

Summary of Q&A at JPX IR Day 2021
Japan Exchange Group, Inc.

(Held on July 6, 2021)

(1)

Q: In relation to the JPX earnings forecast in conjunction with the Tokyo Stock Exchange (TSE) market restructuring, please tell us what kind of earnings sources you have, such as trading fees, and what kind of changes you expect to see with all things considered.

A: (Yamaji) The purpose of the market restructuring is to encourage listed companies to raise corporate value and to enhance the investment appeal of the Japanese market through initiatives including the revision of Japan's Corporate Governance Code. We expect that these initiatives will help expand trading by domestic and overseas investors and reap rewards in the form of profits. However, we do not plan to raise listing-related fees or trading fees for that purpose. We will maintain the current fee levels as a whole even under the new market segments.

(2)

Q: What kind of possibilities are there for expanding commodity derivatives? Is integration of Osaka Exchange (OSE) and Tokyo Commodity Exchange (TOCOM) one of those possibilities?

A: (Iwanaga) We plan expansion in three areas. The first is listed products. We are planning to list CME Group Petroleum IndexTM Futures and another two new products in September 2021 when the next-generation derivatives trading system is launched. We also plan to list products whose notional amounts are slightly smaller. The second is trading participants. Through consulting with a system vendor, we are developing frameworks so that trading participants can prepare their systems for market participation at low cost. The third is trading opportunities. The night session will be extended by 30 minutes to 6:00 a.m. when the next-generation derivatives trading system is launched. In addition, holiday trading will be introduced in September 2022.

Regarding OSE and TOCOM, I think it would be ideal to operate the market within one entity under the same law. On the other hand, as a matter of reality, there are still two separate derivatives markets as a result of how things have happened. At this stage, we are planning to expand TOCOM into a comprehensive energy market.

(3)

Q: Regarding carbon emissions trading, given that there has been movement to establish an exchange in Singapore and that the regulatory authorities in Japan have also started discussions, how is JPX planning to engage in the issue?

A: (Iwanaga) We understand that the regulatory authorities in Japan are considering if and how carbon pricing should be implemented, given the Japanese government's activities towards carbon neutrality. We would like to respond proactively in line with the direction of these policies.

(4)

Q: Do you have any ideas about a timeline for establishing a market for carbon emissions trading? Also, do you think it would be difficult to establish such a market by allowing just futures trading first?

A: (Iwanaga) While the Japanese government has indicated 2050 for the timing of carbon neutrality, there seems to be no confirmed timeline for emissions trading. As such, we do not have a timeline in terms of how we can cooperate at this stage.

With regard to establishing a market, I think it depends on the details of carbon pricing. We are going to respond to this matter not by establishing a market first just for the sake of it, but taking into account discussions by related parties about market expansion.

(5)

Q: The transitional measures for continued listing criteria of the new market segments are set to continue "for the time being", but what is the background for this?

A: (Yamaji) Listed companies will select their own new market segment, but if they do not meet the continued listing criteria for said segment, we will request them to submit a plan on how they will do this. We have not specified a specific period for the transition measures as we need to consider the circumstances of each segment selection, the company's plan to meet the criteria, and subsequent progress on that plan. However, we will be considering this going forward.

(6)

Q: To carry out the revisions of TOPIX and other indices, and measures and responses to these, I think JPX might need to set a period longer than the current 3-year Medium-Term Management Plan. Please tell us how you will set the Medium-Term Management Plan and management goals going forward.

A: (Yamaji) It is true that there are some management issues that we cannot complete in 3 years. On the other hand, since the circumstances that management is based on can change due to drastic changes in the market environment, such as Covid-19 this time, we do not have a concrete plan to extend the period of the Medium-Term Management Plan at this stage.

(7)

Q: Is the amount of IT investment in the next Medium-Term Management Plan expected to increase compared to the current Plan due to the initiatives you have explained? Please tell us if you have anything you can talk about at this stage.

A: (Tabata) The Investigation Committee of Independent Outside Directors that JPX set up in relation to the system failure of October 2020 recommended in their Report that JPX should consider committing even more management resources to IT-related areas. The board of directors will advance discussions on developing the next Medium-Term Management Plan with this recommendation in mind, and I think we will be able to present the details next spring.

(8)

Q: Please tell us your thoughts on the possibility of trading of digital assets being included in JPX's areas of business in the future.

A: (Tabata) Given that digital assets are expanding all over the world, they are considered as a possible business area. We are conducting varied research and are ready to respond quickly. On the other hand, we have established the Digital Market Laboratory for research and development, through which we plan to create, with a slightly broader framework, a concept market which is free from existing restrictions. Through participant usage, we will then be able to identify what we can use for actual business and bring this to reality.

(9)

Q: The Bank of Japan has reported that settlement with overseas institutions using blockchain technology has become technically possible. Is trading of digital assets that are similar to stocks and bonds now technically possible?

A: (Tabata) While it is technically possible, there are some challenges. Aside from regulation, firstly, it is difficult to achieve the kind of execution speed that is currently conducted by high-frequency traders in the stock market. I also understand that conducting DVP settlement would be a big challenge, and in this regard, I think central bank digital currency could be a game changer.

(10)

Q: About 20 years have passed since the exchange market centralization requirement was abolished. Since then, JPX has maintained a high market share among Japanese exchanges, but what are your views on the situation, including whether or not things will change?

A: (Yamaji) We have a considerable sense of danger. Our competitive environment has become tighter, with the gradual increase in market share of PTSs coupled with acquisition of a PTS by an overseas exchange. Accordingly, we think that rather than protecting our market share, it is more important to expand the Japanese market as a whole.

While it tends to be seen that JPX has a large market share and is highly competitive domestically, actually we are facing fierce competition with overseas exchanges. We are planning to take measures including optimizing tick sizes in order to achieve a level playing field (for domestic competition).

(11)

Q: Considering that the negative pressure on trading services revenue of TSE may continue, do you have expectations for any new areas other than trading services revenue?

A: (Yamaji) We have a number of new revenue sources starting to sprout including in the index business and new data services. While these new revenue sources have not grown enough to catch up with the current core pillars of revenue such as trading and listing services revenue, we will keep trying to grow them big.

(12)

Q: Regarding expected earnings growth at OSE, please tell us what kind of drivers there will be – on the commodities side or the financial side?

A: (Iwanaga) For drivers of growth, our basic stance is to put the products for which trading is sure to be stable, financial products, at the center. Regarding financial products, we would like to draw many more transactions to our market by introducing products with smaller notional amounts.

As an addition to this, we think it necessary to increase trading by appealing as a market which can provide a hedging function to investors who need to hedge for price volatility of precious metals and natural resources. We would like to attract trading to the market after making clear the characteristics of TOCOM's energy market.

We will work seriously towards increasing the above-mentioned listed products,

trading participants and trading opportunities in order to achieve growth.