

# JPX Investor Day 2023



## Cash Equity Market

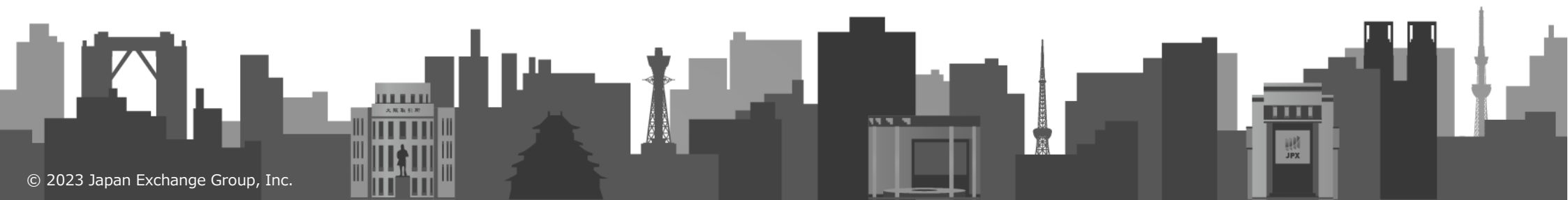
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### Exchange & beyond

Tokyo Stock Exchange, Inc. President & CEO

**Iwanaga Moriyuki**

July 6, 2023



## **1. Listing Services**

## **2. Trading Services**



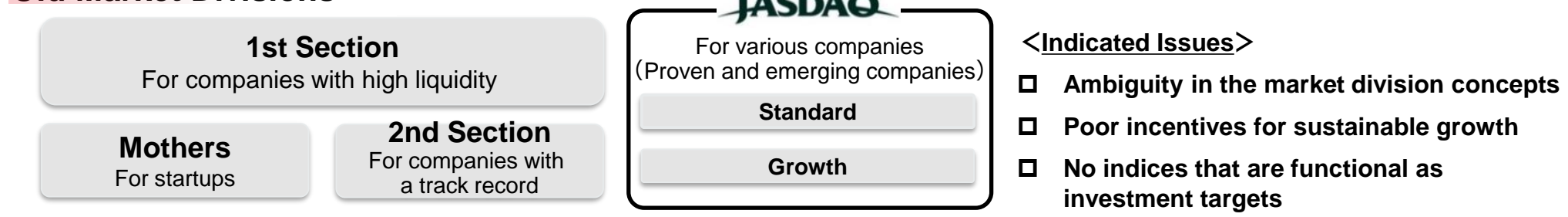
# 1. Listing Services

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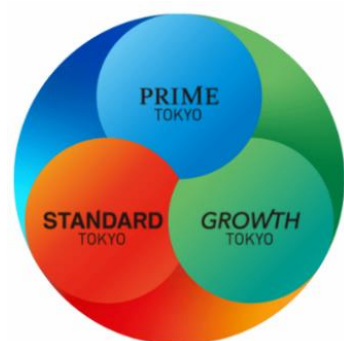
- On April 4, 2022, TSE restructured the cash equity market to incentivize sustainable growth and medium- to long-term corporate value creation at listed companies, thereby providing an attractive market that gains support from various types of investors both domestic and overseas.

## Old Market Divisions



Transition to new market segments on April 4, 2022

## New Market Segments



### Prime

The market for companies with high liquidity and governance standards and a focus on constructive dialogue with global investors

1,833 companies

### Standard

The market for companies with sufficient liquidity and governance standards to invest in a publicly traded market

1,442 companies

### Growth

The Market for companies with high growth potential

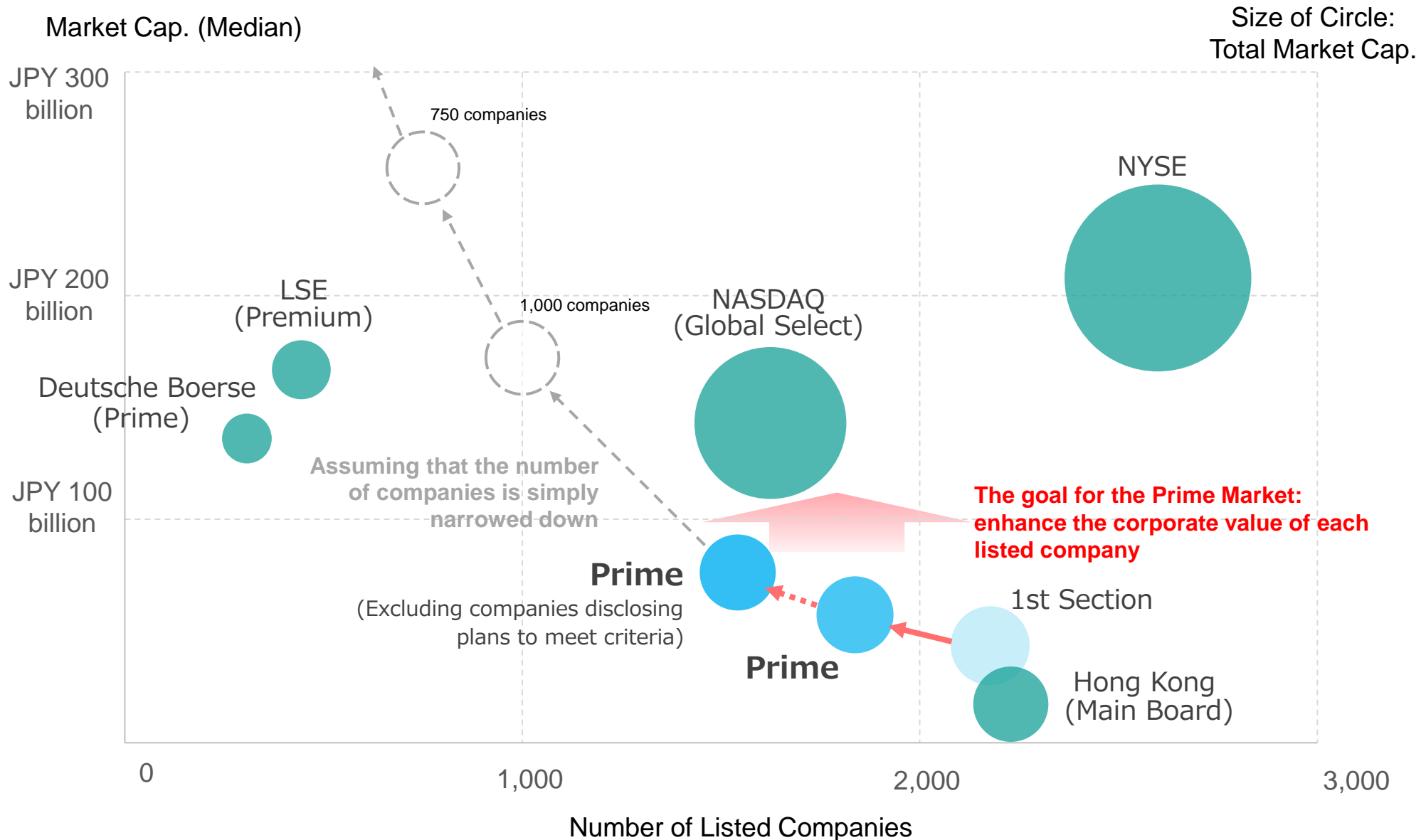
538 companies

### <Basic Concepts>

- ❑ Criteria are set according to the concept of each market segment
- ❑ Initial listing criteria and continued listing criteria for each market segment have been standardized in principle.

(Note) The number of listed companies in each market is as of the end of June 2023. The number of companies applying the grace period (as of the end of December 2022) is 269 for the Prime Market, 200 for the Standard Market, and 41 for the Growth Market, for a total of 510 companies

## Market Cap. (Median) and Number of Listed Companies



Note: TSE (old divisions) as of Apr. 1, 2022, others as of Jul. 1, 2022 (source: each exchange's website)

- To improve the effectiveness of the market restructuring, TSE has established the **“Council of Experts Concerning the Follow-up of Market Restructuring”**.
- In January 2023, TSE published the **"Summary of Discussions on Measures to Improve the Effectiveness of the Market Restructuring"** which summarizes the discussions to date and **"TSE's Future Actions in Response to the Summary of Discussions of the Follow-up Council."** which involve:
  - Clarification of the end date of transitional measures with respect to the continued listing criteria (March 2025)
  - Even for listed companies that are not at risk of violating the continued listing criteria TSE will establish a framework to motivate autonomous actions to enhance their medium- to long-term corporate value, such as by 1) raising awareness and literacy regarding cost of capital and stock price, 2) improving the effectiveness of dialogue with investors, 3) improving the quality of corporate governance, and 4) further expansion of English disclosure practices.



- In March 2023, TSE sent a notice and requests to listed companies regarding the following agenda from the Council: **“Action to Implement Management that is Conscious of Cost of Capital and Stock Price”, “Better Dialogue with Shareholders and Related Disclosure”** and **“Key Points and Examples of “Explanation” That Contribute to Constructive Dialogue”**.
  - ⇒ The council will continue to follow-up on listed companies' responses to these requests. (Report and discussion scheduled for this fall)
  - ⇒ In addition, it will also discuss making English disclosure of necessary information mandatory for companies listed on the Prime Market.

# **(Reference) Examples of opinions and questions received so far**

**(Excerpt of the meeting material of the 10<sup>th</sup> council on April 25, 2023)**

## **Necessity of follow-up on listed companies' response**

- While we see this request as a favorable initiative, it is important to encourage companies to take action in the future so that this does not end with just a formal disclosure. (Foreign investor and others)
- Do you expect that the details of this request will be stipulated in the listing rules, etc. in the future? (Foreign investor and others)
- Investor engagement is key in preventing this request from becoming a formality. It is also important that the number of companies willing to engage in dialogue with investors increases. (Securities Company)

## **Stance on share buybacks and dividend increases in response to this request**

- Many listed companies have asked for advice on how to respond to this request. However, since there is a tendency to take "one-time measures" such as share buybacks, it is necessary to fully inform the public of the purpose of the request. (Securities Company)
- For companies with investment opportunities that exceed their cost of capital, investments should be prioritized, but for companies without such opportunities, the best course of action may be to prioritize shareholder returns over investment in growth. It is important that this perspective be clarified. (Domestic Investor)

## **Stance on PBR (1x)**

- Why did you focus on companies having a PBR of 1x, understanding that it is not just a matter of exceeding 1x? (Foreign investor)
- There are concerns that companies will be short-sighted and think that it is enough to meet a PBR of 1x as a mere formality. A PBR of 1x is only an indicator, and investors are expecting companies to reconsider their sustainable business plans. (Foreign investor)

## **Stance on trends by industry (regarding PBR, ROE, etc.)**

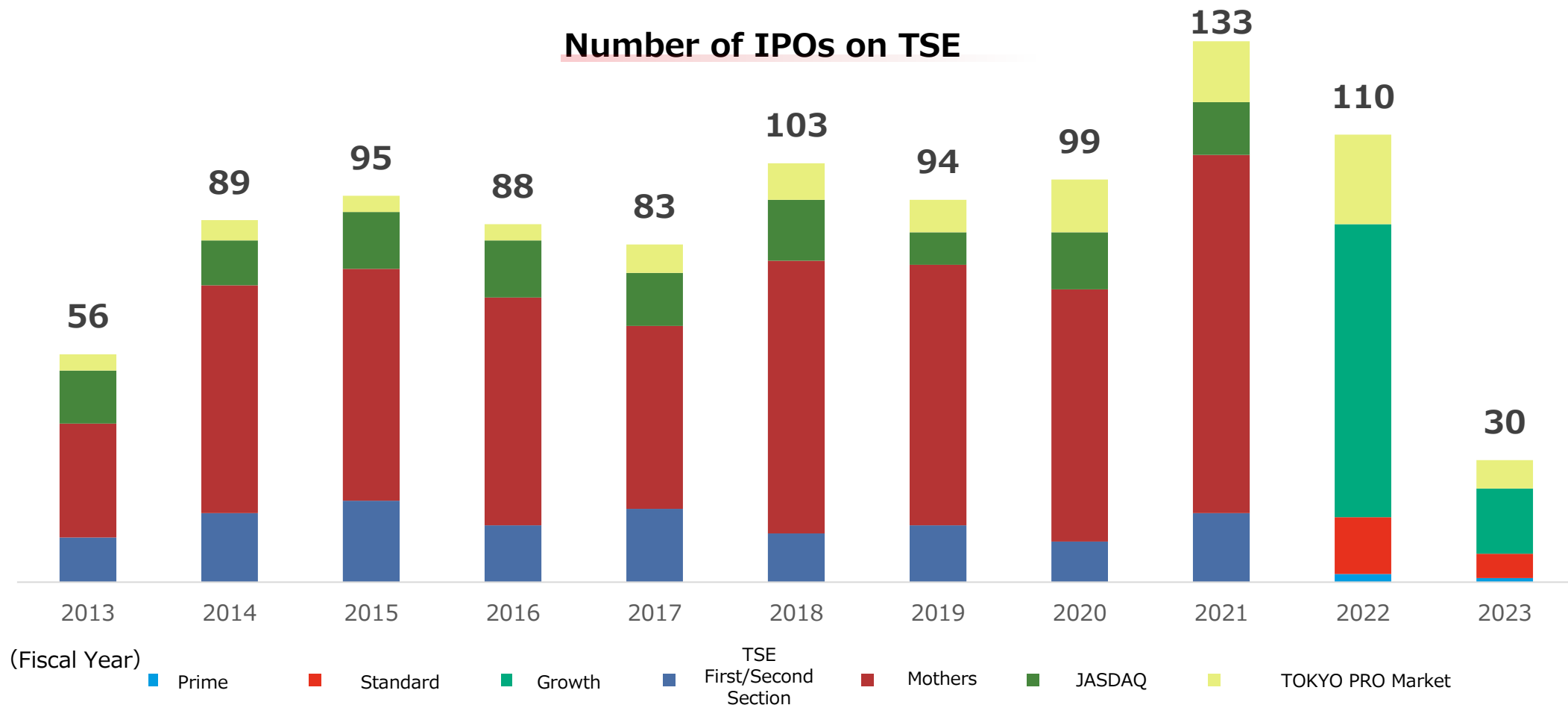
- How should we consider and respond to industry trends with respect to PBR and ROE? (Listed company)

## **Issues and future initiatives regarding the Growth Market**

- This request is for companies listed in the Prime and Standard Markets, but what initiatives will be taken for those in the Growth Market in the future? (Domestic Investor)

# Continued Level of IPOs on TSE

- The number of IPOs on TSE in FY2022 remains high at 110 companies.
- From FY2022, we launched programs for the management of companies aiming for IPO with IPO supporters in each region focusing on the establishment of an IPO ecosystem that contributes to revitalizing regional economies.



Note 1: Includes initial listings on TOKYO PRO Market and does not include listings via TOKYO PRO Market.

Note 2: Number of companies by the end of June for FY2023



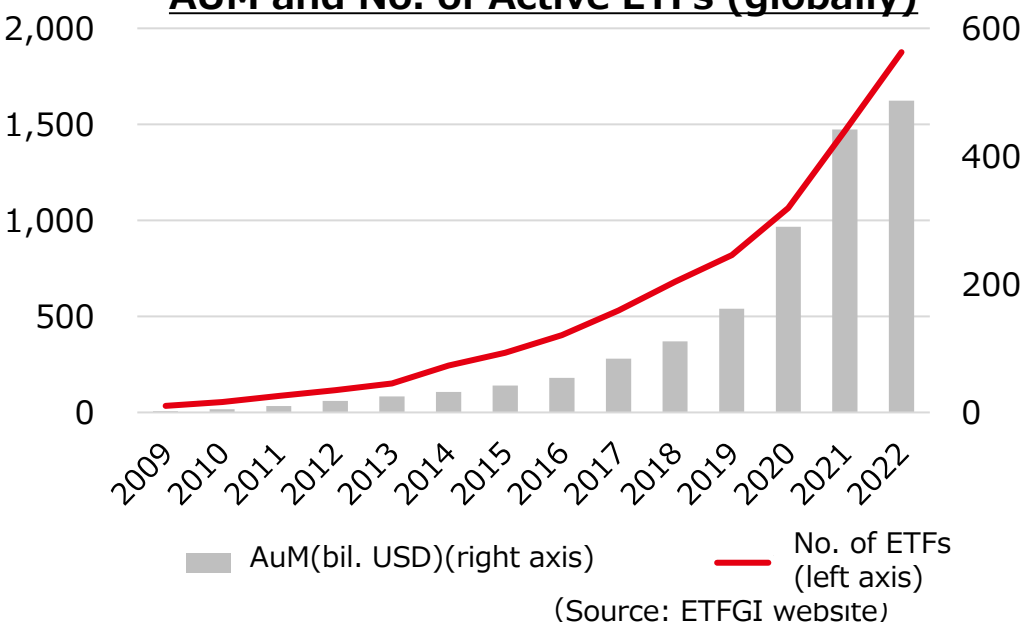
# No. of ETFs (left axis) for Actively Managed ETF

- The market size for **actively managed ETFs, which do not track underlying indicators**, is expanding globally.
- Active ETFs respond to the needs of investors who expect flexibility in product creation and management by investment management firms and they enable management companies to flexibly structure and manage products.
- TSE has developed listing rules for actively managed ETFs, **effective June 30**, in order to maintain and improve its international competitiveness by establishing a system to provide products that accurately meet diversified investment needs.

## Global Expansion of Active ETFs

- **Steady growth** in total assets and the number of active ETFs globally
- The development of listing rules has become a pressing priority to **maintain and improve international competitiveness**.

**AUM and No. of Active ETFs (globally)**



## Characteristics and Comparison of ETFs

	Existing Product Index-linked ETF	New Product TSE Active ETF	(Reference) Active ETF
Listing	Listed		Unlisted
Trading Price	<u>Market price (real-time basis)</u>		Base Price
Investment Objective	Following index	<u>Growth of trust assets</u>	
Flexibility	Low	<u>High</u>	
Management Fee	Low	Medium	High
Disclosure of Portfolio	Daily	<u>Daily</u>	Every fiscal year

## 2. Trading Services

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## ■ Upgrading the cash equity trading system and revision to trading rule

- To enhance resilience and market participants' convenience, TSE plans to revise trading rules for the extension of cash equity trading hours and introduction of the closing auction, etc. at the time of the arrowhead system upgrade on November 5, 2024.
- To ensure that the new system runs smoothly, we promote information provision to market users and system testing.

### Extension of trading hours

- **Trading hours are to be extended by 30 minutes** (closing time changed from 15:00 to 15:30 (JST)) to strengthen resilience and given that the current trading hours are relatively short compared to European, U.S. and other Asian countries.

### Revisions to trading rules, etc.

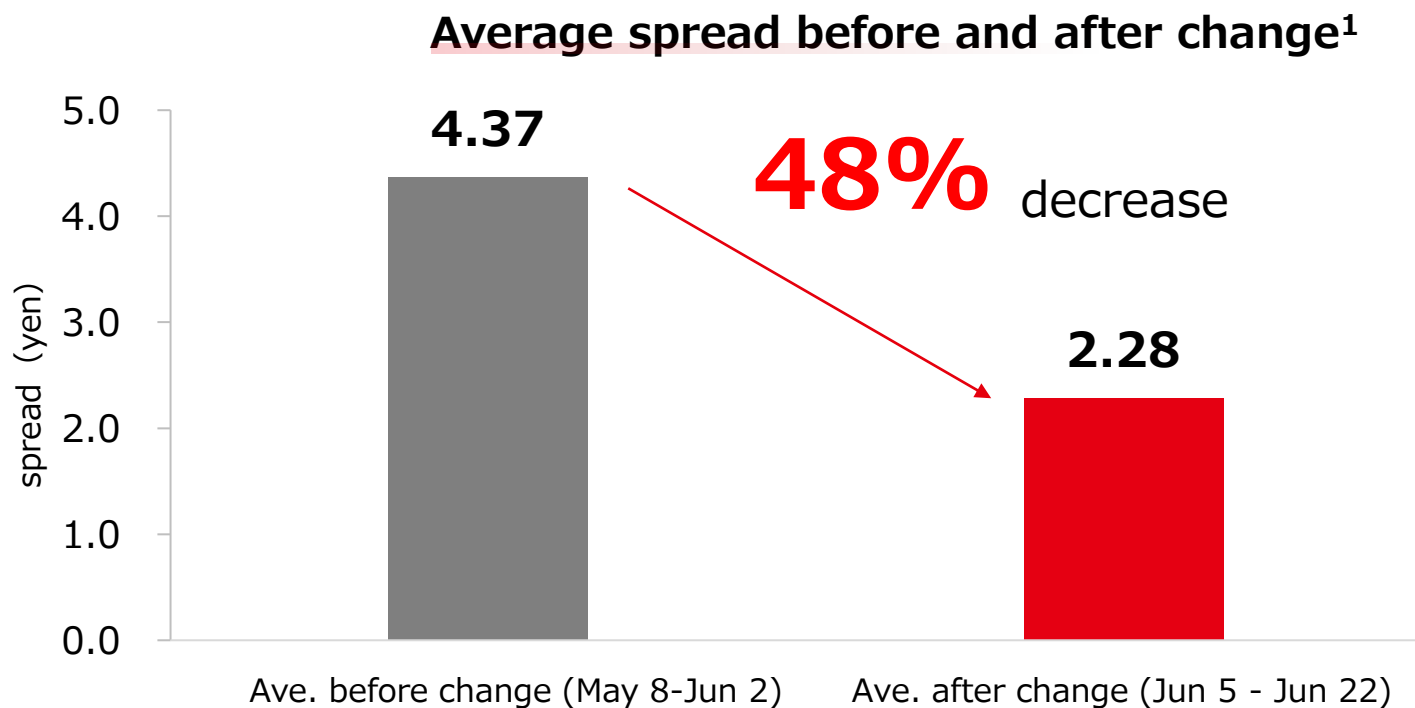
- **Closing auctions are to be introduced** to improve transparency of closing price formation and other processes, as the afternoon close has become increasingly important amid the trend toward passive investment.
- A globally-used way of disseminating market information, **Market By Order, is to be introduced** to enhance convenience of trading by providing more detailed order information.

### Strengthening resilience

- **The time it takes to reboot the system is to be shortened** (from 3 to 1.5 hours).

## ■ Optimization of tick sizes for medium-liquidity issues

- In order to enable investors to execute trades at better prices, TSE optimized tick sizes for medium-liquidity issues (TOPIX Mid400) whose costs related to bids and offers had remained high from a global perspective. (adopted the same table as the TOPIX 100)
- By introducing smaller tick sizes, the spread (difference between bid and offer prices) was lowered.
- Average spread decreased by 48% in the period following this measure



(Source : Tokyo Stock Exchange)

<sup>1</sup> Calculated on time-weighted average of the difference between the best offer price and the best bid price. Average value of TOPIX Mid400 constituent stock is used.

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