Summary of the Press Conference

Date and time: Thursday, January 28, 2021, 3:30 p.m. - 4:10 p.m.
Venue: TSE Hall
Speaker: Kiyota Akira, Director & Representative Executive Officer, Group CEO

Kiyota: First of all, I would like to go over our consolidated financial results for the nine months ended December 31, 2020.

Please refer to the summary of the financial results and the reference material providing an overview of earnings as necessary.

During the first nine months ended December 31, 2020, operating revenue came to JPY 97.2 billion, up JPY 9.8 billion (+11.3%) from the same period of the previous fiscal year. This was mainly attributable to an increase in revenue from information services, such as market data usage fees, in addition to a higher trading value of cash trading compared to the level of a year earlier.

Meanwhile, operating expenses increased JPY 3.0 billion (+7.2%) from the same period of the previous fiscal year to JPY 45.0 billion, due to the impact of reflecting costs of Tokyo Commodity Exchange, Inc. (TOCOM), which became a subsidiary in October 2019, in the consolidated operating results and include measures taken to maintain stable market management amid the spread of Covid-19.

As a result, operating income increased JPY 6.1 billion (+12.8%) from a year earlier to JPY 54.3 billion and net income attributable to owners of the parent company came to JPY 37.3 billion, up JPY 4.0 billion (+12.1%) year on year.

[Q&A]

Reporter: I would like to ask you about my first point. There were major changes in global conditions from the beginning of the year such as the spread of Covid-19 infections both in Japan and overseas and the inauguration of the new Biden administration in the U.S. Stock prices are at high levels in both Japan and the U.S. although some price adjustments were seen today. What is your outlook for the market in 2021? Also, as the JPX Group faces challenges such as a review of TSE cash equity market structure, I would like to ask how you will tackle these issues this year.

Kiyota: Thank you. As you pointed out, late last year, before the inauguration of the new Biden administration, the Dow Jones Industrial Average in the U.S. hit a record high, exceeding USD 30,000. The Nikkei Stock Average in Japan also rose from late last year to the beginning of the new year, reaching the JPY 28,000-level in no time and landing in the high-price zone for the first time in about 30 years since 1990. One possible reason for this is that funds are entering the market as central banks around the world adopt monetary easing policies and aggressively implement fiscal spending to significantly increase expenditures. In addition, as vaccines have already been developed and are being put to practical use, it is thought that this movement in the market is in anticipation of the revival of economic activities post-Covid after getting the world vaccinated.

At the ceremony to mark the first trading day of the New Year, I said that while the year of the ox is considered a difficult year for progress in Japanese financial proverbial tradition, ox is a bull, and the bull is a symbol of a strong market. Looking at the actual market prices, I felt that the market really stumbled on the first trading day of the year because it dropped sharply after it started off high. However, since then, the market has been recovering steadily, and as you pointed out, the market rose to the higher JPY 28,000-level although some adjustments were seen today.

This year, maintaining the balance between countermeasures against Covid-19 and the economy throughout the year is to be expected. Therefore, not only Japan but also other countries will probably continue to maintain substantial monetary easing. At a press conference held by Federal Reserve Board Chairman Powell yesterday, he expressed concern about the employment issues and the view that the economy was not yet strong enough to lift the current significant monetary easing situation.

Considering the situation, stable market developments can be expected along with the support of monetary easing. Many professional equity experts seem to share such views, and I personally also have those expectations.

Regarding the second point on review of market segments, we announced the outline of the listing rule revisions last December. This year listed companies will be asked to select a new market segment. By the end of July, we plan to notify listed companies of the necessary procedures and documents, based on the status of compliance with the new listing criteria, and ask companies to select the market segment they will change over to between September and December. We will then move to a structure with the new market segments on April 4, 2022. In light of this situation, I expect that the impact of the restructuring of market segments will of course be gradually reflected in market trading. Since TOPIX will be revised then, TOPIX will basically be based on the market with the new segments from April 2022, and the ratio of listed companies that do not meet the new criteria for TOPIX will be reduced. By 2025, we will pretty much have a new TOPIX. If there is any part that does not meet the new criteria for TOPIX, the stock will be removed from TOPIX. In this way, the new TOPIX will be established in a gradual manner. We will not have all stocks listed on the First Section included in TOPIX as conventionally done nor will all stocks listed on the Prime Market be included in TOPIX and some will be excluded. That said, it is expected that companies listed on the Prime Market will be adopted as main components of TOPIX. Since the restructuring of market segments and the revision of TOPIX and other stock indexes will be carried out almost simultaneously, I expect that this year's market might be technically impacted in part by such scheduled restructuring and revision.

JPX intends to take all possible measures to ensure that such revisions are carried out without causing any confusion in the market and to prepare for the transition in close cooperation with listed companies and other market participants.

Reporter: Regarding the second point, in connection with the prevention of recurrence of system failures, the Council for Recurrence Prevention

Measures has addressed the issue of extended trading hours. What are your thoughts on extended trading hours and how do you intend to proceed with discussions? For example, if the market is extended to 5:00 p.m., it can be directly linked with opening of the London market. Could you give us your thoughts on this?

Kiyota: I understand that at the meeting of the Council for Recurrence Prevention Measures there were discussions on trading hours after resuming trading following a system failure. During discussions, there were exchanges on possibly extending trading hours if a sufficient amount of trading hours could not be secured after the resumption of trading. However, I heard that this discussion has not necessarily been taken any further at this point.

In any case, the extension of trading hours itself may have been discussed by the Council from the viewpoint of resilience. Since the topic of extended trading hours may impose an enormous burden on securities companies that are trading participants and other parties in the securities industry, I believe that careful discussions are necessary.

Seven years ago, from 2013 to 2014, we discussed, in particular, an issue similar to the extension of trading hours. We exchanged various opinions with the securities industry about the possibility of opening a night session. At that time, various comments were raised, such as the idea of extending trading hours in the evening and the idea of eliminating the lunch break since the trading hours of TSE are short from a global perspective even when combining the morning and afternoon session hours. We also made proposals, such as closing trading at 3:00 p.m. and then opening a night session from 7:00 p.m. or 8:00 p.m. to 11:00 p.m. However, it turned out to be quite a difficult discussion considering the heavy burden involved in the extension and the possibility that we would not be able to secure enough trading volume to cover the cost if the trading hours were extended. Based on this experience, we feel we should be cautious about considering extending trading hours stemming from the problem of a system failure at this time although it is not that we have no intention of reconsidering the matter of extended trading hours.

Reporter: I have two questions. The first is about the extension of trading hours. In the course of the discussion, you mentioned about the possibility of extending the trading hours in the event of a system failure or extending them permanently. I had thought that the stance before was that in the event of a system failure, suspending trading for one day was an option after also taking into consideration cases overseas. However, considering that there have been discussions on the extension of trading hours, it seems that if a system failure occurs, JPX intends on making sure to take some form of measure to keep the market open even if for just a minute. Is my understanding correct that JPX's fundamental viewpoint is to respond to system failures in such a manner? This is my first point.

My second point is regarding Toshiba which will return to the First Section. I believe that JPX-R as a self-regulatory organization has gone through the necessary procedures, but the company is returning at a time before the extraordinary general meeting of shareholders is held. While TSE has indicated the objective of ensuring the quality of companies through market restructuring, I am not fully convinced about the timing and wonder what discussions were had. Could you please share your views?

Kiyota: Your first point on trading hours, as I mentioned earlier to the previous reporter, JPX does not hold the view to temporarily extend trading hours should something happen. Therefore, JPX believes that the topic of extended trading hours, if it is to be considered, should be discussed as a separate matter from the response to be taken in the event of a system failure. So, if we were to link trading hours with system failures and extend trading hours in the event of a system failure, in that case, we would consider what measures to take depending on the number of minutes trading was suspended due to the system failure, which becomes a very technical matter. That is not how we intend to address the topic. JPX believes that the issue of trading hours should be considered as part of our approach on how to manage the exchange. This is also how I personally view it, but JPX as an entity recognizes that the issue of trading hours should be addressed as part of how we manage the overall exchange.

As for the second point on Toshiba, after careful examination by JPX-R, the assignment of the company from the Second Section to the First Section was approved. We received the application in April 2020, so the examination was carried out over a very long period. As you have pointed out, I understand that Toshiba received a request from some shareholders to convene an extraordinary general meeting of shareholders. However, JPX-R has carefully examined Toshiba overall by checking how the company managed to eliminate its liabilities in excess of assets and resolved other problems one by one and issued the approval. Therefore, JPX does not have much objection against this decision.

Reporter: I would like to ask you another question regarding the Toshiba case. You mentioned that the application was received in April last year. I have the impression that quite a long time was required to issue the approval. The company was either designated as Securities on Alert or an illegal transaction was detected at its subsidiary prior to the submission of application in April. Is my understanding correct that the reason why so much time was needed was because the company had not only excessive debt and other financial problems but also other problems?

Kiyota: An independent self-regulatory organization conducted a careful examination, and I personally do not have all the details. I think the decision for approval was made based on a close examination of how Toshiba resolved its problems one by one and what initiatives the company took to achieve the necessary compliance and internal controls.

Reporter: I would like to confirm again about the extended trading hours. I understand that the matter should be considered separately from system failures. May I ask, CEO Kiyota, if you are willing to consider extending the trading hours or feel careful consideration is needed.

Kiyota: I have become president of TSE again, but during my previous term as president of TSE, between 2013 and 2014, I was involved in discussions on the potential opening of night-time trading. At that time, I learned that the securities industry expressed concerns about having to be extremely cautious about night-time trading.

At that time I had just come from Daiwa Securities and became TSE president, I thought that if trading hours were extended, leading securities companies would most likely obtain a fairly good amount of order flow. I personally was not necessarily against the idea of extension. However, from the perspective of small- and medium-sized local securities companies, there was strong opposition, partly because such companies could not expect returns commensurate with their investments.

Therefore, as the state of the industry has not fundamentally changed since then, I believe that securities companies have been carefully observing whether there will be returns commensurate with their investment in extending trading hours. At the moment, I personally have no intention of actively pursuing extended trading hours.

That said, obviously as the world changes, this topic came up from the system failure occurrence. After we have properly taken steps to prevent the recurrence of a system failure, we will properly address the topic once again and seek opinions of the industry and regulatory authorities. If the majority supports the idea of extended trading hours, we have no reason to reject it.

We have proposed night-time trading in the past considering that significant stock price fluctuations are often triggered by factors overseas. Today's plunge was also driven by the plunge in the U.S. stock market and the sudden instantaneous rise of Japanese stocks to the JPY 28,900-level was in response to the sharp rise in U.S. stocks. Therefore, we are certainly aware of the issue that Japanese investors do not have the chance to trade Japanese equities amid stock price fluctuations caused by factors generated overseas.

However, even if that were the case, such cases do not occur on a daily basis and presently, if there is no consensus today for opening the market permanently for the possibility of something happening, I do not necessarily feel that I have to promote this at the present time.

Reporter: I would like to ask you about the electricity futures market. Since the beginning of the year, wholesale power prices have skyrocketed and I think wild price fluctuations are continuing. Given the significant increase in cost of procuring electricity by PPS (Power Producer and Supplier) companies among other factors, there is a growing interest in the risks associated with price fluctuations of electric power. Under such circumstances, I think TOCOM's electricity futures market is expected to play a role as a hedge market. Are you aware of how the market works in this phase? Please share your views, including recent trading trends.

Kiyota: As you pointed out, power supply and demand was tight around December last year when a very severe cold wave hit Japan. Demand for heating was just tremendously strong, driving up electric power consumption.

Meanwhile, as already reported in newspapers and other media, if there is an urgent need to increase the supply of electric power, renewable energy will not be sufficient. If we don't know what the weather will be like or how the winds will be, we cannot necessarily increase the power supply in an emergency. Looking at the current electric power and power generation, fossil fuels such as petroleum, natural gas, and coal, make up the majority of power consumption.

Therefore, the dependence on LNG is increasing significant due to ESG issues. However, it is very difficult to stockpile LNG itself. Apparently when stockpiled, LNG vaporizes and rollover occurs. Even when put in a tank, LNG will vaporize and rollover no matter what, making it difficult to be stockpiled for a long period of time. While only about two weeks of LNG can be stockpiled to be used in Japan, LNG has sharply decreased.

However, Japan imports almost all its LNG under long-term contracts. I presume that sudden procurement of LNG was difficult, including arranging for a tanker, which was a factor underlying the recent volatility.

In particular, PPS companies engage in the business of supplying power procured in the market. From the viewpoint of the PPS, spot prices of electric power on JEPX (Japan Electric Power Exchange) suddenly soared from JPY 5, JPY 10 or JPY 15 to JPY 150 or JPY 200 and even up to JPY 250 instantaneously, according to sources. Under these circumstances, if the PPS companies are unable to ensure the amount of electricity to meet the demand from customers, they must pay penalties to receive a supply of the necessary amount. The penalty system itself was big and perhaps the fact that PPS companies had no choice but to buy wholesale spot electricity to avoid penalties went ahead to make the purchases regardless of the price which in turn led to a surge in prices. To control the movement of the spot price of electricity, the Ministry of Economy, Trade and Industry set the upper limit at JPY 200. Even so, the price of electricity, which had been running at around JPY 15 until recently in November and the beginning of December, increased to JPY 100, JPY 150, and JPY 200, causing a major impact on PPS companies buying electricity at spot prices on the wholesale electricity market. This is the background to trading on the market despite significant price fluctuations. TOCOM, which is one of our subsidiaries, opened the electricity futures market with this kind of phenomenon in mind of course. However, when the market swings this much, the rules that are based on stable market operations, such as rules on daily price limits and the upper or lower limit price, cannot cover the erratic fluctuation range within a day. Since the daily price limits cannot keep up with the price movements that fluctuate 5 times or 10 times in no time, the JEPX wholesale power prices spiked before the futures price could be set, making it difficult to use the futures contract as a hedge due to price divergence. Naturally, when the spot price is JPY 150, buy orders for a futures contract at a price of JPY 35 or JPY 50 may be received but there are no sell orders. So, when contracts cannot be executed, I imagine that the market could not keep up with the recent fluctuations.

Of course, as it is a trial listing, I did not expect volatility to occur at such an extent. However, even for outside trial listings and power stocks, prices could fluctuate erratically. For example, last March or April in the U.S., WTI crude oil price was negative USD 40. So, it is possible that these commodity derivatives, unlike conventional financial instruments, can fluctuate erratically since the market lacks depth. Therefore, when the JEPX prices fluctuate so much, the futures market cannot keep up with the fluctuation. Meanwhile, a European exchange called EEX provides a clearing service for OTC trades of Japanese power futures. This is only for off-exchange trades, and I heard that transactions have increased quite a lot since there are no rules such as limit-up or limitdown.

As for trading of these electric power futures on TOCOM, market movements were significant this time, and the market, given its mechanism, could not keep up with the volatility. Although the range of price limits was doubled, price fluctuations were too erratic to keep up with it.

Under normal circumstances when the price was JPY 5 or JPY 10, the range of price limits was JPY 4, which was considered to be sufficient. However, when the price jumped to JPY 30 or JPY 50, it was difficult to handle with a range of JPY 4. And when the price surged to JPY 100, nothing could be done. So, the range was raised to JPY 8, but it still was not sufficient. That said, if the electricity futures market had developed into a bigger market in Japan, it is possible that such a case could have been avoided. If trading parties could keep in mind that even under normal times irregular fluctuations can occur and buying futures contracts to a certain extent for hedging purposes, it is possible to avoid such a case. Hence, in the long run, from the perspective that the importance of the futures market has been recognized, I feel that this experience was not all negative for us.

With regard to this issue, recently there was news that the U.S. CME would start trading Japanese electricity futures and yen-denominated LNG futures. I understand that trading will begin on February 8. Considering this, I believe that the recent experience has spread awareness of the future potential of the Japanese power market among exchanges around the world along with investors and traders participating in trading on those exchanges.

Reporter: I would like to ask you about licensing fees for stock indexes. I understand that at the request of GPIF, it is in direct negotiations with TSE for a contract. As for my first point, I would like to ask you about the prospect of the negotiations. Some investors have pointed out that it is difficult to understand what kind of contract is being pursued, I wonder if TSE is considering disclosing its fee structure.

Also, it has been 10 years since the Bank of Japan began purchasing ETFs using public funds. Could you tell me, if possible, the amount of license fees TSE has received during this period?

Kiyota: First, regarding the license fee issue with GPIF, we have of course been consulted by GPIF on the matter. GPIF is basically aware of the amount of license fees we receive from the asset management companies serving as GPIF's subcontractor. The details of this fee has been conveyed to GPIF in the past, and GPIF has acknowledged the appropriateness of the fee. Therefore, in regard to this matter, GPIF has not asked TSE to provide information on the license fee or to lower the fee, or pointed out that the fee was too high.

However, perhaps from the point of view of GPIF, there may be a lot of other index licenses involved and probably various passive investments. It is not clear, however, how much the license fee is paid to each asset management company. Since the license fee is included as part of the asset management fee, my understanding is that GPIF would like to clarify the amount of license fees. In this regard, as you mentioned earlier, if institutional investors, asset management companies and others as a whole need disclosure of information in various ways to determine how much the index license fees are, we are willing to actively offer our cooperation.

Getting to your second point, the Bank of Japan is in fact continuing to purchase ETFs. Most recently, purchases amounted to approximately JPY 35 trillion on a principal basis, and Governor Kuroda said yesterday that there would be unrealized gains of JPY 12 trillion to JPY 13 trillion. Therefore, I think the market value comes to somewhere between JPY 45 trillion and JPY 47 or 48 trillion. I don't have on hand the statistics on how much the fees we receive for these purchases. However, since these purchases amount to a huge value, I imagine the fees also come to a good amount.