

Summary of Q & A at Japan Exchange Group
Medium-Term Management Plan 2024 Briefing

(Held on April 1, 2022)

(1)

Q: The operating revenue target for FY2024 is an increase of JPY 11.5 billion compared to the full-year earnings forecast for FY2021. Please tell us which aspects will work as positive factors towards this, and what assumptions of market conditions you are basing this on.

A: We classify our businesses into three main areas: cash equity market, derivatives market, and other areas.

First of all, trading volume in the cash equity market is based on factors including the average growth rate of trading after the launch of JPX in 2013.

Estimates of trading volume in the derivatives market are based on normal trading volumes discounting the impact caused by, among other things, the Ukraine situation in the last fiscal year, while also taking into consideration the expected impact of our own efforts through the implementation of our initiatives.

Trading volumes are conservatively estimated for both cash equity and derivatives markets, as there is a possibility of an upward swing due to unforeseen circumstances in the future.

On the other hand, most of our business areas other than cash equity and derivatives markets, such as information services, are being taken on by the newly established JPX Market Innovation & Research, Inc (JPXI). We intend to strategically expand these businesses.

As a result, we expect most of the increase in operating revenue to come from areas other than the cash equity and derivatives markets.

(2)

Q: The total shareholder return ratio was higher in FY2021. In this regard, have you changed your capital policy? In addition, please provide us with your comments on the M&A pipeline going forward.

A: We have not changed our capital policy.

FY2021 was the last year of our 3rd Medium-Term Management Plan. We are now expected to achieve our financial targets for the second consecutive year, and, in addition, with the support of our shareholders, we were able to steadily progress with our core strategies including the market restructuring of Tokyo Stock

Exchange. To express our gratitude for this, we have decided to pay a special dividend. Since we also acquired our own shares in FY2021, it was a year in which shareholder returns were concentrated. In this respect, we have simply followed our current capital policy by flexibly implementing further shareholder returns while considering matters such as investment in future growth.

On the topic of M&A pipelines, while we are always looking at possibilities, we are not currently operating with a specific target in mind.

(3)

Q: What kind of digital securities do you have in mind for the creation of a digital securities market? For example, can we presume that both bonds and shares will be eligible for the market? In addition, do you expect to work with securities companies to encourage issuance of the securities?

A: We announced in February 2022 that we have started looking into the issuance of a "digitally tracked green bond" using security tokens. This is positioned as a test run, and is considered as an important initiative from the perspective of checking the movement of security tokens from issuance through the flow to investors, and from the perspective of ESG as part of Target 2030.

A green bond is just one sample of the possibilities, and going forward, we intend to participate in platform creation as part of the process of establishing a secondary market for digital bonds and shares.

Naturally, it will be important to work with securities companies.

(4)

Q: For IT system investment, please provide us with your forecast of the total amount of capital investment over the three years of the 3rd Medium-Term Management Plan.

In addition, for the purpose of establishing "a global, comprehensive finance and information platform" in the new Medium-Term Management Plan, do you expect system investment by, for example, JPXI, in addition to that for the cash equity trading system and others described in the IT Master Plan? Also, please let us know whether your total amount of investment over three years, including that, will be within the range of JPY 50 billion.

A: The forecast for three years up to the last fiscal year is expected to be in the JPY 44 billion range at this stage, although exact figures will be available after compiling the financial results.

Under the new Medium-Term Management Plan, in addition to the replacement

of the cash equity trading system in FY2024, which accounts for the largest investment, we are considering proactive business development towards the creation of a new platform by JPXI and other areas. We expect that the total investment amount will be within JPY 50 billion, although some of the detailed specifications and cost estimates regarding new functionalities and other aspects are yet to be finalized.

(5)

Q: Please reiterate your thoughts on boosting the market through this cash equity market restructuring.

A: With this market restructuring, the characteristics of each new market segment will be clearly understandable. In addition, incentives to improve corporate value are built into each market segment. Through mid to long-term corporate value improvement at listed companies, we expect that the market capitalization of each company and therefore the Japanese market as a whole will increase, which in turn will expand trading volumes. We consider that this market restructuring can become an engine for revitalizing the market.

(6)

Q: Please tell us whether the 30% increase in net assets held in ETFs, etc. is a minimum target or a level that you need to work hard to achieve.

A: For the development of the ETF market, firstly, since we have confirmed that there is strong demand among domestic financial institutions for using ETFs in the foreign equity and bond sectors and multi-asset sectors, we believe we need to expand the lineup of products for which this demand is clear.

In addition, for the purpose of making it easier for asset management companies to create products, while currently only index-linked ETFs are allowed in the Japanese market, we would like to change the rules so that ETFs other than index-linked ETFs can also be listed.

We will also increase liquidity by actively working to attract market makers.

We believe that these initiatives will make the 30% target fully achievable.

(7)

Q: Please tell us whether the "global, comprehensive finance and information platform" in your long-term vision is something that will impact you financially or more of a conceptual thing.

A: In developing the new Medium-Term Management Plan, as well as discussing again the changes in external circumstances over the mid to long-term, we also

identified what we as JPX need to do by 2030. Amidst the changing environment including digitalization and ESG, we intend to expand our businesses without being bound by the existing regulatory framework and traditional business areas of an exchange, including the creation of markets for digital securities and carbon credits. At the end of this road, we have set the long-term vision of evolving into a global, comprehensive finance and information platform.

(8)

Q: The plan describes “nurturing a company culture that encourages more positive, proactive action” for market-related services. Please tell us your specific plans for and expected effects of this.

A: This is related to question (7). Rather than a culture of giving up on things before we start due to some regulation or other reason, we want to foster a culture that always takes the approach of carefully examining what the obstacles are and then asking ourselves how we can overcome them. We hope you can see that this shows how prepared we are as JPX to meet our target by 2030.

(9)

Q: Please tell us the reason why JPX repurchased a large amount of its own shares in FY2021 after not doing this for the previous three years. Also, what are your thoughts for FY2022?

A: In February 2020, which was near the end of FY2019, the COVID-19 outbreak spread rapidly, causing tensions around the world and uncertainty about economic and market outlooks. Therefore, just as I expect companies around the world were prioritizing securing liquidity and capital, JPX also took a conservative financial management approach to ensure that no matter what happened, there would not be a shortage of capital or funds for the operation of the exchange.

Since then, although COVID-19 has not been contained, the market has moved on in anticipation of economic recovery. Partially because of that, in FY2020 we achieved our financial targets set forth in the 3rd Medium-Term Management Plan ahead of schedule, leading us to pay a special dividend. In line with this, at the end of April 2021, we decided to repurchase our own shares for the portion of capital which was determined to be unnecessary to secure from the perspective of subsequent investment and security.

As we announced in our financial outlook for FY2021 on the 22nd of last month, we will pay a special dividend for FY2021 as well, mainly because we expect to achieve our financial targets set forth in the 3rd Medium-Term Management Plan for

the second consecutive fiscal year.

Additional shareholder returns in FY2022 will be determined flexibly, keeping an eye on, among other things, future investments and our capital situation, in line with past practice.