Notes on Media Briefing by Akira Kiyota, Director and Representative Executive Officer, Group CEO, Japan Exchange Group, Inc., on March 30, 2018

I have three topics to report today.

First, I would like to talk about the revisions to Japan's Corporate Governance Code on the basis of the recommendations made by the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code.

Since October 2017, said council, for which the FSA and TSE are the joint secretariat, has verified the progress of corporate governance reform.

There was an evaluation that there has been a certain degree of progress in corporate governance reform due in part to the formulation of Japan's Corporate Governance Code. On the other hand, it was pointed out that companies' compliance with the code remains superficial, not accompanied by substance, and that the engagement between companies and investors is limited to a formality.

In light of these indications, the council held a series of discussions and called for revisions to the Corporate Governance Code in order to deepen and make more substantive corporate governance reform through the engagement between companies and investors.

There are five areas for the revisions: (1) Management Decisions in Response to Changes in the Business Environment, (2) Investment Strategy and Financial Management Policy, (3) CEO Appointment/Dismissal and Responsibilities of the Board, (4) Cross-Shareholdings, and (5) Asset Owners.

The purpose of corporate governance reform in Japan lies in the medium- to long-term increase of corporate value through encouraging the management to be decisive. I hope the revisions help realize such improvement.

Second, I refer to the sale of SGX shares that JPX owns

Today, JPX decided to sell, in phases over the course of approximately three years, the shares of Singapore Exchange Limited (SGX) that it owns.

We acquired 53.051 million shares or approximately 4.99% of the number of issued shares at the time of SGX in June 2007, aiming at establishing a cooperative relationship with said exchange.

In August of the same year, a TOPIX-linked ETF was listed on SGX, and TSE and SGX concluded an MOU regarding the promotion and sharing of market surveillance information concerning ETFs. Moreover, the strengthened cooperative relationship resulted in the signing of a letter of intent for mutual cooperation in 2014.

Meanwhile, under Japan's Corporate Governance Code, which was introduced in 2015, if companies hold shares of other listed companies as cross-shareholdings, they have to carefully examine economic rationale and future outlook of such holdings and explain about them.

Against this backdrop, and also in consideration of the intent of the Corporate Governance Code and cooperation with SGX up to the current point, we re-considered the necessity of holding SGX shares. As a result, we reached the conclusion that it is not indispensable to hold SGX shares in order to continue our cooperative relationship with SGX

Details of the method for selling SGX shares will be determined later, but we will sell the shares in installments over the course of approximately three years so as to minimize the impact on the stock price of SGX to the extent possible.

The last topic is the Principles for Preventing Corporate Scandals, which was touched upon at the press conference last month.

As you are aware, in recent years, many scandals of listed companies have been reported by the media. They not only undermine the companies' social reputation and corporate value, but also give rise to concern that the general public and investors will deem corporate governance to be dysfunctional in a market where many scandals occur, which will lead to damaging confidence in the market as a whole.

Due to this, we came to the conclusion that it is necessary for listed companies to make efforts to prevent the occurrence of scandals in an effective manner. Based on this conclusion, JPX-R published a draft version of the Principles for Preventing Corporate Scandals in February. After seeking public comments, etc., these Principles were finalized and published today.

We received many public comments that agreed with these Principles. Although we did not receive dissenting opinions, we received suggestions for revising expressions to make the Principles more easy-to-read and understandable. Thus, we have made some revisions in the final version.

We also made the sample cases more specific to ensure the locus of the problems can be better understood. Other than these modifications, there are no major changes that will impact the purpose of the Principles.

The comments received and our responses to them are posted on the JPX website along with the final version of the Principles.

JPX-R has notified representatives of listed companies of the Principles. As such, we request company directors, including the representatives, auditors, and other officers, to share the purpose and content of the Principles

I hope that the Principles will be shared not only among listed companies but also among those who provide advice, etc. to listed companies, including legal experts and accounting experts, as well as among shareholders and investors, thereby helping to prevent corporate scandals.

We will also engage in activities to raise awareness of and further promulgate the Principles, such as holding seminars and contributing articles to mass media. I would appreciate your support and cooperation in this regard.

[Q&A]

Q: The revised Corporate Governance Code requests such actions as the disclosure of policies on the reduction of cross-shareholdings and diversification of the Board (i.e. including female and/or foreign persons as its members). What are your thoughts on the contents of the revisions?

A: I think that the reduction of cross-shareholdings and diversification of the board of directors were revisions that particularly drew attention.

With respect to the reduction of cross-shareholdings, companies are continuously requested to closely examine the purpose of such holdings and benefits and risks associated with such holdings from the viewpoint of raising capital efficiency and increasing corporate value of listed companies as a whole, and to work on reducing cross-shareholdings if they have no rationality.

Regarding diversity of the board of directors, I think that it is important to increase the number of independent outside directors. Approximately 90% of the 1st Section-listed companies have multiple independent outside directors, but the number of such directors is mostly only two or three. I think that it is necessary for listed companies to appoint more independent outside directors in order to strengthen the functioning of the board of directors. The drafted revisions to the Code have dealt with the issues of diversity such as gender and internationality. For the board of directors to fulfill appropriate functions, it is important to incorporate various viewpoints and values. As such, in considering the composition of the board of directors, we strongly request the top management of listed companies to consider how to address the diversity of inside directors and independent outside directors in terms of their skills, gender and internationality.

The Code will be revised after three years from its introduction. I strongly hope that, triggered by the revisions, the engagement between companies and investors will further develop, which will then contribute to the realization of sustainable corporate growth and medium- to long-term increase of corporate value.

Q: The Trump Administration is intensifying a protectionist movement along with incidents such as a spate of dismissals of high-level officials and the recent imposition of import curbs. What is your thought on the derailment of the Trump Administration, and, in particular, the protectionist movement? What do you think about its potential impact on the global economy?

A: It is rather difficult to answer your question. But, as you pointed out, new reports have stated that high-level government officials were dismissed and decisions on appointment of bureaucrats who will play an important role at the Administration are dragging behind. Although we have recently seen some volatility in U.S. markets, whose conditions are actually very firm. When some said that the Trump Administration might launch a trade war against China, by means of large-scale import curbs, U.S. markets quickly reacted to it. But now the markets are calming down, reflecting the US's real economic power.

If a trade war occurs between the U.S. and China to the demise of both sides, Japan will be greatly affected by such war, because it is a large exporter to both countries. In such a sense, the Japanese market fluctuated more greatly than U.S. markets, but in the last couple of days, the Japanese market seems to have calmed.

In addition, in terms of geopolitical risks, North Korea's proposal to hold a summit talk with the U.S. was accepted, and China and North Korea held a summit talk. Although I have no specific idea for how to interpret these factors, I think that geopolitical tensions, at least, have actually abated.

I am not in a position to give definitive comments on the direction of the Japanese stock market on the basis of the policy of the Trump Administration. However, there is no change in the circumstances where stock prices are rising due to good business performance of Japanese companies. Although the Japanese yen is rising a little against the dollar, considering such good business performance, I think that there is no great concern about further lower prices.

Yet, President Trump hammers unpredictable policy measures, and thus, I think, even U.S. investors have to sharply react to them. It is unavoidable that the business performance of Japanese companies will be affected by the U.S. economy. Also, the ratio of Japanese shares held by foreign investors is approximately 30%, and the ratio of Japanese stock trading value occupied by them reaches 60%. In consideration of these factors, in a sense, it is unavoidable that the Japanese market will be largely affected by U.S. market movements. We at JPX will pay attention to stable market operations even in situations where any large movement occurs or the volatility rises sharply.

Q: I have three questions about the sale of SGX shares. First, why did you decide to sell the shares at this timing? Second, at what stock price were the shares acquired, and what is the current SGX stock price? The third question relates to JPX’s approach to other countries in the region. In terms of cross-border alliance with exchanges in the Asia, will you proactively explore alliance possibilities involving capital relationships? Or do you think that it will be difficult to form cross-border alliances, and that thus you will put your energy into domestic issues in the future?

A: First, I will talk about the reason why JPX decided to sell SGX shares at this timing. I will touch upon the background of acquiring SGX shares. Those days, cross-border M&A's among exchanges were active, and TSE was deliberating on strengthening derivatives businesses before the formation of Japan Exchange Group. Due to these factors, we examined the acquisition of SGX shares from a strategical viewpoint, including the possibility of cooperative relationship with SGX, as SGX had already listed Nikkei 225 futures. Then, we acquired SGX shares. However, although we have made efforts for forming a cooperative relationship through investing capital in SGX, it is comparatively difficult to further deepen the relationship, because both are fundamental infrastructure of their respective nations.

Since assuming the office of Group CEO of JPX Group, I have considered the necessity of holding SGX shares. At the same time, the introduction of Japan's Corporate Governance Code was discussed, and the Code was introduced in June 2015, when I became Group CEO.

I discussed with the SGX's CEO whether there were any specific possible areas for cooperation. In connection with the Corporate Governance Code, if there is no rational reason for cooperation, we cannot explain about the rationality for holding of SGX shares, and I told the CEO that in such a case, we would possibly have to sell SGX shares. Then we launched a project team for mutual cooperation, which resulted in JPX-SGX Co-Location Direct that provides international lines connecting co-location sites of both exchanges. However, we could hardly find further areas for cooperation that would justify the holding of such amount of SGX shares. So we told SGX CEO that we could not avoid selling SGX shares, with which SGX agreed. SGX have said that, although, it hopes our cooperative relationship will continue, that they will not object to sale of the shares. So we have announced said sale at this timing.

With regard to the second question about the stock price, we posted appraisal losses once in 2009. Compared with the post-appraisal price, the SGX stock price rose remarkably. SGX's dividend payout ratio is very high, namely it is approximately 90%. The revenue that JPX received so far, including dividends, showed much better performance in total than revenue from bank deposits in Japanese yen in the era of zero interest rates. In light of capital contribution from shareholders, the revenue performance is not necessarily good. Until five years ago, however, TSE was not a public company, which meant that TSE was not required to generate high ROE. As we recognize that JPX is a listed company, we judged that a holding of shares of another company despite being unable to expect benefits of capital alliance will have rather an adverse benefit on shareholders. This is why we reached the conclusion of selling SGX shares.

With regard to the third question about JPX's future Asian and global strategies after the sale of SGX shares, we will continue to explore cooperation with overseas exchanges and other organizations, not limited to SGX in terms of business alliances and cross listings, etc. Even without holding shares, business alliances and global business deployment are possible. Just recently, JPX, Korea Exchange (KRX), and Taiwan Stock Exchange Corporation (TWSE) announced that they signed an MOU for mutual exchange cooperation and business promotion.

Moreover, we have agreed on listing of TOPIX Futures on CME. I believe that cooperation with other exchanges without holding their shares should not necessarily be limited to those in Asia.

We have a very close relationship with Nasdaq in part because we have introduced J-GATE at OSE. I am discussing with the top management of Nasdaq that if Nasdaq were to enter, for selling their systems and other products/services, into developing countries that are going to establish capital markets, in some cases, we, as a top-class exchange in Asia, will educate related parties in those countries on what the exchange should be like, in cooperation with Nasdaq. Please understand that it will never be the case that we will terminate a global cooperative relationship or deployment just because we let go of shareholdings.

Q: As FY2017 nears its close, I would like you to reflect on market conditions in the fiscal year and share your views on the outlook for FY2018.

A: Looking back the overall market in this fiscal year, it was relatively good. The stock prices were unchanged in the first half, rose in the second half, and slightly adjusted in the end. The Nikkei Stock Average rose by nearly JPY 2,500 from JPY 18,909 at the end of FY2016 to the JPY 21,400 level today.

Our business is directly affected by trading volume of the market. As volatility in the market rose in the latter half of the fiscal year, the trading volume remained firm. Thus, as we announced it the other day, our income will rise above the record high since JPX Group launched five years ago.

Nearing the end of the fiscal year, the market was slow. January jobs data published in February indicated that earnings of workers on payrolls rose 2.9%, which was far better than expected. Investors thought that the Fed would accelerate the pace of tightening its monetary policy. As such, the Dow Jones Industrial Average fell more than USD 1,000, which affected the Japanese market. Then, two qualitatively different risks surfaced at the same time: one for trade war with China and the other for politics in Japan. Thus, the market adjusted.

I mentioned risks in Japanese politics. The market reacted well to Abenomics, because the economic program aimed at putting enhancement of corporate value as the first priority, focusing on stock market and corporate governance, producing a certain effect such as a weaker yen by working with the BOJ to continue the ultra-loose monetary policy, and having an extremely good impact on companies excluding banks with the zero and negative interest policies. The market may have expected that such conditions would be reviewed.

Q: Mr. Kuroda was nominated for another term. The new term for the Kuroda BOJ will begin soon. One of the BOJ's current monetary policies is to buy ETFs, which may be supporting share prices while distorting the market function. Could you tell us about the benefits and concerns of the BOJ’s buying ETFs? What should we pay attention to?

A: The market has settled down after Mr. Kuroda was nominated again with two new deputy governors and based on the assumption that the BOJ's monetary policies will not change. Governor Kuroda mentioned at the Parliament that the BOJ would continue bold monetary easing.

We believe that the BOJ's ETF buying itself produced a certain effect. Particularly in order to eradicate deflationary mindset, the approach provided psychological support for the effectiveness of financial easing by influencing risk premiums of the stock market.

However, as I mentioned at media briefings, the BOJ's purchase program should not continue so long from a long-term perspective. The BOJ's ETF buying is based on a certain level of demands, irrelevant to the actual performance of individual companies. Prolonging the program will affect the market. Still, the program has yet to have a negative effect in our understanding.

The BOJ is buying ETFs only when stock prices declined, which, we see, will not accelerate a negative effect. The BOJ seemed to have made large purchases of ETFs in March as the market conditions were not good. In any case, we feel such a program should not continue for too long even though we have not seen any side effects.

Q: You have yet to answer the previous question about the prospects for the next fiscal year. May I ask your comments again on the outlook for share prices in FY2018?

A: I touched upon it when answering the first question. I may not be in a position to talk about the future prospects for stock prices, policies of the Trump Administration, or other such matters. However, I said that considering that the current policy framework in Japan seems to continue; Abenomics will continue, which means the policies of enhancing corporate value and governance and the BOJ's unique formula for monetary easing will continue; and efforts to overcome deflation and others will continue, then there is no great concern about lower stock prices if we have good business performance of Japanese companies.

From the end of last year though the beginning of this year, many corporate managers and professionals expected that the high for the Nikkei 225 this year would be JPY 26,000, or 27,000, or even 28,000. These figures may be corrected downward slightly.

In the case of mainly retail investors, many of those who would often buy when prices rose and buy when price dipped are now holding back.

There are not only investors who buy shares but also those who sell shares in the market. Through such mechanism, the market will continue to function reliably. The extent to which corporate earnings rise will also be affected by forex rates. As such, investors will react when any event occurs, such as when a company's financial results are released.

Q: First, by when will JPX decide details on how to sell SGX shares? And what kind of options do you have in your mind for such sale?

Second, I think that some listed companies came to conduct ICO in the latter half of FY2017. I understand that you touched upon the issue of ICO last year, but I would like to ask for your thoughts again about whether there is a necessity of regulations, etc. on ICO.

A: Currently, we are considering how to sell the shares, but we will probably entrust such sales to a broker(s), who will conduct such sale using probably VWAP, etc. over the course of three years. We have yet to decide on which broker(s) we will entrust such sale with and the method of such sale.

As for ICO, we are aware that some listed companies are considering ICO, but so far there has not been any listed company that actually conducted ICO.

I have heard that some fraudulent cases occurred in foreign countries. Discussions and deliberations on revisions to the regulation over ICO are currently underway in Japan and foreign countries. In light of these circumstances, I believe that TSE-listed companies should be cautious about conducting ICO.

As listed companies are trusted by society, my basic view is that they should refrain from any actions that will draw the slightest suspicion.