

Notes on Media Briefing by Akira Kiyota, Director and Representative Executive Officer, Group CEO, Japan Exchange Group, Inc., on January 29, 2019

There are two items on the agenda for today. I would like to first go over the consolidated financial results for the third quarter for the fiscal year ending March 2019.

Operating revenue saw a year-on-year increase of JPY 4.1 billion (4.7%) to JPY 92 billion due mainly to a year-on-year increase in information and clearing services revenues.

Operating expenses rose by JPY 3.4 billion (9.5%) year on year to JPY 39.6 billion due to an increase in system-related costs.

Since the increase in revenue exceeded that of expenses, both revenue and income grew. Operating income increased by JPY 1.2 billion (2.3%) year on year to JPY 54.3 billion, and quarterly net income (attributable to owners of the parent company) grew 1.2 billion (3.3%) year on year to JPY 38.4 billion.

The second item is about a decision on the candidate for President of JPX-R.

The legal tenure of Mr. Takafumi Sato as President of JPX-R will end in June this year. Today, we have held a Nomination Committee meeting and nominated a candidate as his successor. The candidate is Mr. Kiyoshi Hosomizo, former Financial Services Agency (FSA) Commissioner and current President of The Center for Financial Industry Information Systems.

Mr. Hosomizo has abundant experience and insight on financial administration. Since joining the Ministry of Finance in 1978, he held positions at the FSA as Director-General of the Inspection Bureau, Director-General of the Supervisory Bureau, and Commissioner. He is also familiar with self-regulatory operations. Thus, deeming him to be the most suited candidate for President of JPX-R, the top position to execute the operations of the company, we nominated him as a candidate.

Mr. Hosomizo will assume the position in June this year pending a resolution of the JPX-R Board of Governors and that of the ordinary general members of JPX-R.

[Q&A]

Q: Could you share your progress so far and future prospects for the discussion over the realization of the Comprehensive Exchange that JPX is working on, and also for the review of the TSE Cash Equity Market Structure?

A: Concerning the Comprehensive Exchange, we concluded an NDA with Tokyo Commodity Exchange (TOCOM) in October 2018 and started negotiations. Staff and management from both sides have met multiple times so far, and both of us largely agree on the basic goal to realize a comprehensive exchange.

However, because of the NDA, we cannot go into more details. Still, as I said before, we are basically discussing what the Comprehensive Exchange should look like - namely, whether TOCOM should merge businesses with JPX or OSE. Looking at some options, I think the discussion will focus on whether TOCOM will become a subsidiary of JPX or OSE. We were once considering a merger between OSE and TOCOM, but that is off the table.

No matter the outcome, we will not waste time as I have said repeatedly. We are working to reach a decision on our direction by the end of this fiscal year, as proposed in a report from the Council for Promotion of Regulatory Reform of the Cabinet Office. In this respect, there is no discrepancy in opinions on both sides. We will accelerate the negotiations.

Concerning the second question about review of the TSE Cash Equity Market Structure, the advisory group has been discussing issues since last fall. We are now calling for a wide range of public comments.

The review is being conducted from three perspectives. The first is the ideal structure of the entry market divisions, of which there are currently three: Mothers, JASDAQ, and 2nd Section.

The second is the ideal structure of the step-up market division from the entry market (1st Section). Currently, the number of listed companies on the 1st Section exceeds 2,100 - approx. 60% of all companies listed on TSE. They range from companies like Toyota with more than JPY 20 trillion market capitalization to those with JPY 2 or

3 billion. In light of this situation, the advisory group is discussing what would make an ideal step-up market division.

The third perspective is the ideal mechanism for transfers and market exits. Excluding stepping up to the 1st Section, market section transfers including delisting are rare. We are considering the possibility of a mechanism that enables companies to transfer to another market section based on their actual performance in a smooth and appropriate manner. With respect to delisting, we are also calling for opinions about how to secure opportunities for shareholders of delisted companies to convert stocks into money.

The window for public comments will close at the end of this month. The advisory group will then carry out more in-depth discussions based on thorough analysis and categorization of the varied comments from market participants. We expect to receive a summary of their conclusions by the end of March.

Q: I have a question about the Comprehensive Exchange. Have you yourself been at the negotiating table or do you have such plans in the future? Also, you have just mentioned that you are considering whether TOCOM should become a subsidiary of JPX or OSE. Do you have a choice between just those two or any other options? Also, regarding the handling of commodity products, instead of just having TOCOM continue to handle all commodities, perhaps OSE could take over some. Have you made any decisions about such matters?

A: With respect to the first question about whether I myself am involved in the negotiations, it's a delicate subject. I have yet to actually directly negotiate terms but am prepared to talk with the President of TOCOM. In this respect, I will meet him when the time comes.

As product handling is included in the negotiation agenda, I am unable to talk about it here.

Concerning whether TOCOM should become a subsidiary of JPX or OSE, I said that there were three options earlier. However, the number has been reduced to two. There are no other options, and I believe that is sufficient.

Q: You mentioned that you yourself are ready to be at the negotiating table. Do you mean that you will enter negotiations in the last phase?

A: With only two more months left, the negotiations should be drawing to a close. In this sense, I should be called upon in the immediate future.

Q: Concerning the review of the TSE Cash Equity Market Structure, do you expect the summary received by the end of March to suggest some degree of direction?

A: It depends on the progress of the discussions, but we hope to receive some kind of summary of the advisory group's conclusions at the appropriate time. We do not intend to rush them into an answer, but we are also aware that time on this matter is not unlimited, so we hope that the advisory group will thoroughly review the matter, taking into account the public comments and without wasting any time.

Reviewing the listing rules will affect many market participants and other stakeholders. Such impact should also be carefully considered.

Q: You said that you hope the advisory group wastes no time; do you expect to receive some sort of proposal around June?

A: The schedule has yet to be determined. It depends on the progress of discussions by the advisory group. Since discussions are underway, I cannot make any assumptions about the future timeline.

At any rate, it should take some time to complete the review as I said in the previous media briefing. We say we will review the market structure, but that does not mean it will immediately change because of the impact on market users and participants. We will finalize all matters after thorough discussions with all related parties.

Q: You indicated that the actual change will be a long time coming. Will it happen during your tenure? Or is it irrelevant to your term of service?

- A: The timing of changes to the market structure will not affect any decision pertaining to my retirement from office.
- Q: Regarding handling of the Nissan stock, you mentioned in the previous briefing that you would share information with the company before drawing a conclusion. Could you tell us about the progress of discussions and when you will reach the conclusion?
- A: As for Nissan, relevant facts will become known during the trial. I should not make any comment on this now. As the actual investigations are being carried out by JPX-R, an independent organization from the rest of the Group, I have no information. Anyway, we expect Nissan to continue disclosing information in a timely and appropriate manner whenever it has new developments.
- Q: With respect to the comprehensive exchange initiative, there are two possible scenarios: one is that TOCOM will become a subsidiary of JPX, and the other is that TOCOM will become a subsidiary of OSE. What differences are there between the two scenarios? What advantages and disadvantages are there for each scenario? Why can't you come to a conclusion smoothly?
- A: Simply put, there could be three scenarios for creating a Comprehensive Exchange. The first one is that TOCOM will become a subsidiary of JPX. The second one is that TOCOM will become a subsidiary of OSE (i.e. a dedicated derivatives market). The third one is that OSE and TOCOM will merge. However, the third scenario can be thought to have been eliminated. Making the commodity derivatives exchange of TOCOM a subsidiary of the dedicated derivatives market OSE would be a logical organizational structure. However, if TOCOM becomes a subsidiary of JPX, JPX will have another subsidiary along with TSE, OSE, JPX-R, and JSCC, which means that TOCOM will directly come under the umbrella of JPX, a holding company, as part of the consolidated management. From a company structure point of view, this might be more streamlined.
- Thus, although there are still some issues to be addressed, what we

are aiming for is to create the most convenient market for users, where they can conduct one-stop trading of commodity derivatives and financial derivatives under a single regulatory regime resulting from the creation of the Comprehensive Exchange. In doing so, we will endeavor to set the stage for a further great leap of the derivatives markets in Japan. We hope to design an organizational structure that can best contribute to the future development of derivatives markets.

Q: The government announced today that there is a high possibility that current economic expansion has surpassed that of [Japan's longest postwar economic recovery from 2002 to 2008, otherwise known as] the Izanami Boom. While some say that people have not yet felt the benefits of such expansion, the Nikkei Stock Average has risen from around JPY 9,500 to over JPY 20,000. Will you tell us whether you, as JPX Group CEO, are actually feeling the effects of the economy's expansion or not, and why?

A: The government has announced that the economy seems to have marked the 74th consecutive month of expansion, surpassing the longest post-war expansion for 73 consecutive months during the Koizumi administration. The current expansion is said to have started in December 2012, which corresponds to the beginning of the Abenomics period during which the Abe administration inaugurated on December 26, 2012 has taken various policy measures aimed at overcoming deflation.

The average annual economic growth rate is said to be about 1.2%. For the economic expansion for 73 consecutive months during the Koizumi administration, such rate was 1.6%. Compared with these numbers, the growth rate during the [57-month] Izanagi Boom [in 1965 to 1970] was beyond 11%, although that boom ranked third in terms of duration. During the Izanagi Boom, Japan was transitioning from a mid-level developed country to a fully developed country, while currently the mature nation of Japan is facing population decline as well as a dwindling birthrate and an aging population. As such, I think it is meaningless to discuss whether we can actually feel the effects of economic expansion, comparing it with those with different

backgrounds.

Even though the average annual growth rate is only 1.2%, it is extremely significant that the expansion has continued for 74 consecutive months without any recession. The BOJ is targeting 2.0% price growth, which has yet to be achieved. However, from the viewpoint of ordinary citizens or consumers, it might be safely said that decent economic growth without price increases is rather more favorable than economic growth with price increases.

Probably due partly to the population decrease, there is a shortage of manpower in terms of recruitment and employment conditions, resulting in a situation where the country is looking to bring in migrant workers. If we look at various events, we are undoubtedly in a situation that is contrary to deflation even with the target of 2% price increases. I do not think that the economic expansion for 74 consecutive months is detrimental to the daily lives of citizens; rather, it has a largely positive effect on them. In addition, from my own personal point of view, it seems that the people are not getting over-excited about the good economy unlike during the bubble economy, because citizens have developed a more mature mindset.

Q: I believe that many of TOCOM shares are held by commodity futures business operators. If you make TOCOM a subsidiary, how will you deal with such shares? Will you acquire 100% of TOCOM shares? What scheme are you currently contemplating?

A: As TOCOM is a company that has to conduct continuous disclosure, if we are to make it a subsidiary, we have to make a takeover bid (TOB). Therefore, if so, we will make a TOB having mutually agreed with TOCOM and will acquire TOCOM shares with the consent of TOCOM shareholders. If possible, we would like to acquire 100% of TOCOM shares.

Q: I think that futures business operators have expectations for growth in the futures industry. What are your thoughts on the commodities industry and commodity futures business operators when working on this initiative?

A: The securities industry as a whole has been very welcoming of the idea. It will be the commodity futures industry joining the securities industry, but although there has been no industry-wide announcement from the securities industry, neither the Japan Securities Dealers Association Chairman nor any of the corporate managers of major securities companies that I have met personally have been opposed to the initiative. Rather they say that they will proactively cooperate for the promotion of the markets if needed. As such, I am optimistic, or rather I believe we will succeed.

Q: If you make TOCOM a subsidiary of OSE, will you leave the location of TOCOM as it is? Or will it be relocated to Osaka? Or, have you not yet made a decision on said matter?

A: There have been no discussions on that topic yet. Even if our first choice is to make TOCOM a subsidiary of OSE and our second choice is to make it a subsidiary of JPX, there is no guarantee that TOCOM would agree. From the JPX side, there are two scenarios in terms of the organizational structure: logically, TOCOM would be better under the dedicated derivatives market OSE; on the other hand, from a company structure point of view, it makes more sense to make TOCOM a subsidiary of JPX. We do not mind one way or the other, but I surmise that TOCOM has a strong wish to become a subsidiary of JPX. Anyway, we have not discussed this point, but we do not think a relocation of the office will necessarily be required.

Q: When will Mr. Hosomizo take office as President of JPX-R? In April or June?

A: He will officially take office at the time of the ordinary general meeting of members of JPX-R to be held in June.

Q: As was the case with President Sato, Mr. Hosomizo is also a former FSA Commissioner. What are you expecting from him?

A: We considered several possible candidates. The conclusion of the consideration by the Nomination Committee was that the candidate should have vast experience in financial administration and deep knowledge of the market and be able to make objective judgement. On top of that, it took into consideration past records and experience as well as capabilities. As a result, Mr. Hosomizo was recommended as the prime candidate. As pointed out, there have been various events and scandals in the past such as those involving Toshiba, Olympus, or recently Nissan. In addition, although not under the jurisdiction of the exchange, various other incidents and scandals emerge in the course of ordinary businesses of listed companies. Under such situations, JPX-R is involved at various phases, cooperates with such listed companies and, depending on the circumstances, provides guidance to them. As such, the President of JPX-R is required to make good decisions. I believe that he will play the most important role for the sound development of JPX markets including TSE and OSE. With respect to issues including listing examinations, particularly those related to IPOs, I expect that he will be able to implement appropriate examinations with strong leadership, taking heed of how companies with growth potential will be listed such that Japan can expand its capital market.