

(Reference Translation)

The Second Index Advisory Panel
Meeting Summary

1. Date and time: Friday, July 8, 2022, 4:00 p.m. to 5:45 p.m.

2. Location: JPX Market Innovation & Research (JPXI) meeting room

3. Agenda

(1) Status of index management, including status of Index Consultation, etc.

(2) Regarding TOPIX going forward

(3) New indices based on new market segments as a universe

(4) About ESG indices

4. Outline of comments from the panel

(1) The status of index management, including the status of index consultation, etc.

- Close collaboration with index users, such as in the recent index consultation for the review of TOPIX and other indices, is a strength of JPXI's index management, and we hope to continue this close relationship with index users.
- The indices are closely related to the cash and futures markets, and we hope that the JPX Group will continue to collaborate as necessary while ensuring the independence and neutrality of JPXI's index management.
- TOPIX is an extremely important index as a benchmark for the policy asset mix of pension assets, and it is important to ensure transparency in its management.

(2) Regarding TOPIX going forward

- It is important to maintain TOPIX as a market representative that covers a wide range of markets and to ensure continuity as an index with many users, while increasing liquidity and improving the functionality of TOPIX as an investment tool.
- While liquidity is an important aspect of TOPIX in terms of attracting investments, it is also important in terms of evaluation as it is used as a benchmark for active funds.
- Transparent rules should be established and periodic reviews of constituent stocks conducted according to the liquidity criteria relevant to the standards set during the TOPIX transition should be an option.
- It might be good if TOPIX-linked funds managed under the replication could even be structured in small lots, and it may be necessary to gradually raise the liquidity standards for the selection

of constituent stocks.

- Liquidity standards should be reviewed from time to time in a strict and disciplined manner with certain considerations given for continuity from a global operator's perspective.
- A wide range of stocks should be included from the viewpoint of market representation.
- Under the current TOPIX rules, new stocks listed on the Prime Market are subject to the criteria for inclusion, but it would be acceptable to include stocks from the Standard and Growth Markets if they meet the liquidity criteria and other criteria.
- It is necessary to establish firm criteria based on continuity, such as selecting stocks with sufficient size and liquidity without being restricted by the market on which they are listed, and conversely excluding stocks if they do not have sufficient size and liquidity regardless of the market on which they are listed.
- It is necessary to verify whether the market capitalization of tradable shares is appropriate as an indicator of liquidity. Instead of market capitalization and trading value, criteria such as trading turnover rate could be considered.
- Since views regarding ESG are still fluid and developing, we believe it is premature to reflect ESG factors in the selection criteria for TOPIX issues.
- We do not believe that ESG factors should be introduced into the selection criteria for TOPIX issues, given the current lack of assurance and auditing regarding the disclosure of ESG information.
- TOPIX is used as an index that covers a broad range of markets, and ESG should be covered by a separate index.
- TOPIX is widely used for pension and investment trust management and could be regarded as "TOPIX for everyone". In order to make investment more attractive, it is also important that investors have the ability to communicate with selected companies. Consideration may also be given from the perspective of protecting minority shareholders and disclosing information relating to corporate value creation, such as integrated reports.

(3) New indices with new market segments as a universe

- Regarding a new index based on the Prime Market, there may be a need for a carefully selected index that takes liquidity into consideration while considering the market capitalization standards of globally utilized indices. With approximately 1,800 stocks in the Prime Market, careful selection of listed companies would be significant in terms of providing incentives to companies.
- For a new index based on the Prime Market, criteria relating to quality, such as governance and Return on Equity, could be considered from the perspective of differentiation from TOPIX, TOPIX500, and TOPIX100.
- The Standard Market has many stocks with low liquidity, so operational availability should be

carefully considered while designing a new index based on the Standard Market.

(4) Regarding ESG indices

- For ESG indices, both managers and index vendors should clarify definitions and label them appropriately. The systems of index vendors that calculate ESG indices must be strengthened.
- The purpose of establishing ESG indices should be clarified and the indices should be compiled in line with those purposes.
- The purpose of the index is important, and explanations and information disclosure using data and other means regarding the social benefits and impact of using the index are needed.
- It is also important to provide an easy-to-understand message to investors about the characteristics of the index in which they are investing.
- With regard to ESG indices, it may be important to provide an opportunity for an ex-post review to determine whether the results are in line with the targets.
- ESG investments and ESG indices are meant to achieve a sustainable society, and it is important that listed companies understand the rules of the indices, so consideration should be given to how easy those rules are to understand.
- In ESG indices, consideration of the status of corporate transitions efforts may also be necessary.
- We would like investors to be able to freely view data regarding which aspects of the ESG index have improved compared to the parent index and how this was achieved. Disclosure of index information is also important from the perspective of engagement with companies.
- The increasing cost of obtaining, using, and disclosing ESG information is an industry-wide issue, and the disclosure of ESG-related information through exchanges should be improved and made more convenient. Due diligence on disclosure by ESG assessment firms may be necessary.
- It is important to create an environment where investors can obtain easy-to-process information. By making it easier for foreign investors to obtain information, it may become easier for them to invest.
- ESG evaluations and indices should be handled with as much awareness of global standards as possible and not become isolated.

(This summary is provided by the Index Business Department of JPX Research Institute.)