Summary of Press Conference

Date and time: Wednesday, April 28, 2021, 3:30 p.m. - 4:15 p.m.
Venue: TSE Hall
Speaker: Kiyota Akira, Director & Representative Executive Officer, Group CEO

Kiyota: Today, I'll be giving a briefing on four points.

First of all, I would like to give an update on the 3rd Medium-Term Management Plan.

Each year, we update the plan in light of ongoing environmental changes, so I will explain the highlights. Please refer to your documents as needed.

First, turn to page 3. Looking back on the last fiscal year, the system failure that occurred on October 1, 2020 and the full-day trading suspension caused a great deal of inconvenience to market participants. We at JPX Group were reminded once again of our heavy responsibility as a market operator. Successive measures to prevent a similar incident from recurring have been taken one after another, from the ones that can be started with. On March 25, we put together a report from the Council for Recurrence Prevention Measures.

Next, turn to page 4. Progress of various measures beginning in the field of derivatives, a comprehensive exchange came into full operation in July last year through product transfers and a merger of clearing houses. As for the planned transition to new market segments, we have been gradually improving the system by for example, announcing listing rules for the new market segments at the end of last year. On the information front, we unveiled a gradual transition process for TOPIX and rolled out new services, meaning that our core strategic measures are steadily moving forward and put into action.

Next, turn to page 7. First and foremost, the update this time is to restore confidence in the market and strengthen its functions, so we will make sure to implement urgent recurrence prevention measures in addition to "Never Stop" and also improve resilience. From a medium- to long-term perspective, we will fulfill our mission of stable management of the market through taking into consideration IT functions and human resources and establishment of a center for advanced research and development as announced last month along with promoting ongoing DX-related initiatives.

This fiscal year marks the final year of the current 3rd Medium-Term Management Plan. We will steadily implement important measures, including the cash equity market restructuring. In addition, we can respond to changes in investment methods and financing methods, including promoting ESG investing in an effort to prepare for medium- to long-term changes in the environment.

Details of other specific measures are described in pages 11 - 18, so please refer to them later.

Finally, turn to page 21. I will explain the summary of the financial results later. JPX Group achieved the financial targets set out in the 3rd Medium-Term Management Plan before the final 3rd year. In light of this, for the new fiscal year we will allocate the necessary management resources to deal with medium- to long-term environmental changes. This will be done through improving resilience by for example, strengthening enhanced market functions as well as promoting digital transformation. Capital investment for the three years of the Management Plan was increased from JPY45 billion to around JPY50 billion.

This concludes the update on the Medium-Term Management Plan.

Next, let me brief you on the financial results for the fiscal year ended March 31, 2021. Please refer to, as needed, the summary of the financial results and other reference materials outlining the financial results.

Operating revenue for the fiscal year ended March 31, 2021, grew by JPY9.6 billion year on year to JPY133.3 billion as in addition to surpassing cash equities trading value from the previous fiscal year, revenues from listing and information services remained steady.

Operating expenses grew by JPY2.8 billion year on year to JPY61.3 billion as the consolidated financial results reflected the expenses of Tokyo Commodity Exchange, Inc. which had been made into a subsidiary in October 2019, and we also took measures to maintain stable market operations even during the spread of Covid-19 infections.

As a result, in terms of profit and loss, operating income grew by JPY6 billion year on year to JPY74.5 billion, and net income attributable to owners of the parent company increased by JPY3.7 billion to JPY51.3 billion.

Next, about ordinary dividends for the fiscal year ended March 31, 2021, JPX has a basic dividend payout ratio policy of approx. 60%. Accordingly, the full-year dividend per share will be JPY58.

As I mentioned earlier in the update for the Medium-Term Management Plan, the consolidated financial results for the fiscal year achieved the financial targets stated in the 3rd Medium-Term Management Plan. To express gratitude to shareholders for the support we received from them in the various measures for stable market operations amid the spread of Covid-19 infections, we will additionally pay a special dividend of JPY10 per share.

The next topic is acquisition of own shares. Please refer to your documents as needed.

At today's board meeting, acquisition of own shares was resolved. This is intended to enhance shareholder returns by implementing a swift and flexible capital measure.

We will acquire our own shares up to a maximum of JPY20 billion through purchasing during regular trading sessions on TSE for a limited time between April 30, which is the next business day, until six months later.

Own shares on a JPY20 billion scale are equivalent to 1.4% of the market capitalization of JPX shares using the latest share price levels for calculation.

The last item is determination of candidates for directors. Please refer to your documents as needed.

The new candidates for directors have been determined and candidates will be proposed at the annual general shareholders meetings and ordinary general meeting of members scheduled for June 16 this year.

First of all, as announced in February, Mr. Iwanaga Moriyuki, President & CEO of Osaka Exchange Inc. and Representative Director & Chair, Chairperson of the Board of Tokyo Commodity Exchange, Inc., will become Director of Japan Exchange Group, Inc. (JPX)

Mr. Kubori Hideaki, an Independent Director, will resign, and Mr. Takeno Yasuzo, an attorney at Mori Hamada & Matsumoto, will replace him as an Independent Director.

Next, Mr. Kuroda Katsushi, Statutory Auditor (Outside) will resign from TSE, and replacing him will be Mr. Yamada Haruhiko, former Vice Chairman of the Japanese Institute of Certified Public Accountants (JICPA).

For more details on the new management team based on the above, please refer to the chart in your documents.

That wraps up my presentation.

Reporter: I have two questions to ask.

Recently, a state of emergency was declared for four prefectures for the third time. In addition, the scope of application of quasi-emergency measures, continues to widen. Yet, vaccinations have only just begun in Japan. Could you tell us what your outlook is about the impact on corporate activities and the stock market?

Kiyota: As you mentioned, the third state of emergency was declared on Sunday, April 25. The state of emergency was declared for four areas, Tokyo, Osaka, Hyogo, and Kyoto, and quasi-emergency measures were announced for some other areas. Although these measures were not announced nationwide, the measures point to a sense of crisis about infections spreading and spreading once again. This will undoubtedly lead to various movement restrictions on people and restricted economic activities, so this will have a direct negative impact on the economy. However, a move to curb infections by limiting the impact on people's economic activities for a short-term intensive period of time is a measure supported by most intellectuals and experts.

Markets appear to move in reaction to this acceptance. Of course, some individual companies might be affected greatly, probably the impact on economic activity will not be that serious for the most part if the measures end as planned. This is given that both the state of emergency and quasi-emergency measures in some areas, lift around the same time, in just over two weeks (17 days).

On the other hand, as you have said, vaccinations have started, and the elderly will begin to get vaccinated from mid-May in addition to vaccinations for healthcare workers. Of course, some people think the speed of vaccinations has not necessarily increased due to issues such as the vaccination system, but there is also the expectation that it will finally get on track. Judging from the vaccination situation in the U.S. and the U.K., and the results of controlling the spread of infection, the speed and timing of vaccination may be a little slower in Japan than in the U.S. and Europe. There is also an expectation that if vaccination gets on track, the restrictions on economic activities will gradually be reduced. As for financial results in the fiscal 2020 reporting season that has recently begun, some companies released positive results while some others negative results for the fiscal year ended March 31, 2021, but business results are shown to be recovering in general. So, there hasn't been much of a change in the outlook for the market, in my view, even in a state of emergency.

The Nikkei Stock Average had recovered in 30 and a half years and now, nearing the JPY30,000 level while the market remains at a standstill, conflicting market signals continue without any significant selling movement or appearing to rise but not actually rising. Meanwhile, there are expectations that the market will gradually factor in the vaccination status, financial reports by companies for the previous fiscal year and their earnings forecasts for this fiscal year which will be announced simultaneously.

Another thing is the fact that the U.S. market saw giant IT companies such as Amazon, Alphabet, and Microsoft report better-than-expected earnings today. Around the same time when the Nikkei Stock Average rose above the JPY30,000 level in Japan, the

Dow Jones Industrial Average in the U.S. was extremely close to a new USD31,000 level high. However, unlike the Japanese market, the U.S. market continues to climb. Looking at the Covid-19 status, the U.S. has been posting numbers that point to a much more serious situation than that of Japan. While the U.S. is moving closer to the end of the pandemic, infections in Japan are still spreading. The U.S. market is strong while factoring in new policies from the Biden administration, unveiled one after another, including big fiscal spending. I believe that the strength of the U.S. market will eventually underpin the Japanese stock market.

Reporter: My second question concerns the Archegos issue. In relation to Archegos, several Japanese securities companies have also been affected, including Nomura Holdings, Inc. which posted a loss of over JPY300 billion. As a market operator, what aspects of the turmoil drew your attention, and how do you think risk management should be for investors and securities companies?

Kiyota: We are both concerned and surprised by the fact that such huge losses were incurred by many of the world's top-class investment banks by trading with one customer Archegos while sufficient steps were not taken for risk control.

However, media reports made me realize that U.S. regulations are quite loose for family office investors such as Hwang’s family office and I understand that the regulators didn’t even know how large commodity positions Hwang held. Brokers involved were Goldman Sachs, Morgan Stanley, Credit Suisse, and J.P. Morgan as well as Nomura Securities, Mizuho Securities, and Mitsubishi UFJ Morgan Stanley Securities in Japan. The essence of the problem was that, albeit managing risks within the scope of their transactions with Archegos, each of these individual financial institutions was unable to know the extent to which the family office had accounts with brokers, the levels of positions it had in its accounts with them, and the levels of risk it took. This was because family offices were only subject to very loose regulations for information disclosure or virtually no regulations. Experts in the U.S. see the incident as problematic and perhaps an investigation is now in progress. The concept of a large retail investor is beyond our conventional understanding. Media reports say a single retail investor made stock investments in the order of JPY5 trillion or 6 trillion by leveraging five or six times, based on investment funds worth trillions of yen. This would be unthinkable with our common sense. I think that's why family offices were not subject to much regulation in the U.S.

I also heard that this case involved risk taking under a special contract called a total return swap. Therefore, while financial institutions themselves bought stocks held as their own, the actual price fluctuation risk was taken as a family office risk. However, it was leveraged and if the market price moves significantly, insufficient collateral caused these brokers unable to obtain additional margin to fulfill a margin call. This setup suggests that the information disclosure rules for family offices are not enough at all.

I hope that such an incident would never happen in Japan but we would like to consider an ideal form of regulation while consulting with JPX-R, the Financial Services Agency, and the Securities and Exchange Surveillance Commission.

Reporter: For the first point, I think you said earlier that you decided to introduce a transition in stages for TOPIX in relation to the cash equity market restructuring. This means that companies not meeting the standards will be removed in stages. But on the other hand, the Prime Market will have something like a drastic change mitigation mechanism, which would be a framework allowing listed companies to remain listed if they so wish. Do you place importance on the function served by stock indices in selecting blue-chip companies? In this regard, if I could have your thoughts on the aim of the index reform.

Kiyota: All right. The review of TOPIX is a part of the cash equity market restructuring and I think it will be a very important change. Up until the present, companies listed on the TSE First Section automatically became TOPIX constituents unless they get delisted or other problems occur. The fact that, once becoming a TOPIX constituent, they continue to remain unless something like delisting happens which means that it is hard for discipline to function. Moreover, once included as a TOPIX constituent, they get invested in part by TOPIX-tracking investment funds worth tens of trillions of yen given that TOPIX-tracking passive investment funds are enormous in value. For companies listed on the TSE First Section, the framework is one in which they get invested in automatically by investment funds just on account of being TOPIX constituents, instead of being evaluated as companies. In this respect, as part of the cash equity market restructuring this time, we have decided to discontinue the total linkage of market segments to stock indices. Of course, linkage will not be entirely lost and TOPIX as the main part, will eventually be highly linked to the Prime Market. However, TOPIX will not be fully linked to the Prime Market. We will shift to a structure where stocks unsuitable from the perspective of functionality as an investable index could potentially get removed from TOPIX despite being listed on the Prime Market and where, conversely, change the structure so that even stocks listed on the Standard or Growth Market could get chosen as constituent stocks--although it might be quite rare.

By doing so, we intend to transform TOPIX into a functionally moving index that is equipped with both functionality as a passive investment outlet and with what is commonly known as “market representativeness.” This time, we will transition TOPIX in stages until around 2025. This is because for investors managing investments linked to TOPIX, to have all the index constituents suddenly replaced one day just shouldn’t happen. Our approach is one where, as part of transitional measures, even if a stock does not meet post-revision TOPIX criteria, their TOPIX weighting will be gradually reduced in 10 stages or so and even to zero in some cases, instead of being removed from TOPIX immediately. Regarding new market segments, under the drastic change mitigation rules, we adopted a system where companies can remain in the Prime Market if they wish. Basically, TOPIX revision is likewise aimed to attain a similar effect.

As for TSE market segments, everything will suddenly change so, we will allow companies to remain if they want to. However, for the index, we decided to gradually phase out constituent stocks by steadily reducing their weightings in the index.

Reporter: My second point concerns SPACs. While the trend of changing the rules to allow listing of SPACs is in progress internationally, particularly on Asian exchanges, investor protection is debated in the U.S. So, a lot of attention seems to be drawn to both the positive and negative aspects of SPACs. I would like to have some comments on your thoughts on SPACs locally, including the changing of rules to allow listing of SPACs, as a Japanese exchange.

Kiyota: SPACs have been attracting a great deal of attention with its success in the U.S. being widely reported. I am aware some people opine that Japan should introduce SPACs as one of the mechanisms with which to flexibly use capital markets. In the 2000s, we did deliberate on the SPAC scheme, but at the time we decided not to introduce it because we felt that there was no need for it in Japan. I understand it was argued that it was unnecessary for there was no need and it was too early to be introduced given the risk of the scheme being used or abused for a backdoor listing. As it is currently a very big trend overseas, we could consider it again. However, problems with SPAC have not necessarily been solved, and as you said earlier, at issue in the U.S. are investor protection perspective and whether or not a SPAC will be listed according to the proper rules. The U.S., for example, has had failure cases. The number of SPAC listings has been increasing rapidly. During the past year, about 250 SPACs were listed, and until March this year about 290 were listed. This many SPACs aim to merge within a certain specified period of time, such as two years. As so many SPACs are competing in the search for merger partners, at first they might find a good quality partner, but it remains to be seen whether all SPACs are able to choose good partners and merge with them. I understand some people are cautious given that so many SPACs must look for and find a merger partner within the next six months or within the year, and even more SPACs will have to look for and find a merger partner within the next two years. Gary Gensler, new Chair of the U.S. SEC, has yet to indicate the direction he will take and how he will deal with SPACs, but I know he remains cautious, according to media reports.

We would never reject SPACs outright. There’s no problem if a SPAC merges with an appropriate partner and as a result maintains listed company quality. However, a SPAC is just to raise money, so it gets listed without having existing business operations to be examined for listing. Since a SPAC merger partner is just subjected to due diligence for mergers with an unlisted company, rather than examination for listing, the SPAC would separately conduct due diligence based on information from investment banks, consultants, auditing firms. As a general system for new listing companies, especially in Japan, JPX-R examines the listing of business companies, but in order to accept SPACs on TSE, I think it is necessary to devise such measures. Therefore, I would like to handle it carefully although it’s not being negative by any means.

Reporter: With regard to the Archegos issue, you would like to discuss with the Financial Services Agency and other related parties about the regulations for individuals and family offices and consider how it should be. Do you mean that you will be starting concrete discussions? Could you tell us more about whether you want to monitor developments in the U.S. or will how information disclosure should be become the keynote?

Kiyota: An incident like Archegos is unlikely to occur in Japan. In the U.S., a professional investor who had left Tiger Management became ultimately a super-rich person and set up a family office. In Japan, there may not be many people with such enormous wealth, but in the U.S., there are others with even greater wealth, so there are probably other family offices. That said, currently it seems that no family office in the country takes that kind of risk by using such a big leverage.

Even though there is no retail investor with such huge wealth in Japan, the market could change markedly amid the ongoing monetary easing, potentially giving rise to rich people in Japan during the process of companies’ growth. These are called family offices but in short, they are wealthy retail investors. In Japan, it is not assumed that such an investor will speculate in units of hundreds of billions of yen or trillions of yen as well as leverage of 5 to 10 times. However, as that kind of scenario is not impossible in the future, naturally there are opinions exchanged that Japan should take some measures. Right now, we have not specifically started considering regulations. However, we would like to follow closely to see how the U.S. responds to the incident that took place there recently.

In the U.S., in addition to Archegos, there are two to three other cases for which ideal regulations are under consideration, including Robinhood and their retail investor revolt. We would like to keep a close watch on the response by the U.S. including to incidents yet to occur in Japan.