

Summary of Press Conference

Date and time: Wednesday, June 16, 2021, 3:30 p.m. - 4:30 p.m.

Venue: TSE Hall

Speaker: Kiyota Akira, Director & Representative Executive Officer, Group CEO

Kiyota: I will give a briefing on the Annual General Shareholders Meeting of Japan Exchange Group, Inc.

We held an Annual General Shareholders Meeting from 10:00 a.m. today at the Royal Park Hotel near the Suitengu Shrine. As last year, the meeting was held with considerations taken to prevent the spread of Covid-19 infections.

As in last year's meeting, we asked shareholders to exercise voting rights in writing or via the internet and requested beforehand that they refrain from attending as much as possible to prevent the spread of infections.

This time around, as a new initiative, we live-streamed the video of the Meeting so that shareholders could watch the Meeting at home.

At the Meeting, 4,946,117 voting rights were exercised among the total 5,363,221 voting rights with 23,746 shareholders attending among the total 53,327 shareholders of the Company, which includes those submitted in writing.

This year's Annual General Shareholders Meeting was held with considerations taken to prevent infections, as I said earlier, so the number of attending shareholders was 59, and the meeting concluded at 11:28 a.m.

I also inform you that the Annual General Shareholders Meeting resolved the proposal for electing directors.

This wraps up my short briefing.

Reporter: The other day, the national government presented a draft of its action plan of the growth strategy, which seemed to contain statements urging deliberation of SPACs (Special Purpose Acquisition Company(ies).) Could you tell us again about the Exchange's view on the lifting of a ban on SPACs in Japan?

Kiyota: In terms of SPACs, as there were reports even today, the listing of unlisted companies through a SPAC was a hot topic in the U.S. from last year to this year. There are so many listed SPACs, and I have heard that there are now hundreds of listed SPACs looking for acquisitions or M&A partners.

TSE considered the SPAC system once in 2008. At the time, there were issues such as investor protection perspectives, and there were no needs for a company to list by using a SPAC back then, so the proposed introduction of SPAC was abandoned.

It is now proposed that the national government considers SPACs as part of its growth strategy. In the U.S., SPACs are being used as a means of utilizing capital markets effectively. It makes news given that a merger with a SPAC resulted in a huge unicorn getting listed that in Japan would be unthinkable for its size, so some people do wish to see the same thing happen in Japan.

However, as talked about in the U.S., there have been examples of some investors not necessarily having a happy result due to a CEO (of an unlisted company) leaving a SPAC after its listing. I have heard that U.S. regulators have begun to investigate SPACs, and, as reported by the press today, at issue is business opaqueness betraying investor expectations. Bearing this in mind, should the SPAC system be introduced in Japan, rules for investor protection should be thoroughly considered.

That said, we would never respond negatively to listing of a SPAC if market participants involved are to arrive at a consensus to form a mechanism that serves to vitalize capital markets and acts as a certain brake for investor protection. We will move forward by working closely with the national government and relevant agencies, taking into account the developments for investigation by U.S. regulators.

Reporter: Could you elaborate a little more on that? I understand that the draft of the action plan of the growth strategy went further asking that a system necessary for introducing SPAC be considered. On top of that, could you tell us a little more about whether there is room for TSE to consider SPAC, including the pros and cons of its introduction, or

whether TSE is in a phase for discussing a scheme for its introduction, and how should we consider the feasibility of SPAC at this stage?

Kiyota: The SPAC system itself is not infeasible under the current system. However, apart from the legal framework, at issue is investor protection regarding how to ensure proper quality of companies listing through a merger with SPAC. SPAC is called, so to speak, an "empty box". When a SPAC is listed, no examination will be done for an unlisted company listing through a merger with the SPAC. This means that a SPAC will apply for listing while not knowing what kind of company it will bring into its "box" through a merger. For example, at issue would be how to protect investors in the event of a SPAC merging with an unbelievable company and how to conduct due diligence on the other company. We will refrain from acting hastily as risks are high for the market order nurtured to date, but I think we will keep considering SPAC by addressing issues properly while incorporating its good points as stated in the action plan of growth strategy of the national government.

Reporter: TSE, including a working group, has seemed to begin again to deliberate on extending trading hours. I understand the deliberations are intended to extend the end of the trading session, which is currently 3:00 p.m. Could you tell us again why TSE has resumed deliberating about the extension at this point in time and how you see the feasibility of it this time given that the extension has not been given so far?

Kiyota: The deliberations on the extension of our trading hours actually came about when we discussed what to do if being unable to secure enough time after resuming trading while discussing measures to prevent a system failure recurrence with a focus on resilience and to resume trading swiftly in the event of a system failure. This was in consideration of TSE suspending trading of all its listed stocks all day long owing to the system failure incident on October 1 last year.

We were asked what to do if, for example, not being able to secure enough time although having set system-related measures that would

be able to resume trading just before the end of trading at 3:00 p.m. Accordingly, we obtained consent from all involved parties for resuming trading if we are able to secure at least 30 minutes comprising of 15 minutes as order acceptance time and 15 minutes as trading time, as one of the conditions for trading resumption. However, in consideration of a scenario in which we cannot secure enough time, we decided to deliberate on extending the trading hours again.

I heard some people had proposed the idea of securing enough time by extending the end of trading hours if trading was resumed just before the end of the session. This point was argued in various ways and a variety of opinions on it were expressed by institutional investors and trading participants, etc. There were many opinions given about such unforeseeable rules under which to abruptly extend trading hours in the event of a system failure only when enough time is not secured and to keep trading hours unchanged in the event of a system failure when enough time is secured.

Moreover, it has been argued that trading hours in Japan are shorter than those in Europe and the U.S. Taking this opportunity, they deliberated on extending trading hours in this respect as well this time.

However, looking at the calculation of the base value of investment trusts and other practical work hours, some say we should put in place a system to extend the end of trading hours by 30 minutes or one hour as it is not possible to extend trading hours for a long time and it is hard to extend trading hours as needed. But others commented that that would be inconvenient, meaning deliberations are currently undertaken with various opinions being expressed.

In any case, I guess trading hours cannot be extended for a long time because the basic situation had not changed since when we proposed night trading of cash equities to market participants from 2013 to 2014. Many exchanges in Europe and the U.S. have no lunch breaks, so some people suggest we eliminate the lunch break. Since all of these points have been discussed, we will sort them out and continue to receive various opinions, but we have yet to set a specific direction. We have no objection to extending trading hours if market participants reach an agreement. You are probably aware of this,

given that we proposed night trading before. That said, it won't be easy to settle the matter based on various views on practical matters.

Reporter: I have one question to ask.

It concerns an individual company. The other day, an investigation report on Toshiba came out. The report says the company worked with the Ministry of Economy, Trade and Industry (METI) to pressure overseas investors. How do you see the case in question, given that JPX is to revise Japan's Corporate Governance Code and attract investments from overseas? What do you think about the fact that this is not just a single company's issue and the view from overseas would become stricter?

Kiyota: Recently, many people were probably greatly shocked by the Toshiba issue. After the fraudulent accounting and other issues from 2015 onward ended, at issue now is exercising voting rights at last year's general shareholders' meeting. TSE does not know the facts and are only aware of reportage from media. We are concerned that overseas investors now have a negative image of the Japanese stock market as a whole, seeing the issue as a highly serious one from a governance perspective.

The information disclosed by Toshiba this time is the result of an external investigation conducted again at the request of mainly overseas shareholders. We are worried, given that foreign investors account for a little more than 30% of shareholdings in the Japanese stock market and 60% to 70% of trades there.

Toshiba's general meeting of shareholders is scheduled to be held on the 25th. We will keep a close eye on the situation. In addition, since Toshiba will conduct objective and transparent investigations, we strongly request that the information obtained be disclosed in a timely and appropriate manner. We hope that Toshiba will strive to regain the trust of its shareholders and stakeholders.

We are in a position to ask Toshiba to disclose information and provide relevant explanations, so we will continue these communications with the company.

Reporter: Further on the Toshiba issue, things were said to have finally returned to normal after the turmoil since 2015 as you said earlier, but I think it has become somewhat clear this time that nothing was rectified or changed as it turns out. JPX faced many pros and cons when it cancelled the stock's designation as a Security on Alert, and then it concluded that things would likely improve.

After a certain period of time, the company transferred to the 1st Section from the 2nd Section earlier than under the previous rules due to a revision to them. Looking back on it, the conclusion that things would likely improve seems to have been too optimistic at the end of the day. May I have your comments on that?

Kiyota: Toshiba stock was designated as a Security on Alert in response to a fraudulent accounting incident since 2015, but the designation was canceled after JPX-R reviewed the improvement status of the company's internal control system. With regards to the change in listing rules, we unified the criteria for a transfer from the 2nd Section to the 1st Section and the criteria for a transfer from Mothers to the 1st Section in the process of unifying the rules with a view to cash equity market restructuring on April 4 of next year, so it was not intended for Toshiba. For example, in November last year, we unified the criteria for a transfer from Mothers to the 1st Section and the criteria for a transfer from JASDAQ to 1st Section. As I have said time and again, the examination of Toshiba for listing on the TSE 1st Section was done by the independent JPX-R, so I have no comments about details of the screening.

In broader terms, the fraudulent accounting issue and the issue of trying to influence exercising voting rights are governance issues, but I think in essence they are different things. From the perspective of managing individual listed companies, we would like to take this opportunity to ask listed companies again to strengthen their governance as we have just revised Japan's Corporate Governance Code.

Reporter: I understand what you have just said, but as in the fraudulent accounting issue, in the end the company did not disclose, hid, and

excluded from scope anything that was disadvantageous to it. Rather than the fraudulent accounting itself, their corporate attitude is a governance issue, in my view.

I am a bit skeptical about separating the two matters. That is a given. After all, although the claim that JPX-R is a separate entity is justified, especially from overseas investors point of view, it probably won't work. So, I think that JPX is certainly required to take responsibility for the fact that their confidence in the Japanese market has fallen. May I have your comments on this?

As for the second question, I understand that increased compliance with Japan's Corporate Governance Code is a point alongside the cash equity market restructuring. If that is the case, increased compliance with the Code is required, especially in the Prime Market. Meanwhile, the argument goes that there is no need to comply with the Code because of "comply or explain". In the latest Toshiba case, the company clearly failed to comply. Will it be accepted in or rejected from the Prime Market?

Kiyota: As I said earlier, the issue of fraudulent accounting and the issue of exercising voting rights are within the scope of governance, broadly speaking, but I must say they are in essence different from each other. The alleged act to try to influence shareholders for exercising their voting rights was pointed out in an investigation report by lawyers chosen at the request of shareholders, but we do not know if it actually happened. It would mean that, if it were true, it would be an extremely serious problem.

As I said earlier, the fraudulent accounting issue and the issue of trying to influence the general shareholders meeting to make a success of it, pointed out this time, are essentially different and separate issues. Prior to listing Toshiba on the TSE 1st Section and canceling the stock's designation as a Security on Alert, we examined the development and improvement of its internal control system in order to prevent problems such as fraudulent accounting in the future. We judged whether or not our judgment in the process was appropriate, based on what we knew at the time, but at the time of the examination, we had no way of knowing that Toshiba in the future

would try to influence shareholders for their exercise of voting rights at its general meeting of shareholders. Therefore, judging from the information provided then, we definitely did not make a wrong decision at the time. Of course, there may have been things that we should have blamed ourselves, but I feel it was quite difficult to take action then. Having said that, I am not saying that JPX has absolutely no responsibility. Seeing things overall, I feel responsible from the point of view of managing the market.

Regarding selection from among new market segment choices, asked as the second question, we will inform listed companies whether they meet the listing criteria for new market segments, with June 30 as the base date, and will ask them to select from among new market segments between September and December this year. After receiving selection applications, TSE will publish the names of listed companies for the new market segments next year.

It remains to be seen which new market segment Toshiba will select. However, increased governance standards will apply to the Prime Market. Toshiba would probably consider this for which new market segment to choose.

As a transitional measure, TSE 1st Section companies failing to meet the criteria will be allowed to transition to the Prime Market if plans are submitted to meet the listing criteria for the Prime Market.

We have yet to sort out the relationship with the company that has the problem in question, and we would probably consider the matter as we still have time.

Reporter: My next question concerns Toshiba again. The general shareholders meeting issue was raised by Effissimo Capital Management last December. Even so, the company was reinstated on the TSE 1st Section in January this year. What do you think of the timing of the reinstatement?

Kiyota: A variety of activist investors put forward shareholder proposals to many listed companies. However, at the time of proposal, we do not know how the difference in opinions or conflict will show between shareholders and listed companies. Looking back on Toshiba's listing

on the TSE 1st Section, as a result, the timing of the listing was said to be extremely difficult. However, I ask you to understand that, concerning listing examination and section transfers, we are unable to take into account all of the various shareholder proposals.

Reporter: My next question concerns Toshiba again. I think it is stipulated in the Code of Corporate Conduct of the Securities Listing Regulations. Regarding the Toshiba case, Mr. Kiyota, you said that TSE would closely watch Toshiba's response and that the case and the fraudulent accounting issue were essentially different. Do you think Toshiba violated the Code of Corporate Conduct set forth in the Securities Listing Regulations if the case were to be confirmed as true? I do not understand the essential difference that you mentioned. Was the essential difference issue larger or smaller than that for the financial issue, in your view? May I have your comments?

Kiyota: We have no answer now regarding the violation of the Code of Corporate Conduct.

Regarding the second point, let me say that fraudulent accounting and the alleged act of trying to influence exercising shareholder rights are essentially very different governance issues. Accounting fraud manipulates numbers with awareness of conducting fraud, but we have yet to verify whether the alleged act to try to influence the exercise of shareholder rights had actually been committed. We are worried about talking based on the assumption that the information in the report released is correct. I meant that, even if it were true, the case was essentially different from the fraudulent accounting as a governance issue.

I don't think it's a question of which was bigger or smaller. They both breached rules or the Code, but you can't compare them to see which was bigger or smaller. I think that was their essential difference.

Reporter: Thank you. Earlier, you mentioned the examination done prior to the section transfer of Toshiba from the TSE 2nd Section to the TSE 1st Section. In terms of listing management done this time by JPX-R, how will you deal with or ponder the Toshiba issue in the coming

months?

Kiyota: As I said earlier, JPX-R examines listed companies. I cannot answer the question of how JPX-R as an independent agency will conduct their examination.

Reporter: You said earlier that Toshiba would conduct an objective investigation. You expressed an intention to request disclosure and contact the company. Does this mean that JPX-R will conduct a separate investigation? Or, do you mean that JPX-R will wait until after Toshiba's investigation begins? I was not too sure about that, so could you tell us some more about it?

Kiyota: Again, I can't answer for responses by JPX-R as they are an independent agency and we do not know when it will be done, what kind of information will be obtained, or what kind of investigations or interviews will be conducted. Sorry, but I hope you understand.

Reporter: If possible, I would like to have your comments as well as your personal opinion. What surprised me the most was the fact that the audit committee chairperson, together with METI tried to influence exercising voting rights. As a securities industry professional, I think that was unforgivable. What do you think about that? Mr. Ota Junji, in particular is Chairperson of the Japan Audit & Supervisory Board Members Association and former Vice Chairman of the Japan Securities Dealers Association, so I think he is quite influential. It might be hard for you to say, but what are your thoughts as a professional contributing to the same securities industry?

Kiyota: First, there is a question of whether it was true or not. METI Minister Kajiyama said that it was natural for the national government to conduct interviews with Toshiba when there were security concerns in that Toshiba had many business activities important for national security. I agree that there is no problem with METI conducting interviews.

On the other hand, as to whether anything problematic was done as

a result, I understand that the ministry said that nothing pointed out was done.

We will not answer your questions based on the assumption that the report is correct, so I cannot say that was problematic based on the assumption that it's correct.

Reporter: On July 27 last year, trading of commodities was transferred from Tokyo Commodity Exchange (TOCOM) to Osaka Exchange (OSE), and next month will mark the first anniversary the comprehensive exchange came into full operation. What is your impression of it? And how do you see the current state of trading volumes and newcomer securities companies?

In addition, what is your current outlook on the future, goals, and measures to vitalize the market?

Kiyota: Time sure flies. One year has passed with Covid-19 with another year soon to be upon us. On July 27, commodities were mostly transferred from TOCOM to OSE, leaving the market with energy commodities comprising crude oil and trial listing of electricity futures. As a result, OSE became a comprehensive exchange. A clearing house merged with JSCC, meaning much of the comprehensive exchange has largely been completed, although it still needs to solve energy sector problems in the years ahead.

A theme from the start was how to attract order flows from financial institutions. At present, a list of securities companies includes Nomura, HSBC, Barclays, ABN AMRO, and Kosei Securities, but it has yet to reach the scale we want. Although we have achieved a certain level of results, currently the market has not necessarily expanded as much as we expected it to.

In fact, it has grown a little due to participation by new investors in Japan and overseas. It should be fair to say that gold mini futures have expanded markedly due to participation by investors that are commonly called "financial investors."

Looking at commodities as a whole, average daily trading volume has grown to just 81,000 contracts, up from 75,000 contracts before the transfer, so the transfer did not have much of an effect.

We expect to see participation by foreign investors while at the same time soliciting more participants from among “financial investors.” In particular, in January this year, electricity prices fluctuated violently in the spot market, causing prices to jump sharply. This caused trial-listed TOCOM electricity futures to fail to track spot market prices due to being constrained by price restrictions such as limit up and limit down among market trading restriction rules with the result that trading volume did not necessarily grow. So, they could not utilize the precious opportunity. That said, it is undeniable that prices of crude oil futures and other prices moved greatly, and a certain degree of market volatility upturn led to trading volumes.

A view for the need of electricity futures became more prevalent in the electric power industry and other energy industries. Thus, PPS (Power Producer and Supplier) companies that are seeking ways to hedge amid tightening supply and demand of electricity and other energy commodities this coming summer and toward winter this year, and electric power companies that focus on electric power generation have a strong awareness of the need to prepare for market turbulences by using futures.

We are preparing for a permanent listing of electricity futures while currently moving forward with various efforts to grow the energy market, in addition to those mentioned earlier, by working closely with the President of TOCOM, Mr. Ishizaki, and other government officials. We will develop TOCOM into a comprehensive energy market exchange in the future, including listing liquefied natural gas (LNG). As we approach the one-year anniversary, we are reassured that we are on equal footing with the world’s exchanges by expanding all the commodity futures, including energy commodity futures, in Osaka through immediately incorporating TOCOM into OSE.

Reporter: My question concerns trading volume. At the start, Mr. Yamaji, then President of OSE, expressed a wish to double its trading volume in two to three years, but Mr. Iwanaga, the newly appointed president, said that it would be impossible in that time frame. Could you tell us about OSE’s current trading volume and the future outlook for it?

Kiyota: Trading volume evidently depends on prevailing market conditions. So, if electricity futures had been listed on a permanent basis this year and volatility dealt with properly, trading volume on the exchange would have likely grown significantly. Last spring, trading volume on OSE climbed sharply for a time partly due to a plunge in crude oil prices.

In many situations, derivatives fluctuate markedly or do not move much. Stably moving derivatives are not limited to commodities alone. Financial derivatives generate stable trading volume, and we think that the market will expand if investors can trade financial derivatives and commodity derivatives on a one-stop basis.

In this regard, trading participants are still diverse with those in the securities, financial, and commodities sectors not being necessarily integrated. Trading participants and markets would become integrated. If institutional investors are trading both assets hoping to be in this situation, we would like to help Japanese institutional investors gain a higher level of literacy, particularly in commodity derivatives or derivatives in general.

Reporter: We understand the concept of METI, that companies engaged in projects important for national security purposes must and should be protected to a certain extent. Of course, on the premise that, under the Foreign Exchange and Foreign Trade Act, to a certain extent restrictions are in place for foreign shareholders or investors acquiring securities in Japan. To state an obvious truth, I understand that, under the general principle that shareholders are of course equal and they should be free to acquire shares in the stock market. There is also the meaning of listing or the meaning of the stock market. I note that there is inevitably a dilemma, trade-off, or problem itself and national security has further grown in importance due to U.S.-China tensions. As an exchange operator, what awareness do you have of the problem and how should you solve the issue? I don't mean Toshiba, but if I talk about the issue too much, companies engaged in national security-related businesses will become untouchable and impossible to be bought freely. What is your awareness of the problem, possible solutions, and suggestions to deal with the issue?

Kiyota: Under the Foreign Exchange and Foreign Trade Act and other regulations, limitations of various forms apply to listed company shares if there are any national security-related problems, but it is not prohibited by any means. Under the act, foreign shareholders are required to report in advance if potentially acquiring 1% or more of shares in a company that is important for national security purposes. They can acquire shares if a notification has been submitted in advance. However, the Japanese government could decide if a given investor must not hold 1% or more of shares in a specific company. Japan seems to be late in adopting this kind of rule. Although I do not know all the details, most of the advanced countries basically have a certain limit on the percentage of foreign shareholder investments in strategic companies that are important for national security purposes, or on the shareholding ratio, and they approve or limit investing after examinations. Even the U.S., the very lynchpin of capitalism, these kinds of rules have been the general way of thinking from before.

These kinds of rules themselves do not deviate in the light of protecting capital markets, in our view. As a capital market principle, there is the premise that any shareholders are free to trade any listed shares, as you mentioned earlier. We think it is unavoidable for as long as it is listed, the premise that any shareholder can buy and sell freely is still subject to a certain level of limits when needed as a larger national policy that involves national security.