

(Reference Translation)

The First Index Advisory Panel
Meeting Summary

1. Date and time: Thursday, June 10, 2021, 4:00 p.m. to 5:45 p.m.

2. Location: Tokyo Stock Exchange (TSE) Conference Room

3. Agenda

(1) Status of TSE's Index Governance and Index Consultation

(2) Regarding TOPIX going forward

(3) ESG-related issues

(4) Others

4. Outline of Comments from the Panel

(1) Status of TSE's Index Governance and Index Consultation

- It is good that the Index Consultation provides a forum for submitting opinions and that the Index Advisory Panel allows for a two-way exchange of opinions between TSE and other index users.
- In the index consultation for the review of TOPIX and other indices, the opinions received and TSE's thoughts on those opinions were made public, thereby giving market participants a deeper understanding of the situation. The consultation was effective, with changes made to the draft in consideration of liquidity and market impact. It would have been better if TSE had disclosed more information such as the results of TSE's trial calculation regarding market impact.
- In terms of the revision of TOPIX, while the exclusion of some low-liquidity issues from the indices will make investment more convenient from a practical perspective, from a product planning perspective, there are concerns that the revision will alter the concept of TOPIX, which was designed to meet the needs of investors who want to invest in the First Section of the Tokyo Stock Exchange, a representative market in Japan.
- More transparency should be ensured in the transition process of TOPIX in the future.
- While the separation of TOPIX components from certain market segments is good, we must put the benefits for investors first and continue to closely monitor the actual transition process, as it is important to substantially control its impact.

(2) Regarding TOPIX going forward

- When reviewing an index, significant changes that do not conform to the wishes of asset owners, including individual investors who are behind investment management companies, should be avoided.
- TOPIX is a market benchmark. In future TOPIX reviews, the perspectives of market representation, comprehensiveness, transparency, and convenience will be important.

- In future TOPIX reviews, TSE should also further clarify how it intends to position TOPIX.
- The recent TOPIX review is an opportunity to consider how the benchmark should operate.
- From the perspective of further improving “investability,” it would be appropriate to take liquidity criteria into account to a certain degree when selecting constituent issues. Stocks with declining liquidity should be excluded from the component listings, even if they are listed on the Prime Market.
- There is a concern that the liquidity criteria for the transition of TOPIX is the same as the listing criteria for the Prime Market, and that TOPIX would effectively become the Prime Market index.
- The criteria for selecting stocks for inclusion in the index and the listing system should be clearly separated and made more sophisticated for their respective purposes.
- The CRSP US Total Market Index covers the stocks of every listed company in the U.S., and the linked assets under management amount to over JPY 23 trillion. In future TOPIX reviews, TSE should consider demands to invest in the market as a whole.

(3) ESG-related issues

- The provision of a wide variety of ESG indices should be promoted as it will lead to more options for investors.
- A separate index should be provided, since there are problems with the conversion of existing indices to ESG indices in terms of ensuring continuity.
- There are opportunities to discuss the need for ESG evaluations that are more in line with the reality of Japanese companies, but investment is a global concept, and it is more realistic to align with global standards than to construct Japan's own evaluations.
- The performance of an ESG index would preferably not be linked to TOPIX’s performance, since there is no incentive to use such an ESG index if its performance is almost the same as that of TOPIX.
- TSE could develop an ESG index based on TOPIX, taking advantage of the strength behind its calculation methodologies and experience.
- If TSE can develop an ESG index utilizing its own ESG-related data and information, it will be able to differentiate itself from other ESG indices.
- As an exchange index vendor, it may be possible to create a hedging environment for investors by also offering related derivative products in an integrated manner.
- By expanding data disclosure for use in ESG indices, the level of improvement of ESG factors in the assets of investors in the indices will become visible. This would make the significance of ESG investments easier to understand and lead to more ESG investments.
- Efforts should be made to promote further dissemination of existing ESG indices in conjunction with the consideration of new indices.
- It would be good if TSE calculated ESG indices, and based on this, managers offered products linked to the ESG indices, thereby revitalizing the Japanese market.

(4) Others

- We believe that the TSE Mothers Index also plays a role in attracting new investors, and we hope that the name of the index, which is currently tentative, will make people want to start investing, and that efforts will also be made to promote the index.

(This summary is provided by the TSE Information Services Department.)