

(Reference Translation)

Results of Index Consultation Regarding
Proposed Amendment to Policies Concerning Calculation of TSE Indices

May 27, 2020

Tokyo Stock Exchange, Inc.

Tokyo Stock Exchange, Inc. (hereinafter "TSE") conducted an Index Consultation from April 20, 2020 to May 20, 2020 on a proposed amendment to the "Policies Concerning Calculation of TSE Indices" (hereinafter "Policies").

The outline of the opinions gathered through the Index Consultation and TSE's response are as follows:

1. Outline of opinions gathered and TSE's response

This change in the Policies is made to clarify that, from the perspective of improving convenience for index users in extreme market conditions arising from unavoidable circumstances such as natural disasters, TSE has the option to handle changes to indices calculated by TSE (hereinafter "TSE Indices"), such as constituent selection and adjustments to base market value, differently from that specified in the calculation methodologies.

We received multiple opinions through the Index Consultation, and all of them agreed or concurred on the purpose of this change in the Policies.

On the other hand, regarding the newly established provisions (hereinafter "new provisions"), we received some opinions as follows:

- (1) It should be only applied in extremely limited circumstances.
- (2) A sufficient period for prior notification should be secured.
- (3) The transparency of TSE Indices Administering Meeting should be ensured.
- (4) The specific situations should be provided to prevent expanded interpretation.

Regarding (1), if there is sufficient time ahead of the irregular handling, there is a process for soliciting opinions broadly and determining through the Index Consultation prescribed in Article 9 of the Policies. The assumption is that the new provisions will only be applied in the case of urgent implementation due to time constraint.

Regarding (2), in principle, it is assumed that five or more business days will be secured from public announcement to implementation, including the possibility of immediate and temporary measures for sudden changes in the circumstances. However, by setting specific criteria for the notification period, the intended effect of the new provisions may be lost, since the notification period may be shortened in the case of an emergency.

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Regarding (3), TSE established the governance, processes, and controls to comply with the IOSCO Principles for Financial Benchmarks (hereinafter "the IOSCO Principles") and has expressed its compliance with the IOSCO Principles in the "Statement of Compliance with the IOSCO Principles for Financial Benchmarks". In addition, other policies ("Policies for Addressing Objections regarding TSE Indices", "Policies Concerning Suspension or Migration of TSE Indices", and "TSE Index Data Correction Policy") have been established and announced¹ as we constantly strive for greater transparency in our index administration. Furthermore, to improve transparency, we will provide the background to decisions, etc. made in TSE Indices Administering Meeting in the documents made available to the public.

Regarding (4), part of the proposal has been changed to address the lack of clarity in "the TSE Indices Administering Meeting deems that the condition of the stock market run by TSE is not appropriate for implementing changes to TSE Indices as specified in the calculation methodologies, such as constituent selection and adjustments to base market value" and "differently from as specified in the calculation methodologies".

*For details on the proposed changes, please refer to "3. Changes to proposed provisions".

2. Implementation date

June 1, 2020

3. Changes to proposed provisions

Newly proposed	Previously proposed
Article 4. Calculation of Indices Under Extreme Market Conditions 2 In the case that ₁ due to unavoidable circumstances such as natural disasters <u>or events equivalent thereto</u> , the TSE Indices Administering Meeting deems that the condition of the stock market run by TSE is not appropriate for implementing changes to TSE Indices as specified in the calculation methodologies (<u>including but not limited to a sudden surge in volatility and/or lack of liquidity in the entire market</u>), such as constituent selection and adjustments to base market value, TSE shall be able to	Article 4. Calculation of Indices Under Extreme Market Conditions 2 <u>Notwithstanding the provisions of the preceding paragraph</u> , in the case that due to unavoidable circumstances such as natural disasters, the TSE Indices Administering Meeting deems that the condition of the stock market run by TSE is not appropriate for implementing changes to TSE Indices as specified in the calculation methodologies, such as constituent selection and adjustments to base market value, TSE shall be able to handle these changes differently from as specified in the

¹ <https://www.jpx.co.jp/english/markets/indices/governance/index.html>

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handle these changes differently from as specified in the calculation methodologies <u>(including but not limited to suspension or postponement of a periodic review)</u> after prior notification on the JPX official website.	calculation methodologies after prior notification on the JPX official website.
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Amendments are underlined.