

(Reference Translation)

Results of Index Consultation on Revisions to Guidebooks Due to Listing Rule Changes for Spin-Offs

July 31, 2025

JPX Market Innovation & Research, Inc.

JPX Market Innovation & Research, Inc. (JPXI) published "Revisions to Guidebooks Due to Listing Rule Changes for Spin-Offs" on May 12, 2025, and sought public opinions on it via index consultation through June 11, 2025.

JPXI has received positive opinions regarding this proposal through this index consultation. Accordingly, JPXI will publish the Guidebooks applicable from September 16, 2025, as outlined in the appendix, based on the proposal content presented in this index consultation.

Other opinions gathered through the index consultation and JPXI's responses are as follows:

(Other opinions received and JPXI's responses)

| Opinions | JPXI's Responses |
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| While liquidity factors are applied when newly incorporating constituent stocks in indices like TOPIX, the same liquidity factors should not be applied to newly listed stocks due to spin-offs, and this should be explicitly stated in the Guidebooks. | When incorporating stocks newly listed through a spin-off, JPXI will adjust so that the inclusion ratio in the index does not change before and after the spin-off, and JPXI will not multiply by an additional liquidity factor (0.75). JPXI noted that newly listed issues, for which a liquidity factor is multiplied in "TSE Index Guidebook (TOPIX) (3) Non-periodic Inclusion to Constituents," do not include spin-off listed stocks. |
| In TOPIX, which is set to introduce stock selection criteria, there remain challenges in incorporating spin-off listed stocks that do not meet the selection criteria to maintain the normative nature of the index. | Regarding the handling of spin-offs after TOPIX becomes selection-based, JPXI will continue to examine this while considering the market impact from passive fund adjustments and compliance with selection criteria. |

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| <p>If the industry of the spin-off company and the spun-off company differ, and both continue to be listed, it is desirable for the spun-off company to be included in the same index as the spin-off company on its new listing date, and then reflect the replacement of the spun-off company's stocks without delay for the following reasons:</p> <ul style="list-style-type: none">• On the new listing date, since the liquidity of the spun-off company's stocks cannot be guaranteed in advance, if the index replacement occurs simultaneously, it may cause confusion in buying and selling of the spun-off company's stocks due to temporary supply-demand relationships by passive investors, etc.• It is believed that reflecting the replacement of stocks based on the industry of the spun-off company at a timing different from the new listing date, after notifying the stock replacement date in advance, can avoid such situations. | <p>For indices representative of the market or industry, such as the Tokyo Stock Exchange Prime Market Index and the Tokyo Stock Exchange 33 Industry Index, JPXI will add the spin-off target company to the market or industry index, considering their statistical properties. JPXI will continue to consider the market impact, taking into account the opinions received.</p> |
| <p>From the perspective of suppressing the immediate rebalancing of passive funds linked to the index after a spin-off, it seems appropriate to calculate the number of index shares for the newly adopted spun-off company (number of issued shares × free float ratio) based on the number of index shares and allocation ratio of the spin-off company, rather than calculating from the number of issued shares of the spun-off company and a free float ratio in increments of 0.05. Is this the correct interpretation? Also, it is considered important to clarify the calculation method in advance</p> | <p>For TOPIX, JPXI will calculate the free float ratio of the spun-off company so that there is no change in the inclusion ratio before and after the spin-off. Please refer to the following formula: "free float ratio of the spun-off company" = "free float ratio of the spin-off company" × "number of index-listed shares of the spin-off company" × "allocation ratio of actual dividends to the shares of the spin-off company" ÷ "number of index-listed shares of the spun-off company"</p> |

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| for the smooth operation of passive funds. | |
| For indices with weight caps, if the free float ratio of the spin-off company differs from the value calculated from the shareholder composition, it should be clarified how the number of index shares for the spun-off company will be determined at the time of its new listing. (For example, for the JPX-Nikkei 400 Index, the weight cap limit is set at 1.5%, and the free float ratio of the applicable stock is set lower than the value calculated from the shareholder composition.) | The cap adjustment factor will only be set during Periodic Review. If a stock with a weight cap conducts a spin-off, JPXI will incorporate the spun-off company by maintaining the inclusion ratio based on the free float ratio after considering the cap used in the calculation. |
| Since a certain amount of time is needed to respond to changes in index methodology, we would like the Guidebooks to be finalized by the end of July. | JPXI will publish Guidebooks, which are scheduled to be applied to the planned listing rule revision date (September 16, 2025), on the index consultation page. |