Summary of Q&A at JPX FY2021 Financial Results Briefing

(Held on April 27, 2022)

(1)

Q: In the forecast of FY2022, operating expenses will increase by JPY 4.8 billion from FY2021. Could you provide a breakdown of this increase?

With regard to system-related expenses, JPX previously explained that they would expect to peak in the JPY 29 billion range in FY2022, but is it correct to assume that the peak level is rising? In addition, system upgrades will be in focus through FY2024. Please tell us the expectations for system-related expenses going forward.

A: The increase in operating expenses can be roughly divided into two parts: slightly more than half is related to systems, and slightly less than half is related to other various initiatives.

We have no major changes to our previous assumptions regarding future system-related expenses in FY2022. Operating expenses are expected to decrease in FY2023 from the previous fiscal year. In FY2024, the cash equity trading system is scheduled for an upgrade, and detailed estimates for development including various functional changes are being calculated, so we are not in a position to make any clear statements regarding trends in expenses.

(2)

Q: Regarding capital policy, what is the thought process behind the decision to only pay a special dividend as additional shareholder returns and not to announce a share buyback?

A: In FY2021, the final year of our 3rd Medium-Term Management Plan, we implemented a share buyback based on the progress of various initiatives and our funding needs at the time, among other things.

FY 2022 is the first year of our new Medium-Term Management Plan, and as explained at the Medium-Term Management Plan briefing held on April 1, we are considering proactive business development towards the creation of a new platform and other initiatives. To this end, we have established a new subsidiary, JPX Market Innovation & Research, and are taking the use of M&A into consideration. We will consider investments in growth as a priority, but since we have no intention of laying aside excessive funds or capital, we would like to be flexible in implementing shareholder returns.

(3)

Q: With regard to your answer to (2) above, even if the immediate M&A pipeline is gone, should we assume that it would be difficult to immediately implement share buyback in the early stages of this new Mid-Term Management Plan period and that we would need to wait for time to pass?

A: The question would be under what circumstances we determine the pipeline has gone; also, our M&A target is not one specific company, not that we do not have other targets. However, we are unable to provide specific details until they are disclosed. We will make a decision with consideration given to the situation.

(4)

Q: Since JPX's financial performance is subject to fluctuations depending on market conditions, perhaps you will introduce DOE (dividend on equity ratio) as an indicator for shareholder returns.

A: As you say, our financial performance is strongly influenced by market conditions. Especially since FY2020, our actual operating revenue and net income have deviated significantly from our original earnings forecast. This was because of a surge in trading due to unforeseen events at the beginning of the period, such as COVID-19, change of prime minister and the situation in Ukraine. We have considered this issue including DOE, but since cash flow fluctuates with financial performance, there are issues concerning how to deal with funding growth investments, including M&A. We hope you understand that the current capital policy is the result of analysis and discussion from these various perspectives.

(5)

Q: Recently, the relevant authorities have issued documents indicating that the initial price of IPOs in Japan has been much higher than the initial offering price. While this matter may not be related to JPX financial results briefings, please tell us how you involve this as an organization that supports the capital market, such as the exchange and the securities industry association.

A: Regarding initial public offering price, the "Working Group on the Pricing Procedure of Initial Offering Price“ was established at the Japan Securities Dealers Association last year after initially being brought up by the relevant authorities. Market participants and university professors participated in the working group, and the Japan Fair Trade Commission also provided their explanation. The report was issued after extensive discussions. The Exchange also participated in the working group as an observer. Based on these discussions and the report by the Japan Securities Dealers Association and other market participants, we recognize that improvement measures will be implemented going forward, and the Exchange intends to take necessary responses based on the report.

(6)

Q: How much do you expect clearing fees to change quantitatively in FY2022 as a result of last fiscal year's fee reductions and other factors?

The trading volume of commodity derivatives was down in FY2021 compared to the previous year. Please tell us about the assumptions regarding trading volume in FY2022.

A: The impact of the reduction in clearing fees will be for the full year starting in FY2022. Accordingly, please understand that the impact will be approximately JPY 1 billion compared to FY2021.

Based on the same approach as financial derivatives, we assume that the trading volume of commodity derivatives will be slightly lower than its actual results in FY2021 and other periods, subtracting trading due to unforeseen circumstances such as the situation in the Ukraine.

(7)

Q: Please tell us about your views on special dividends. Some market observers say that dividends are likely to be reduced if a special dividend is paid, and that it is easier to understand if the dividend is consolidated into a single ordinary dividend.

A: Our basic approach is that we should return excessive capital to shareholders rather than holding on to it for a long period of time. Based on this approach, we make comprehensive decisions about shareholder returns while looking at opportunities for investment in growth. We also consider the circumstances of exchanges overseas, and that overseas investors account for about 40% of our shareholders who mostly prefer returns when profits are generated.

(8)

Q: Please tell us the range of possible investment amounts in M&A.

A: There may be a slight difference between possible investment and the range of investment we are targeting, but we currently envision small to large investments amounting to roughly JPY 100 billion at most.

(9)

Q: I would like to understand the current amount of surplus capital from outside the company. I understand that your financial performance could fluctuate on a flow basis, but I wonder if you might consider something like improving your communication regarding how much is needed on a stock basis.

A: It may not be at a specific level, but we would like to discuss our communication going forward to see if we can offer anything more.

(10)

Q: The stock price of JPX has been corrected recently; what message do you see from this recent stock price movement? When the share buyback was implemented in April 2021, we were told that the stock price of JPX was not overvalued.

A: While it is difficult to comment on stock price levels, at the time of last year’s share buyback, we made our decision based on the level of various indicators related to the overall Japanese stock market, and the level in comparison with overseas exchanges. Since our beta (market sensitivity) is generally around 1, depending on the period, it is affected by the overall stock price movements of Japanese stocks.

A comparison of financial figures and indicators between overseas exchanges and JPX is shown on page 18 of the financial results briefing materials. The table has the operating income margin on the vertical axis and ROE on the horizontal axis. In terms of the balance between operating efficiency and capital efficiency, we believe that JPX is not in a bad position compared to overseas exchanges.