

Summary of the Press Conference

Date and time: Monday, February 22, 2021, 3:30 p.m. - 4:20 p.m.
Venue: TSE Hall
Speaker: Kiyota Akira, Director & Representative Executive Officer,
Group CEO

Kiyota: I would like to announce JPX's new management team as of April 1 this year as well as candidates for directors and executives as the JPX Group switches to a new management team on April 1 every year. Please refer to the documents as necessary.

The new management team was decided on the basis of steadily addressing important issues such as 1) regaining trust and strengthened resilience following the system failure incident; and in the final year of the 3rd Medium-Term Management Plan 2) continue the current transitions to new market segments; and 3) launch operations of J-GATE 3.0, a derivatives trading system slated for autumn 2021.

First of all, through repeated deliberations at the Nomination Committee, we have decided to nominate Mr. Yamaji Hiromi, the current President & CEO of Osaka Exchange, Inc. (OSE) as candidate for President & CEO of TSE, a post I have been holding concurrently following the resignation of Mr. Miyahara Koichiro, former President & CEO of Tokyo Stock Exchange, Inc. (TSE) in response to the recent system failure. Having served as President of OSE for eight years since 2013, in that time Mr. Yamaji realized the establishment of the comprehensive exchange along with his achievements as top manager as well as CEO of an exchange operator. He has highly extensive international experience from his career at Nomura Securities Co., Ltd. and since joining JPX, has continued to engage broadly in international activities for the derivatives business by drawing on his experience. I would like to inform you that this time Mr. Yamaji was nominated as the Nomination Committee unanimously concluded that, by leveraging his experience, he would be able to address currently the most important issues for JPX Group such as transitioning to new market segments, TOPIX revision and measures for prevention of a system failure from occurring again. Mr. Yamaji will continue to serve as Director & Representative Executive Officer, Group COO of JPX, and even after becoming President & CEO of TSE, he will oversee

the Group's operations as COO which includes derivatives that he has been involved with until now at OSE and Tokyo Commodity Exchange, Inc. (TOCOM). Along with Mr. Yamaji assuming the post of President & CEO of TSE, Mr. Iwanaga Moriyuki, who currently serves as Senior Executive Vice President of Japan Securities Clearing Corporation (JSCC), was nominated to President & CEO of OSE and Representative Director & Chair, Chairperson of the Board of TOCOM. We nominated Mr. Iwanaga as he is highly experienced in management of the exchange given that as Senior Executive Vice President of JSCC, he was actively engaged in the comprehensive exchange project which included integration of clearing houses, JSCC and JCCH, with the establishment of the comprehensive exchange and serving as CFO in his time at JPX while also being responsible for equities as executive officer. We will have Mr. Iwanaga do his utmost to enhance the function of the derivatives market for the JPX Group by promoting market integration and through strengthening international competitiveness in addition to ensuring steady operations of J-GATE 3.0 slated to start in September this year. Mr. Iwanaga will also assume the post of Director & Executive Officer of JPX and will be part of JPX management while serving as top manager of OSE and TOCOM on the group management front.

Next, I would like to brief you on the management reshuffle in other group companies. First of all, although I'll be resigning as President & CEO of TSE, I will continue to serve as Director of TSE just as I did before the resignation of former President & CEO Miyahara. I will also be responsible for management of TSE.

Next, Mr. Kakizaki Kazuhisa, currently serving as Director of Market Planning Department at OSE, will assume the post of Executive Officer there. Mr. Kakizaki joined Osaka Exchange when it was still Osaka Securities Exchange. Since then, he has long been involved in the derivatives planning field. With regard to JPX-R, Mr. Hirano Takeshi, who currently serves as Standing Governor, will be promoted to Managing Governor. As Mr. Shimomura Shosaku, who currently serves as Standing Auditor will resign, Mr. Kikuchi Kiichi, who is well versed in self-regulatory operations, has been appointed as Standing Auditor. In view of the above, please refer to the chart in the documents for responsibilities after the new management structure is introduced.

This was a little long but this wraps up my briefing on the candidate nominations for directors and executive officers. That is all for my briefing.

Reporter: The organizer has two questions to ask. First, in relation to the proposed executive personnel changes announced just now, although possibly repetitive, could you tell us about your approach to the nomination of candidates this time around and issues facing the new management team?

Kiyota: As I mentioned earlier, a major issue for JPX and TSE now is the ongoing transition to new market segments. Accordingly, we intend to separate TOPIX from TSE First Section, improving the index which is representative of the price movements of cash equities on TSE. It is very important for TSE and Mr. Yamaji, the new President & CEO to work in a well-prepared environment.

Before then, of course, I think it will be a big challenge to change the system into a resilient one that can recover from a system failure in a short period of time, should one happen, or have the organization prepared and ready to handle it so that the incident that occurred last year won't happen again. We will ask Mr. Yamaji to do everything in his power for this challenge.

On the other hand, of course, I also intend to cooperate with improvements to TSE. Besides the problems TSE currently has, although having been perhaps criticized by some, TSE's position in Japan now is that it has a market share so high that it is called overconcentration. However, in terms of competition with overseas exchanges, TSE still needs to become stronger as it is not fully prepared to compete.

In this respect, TSE is not only competing within Japan, it has always been one of leading exchanges in the world and currently, it is often reported that TSE's position would be threatened. I believe it is very important to thoroughly take steps to beat international competition and prevent such a scenario from happening.

Reporter: Thank you. Another question is about the Nikkei Stock Average, which hit the 30,000 yen level for the first time in 30 and a half years. Regarding this level, there are concerns about an overheating market. What are the factors behind the current rise in stock prices? What is your outlook for the future, as well what risks should we watch out for?

Kiyota: Although the market had slow growth towards closing today, it rebounded from yesterday's decline and maintained the 30,000 yen level. As you pointed out, the market hit around a 30 and a half year-high, regaining the 30,000 yen level. I can't say categorically whether

or not there is overheating at this level. A possible reason, however, is the fact that Japanese investors have become much more aware of asset building. Looking at the financial results of Japanese companies during the Covid-19 pandemic, despite a clear division regarding positive and negative results depending on the type of industry, Japanese companies are attracting attention from investors around the world, in light of the fact that damage to the manufacturing industry was relatively minimal, with many firms posting much-improved earnings and that the impact of the pandemic itself to Japan was relatively minor compared to other countries, especially those that are most competitive with Japan.

Especially since most of the world's developed countries implemented unprecedented monetary easing and fiscal injection, funds that require some sort of asset management around the world has been accumulated as so-called liquidity. I am not sure whether it's good or bad, but with individuals' financial assets having grown so much, interest in investing has risen markedly.

In Japan, retail investors' trading market share had long been around 15% or so until the first half of last year, but it rose to almost 20% in the second half of the year, and in some months beyond 20%. Looking at this, I feel that personal assets are beginning to flow into stock investments etc. as part of their asset building and that individual literacy for stock investment etc. is rising.

Stock prices reflect the outlook. There is a view that financial results for the fiscal year ending March 31, 2021 will generally be better than expected. Also helping is the fact that: 1) vaccinations are finally beginning to be administered in Japan; 2) vaccination scenes are broadcast on the TV everyday despite uncertainty about the scheduling; 3) no side effects or extremely limited; and 4) restoring the Japanese economy after Covid-19 is getting more attention, more than the fear of coronavirus.

I believe that the current rise in stock prices is a reaction from the stock market, which expects the business of companies to expand significantly after they have overcome the Covid-19 pandemic.

Reporter: I have two questions to ask. Regarding the proposed executive personnel changes announced this time, Mr. Yamaji will become President & CEO of TSE, and you mentioned earlier that his role would be to reorganize TSE into a resilient organization following the system failure. Could you go a little further and tell us about what specific measures you want him to take and what kind of leadership

expectations you have of him? The second point concerns Mr. Iwanaga. His career history shows he served previously as CFO and as Senior Executive Vice President of JSCC. What do you expect of him after he assumes the role as President & CEO of OSE?

Kiyota: As I explained earlier, I believe Mr. Yamaji is quite satisfactory in his ability and past achievements. Still, once assuming the position of President & CEO of TSE, he should prevent a recurrence of system failures and create a resilient system and also put in place an operational structure to address possible issues faced by the organization such as a disaster or pandemic, and problems arising from within the system itself, namely mechanical problems, which could potentially hit TSE. For example, JPX Group is working to achieve a 70% total teleworking rate, but only about 30% of employees in departments considered essential can work from home.

Of course, they alternate, but what's more, teams in charge of duties are divided into two channels. Two teams performing identical duties were created, and staff members can work at a physically separate place. With the two-channel work approach being in use, if a member of one team contracts a virus in a pandemic, even if it becomes a cluster, then the other team can do the same work safe from harm. Having made such a system causes the attendance rate to be unavoidably high.

This is a problem not only in a pandemic. Suppose separate teams work in separate physical locations in the event of a natural disaster, an earthquake, a fire, or even random terrorism. Then, it would probably be a very resilient mechanism, so we will ask Mr. Yamaji to consider the task, including management of the organization.

We are doing it urgently as we are still amid a pandemic and we will institutionalize it. This applies to not only TSE but also the entire Group. TSE and OSE need such a resilient system due to being predominantly in charge of real-time trading. In fact, I would like to see not only Mr. Yamaji but also Mr. Iwanaga work together to create such a system.

As I mentioned earlier about Mr. Yamaji, he has global experience and speaks English fluently. I met him at international conferences overseas when he was at Nomura Securities and I was still at Daiwa Securities and his English skills far surpassed mine, so I would like to see him provide leadership in many ways on global endeavors of TSE.

As for Mr. Iwanaga, the comprehensive exchange that Mr. Yamaji

has been working on to date began operations on July 27, 2020 - only seven months ago. In this respect, the exchange has yet to deliver what we and you expect of the comprehensive exchange.

After all, the expected securities and financial brokerages didn't take part as new trading participants so we are not necessarily satisfied with the result. Electricity futures were in an experimental listing stage. So, when the electricity spot market was volatile, we regretted not having officially listed electricity futures on the exchange. Given that as a comprehensive exchange its functions are still insufficient, I would like to see Mr. Iwanaga clarify these functions. A major theme for TOCOM now is that while it has remained an energy market, the exchange should list LNG after electricity with the approval of the Ministry of Economy, Trade and Industry. I hope Mr. Iwanaga will build up an energy market as a comprehensive exchange while merging TOCOM and OSE.

Reporter: I have two questions to ask. First of all, why was Mr. Yamaji unable to come to the venue this time? You said earlier "for the exchange to beat international competition." Could you tell us what TSE has lacked to date in this respect and how it intends to compete under the Yamaji platform?

Kiyota: Mr. Yamaji not being in attendance here is not intentional. It is because his work schedule conflicted with the timing of this briefing. Likewise, Mr. Iwanaga, the successor to Mr. Yamaji, had a previous appointment and they didn't know about this until just before the meeting, so they are now working on what was already scheduled before.

So, there was no specific reason. However, in any case, I think we need to provide an opportunity for them to greet everyone.

On the question of what TSE has lacked to date, TSE arrowhead was not resilient in last year's system failure, but it was not attributable to just certain people. An equipment malfunction was the original cause of the failure, but we are now conducting a thorough inspection, including the fact that we were not able to respond as an organization. I would like Mr. Yamaji to take leadership in efforts to prevent a recurrence and continue working rigorously on what I have been doing to date.

While competing internationally now, we will likely work with the national government and the Tokyo Metropolitan Government to implement the Tokyo International Financial Center Initiative. Although previously, having strongly expressed an opinion on how

things should be done time and again, TSE cannot do anything by itself. So, this is a truly invaluable opportunity for us that the national government and the Tokyo Metropolitan Government is taking action now. In a recent move, various system revisions were considered with the tax system likely to be revised first. In addition, officials are studying development of a living environment friendly to foreign financial specialists as well a basic living infrastructure comprising educational and home environments.

Mr. Yamaji served as head in New York and London with extensive experience in actual markets while living in the world's No. 1 and No. 2 global financial center cities, so he has that kind of knowledge. TSE's organization is inevitably local, and most of the listed companies on it are Japanese enterprises, accounting for 99.9% of the total. However, I think Japanese companies as investment targets are attractive from a global perspective. As I have said time and again on this kind of occasion, some 60% to 70% of market transactions on TSE and 70% of derivatives transactions on OSE are done by foreign investors. Although investment products and listed products have become sufficiently global products, exchanges themselves remain local, as may be the case with any country. However, although unable to suddenly change, we must transform ourselves into an organization equipped with a stronger global sense. We must work while being aware that we cannot survive without change. In this respect, we think Mr. Yamaji is appropriate for the post.

Reporter: My question concerns the market segments revamp. The criteria for tradable share ratio have been established for listing on the Prime Market. It was announced recently that, to achieve a higher ratio, Toyota Boshoku requested that Toyota Motor release a portion of shares from the former and then it sold the shares. How do you assess such a move by companies to achieve a higher tradable share ratio? Also, what is your view on whether similar actions will occur successively in the future?

Kiyota: In review of the TSE cash equity market structure, we introduced the criteria for tradable share ratio to the total number of shares outstanding with regard to each market segment, including the Prime Market.

In Japan, the fact that stable shareholders predominantly hold voting rights has been a problem for a long time. Since the introduction of the Corporate Governance Code however, many companies have been integrating their subsidiaries through such means as a spin-out

or takeover bids to make them wholly owned subsidiaries. I believe the criteria of tradable share ratio, including this kind of movement, will function as a very important criteria in raising the level of governance at Japanese companies.

I feel that the movement you mentioned this time shows companies have recognized the importance of that function. Eliminating long-held cross-shareholdings and reorganizing subsidiaries etc. could potentially bring the level of Japan's corporate governance closer to a global level. In addition, it is likely that for a long period of time shareholders and investors will hold shares in companies that are well-received by them, but I think a certain level or more of liquidity is absolutely necessary in order for the state of a company's business management to be reflected properly in its market price. From this perspective, we plan to establish the criteria for tradable share ratio.

Reporter: With regard to the coup d'etat in Myanmar, I understand that a stock exchange was established there with the support of TSE and the Japanese government. Could you tell us about the current situation of the stock exchange there and how it will be supported in the future as well as the outlook and initiatives?

Kiyota: As you know, a military coup d'état was carried out in Myanmar. The NLD administration of Daw Aung San Suu Kyi, having been in power until then, has virtually collapsed. We think the country is at a crossroads on whether the military government will compromise and side with its citizens while facing backlash by the people or take actions to suppress them.

As you pointed out, the Yangon Stock Exchange in Myanmar was established with capital contributions from Myanmar Economic Bank, JPX, and Daiwa Institute of Research (DIR). The number of listed companies has been rising although gradual. Local securities companies understand the meaning of listing and conduct initial share listing sales to solicit listing. The incident broke out at a time when a certain number of prospective listing companies were moving into the pipeline.

However, when Covid-19 broke out around February, March last year, an JPX employee and then I heard that DIR employees also left Myanmar and came back to Japan. I think it was in about March last year. They were teleworking and did consulting with the locals while continuing with various dialogues online, then the coup d'état occurred. Only one of our staff members was on-site in Myanmar at

that time but with coronavirus the remaining employee also returned along with the JPX employees that had already returned to Japan, so there were no safety issues this time around. That seemed to be the case for DIR as well. However, the exchange project was originally to establish an exchange encouraged by the Japanese government when democratization began during former military officer Thein Sein's presidency. Therefore, seeds were already sown when the military government was in power. In fact, it wasn't until after democratization that the Yangon Stock Exchange began operations on a full-scale basis. At the time, it was support when the military government had announced its intention to be democratized and was committing to it. I have heard that the United States is now considering whether to impose economic sanctions against the country, beginning with partial sanctions, as it is not known what will happen in this case. Under these circumstances, what will happen to the exchange if the military adopts a totally military regime? Right after the coup d'état, the exchange closed for two days, February 1 and 2, as banks were closed and unable to settle. The exchange was open for business as usual after that.

Of course, given this kind of market, the country is in turmoil so, big transactions will probably not take place. The exchange is said to be currently open. However, depending on the circumstances, we may have to make a decision. If a military administration is formed by oppressing the people, I think we should reconsider whether our support should continue. At that time, the Financial Services Agency, DIR and JPX must have mutual consultations on the government's response before making a decision.

Reporter: Regarding Mr. Yamaji becoming President & CEO of TSE, various problems such as communications with securities companies rose when the system failure occurred. My first question is whether Mr. Yamaji was chosen by considering that point, among other things. My second question concerns the fact that although the CEOs of both TSE and OSE were replaced, there are not that many new executives, and I don't think there has been much change in the executive system itself. If there is a reason why you did not change so much on purpose, I would like to hear more about your intentions and how you intend to proceed with executing.

Kiyota: First of all, on the selection of Mr. Yamaji as candidate for President & CEO, the Nomination Committee held a number of discussions before narrowing down the list of candidates and after pondering

over adequate candidates, the Committee chose Mr. Yamaji unanimously. At the time, as you pointed out, we did not consciously consider securities companies. As I explained earlier, the most important issue now facing a current stock exchange, particularly TSE, is whether it can tackle issues such as a review of TSE cash equity market and TOPIX by suddenly having, for example, a person with no experience in exchange operations to be appointed as President & CEO of TSE. Also, is it possible for a person with no knowledge in current arrowhead or systems structure to suddenly come and work on the system, failure recurrence prevention and creation of a resilient system? It is quite difficult for an outsider to immediately deal with such a big challenge. In addition, members of the Nomination Committee, composed mainly of Outside Directors, naturally remember the eight years of management by Mr. Yamaji as President & CEO of an exchange of in the JPX Group. The Committee chose Mr. Yamaji considering his personality, insights, skills and experience.

Mr. Yamaji himself is not particularly knowledgeable about systems, but J-GATE 3.0 actually had a few failures during the past eight years although they were minor. Mr. Yamaji's handling of the failures gave him extensive experience in the process so he is knowledgeable in an exchange operations system although he is not a systems specialist. We have expectations of his stable efforts this time around. The overall framework will not be altered much as Mr. Yamaji will be asked to work on the review of the TSE cash equity market structure that's now underway. This is to ensure stability in operations. Since it would be quite difficult to replace both the President & CEO and other officers, the reshuffle of executives will be minimum this time around.

Reporter: I have two questions to ask. First of all, as you said earlier, did the Nomination Committee unanimously pass all the resolutions?

Kiyota: The Nomination Committee deliberated on the proposed nomination of Mr. Yamaji as candidate for President & CEO and of Mr. Iwanaga as candidate for President & CEO and after narrowing down the list of candidates, the Committee unanimously passed a resolution on the proposed nominations.

Reporter: My second question concerns the fact that the Osaka Digital Exchange, a PTS or a platform which is intended to list STOs, was

announced recently. I understand that on occasions like this, you said repeatedly that you were engaged in overseas competition rather than domestic competition. Given that the entity expressed an intention to gain market share from JPX, what are your thoughts on this issue?

Kiyota: Of course, from the press reports, we are aware of the planned establishment of a PTS in Osaka and the intended establishment of a listing market for digital securities. However, a PTS is designed mainly for trading after TSE trading hours and trading is difficult without TSE stock prices to refer to. This became evident when TSE suspended trading all day. Moreover, JPX serves the function to examine listing applications and monitor transactions. I don't say this out of spite, but existing PTS's are intended to be run in a manner similar to that of an exchange without incurring much cost. So, the same stocks as those listed on TSE are traded on existing PTS's. I wonder what will be listed when the new PTS is set up in Osaka. What prices will be used as a reference by trading participants and investors beyond them to trade, and how will price discovery be determined? Currently, two PTS's in Tokyo are able to discover prices based on the closing prices of TSE, or the latest prices of it during the day. However, regarding how to discover a price when an issue not even listed on TSE is newly listed, we will closely watch to see how the price discovery problem gets resolved. However, of course we are not completely ignoring the possibility of a listing market for digital securities and other securities in the future. Three years ago, we set up a unit called Fintech Laboratory, which since has been studying to see if DLT technology can be utilized in some way. For example, we carried out a PoC to see if DLT can be used for post-trading while letting people take part in the testing. There are obviously regulatory issues for our exchanges but we will closely monitor how PTS's handling digital securities will be set up in the future. If there is anything that we can do to help new markets, we would like to do so.

Reporter: Has JPX been informed of anything regarding this issue?

Kiyota: Not yet.

Reporter: At the start, when talking about the recovery of the Nikkei Stock Average to 30,000 yen, you said asset-building investors were showing increased interest. I suspect that novice investors and young

people are entering the market to a certain extent. What kind of support do you think the securities industry needs to provide in the future?

Kiyota: The U.S. saw the GameStop stock spike and plunge creating a major social problem. I heard that some retail investors without enough financial literacy traded options and incurred an unforeseen valuation loss which caused a young investor to commit suicide. This story reminded us of the importance of financial literacy. Of course, such wild price movements occur in ways unique to the United States, and comparable movements do not occur under the Japanese trading system. Our stock exchange has a limit price system in place. A limit-down and limit-up occurs with a maximum price change on a given day limited to within 30% of the previous day's closing price. This means that something like what happened in the U.S. would not occur at our exchange in terms of price movement. Of course, we will need to alert investors when handling instruments such as options that risk assessment cannot be made without advanced financial knowledge. Even without reminders however, Japanese securities companies appear to limit retail investor options trading, not only buying options but especially selling options. I think that a safety net for retail investors in Japan has been established at quite a reliable level so much so that Japanese securities companies allow retail investors to even buy an option that's been highly-limited with the exception of customers with more than a certain amount of financial knowledge. Last year, benefits of 100,000 yen was granted to all citizens in Japan, meaning 12.6 trillion yen was paid out in cash given that the nation's population totals 126 million or so. Among them, about 30 million recipients were actually in difficult situation. As a result, 9 trillion yen or so was accumulated as financial assets. If individual investors are investing, I would like to see them do so by first gaining financial knowledge.