

## **Policies Concerning Calculation of TSE Indices**

August 1, 2022

JPX Market Innovation & Research, Inc.

### **Article 1. Purpose**

These Policies Concerning Calculation of TSE Indices (hereinafter "Policies") establish comprehensive policies for stock price indices that JPX Market Innovation & Research, Inc. (JPXI) calculates based on the prices of stocks, REITs, or infrastructure funds, etc. listed on markets operated by Tokyo Stock Exchange, Inc. (TSE; such indices are hereinafter referred to as "TSE Indices").

### **Article 2. Publication of Calculation Methodologies**

All methodologies employed for index calculation shall be publicly disclosed on the official website of Japan Exchange Group, Inc. (hereinafter "JPX official website")

### **Article 3. Governance**

The calculation of TSE Indices undergoes a monitoring process at JPXI through daily meetings on the administration of said indices (hereinafter the "TSE Indices Administering Meeting"). Additionally, for matters concerning calculation of TSE Indices for which decisions are required, consistency of such decisions is maintained through discussions at the TSE Indices Administering Meeting.

The TSE Indices Administering Meeting consists of members who are well versed in and have specialized knowledge of 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 computer malfunction, a natural disaster, or other such unavoidable reasons, JPXI shall calculate TSE Indices using the latest stock price information published by TSE, in the following sequence:
  - (1) Special Quotes or Sequential Trade Quotes
  - (2) Contract Price
  - (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.)

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:
  - (1) Special Quotes or Sequential Trade Quotes
  - (2) Contract Price
  - (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.)
3. 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 of the stock market operated 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, JPXI may handle these changes differently from as specified in the calculation methodologies (including but not limited to postponement or suspension 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. Revision to Calculation Methodologies**

JPXI shall hold a minimum of one examination yearly on structural changes in the stock market and consider the necessity of revisions 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 JPXI shall confirm the appropriateness of the revision in consideration of the circumstances that have led

to the revision and its adequacy.

#### **Article 8. Important Revisions to Calculation Methodologies**

When an important revision is to be made to the calculation methodologies, a decision based on internal approval shall be required. In such cases, JPXI shall implement the Index Consultation stipulated in Article 9 to obtain a broad range of opinions upon which consideration shall be made on the impact of such a revision.

Also, consideration shall be made on whether such a revision should be made to the calculation methodologies after, where needed, confirmation is made of the expected impact on entities who hold a license for use of an index, through interviews and other methods to collect opinions.

Note that an important revision refers to a revision of calculation methodologies that results in a change to the component issues of an index and/or their component ratios for an index, requiring rebalancing by passive asset managers at a time other than the periodic review; a revision 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 the administration of TSE Indices by setting aside opportunities for JPXI to gather diverse opinions from index users. The procedure for Index Consultation shall be as specified in the "Index Consultation Implementation Guidelines".
2. JPXI shall implement Index Consultation when making decisions relating to the following items. However, this shall not apply when the TSE Indices Administering Meeting deems that 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 matters 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**

(Reference Translation)

JPXI has established the Index Advisory Panel for the purpose of continually improving TSE Indices by 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**

JPXI uses stock prices at TSE markets to automatically calculate and publish indices, using its index calculation system and TSE MAINS market quotation system. JPXI 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 component 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, JPXI has developed the following internal systems and frameworks:

##### **(Code of Conduct)**

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

##### **(Block of Information Flow)**

JPXI blocks the flow of information between 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)**

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

##### **(Internal Training)**

JPXI requires employees engaged in duties concerning the calculation of indices to maintain sufficient knowledge with regard to indices. As to amendments to the law and

(Reference Translation)

other such items that impact the design and calculation of indices, employees are provided with training to ensure that these are reflected on the design of indices on an ongoing basis.

(Whistle-blower System)

JPXI has a compliance hotline in place as a whistle-blower system. In the event that whistle blowing takes place, an investigation is initiated by the hotline office and then details are 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 when decisions are made based on internal regulations.

#### **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
April 4, 2022	- Made revisions in line with the business transfer to JPXI (applied on April 1, 2022 retroactively)
August 1, 2022	- Revised Article 4 concerning calculation of TSE Indices after rebooting of the trading system