Notes on Media Briefing by Akira Kiyota, Director and Representative Executive Officer, Group CEO, Japan Exchange Group, Inc., on June 20, 2018

We held our AGM today at 10:00 a.m. at Royal Park Hotel in Nihombashi. Some of you may have been monitoring the meeting in a separate room, but I would like to give you a brief summary.

There were responses from 19,614 out of all 47,469 shareholders, including those who were not present but submitted voting forms, for a total of 4,825,925 out of 5,363,328 voting rights exercised.

2,336 shareholders attended the AGM, 298 more than the previous year. Many questions came up, and the meeting closed at 11:53 a.m.

I would also like to report that at the AGM, the proposal on the election of directors was approved in its original form.

Finally, allow me to announce that JPX Group has decided to establish a Sustainability Committee that directly reports to the Group CEO on July 1, 2018.

In recent years, ESG (environmental, social, and governance) investment has increasingly grown in importance. In Japan and overseas, there is a particular growing interest in the Sustainable Development Goals (SDGs), which are a collection of 17 goals regarding global issues in terms of the economy, society, and environment. ESG investment is drawing attention as an attractive tool to address these issues.

JPX joined the Sustainable Stock Exchanges (SSE) initiative in December 2017 and will be proactively engaged in spreading ESG investment in Japan through measures such as initiatives included in the "Update of 2nd Medium-Term Management Plan (FY2018)", which was published on April 27, 2018.

The Sustainability Committee will be the core organ to promote these activities on a group-wide basis. Through these efforts, we hope to contribute to the spread of ESG investment and the establishment of a sustainable society in collaboration with domestic and foreign public institutions, investors, listed companies, market participants, and other stakeholders.

[Q&A]

Q: Many listed companies that settle accounts for the business year in March hold their AGM in June. After Japan's Corporate Governance Code was revised and the Guidelines for Investor and Company Engagement were formulated this year, dialogue with shareholders is gaining importance for listed companies. What are the highlights and your expectations about the AGM this year?

A: We have just finished our AGM. We are pleased that many shareholders attended and proactively offered questions and comments. Every year, I feel that retail shareholders ask questions and comment more proactively compared to those who attended AGMs when I worked for Daiwa Securities and that an increasing number of retail investors as well as institutional investors now believe that AGM is an opportunity for them to talk with corporate managers. In addition, questions from individual investors have focused on issues such as corporate performance and business strategies, which are also a point of interest of institutional investors.

I have just mentioned our initiatives concerning sustainability such as ESG and SDGs, and I also feel that these matters have been talked about much, especially with institutional investors.

CEO appointment/dismissal and development of their successors, which are raised in the revised Corporate Governance Code, are also current points of discussion. In addition, the terms of CEOs after retirement such as being appointed to advisory positions as sodanyaku, komon, and others may draw much attention from investors. As the news media has already reported, Toyota has decided to drastically reduce their number of sodanyaku and komon. I assume other companies will follow suit.

Shareholder proposal is another issue to note. In recent years, shareholders have submitted many proposals. Although their proposals may not necessarily coincide with the rationale of corporate management, the number of proposals that will lead to the enhancement of corporate value seems to be increasing. Companies should commit themselves to responding to shareholder proposals.

As the Corporate Governance Code requires, corporate managers of listed companies are the ones who are most expected to advance constructive dialogue with shareholders including institutional investors. Thus, such dialogue should not be limited to AGM.

Q: The Corporate Governance Code was revised on the 1st of this month. May I ask two questions about this?

The first question is about the benefits and purpose of this revision in terms of enhancement of corporate value.

The second question is about suggestions on appointing women and foreign outside directors. What can you expect from the appointment of women to such positions?

A: The first question is about the benefits and purpose of the revision, and how it leads to the enhancement of corporate value. The major aspects that the revisions target are: A) CEO appointment and dismissal; B) ensuring sufficient board diversity; C) recognition of company's capital costs; and D) roles of corporate pension funds as asset owners.

Concerning A, although it depends on business type, leadership of top managers is crucial for corporate management, and corporate strategies are executed through their leadership. A bad decision made by a CEO will lead to a bad outcome. As such, there needs to be a mechanism to see whether a corporate manager, the leader of a company, appropriately develops his or her successor. If a CEO is not adequately fulfilling his/her responsibilities, such a mechanism should call for the dismissal of the CEO and enable the successor to appropriately take over the role.

B is about ensuring sufficient board diversity. It is important to bring diversity on board, part of which is women. This is not limited to outside directors. Females should also be appointed as directors. In terms of international experience, those with foreign nationality may be appropriate candidates. Also, in terms of people with various expertise and backgrounds, a board should have members such as those with experience in corporate management in the same industry as well as in other industries and those with expertise such as in law, accounting, and information security. Such a well-balanced board could help prevent lopsided management. As the female point of view in particular is vital, gender is included in ensuring diversity of the board. Whichever the case, it is essential to appoint a diverse range of members to the board.

C is about recognition of a company's capital costs. Capital costs are those incurred for the capital that corporate managers collect from shareholders. It is, for shareholders, the expected rate of return. That is, capital collected from shareholders also involves costs. Since such capital is provided as risk money, when corporate management fails, companies do not have to pay dividends. In that sense, capital is very convenient for corporate managers. Still, they have to bear in mind that capital involves costs. Different companies and businesses may aim at different levels of capital costs. However, the Ito Review[1] suggests that companies in Japan aim at achieving approximately 8% capital costs. Quite recently, ROE of Japanese companies has surpassed 10%, catching up with that of the U.S. and Europe. This means that the average ROE of Japanese companies has already surpassed 8%, the level that the Ito Review suggests. Based on the revision, we hope companies and investors will discuss whether corporate managers focus on capital costs and whether they are operating profitable businesses with ROE surpassing their capital costs.

The Corporate Governance Code enforced in June 2015 has been revised. We hope the revision will not let the Code fall into mere form but help companies substantially advance their governance, thereby enhancing corporate value.

Let me return to the second question about promoting female employees to management positions. Half of the population, or probably more than half, is female. What insights have women in corporate management brought? In a male-centric society, females offer a completely fresh perspective, allowing us to see that what is considered as quite normal may not necessarily be so. Thus, as I have

[1] A report of a government project making recommendations about issues that companies face to increase corporate value through investor dialogue and capital procurement

just said, it is important for companies to generate profits by conducting well-balanced business operations. Companies should not be influenced by imbalanced views. People talk about women's empowerment or allowing female employees to make significant contributions in the workplace. I feel that we need to go beyond just that and seek a more comprehensive approach to diversity in management.

Q: The concept of comprehensive exchange came up several times in today's AGM. What are obstacles to the concept at present? When do you envision the comprehensive exchange being established?

A: The concept of the comprehensive exchange was announced on several occasions as a decision by the Abe administration. However, there has been little progress. As I have said a few times, JPX, TSE, and OSE have no reason for raising objections. Since the commodity derivatives market in the world is huge, it should be better to be able to trade various derivatives products at a single market.

Q: It will soon be five years since the consolidation of TSE and OSE markets. I would like you to reflect on the last five years: regarding the process you went through and notable developments.

A: This is not directly related to your question, the establishment of JPX coincided with the start of Abenomics. The Abe administration began on December 26, 2012 and JPX only one week later on January 1, 2013. As the market has been favorable since then, this coincidence helped us succeed in our merger.

We decided to merge, because there was concern that either TSE or OSE alone might not be able to continue to grow amid extremely harsh economic and market conditions after the global financial crisis. We met the objectives set for the integration thanks to a favorable economic climate. For one, we reduced costs for TSE and OSE by as much as JPY 8.5 billion in total by smoothly consolidating systems with similar functions and administrative functions at both bourses. The cost reduction of JPY 8.5 billion per year was significant. With the favorable market conditions helping our smooth business integration, we got off to a lucky start.

In the course of the business integration, OSE's cash trading system was merged into TSE's trading system, called arrowhead, and the system was upgraded.

One year later, J-GATE, the derivatives trading system at OSE was upgraded. TSE's derivatives system, which handled TOPIX and JGB futures, was merged into that of OSE. That was also a large investment, but the system integration was successful.

We offer two markets for growing companies: JASDAQ and Mothers. As the concepts for these two markets differ, integrating them is not that simple. After brining all cash markets to TSE and eliminating the gap in both fee schedules (that of JASDAQ is ten times higher than that of Mothers), growth companies now are able to select either market for their listing depending simply on these concepts.

The Corporate Governance Code has been adopted and, a year before that, the stewardship code was also introduced. These measures implemented under Abenomics have effected great change in the mindset of corporate managers, which I personally feel is significant.

We now see greater awareness among corporate managers toward sustainable enhancement of corporate value through sufficient dialogue with shareholders. More and more managers are gaining a full understanding that enhancement of corporate value is their highest mission to fulfill, which can be achieved by proactively listening to outside opinions through the stewardship code as well as the Corporate Governance Code that suggests appointment of independent outside directors and outside auditors.

When I meet overseas institutional investors, they often say what Japanese corporate managers talk about has changed over the last three years. It brings me great satisfaction and is also surprising to see that CEOs' mindset has dramatically changed in such a short period.

However, such change has come not only because of the introduction of the Governance Code. The environment on the economic front has been favorable for the last five years. Such favorable conditions surely helped CEOs truly understand the code. If companies had struggled in an unfavorable environment, managers' mindset might not have changed so smoothly. We were fortunate in this respect.

Q: Flea market app operator Mercari, Inc. went public yesterday, which was the first large-scale IPO of a startup in some time. Could you share your comments on this including your expectations on how many of these types of companies might be listed on TSE?

A: Many media outlets reported that there were high expectations for Mercari before its IPO. The initial price of the stock yesterday was JPY 5,000, which is higher than their offering price of JPY 3,000 and resulted in a large-scale listing with the market capitalization close to JPY 700 billion.

We may not often see large-scale startups dubbed as unicorns go public one after another in the future. However, there are many companies that were listed in a small-scale and grew significantly later on: SoftBank, Yahoo, and Rakuten, as well as non-IT companies such as FAST RETAILING and Nitori, for instance.

When it comes to overseas startups, even before listing their shares, U.S. companies are likely to smoothly penetrate the global marketplace and Chinese companies can expand their businesses in the large domestic marketplace. For those in Japan, however, even though they are growing enterprises, the scale tends to be smaller before listing due mainly to language barriers. However, although they are small, they can list their stocks on Mothers or JASDAQ to secure necessary funds for corporate development and growth. We hope that startups use these markets as a foothold for further growth. Plenty of business owners in Japan have an entrepreneurial spirit and wish to launch startups. We hope that not only IT companies but also innovative companies in terms of skills and know-how will use our markets and drive economic growth in Japan.