

Summary of Q&A at JPX FY2021 Q2 Financial Results Briefing

(Held on October 28, 2021)

(1)

Q: Concerning the FY2021 forecasts, you revised operating revenue upward by JPY 1 billion and operating expenses downward by JPY 500 million. Tell us your reasons for revising each item.

A: We revised these based on trends in H1 FY2021.

For operating revenue, we reviewed trading value for cash equities and trading volume for the derivatives market, upon which the earnings forecast is based. At the same time, we revised the full-year forecasts for revenues from listing services and information services based on trends in H1.

For operating expenses, the results from H1 were lower than those expected in the initial forecast. However, as we have various initiatives we are planning to set up for the new Medium-Term Management Plan starting in the next fiscal year, an unused portion from H1 was added to H2.

(2)

Q: Regarding capital policy, why did not you purchase your own shares this time? Are there any changes in the positive policies and approaches you indicated for M&A deals in the areas of information services and indices?

A: The acquisition of JPY 20 billion of our own shares which was announced in April this year was just completed in September. We will continue considering the option of acquisitions based on the business environment and required levels of equity capital, among other aspects. As we are formulating the next Medium-Term Management Plan, the required levels of capital and funds will be clarified as the new management policies and other details of the Plan become clear, so acquisitions of own shares will be determined based on these.

For M&A deals, we are unable to talk about anything specific due to the nature of the information, but that does not mean we have excluded the possibility, and we continue to explore various opportunities.

(3)

Q: Operating expenses for H1 FY2021 were JPY 30.2 billion while the forecast for H2 is JPY 34.3 billion, an increase of approx. JPY 4 billion. What factors are you expecting here? Will expenses continue increasing from the next term onward?

A: In light of our expenses structure, operating expenses for the first and second halves of a fiscal year are not the same, and there is an assumption that operating expenses for H2 are larger. We will also have expenses for our plans such as replacement of the JGB OTC Transaction Clearing System in January 2022. In addition, we have calculated these assumptions in light of the fact that we will be moving to a new Medium-Term Management Plan, but these expenses are a one-off and not ongoing.

(4)

Q: For the next Medium-Term Management Plan, are you considering how you will communicate with respect to results and goals from a long-term perspective, greater than the current 3-year cycle?

A: As we are just at the stage of discussing the next Medium-Term Management Plan internally, please understand that details are yet to be determined as of now.

(5)

Q: Can additional shareholder returns such as acquisition of own shares be implemented "flexibly" as indicated in the Medium-Term Management Plan in H2 of this fiscal year? Or should we consider this to be a transition period to the next Medium-Term Management Plan? Could you tell us your thoughts on this, if possible?

A: In terms of shareholder returns, we have always thought that we should not hold excessive capital or cash, while considering our business environment. We are currently discussing and formulating the next Medium-Term Management Plan, but there is no change in our policy on shareholder returns, which targets a dividend payout ratio of approximately 60% and flexibly considers further shareholder returns while taking into account future investments such as M&A.

(6)

Q: I can understand that the trading volume of derivatives decreased due to market conditions, but it has been gradually decreasing for the last three years. What do you think is the problem? Is your investment excessive? What are you discussing to evaluate profitability?

A: Trading volume of financial derivatives reached 412 million contracts in FY2019. In the first year of the current Medium-Term Management Plan, it surpassed the assumption used in the earnings forecast for the final fiscal year of the Plan, but has been gradually decreasing ever since. As our derivatives products are mostly related to Japanese stock indices, their structure means that unless volatility of Japanese stocks rises, trading volume decreases. Therefore, we are trying to expand the product lineup.

In terms of commodity derivatives, we applied to the regulator for approval to transfer the status of electricity futures from trial to permanent listing. We are also preparing for the launch of LNG futures in April 2022. Including these, we would like to gradually increase the number of products and trading volume.

Furthermore, as a measure to promote trading, we will increase the number of trading days by starting holiday trading in the autumn of 2022. We plan to increase trading through this measure by effectively using existing resources and not incurring large additional costs.

Also, as there is an issue that some trading participants do not connect their systems for market participation, we are devising a way to reduce system-related costs for trading participants through consulting with external system vendors. Also, we have continued to reach out to a wide range of investors to broaden the investor base.

Thus, we are working for expansion in the three areas of product lineup, trading hours, and trading participants and investors.

As for investment returns, while trading volume is decreasing, in terms of the relationship between capital allotted to and earnings from OSE, which handles derivatives, we understand that returns are surpassing capital cost as assumed by JPX.

(7)

Q: Please tell us the forecast for system costs for the next term onwards - what systems are going to be upgraded or replaced next year and how will they affect costs in the future? As depreciation for some items will end, how will you achieve a balance?

A: JPX systems, which require a large amount of investment, are upgraded approximately every five years. Also, the project to relocate the backup data center from Kanto to Kansai is scheduled to complete for the most part in FY2022. All these things considered, we expect that system-related costs including depreciation and system maintenance/operation costs will peak in FY2022.

(8)

Q: How do you evaluate JPX systems compared to those of overseas exchanges in terms of technology and cost?

A: Currently, JPX's main operation systems consist of the cash equities trading system developed with Fujitsu, the derivatives trading system which uses a slightly customized NASDAQ system, and the clearing systems which also use existing overseas systems.

In the course of using overseas systems and knowing their functions and costs, we have understood that using existing overseas systems does not always reduce costs, and that as there are many areas for which information is unavailable, it is hard to handle them in many cases such as in the event of a system failure. Therefore, we are considering

the usage of overseas systems taking into account such characteristics.