some impact on our earnings for the next fiscal year.

(3)

Q : Is there any update on anything related to realizing the "comprehensive exchange" concept, such as consolidation with TOCOM ?

A : We continue to explore this area, but I have nothing particular update you on.

(4)

Q : Will the effect of the cost reductions from more effective system operations also carry over into the final year of the 2nd Medium-Term Management Plan?

A : Yes, we expect the effect to continue into the next fiscal year. However, to take in another perspective, we will also be seeing a cost increase from the launch of our clearing systems, which is scheduled from next year onward.

(5)

Q : Give us an idea of how much will be put into system investment, for instance, how much more will be needed over a certain period or the year-on-year increase from this year.

A : In our 2nd Medium-Term Management Plan, we set out to make capex totaling JPY 46 billion until the end of the next fiscal year. In FY2016, we spent about JPY 10 billion, and for FY2017, we are planning to spend somewhere slightly above JPY 15 billion. While some parts of our FY2018 capex plans are still fluid, I expect it to be about JPY one to two billion above that for FY2017. This is a current estimate, and it may be subject to change.

(6)

Q : The impact from better systems efficiency in H1 was from the cash equities side. Can we expect any further impact on overall earnings from improved systems efficiency for derivatives?

A : The cost reductions from improved systems efficiency come from both the cash equities and derivatives sides, with derivatives contributing slightly more. However, the profit structure for the derivatives business is largely driven by trading, and this cannot be adjusted based on costs.

(7)

Q : How will exchanges change due to FinTech?

A : We are currently involved in an industry consortium for proof of concept testing. There are about 30 participating financial institutions, and they can bring their experimental projects onto the platform for testing. We have received two proposals for projects on KYC operations and trade confirmation, and they are now being tested.

We think that we can apply the technology in future to raise the efficiency of some exchange operations.

(8)

Q : There are moves to list derivatives on cryptocurrencies overseas. Is there a chance for something related to cryptocurrencies to raise your top line?

A : We are studying cryptocurrencies and related areas. However, to list such products for trading by the general public at the exchange, there must be a set of rules and regulations to create a coherent regulatory framework. Thus, we understand that it will be hard to achieve without a more established environment.

(9)

Q : Trading of TOPIX futures and 10-year JGB futures are growing. Do you see a sign of changes in the market structure? Does your earnings forecast reflect such structural changes?

A : Activity in 10-year JGB futures is still largely affected by interest rates. However, trading volumes in TOPIX futures have exceeded that of large Nikkei 225 futures contracts. Other than the impact of BOJ purchases of TOPIX-linked ETFs, we assume that the structure has perhaps started to change, including the increase in passive investment.

With regard to our assumptions in the earnings forecast, we have yet to have firm evidence of whether the current market conditions are cyclical or that the structure has started to change. Thus, we revised the trading value and volume assumptions based on the results of the first half of the fiscal year.