

June 17, 2022

JPX Market Innovation & Research, Inc.

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

JPX Market Innovation & Research, Inc. (JPXI) is proposing an amendment to Policies Concerning Calculation of TSE Indices (hereinafter, "Policies") and has therefore decided to carry out an Index Consultation regarding the amendment. Details are as follows:

1. Purpose of and reasons for proposed amendment

Tokyo Stock Exchange, Inc. (TSE) has been holding discussions with market participants from the perspective of responding to changes in the market environment and the diversifying needs of investors while further enhancing resilience, convenience for market users, and international competitiveness. As a result of these discussions, in October 2022, it established the "Action Program for Strengthening the Functions of the Cash Equity Market"ⁱ.

Within the series of discussions on further improvement of resilience, which included this Action Program, a new rule was stipulatedⁱⁱ regarding the handling of the base price when trading is resumed due to a reboot of TSE's cash equity trading system (arrowhead). As TSE stock indices are automatically calculated and published by the index calculation system and TSE MAINS market quotation system using stock prices in the TSE market, JPXI proposes to revise the Policies as follows for the purpose of clarifying the handling of calculation of TSE stock index values in line with the new rule on arrowhead reboots in order to ensure smooth TSE index calculation upon the resumption of trading.

2. Proposed amendment to Policies

Before amendment	After amendment (proposed)
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 computer malfunction, a natural disaster, or other such unavoidable reasons,	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 computer malfunction, a natural disaster, or other such unavoidable reasons,

ⁱ https://www.jpx.co.jp/english/corporate/news/news-releases/0060/b5b4pj000004gm4k-att/20211027_en.pdf

ⁱⁱ Regarding the base price when trading is resumed due to a reboot of arrowhead, it is stipulated that "The last execution price will not be used, and trading will resume with the base price from morning on the day."
<https://www.jpx.co.jp/english/corporate/research-study/system-failure/b5b4pj000003rlat-att/english3.pdf>

Before amendment	After amendment (proposed)
<p>JPXI shall calculate TSE Indices using the latest stock price information published by TSE, in the following sequence:</p> <p>(1) Special Quotes or Sequential Trade Quotes</p> <p>(2) Contract Price</p> <p>(3) Base Price for Index Calculation when neither (1) nor (2) is available (determined in the following order: (i) Theoretical Ex-rights Price, (ii) Most Recent Special Quote or Sequential Trade Quote on or before the previous trading day, (iii) Most Recent Contract Price on or before the previous trading day.)</p> <p><u>(addition)</u></p> <p>2. (omission)</p>	<p>JPXI shall calculate TSE Indices using the latest stock price information published by TSE, in the following sequence:</p> <p>(1) Special Quotes or Sequential Trade Quotes</p> <p>(2) Contract Price</p> <p>(3) Base Price for Index Calculation when neither (1) nor (2) is available (determined in the following order: (i) Theoretical Ex-rights Price, (ii) Most Recent Special Quote or Sequential Trade Quote on or before the previous trading day, (iii) Most Recent Contract Price on or before the previous trading day.)</p> <p><u>2. In the event that TSE is forced to suspend its stock market due to a computer malfunction, a natural disaster, or other such unavoidable reason, and trading is then resumed through a reboot of the system, TSE Indices shall be calculated by JPXI using the stock price information published by TSE after resumption of trading in the following sequence:</u></p> <p><u>(1) Special Quotes or Sequential Trade Quotes</u></p> <p><u>(2) Contract Price</u></p> <p><u>(3) Base Price for Index Calculation when neither (1) nor (2) is available after resumption of trading (determined in the following order: (i) Theoretical Ex-rights Price, (ii) Most Recent Special Quote or Sequential Trade Quote on or before the previous trading day, (iii) Most Recent Contract Price on or before the previous trading day.)</u></p> <p>3. (omission)</p>

3. Timeline of proposed amendment and related procedures

Date	Procedures
June 17, 2022 to July 17, 2022	<p>Opinions gathered through Index Consultation</p> <p>*Opinions can be submitted via the JPX website.</p>

(Reference Translation)

Date	Procedures
	Submissions must specify the following matters: (i) Name of submitter, (ii) Occupation of submitter, (iii) Name and business type of the corporation, organization, etc. to which the submitter belongs, (iv) Contact information (i.e., phone number and email address), and (v) Opinions on the proposed amendment.
Late July 2022 to early August 2022 (planned)	JPXI will make the final decision taking into consideration the opinions submitted. The finalized decision will be published on the JPX website.

4. Implementation date (planned)

This revision will be implemented in mid-August 2022.