

Policies Concerning Calculation of TSE Indices

June 1, 2020

Tokyo Stock Exchange, Inc.

Article 1. Purpose

This document (hereinafter "Policies") establishes comprehensive policies of Tokyo Stock Exchange, Inc. (hereinafter "TSE") for calculating its indices (hereinafter "TSE Indices").

Article 2. Publication of Calculation Methodologies

All methodologies employed for calculations shall be publicly disclosed on the Japan Exchange Group official website.

Article 3. Governance

TSE Indices, which are calculated and publicly disclosed by TSE, undergo a monitoring process pertaining to the task of calculating said indices at a daily meeting (hereinafter "TSE Indices Administering Meeting"). Consistency is maintained in decisions made on calculations for items that require a decision through discussion at the TSE Indices Administering Meeting.

The TSE Indices Administering Meeting consists of members who are knowledgeable and well versed in specialized knowledge on the operation of indices.

Article 4. Calculation of Indices Under Extreme Market Conditions

1. In the event that TSE is forced to close its stock market prior to the end of its daily trading hours due to a failure in its computer, a natural disaster, or other such unavoidable reasons, TSE Indices shall be calculated by using the last information published by TSE on stock prices in the following sequence:
 - (1) Special Quotes or Sequential Trade Quotes
 - (2) Contract Price
 - (3) Base Price for Index Calculation when neither (1) or (2) is available (determined in the following order: (1) Theoretical Ex-rights Price, (2) Most Recent Special Quote or Sequential Trade Quote on or before the previous trading day, (3) Most Recent Contract Price before the previous trading day.)
2. In the case that, due to unavoidable circumstances such as natural disasters or events equivalent thereto, the TSE Indices Administering Meeting deems that the condition

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of the stock market run by TSE is not appropriate for implementing changes to TSE Indices as specified in the calculation methodologies (including but not limited to a sudden surge in volatility and/or lack of liquidity in the entire market), such as constituent selection and adjustments to base market value, TSE shall be able to handle these changes differently from as specified in the calculation methodologies (including but not limited to suspension or postponement of a periodic review) after prior notification on the JPX official website.

Article 5. Corrections to TSE Indices

Handling of corrections to TSE Indices shall be as specified by "TSE Index Data Correction Policy". In addition, such corrections shall be reported to the in-house risk management committee in accordance with criteria specified by "Risk Management Policy" and "Risk Management Rules".

Article 6. Review of Calculation Methodologies

TSE shall hold a minimum of one verification yearly on structural changes in the stock market and consider the need for a review to the calculation methodologies of TSE Indices.

Article 7. Minor Revision to Calculation Methodologies

In the event that a minor revision is to be made to the calculation methodologies, a decision shall be required based on internal approval, in which case TSE shall confirm the appropriateness of the revision in consideration of the background that has led to the revision and its adequacy.

Article 8. Important Revisions to Calculation Methodologies

A decision based on internal approval shall be required when making an important revision to the calculation methodologies. In such case, Index Consultation stipulated in Article 9 shall be implemented to obtain a broad range of opinions upon which consideration shall be made on the impact of such revision.

As to the expected impact on entities who have received a license for the use of an index, consideration shall be made on whether a revision should be made to the calculation methodologies after validation shall be employed by conducting interviews to collect opinions and other such methods as needed.

Note that an important revision refers to a revision that requires rebalancing by passive asset managers when a change is made to the component issues of an index and/or their component ratios for an index after a revision to the calculation methodologies, a revision

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to the method for selecting component issues, a revision to the handling of corporate actions, or a revision to the method for calculating index values.

Article 9. Implementation of Index Consultation

1. Index Consultation is a function implemented for the purpose of improving the fairness and transparency of the process for deciding measures regarding TSE Indices, by setting aside opportunities for TSE to gather diverse opinions from index users. The procedure for Index Consultation shall be as specified in the "Index Consultation Implementation Guidelines".
2. Index Consultation will be implemented when deciding on the topics in the following items. However, this shall not apply when the decision is of minor significance.
 - (1) Important revisions to the calculation methodologies
 - (2) Handling new types of corporate action not indicated in the calculation methodologies
 - (3) Other topics for which the TSE Indices Administering Meeting determines that comments from a wide range of entities are necessary
3. A decision based on internal approval shall be required when deciding the matters referred to in Items (1) to (3) above.

Article 10. Index Advisory Panel

Index Advisory Panel is established for the purpose of continually improving TSE Indices through exchanging opinions with index users. The procedures for the operation of the Index Advisory Panel shall be as specified in the "Index Advisory Panel Administrative Guidelines".

Article 11. Administration of Conflicts of Interest

TSE uses stock prices at the TSE market to automatically calculate and publish indices, using its index calculation system and TSE MAINS market quotation system. TSE establishes rules for calculating indices with high levels of transparency and objectivity by employing steps such as quantifying information and data that are publicly disclosed in its selection of stock issues, which it documents and publicly discloses as Index Guidebooks and thus eliminates arbitrariness or conflicts of interest in index calculation.

Furthermore, as a framework for managing conflicts of interest, TSE develops the following internal systems and frameworks:

(Reference Translation)

(Code of Conduct)

As part of its initiative to secure the soundness of TSE Indices, TSE has in place a "Code of Conduct for Employees of Japan Exchange Group", which it requires its employees to comply with.

(Block of Information Flow)

TSE blocks the flow of information between its sections that are involved with TSE Indices and all other sections by establishing that information is not to be provided to persons other than those who are permitted according to its Information Security Basic Policies and Information Security Measures Standards.

(Compensation Structure)

TSE establishes employee compensation and performance review structures in its remuneration rules and compensation committee rules. Remuneration for individuals in sections related to TSE Indices are not to be associated directly with the design, calculation, public disclosure, or other such matters for TSE indices.

(Internal Training)

TSE requires employees engaged in duties concerning the calculation of its Indices to maintain sufficient knowledge with regard to Indices. As to amendments in the law and other such items that impact the design and calculation of indices, it provides employees with training to ensure that these are reflected on the design of indices on an ongoing basis.

(Whistle-blower System)

TSE has in place a compliance hotline as its whistle-blower system. In the event that whistle blowing takes place, an investigation is initiated by the hotline office and reported to the Representative Executive Officer, Group CEO of Japan Exchange Group, Inc., who is responsible for the system.

Article 12. Revisions and Other Such Matters Pertaining to Policies

Details contained in the Policies may change without prior notice upon decisions made based on internal regulations.

(Reference Translation)

Revision History

Date of Publication	Details
March 31, 2017	- The first edition
May 31, 2019	- Revised Article 5 in line with the formulation of "TSE Index Data Correction Policy"
April 1, 2020	- Revised Article 8 and newly added Article 9 in line with the introduction of "Index Consultation" - Newly added Article 10 in line with the establishment of "Index Advisory Panel"
June 1, 2020	- Revised Article 4 concerning calculation of TSE Indices under extreme market conditions