

Notes on Media Briefing by Akira Kiyota, Director and Representative Executive Officer, Group CEO, Japan Exchange Group, Inc., on March 28, 2019

The only item on the agenda for today is our Medium-Term Management Plan (MTMP).

I would like to begin by reviewing the results of the current 2nd MTMP.

One of the most important aspects of said plan was diversification of the business portfolio by proactively developing areas of business not directly connected with the markets to achieve a management structure that doesn't overly rely on the condition of the Japanese stock market.

Net income for this fiscal year, the last year of the 2nd MTMP, is due to hit our target, thanks in part to the effects of Abenomics.

With that, peripheral business, such as co-location and index/information services, has been growing at a steady rate, meaning that we have seen good progress towards the management goal of breaking our dependence on the markets.

Specifically, we have focused on four core strategies during the 2nd MTMP.

The first was to stimulate asset building. Our main achievements were creating new indices, including a global environment index that is now being used by GPIF, and developing a market maker scheme for the growth of the ETF market.

The second was to improve the value of our listed companies. To said end, we worked towards the transformation of corporate governance from form to substance, including the revision of the corporate governance code.

The third was to reinforce the market structure. In this respect, we took steps to improve the trustworthiness of the Japanese market by successfully shortening JGB settlement cycles to T+1 and making good progress towards enhancing backup capabilities both in Tokyo and Osaka.

The fourth was to enter new fields of exchange business. We were able to move forward with research into the adoption of new technologies, holding Proof of Concepts for blockchain in a consortium with a wide range of participants from the financial and securities industries

We made strides in all of the core strategies for the 2nd MTMP and have an announcement regarding one of the challenges raised under said plan, which is the realization of a comprehensive exchange. I am pleased to inform you that

today we entered into a basic agreement with Tokyo Commodity Exchange, Inc. (TOCOM) to combine our businesses. We see having made this agreement before the end of the 2nd MTMP as a huge achievement.

Now, allow me to talk about the management policy and four core strategies of the 3rd MTMP.

For the 3rd MTMP, the slogan we have chosen to represent the overall principles is "Sail to the future. Keep the market secure".

We at JPX are aware that we provide a market infrastructure crucial for society, both for companies to raise funds and for investors to manage their assets. "Keep the market secure" refers to our intent to continue prioritizing our primary duty, which is to provide safe and secure markets that participants can trust.

In order to "Keep the market secure", it will be important to react quickly to and boldly take on the challenges of environmental changes such as fast-developing new technologies. This is what we mean by "Sail to the future".

Under this mindset, we at JPX decided to aim, through new partnerships and cooperation with stakeholders, to evolve into an exchange where anyone can trade any product safely and easily, not just equities and related products but also other similar/related products, such as commodities, in the medium to long term.

We are calling this medium-to-long term vision the "Total Smart Exchange". We have made working together as a whole Group towards the Total Smart Exchange the fundamental principle of the entire 3rd MTMP.

Under this fundamental principle, JPX has set out four core strategies in our 3rd MTMP.

First, to keep the market secure, we aim to "pursue 'the shape of the market' toward the next generation".

Second, we aim to "launch and develop a comprehensive exchange", centered on the initiatives resulting from the basic agreement entered into by OSE and TOCOM.

Third, through partnerships and technological innovation, we aim to "diversify and propel data services into the next generation".

Fourth, to ensure that stakeholders can use our markets securely, we aim to "develop a foundation to support the future of our business and society".

I will now explain these strategies further.

The first core strategy is to "pursue 'the shape of the market' toward the next generation". This means improving the attractiveness of Japan's market and strengthening our global competitiveness by pursuing the next generation of market shape, through such actions as the review of the cash equity market structure, improving corporate governance, and shortening stock settlement cycles to T+2.

The second core strategy is to "launch and develop a comprehensive exchange". This means revitalizing and developing Japan's derivatives market into a globally competitive one through the speedy realization of the business combination with TOCOM.

The third core strategy is to "diversify and propel data services into the next generation". This means using open innovation frameworks to create highly useful services and exploring new forms of exchange business aimed at the next generation.

The fourth core strategy is to "develop a foundation to support the future of our business and society". This will involve, along with building and running safe and secure IT systems, setting up a Kansai backup center, an important step in improving the market's trustworthiness.

Also, while actively striving to make use of innovative technologies, we will train employees to use said technologies.

Moreover, to support society, as well as continuing to use our self-regulatory function in line with environmental changes, we will carry out financial literacy support activities aimed at, for example, a 100-year life society.

Finally, using our position as a stock exchange to contribute to society, we will actively work to encourage sustainable activities such as by working towards the SDGs and spreading the idea of ESG investing.

For the first core strategy, we set targets to launch new trading platforms and meet system requirements as well as shorten the stock settlement cycle, which will have a great impact on the Japanese market. We will also aim for an IPO count of approximately 100 per year.

For the second core strategy, we set targets to achieve early business combination with TOCOM, integrate clearing houses, and raise trading volume by synergy.

For the third core strategy, we set a target to diversify channels and ambitiously aim to create ten new services and attract 150 new clients.

For the fourth core strategy, we have set a clear target for launch of the

Kansai backup center in FY2021, which is also when we aim to have built an industry-shared Blockchain/DLT infrastructure as part of our efforts toward practical applications of the technology. In connection with financial literacy, we will contribute to approximately a 10% annual increase in the number of users of Tsumitate NISA & iDeCo (commonly used as investment tools for retirement in Japan).

Now, let me touch upon the four core strategies streamlined in terms of global strategy.

With a huge amount of managed funds circulating globally, it is important that JPX continue to function as a pivotal market in the Asian time zone. We expect that JPX will continue being put to the test as a market infrastructure in the future.

In this sense, the "total smart exchange" that we will pursue in the medium-to long-term will be an important goal that is indispensable for survival of the Tokyo market as a leading market in the future.

Under said plan, in order to properly "keep the market secure", we will develop core systems and a large-sized Kansai backup center and engage in initiatives to prepare for future challenges.

Alongside that, by steadily implementing the four core strategies, we aim to increase bases for revenue generation such as trading volumes in the medium-to long-term. Accordingly, based on the assumption of average daily trading value of JPY 3.45 trillion for cash equities and annual trading volume of 400 million contracts for derivatives, we set financial targets in three years from now of (1) operating revenue of JPY 130 billion, (2) net income of JPY 50 billion, and (3) 15% ROE.

As our capital policy, we will continue to support sustainable development and evolution of the market with constant investment while keeping balance between shareholder returns and fiscal robustness for stable management of the market.

In conclusion, the environment surrounding the financial market and JPX is expected to continue changing drastically. Even under such circumstances, in order to fulfill our primary mission of "keeping the market secure", we would like to boldly tackle future issues without fear of failure

[Q&A]

Q: What are your thoughts on the current issues regarding the TSE cash

equity market structure, which were published yesterday? Could you tell us a future schedule of deliberations and whether you will coordinate such deliberations with the implementation of the 3rd MTMP?

A: Based on opinions collected via interviews with market participants and a public comment procedure, we discussed and summarized issues regarding the market structure and published them yesterday.

Although there were diverse opinions, we believe that a consensus of the opinions is that the current market structure is not sufficiently fulfilling its expected role.

We also received various ideas on specific solutions to issues and comments about impacts that should be considered. These were also incorporated into the Summary of Current Issues published yesterday.

I myself agree with market users in that operating the market under a structure composed of the current 1st Section, 2nd Section, JASDAQ, and Mothers will not be appropriate towards the future in order for the market to fulfill its expected role.

Moving forward, we will specifically consider ideal market divisions as well as listing, delisting, and division transfer criteria. In the course of such consideration, we would like to examine not only what will be ideal, but also what will be acceptable for market participants, including a time schedule for implementation.

During such consideration, we, of course, would like to continue to make reference to opinions of market participants and experts. As we create more concrete plans, we will also fully consider their feasibility.

Regarding by when we will come to a conclusion, I mentioned early that no time should be wasted for discussions at the Advisory Group. No matter what form the market structure will be shaped into, if the current structure is changed, there will be market participants in favor of such changes while there will be those who will be opposed to or suffer disadvantages from such changes. As such, being aware that some time will be required, we would like to proceed while listening closely to opinions of business circles that represent listed companies, the securities industry, and investors.

I am not sure that a new market structure will be implemented during

the three fiscal years in the 3rd MTMP. Although it will be desirable that some kind of a new structure will be created during these three years, such a new structure will impact more than 3,600 listed companies and investors around the world. So we should avoid taking the attitude that the time schedule comes first. We would like to sufficiently consider an ideal structure in a way that will satisfy the expectations of all market users.

- Q: About the Advisory Group to Review the TSE Cash Equity Market Structure, you were expecting a report from them by the end of March, but nothing has been published. What are your thoughts on this? Also, there were reports of a leak from one of the Group members, apparently confirmed again later on, that there would be criteria requiring a minimum market capitalization of JPY 25 billion and English disclosures for the top market segment. Can you comment on that?
- Secondly, among the replies to your consultation on the market structure, the issue with the most conflicting opinions was the minimum market capitalization, with opinions ranging widely from JPY 10 billion, 25 billion, 50 billion, and up to 100 billion. Please give us your personal opinion.

- A: I was previously hoping that they would share their conclusions in the form of a report by the end of March. However, while the Advisory Group was working, TSE staff was in the process of holding interviews with listed companies and other stakeholders. We received numerous opinions from these sources, and we came to the conclusion that rather than asking for the Advisory Group's conclusions as a report now, it would be better for TSE to publish all those other opinions first, so they can be used to further deepen stakeholder discussions. In line with this, yesterday we released a document summarizing opinions received through the consultation and interviews, with some conclusions from our side.
- Regarding rumors of criteria requiring a JPY 25 billion market capitalization and English disclosures, TSE has not made any decisions on this yet. There may have been some opinions to that

effect within the Advisory Group, but it cannot be assumed to indicate any concrete decisions by TSE. There are so many opinions being raised, and so many different figures being reported even though the debate is far from over, but I suppose this is because so many people see the current listing criteria as unsuitable. We consider every opinion to be valuable, but as I said, TSE has not suggested or made any decisions on this matter.

Finally, about there being a large range of possible criteria for market capitalization, again, for now there is no particular number that we have in mind – we see this as something to be determined later.

Q: I would like to ask about the 10-day holiday period coming up from the end of April. Some securities companies are saying they will accept orders to sell non-Japanese stocks, but what is JPX planning?

A: For the upcoming 10-day holiday period, TSE and OSE will be closing in accordance with our exchange rules, and we started making this known to a range of people far in advance after the schedule was set. I am certainly aware that there are many opinions on this, and I have heard that the FSA also received many comments on the matter.

Our thinking is that since opening the exchange would cause a lot of confusion, the negatives would outweigh the positives. Because there are absolutely no past examples of how it would work, there would be problems around clearing and problems around bank funding, so rather than opening the market, our strategy is to make sure everyone affected knows that it is closed. We are currently doing our best to make this happen by using multiple outlets, including hiring out space in newspapers this week, to advertise the ten-day holiday period and make clear that cash and derivatives trading will not be available during that time. We will continue to do our best in this regard.

It has been reported that some securities companies are choosing to keep some services running at the request of customers, but in the case of the exchange, if we open, banks and all other related services would also have to open, so it is not something we are considering.

Q: Do you have any regrets, issues, or unfinished business having come

to the end of the 2nd MTMP? Also, in regards to your plans for the 3rd MTMP, a personal point of view is fine, but is it possible that you will hand over to someone new having set things in motion, or are you planning to stay until the end of the 3rd MTMP?

A: I have unfinished business. It's not so much things that I could have done and didn't, and more things that I wanted to do but couldn't due to circumstances. For example, the FY2018 target for operating revenue set out in the 2nd MTMP was JPY 123 billion, but the earnings forecast for FY2018 is only around JPY 120 billion, so that is too low. Net income has hit the target, though.

Also, what will probably stick in most people's minds as unfinished business will be the Saudi Aramco listing, which has been paused for a variety of reasons.

Then, there is the Corporate Governance Code that we revised. We have had feedback from overseas institutional investors that the Code has made a big difference to Japan's listed companies, but at the same time, we are told that it is not enough and there is still too much box-ticking, so I think our efforts with governance are going to need work over the much longer term. Of course we will be working on this as part of the 3rd MTMP.

As far as whether I will be stepping down during the 3rd MTMP, I personally haven't thought about it, so I cannot answer that now. If I must step down, then I will. If I am to remain in my post, then I shall do so. I hope you understand that there is no much more I can say about the matter at this time.

Q: About the leak of information from the Advisory Group to Review the TSE Cash Equity Market Structure, how much has TSE looked into it and how much have you found out? I understand that the numbers being discussed were leaked to a number of investors, but please tell us your thoughts.

A: We don't know all the facts about this issue, but from what I can tell from media reports, it seems one of the members was withdrawn from a nomination that needs approval from the Diet. The facts are not

completely clear yet, so as an exchange we haven't yet begun to act on anything, but if things begin to come into the open I think we will have to look into a response.

Q: You said that you would be discussing market divisions on a more open stage

from now on, but are there more details decided about this? For example, will the Advisory Group be changed, and what will happen to the members?

A: Like I said before, the Advisory Group's discussions were only meant to be until the end of March. We will have to continue talking to stakeholders as part of the process of looking further into market divisions from now on, but there are no definite decisions on how that will work yet.