Financial Results Briefing for the Second Quarter of FY2022
Q&A Summary

(Held on October 28, 2022)

(1)

Q : Page 8 of the briefing material shows that 48.9% of the forecasted operating expenses for the fiscal year have been spent in H1, and you said earlier that some expenses planned for H2 were spent ahead of schedule. Does this mean that you have reserved an extra budget as a buffer for H2?

A : Operating expenses may end up being lower than the forecast, but we have not deliberately earmarked an extra budget.

(2)

Q : In relation to system-related expenses, system maintenance and operation expenses and depreciation and amortization expenses for the second quarter are high. You previously estimated that system-related expenses would peak out in FY2022, but what do you make of the current level of expenses, and what is your outlook for the next fiscal year and beyond?

A : With regard to system-related expenses, some differences that existed until the previous fiscal year in the accounting methods used by subsidiaries and the Group have been unified from the current fiscal year. Although system-related expenses appear to have increased significantly from last year, some of this can be attributed to this change in accounting processing.

We expect these expenses to slightly decrease next year as there will be a gap in the system development cycle. In FY2024, however, we are upgrading the equities trading system, arrowhead. This will include significant functional changes including the introduction of the closing auction, so there will be an increase in amortization expenses for arrowhead arising from increased development costs. Saying that, we currently expect that overall system-related expenses will remain at the current level for the next two to three years.

(3)

Q : With regard to capital policy, there have been no significant recent developments in terms of M&As, share buybacks, or similar activities. Can we assume that the company is currently seeking M&A opportunities, and would you please tell us if there have been any changes in M&A targets?

Also, with capital and cash increasing, please again explain your approach to shareholder returns, including share buybacks.

A : Regarding M&As, we are exploring a variety of possibilities. As in the past, we are looking at a variety of targets, both in the traditional exchange business area and in non-traditional exchange business areas, such as data.

We have shared with the Board of Directors the feedback on shareholder returns from our shareholders and investors, and we are exploring what approach we can take in terms of dialogue.

(4)

Q : With respect to the promotion of listing cross-border companies that is set out in the Medium-Term Management Plan 2024, I understand that the IPO situation is very difficult globally, but can you update us your initiatives in this area and your predictions for the future?

A : Our initiatives for IPOs of cross-border companies have two characteristics. The first is that we aim to attract companies that will list solely on our exchange and not those already listed on other exchanges. The second is that we are focusing on Asia.

The exchange cannot execute IPOs by itself, so we are cooperating with many other involved parties such as the securities firms that act as lead underwriters and the audit firms.

We are also being affected by the global downturn and stagnation of the IPO market, but we are expecting a certain number of companies to be listed through this initiative.

(5)

Q : This might slightly overlap with question (3), but will you share something like a target for the capital ratio in the future? Also, when you look at the capital ratio organically, do you compare with, say, global exchanges, or do you decide by looking at accumulated risk capital internally? Also, what kind of discussions do you have about how to account for M&A opportunities?

A : Our traditional approach is to compare our capital ratio with global exchanges to an extent, but mostly to consider the accumulated risks of the company, while also discussing how far to factor in preparedness for M&As and other things. We would like to find some way to communicate with you on this matter.

(6)

Q : Can you share with us the successes and challenges that you have seen following the launch of JPXI and if there are any signs of further shift on these fronts?

A : We are currently reviewing JPXI's existing and future operations. We have made substantial progress since JPXI's launch in spring this year on assessing its businesses and their prospects, including how we can make the businesses profitable and what fields we can and will enter into.

We are aiming to transfer businesses from our exchanges to JPXI without causing any confusion among customers. By next spring, I think we will be able to see a clearer direction as the operational foundations are solidified.

(7)

Q : This may overlap with questions (3) and (5) but are you trying to fundamentally change your approach to managing capital, and within that, are you thinking about further enhancing capital efficiency? What is the timeline for this?

A : What we are doing is trying to understand and share internally about how much should be added to the capital level required based on the risks of the company in order to factor in preparedness for M&As, and then considering how to communicate this with external stakeholders; therefore, we have not fundamentally changed our approach to capital.

The required capital level varies depending on the amount of risk, for example as we expand the holiday trading scheme. Also, if we were to enter a phase where an M&A looks possible, we would not be able to provide shareholder returns beyond the level of capital required for the M&A, so we have to also think about how long that kind of situation would go on for when deliberating.

(8)

Q : Among other types of listed financial institutions, there are many that provide a clear explanation of risks and the required capital level in light of capital regulations, but in the exchange sector, those concepts are less transparent and are difficult to understand. We would like you to provide an analysis of the required capital.

A : The balance sheet structure is significantly different between exchanges and other types of financial institutions. Also, on the capital regulation front, the global regulation imposed on clearing bodies is principles-based, and the regulation structure also differs.

Despite these differences, we would like to organize and discuss how we can better communicate.