

(Reference Translation)

# TSE Index Guidebook (JPX Prime 150 Index)

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JPX Market Innovation & Research, Inc.

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## Contents

Record of Changes.....	3
Introduction.....	4
I. Outline of Index .....	4
II. Index Calculation.....	4
1. Calculation Method.....	4
2. Index Type .....	4
3. Constituent Inclusion and Removal .....	5
III. Other .....	10
1. Distribution of Index Values and Index Data .....	10
2. Licensing .....	10
3. Contact.....	10

## Record of Changes

DATE	Changes
2023/5/26	• Launch
2024/1/31	• "Securities on Alert" was renamed to "Securities on Special Alert"
2025/1/31	• Uniformity of terminology in each calculation methodology • Correction of a misstatement related to the Beta
2025/7/31	• Added the handling of spin-offs

## **Introduction**

- JPX Market Innovation & Research, Inc. (hereinafter “JPXI”) calculates and distributes the JPX Prime 150 Index in accordance with the methods described in this document. If an event not specified in this document occurs, or if JPXI determines that it is difficult to use the methods described in this document, JPXI may use an alternative method of index calculation as it deems appropriate.
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## **I. Outline of Index**

- The JPX Prime 150 Index is a market capitalization weighted index composed of leading Japanese companies listed on the TSE Prime Market that are estimated to create value based on two measures: “equity spread” and “PBRs.”
- The base date is May 26, 2023. The base value is 1000.

## **II. Index Calculation**

### **1. Calculation Method**

- The calculation formula shall be the market capitalization weighting formula specified in the Index Calculation Guidebook.
- For the cap-adjustment ratio, stocks are given the same value as for the TSE Prime Market Index.

### **2. Index Type**

- JPXI calculates both price and total return versions of JPX Prime 150 Index.
- The method of reflecting dividends in index values is in accordance with the Index Calculation Guidebook.

### **3. Constituent Inclusion and Removal**

#### **(1) Initial Selection**

##### **a. Constituent selection**

- The base date for the initial selection (hereinafter "Initial Selection Base Date") will be the May 16, 2023.
- The selection process shall be conducted as follows:

#### **Selection of the Index Universe**

- Stocks selected as constituents of the TSE Prime Market Index. However, stocks that fall under the following as of the Initial Selection Base Date are excluded:
  - Stocks that do not meet the continued listing criteria
  - Stocks designated as Securities to Be Delisted
  - Stocks designated as Securities on Special Alert
  - Stocks for which a segment transfer has been announced
- In principle, issues will also be excluded from the constituent universe if they are found to fall under the criteria for exclusion between the Initial Selection Base Date and the announcement of the results.

#### **Screening by Market Capitalization**

- The top 500 stocks in the universe by full market capitalization as of the Initial Selection Base Date shall be eligible (hereinafter "Initial Selection Eligible Issues").

#### **Selection of Stocks by Equity Spread Criteria**

- Issues whose equity spread of the current period (the recent fiscal year ended by the end of March in the year in which the base date falls. The same applies hereinafter.) and the previous period are both positive values (limited to cases where the ROE is over 8%) shall be selected (hereinafter "Initial Selection Eligible Issues for Equity Spread Criteria").
- The top 75 companies in terms of estimated equity spreads will be selected from the Initial Selection Eligible Issues for Equity Spread Criteria.
- In cases of issues with the same estimated equity spreads of the current period, preference shall be given to the issue with the higher estimated equity spreads of the previous period.

#### **Selection of Stocks by PBR Criteria**

- Issues whose PBRs of the current period and average of two periods (the previous period and the current period) PBRs are both over 1x shall be selected (hereinafter "Initial Selection Eligible Issues for PBR Criteria").
- The top 75 companies in terms of full market capitalization will be selected from the Initial Selection Eligible Issues for PBR Criteria.
- In cases of issues with the same full market capitalization of the current period, preference shall be given to the issue with the higher PBRs of the current period.
- If, as a result of the selection process above, the 150 constituents contain issues that will be delisted due to stock transfer, etc., adjustments for the final constituents may be conducted where deemed necessary. Additionally, in cases where the JPXI deems a selected issue significantly inappropriate as a constituent of the JPX Prime 150 Index, said issue may not be added.

#### **b. Other**

- The number of constituents as of the launch date can be lower than 150, due to, for example, non-periodic removal of issues which are designated as Securities to Be Delisted after the periodic review announcement date, etc.

### **(2) August periodic review (applicable from August, 2024)**

#### **a. Constituent selection**

- A periodic review of constituents will be conducted once a year (on the last business day of August).
- The base date for the periodic review (hereinafter "Rebalance Base Date") will be the last business day of June. The list of inclusions/removals will be published on the JPX website on the fifth business day prior to the last business day of August.
- The selection process shall be conducted as follows:

#### **Selection of the Index Universe**

- Stocks selected as constituents of the TSE Prime Market Index. However, stocks that fall under the following as of the Rebalance Base Date are excluded:
  - Stocks that do not meet the continued listing criteria
  - Stocks designated as Securities to Be Delisted
  - Stocks designated as Securities on Special Alert
  - Stocks for which a segment transfer has been announced
- In principle, issues will also be excluded from the constituent universe if they are found

to fall under the criteria for exclusion between the Rebalance Base Date and the announcement of the results.

#### **Screening by Market Capitalization**

- The top 500 stocks in the universe by market capitalization as of the Rebalance Base Date shall be eligible (hereinafter "Eligible Issues").

#### **Selection of Stocks by Equity Spread Criteria**

- Issues whose equity spread of the current period and the previous period are both positive values (limited to cases where the ROE is over 8%) shall be selected (hereinafter "Eligible Issues for Equity Spread Criteria").
- Select top 25 companies in terms of estimated equity spreads from Eligible Issues for Equity Spread Criteria.
- Select constituents as of Rebalance Base Date ranking higher than 125 from Eligible Issues for Equity Spread Criteria until the fixed count of 75 is achieved.
- In cases where the fixed count is not achieved after the above steps, select stocks in terms of estimated equity spreads from Eligible Issues for Equity Spread Criteria until the fixed count of 75 is achieved.

#### **Selection of Stocks by PBR Criteria**

- Issues whose PBRs of the current period and average of two periods (the previous period and the current period) PBRs are both over 1x shall be selected (hereinafter "Eligible Issues for PBR Criteria").
- Select top 25 companies by market capitalization from Eligible Issues for PBR Criteria.
- Select as of Rebalance Base Date ranking higher than 125 from Eligible Issues for PBR Criteria until the fixed count of 75 is achieved.
- In cases where the fixed count is not achieved after the above steps, select stocks by market capitalization from Eligible Issues for PBR Criteria until the fixed count of 75 is achieved.
- If, as a result of the selection process above, the 150 constituents contain issues that will be delisted due to stock transfer, etc., adjustments for the final constituents may be conducted where deemed necessary. Additionally, in cases where the JPXI deems a selected issue significantly inappropriate as a constituent of the JPX Prime 150 Index, said issue may not be added.

**b. Other**

- The number of constituents as of the announcement date can be lower than 150, due to, for example, non-periodic removal of issues which are designated as Securities to Be Delisted after the periodic review announcement date, etc.

**(3) Non-periodic removal from constituents**

- Constituents that are delisted, designated as Securities to be Delisted, designated as Securities on Special Alert, or have announced a segment transfer shall be removed.
- Additionally, in cases where the JPXI deems the continued inclusion of a constituent to be significantly inappropriate, said issue shall be removed.

**(4) Non-periodic inclusion to Constituents**

- When a constituent of JPX Prime 150 Index has been delisted due to a share transfer, share exchange, merger, or company split (hereinafter "share transfer, etc."), and the newly created, surviving, parent, or succeeding company (hereinafter "newly created company, etc.") immediately lists its stock on the TSE Prime Market, said newly created company, etc. will be included in the index.
- When a spin-off (an allocation of shares of a spun-off subsidiary or business division through surplus dividends) of a constituent results in a new listing on the TSE Prime Market of the company that has become independent via a spin-off (hereinafter "spun-off company") between the ex-rights date and the effective date, the spun-off company will be included in the index.

**(5) Treatment of data for selection**

- The full market capitalization used in constituent selection is the number of shares of each issue used for calculation of the TSE Prime Market Index as of the Rebalance Base Date, multiplied by the stock price used for calculation.
- The equity spread used in constituent selection is as follows:

Item	Contents
Estimated Equity Spread (%)	• ROE (%) – Cost Of Equity Capital (%)
ROE (%)	• Use companies' disclosure information.
Cost Of Equity Capital (%)	• 10-year JGB Interest Rate (%) + Beta × (Market Return (%) – 10-year JGB Interest Rate (%))
10-year Japanese Government Bond (JGB) Interest Rate (%)	• Use JGB Interest Rate information published by the Ministry of Finance. • 10-year JGB Interest Rate on the Rebalance Base Date.
Market Return (%)	• Annualized return of TOPIX (*) from January 4, 1968 (100 points) to



	<p>the Rebalance Base Date.</p> <p>* During the period when TOPIX TR is calculated, the value of TOPIX TR is used, and during the period when TOPIX TR is not calculated, the value of TOPIX PR is used.</p>
Beta	<ul style="list-style-type: none"> <li>• Covariance of the return of each stock and the return of TOPIX PR ÷ variance of the return of TOPIX PR</li> <li>• The calculation uses the monthly returns including dividends for each company and TOPIX price returns for the most recent 60 months from the month of the Rebalance Base Date (March 2023 for the initial selection). No adjustments will be made due to rights offerings.</li> <li>• Issues exceeding 2.0 will be 2.0.</li> <li>• Issues below 0.5 will be 0.5.</li> <li>• Issues with monthly returns of less than 30 months are 1.0.</li> </ul>

- The PBR used in constituent selection is as follows:

Item	Contents
PBR	• Price ÷ BPS
Price	• Closing price on Rebalance Base Date
BPS	• Use companies' disclosure information.

(6) Dates of constituent inclusion and removal

	Event Requiring Adjustment		Adjustment Date
Inclusion	Initial listing	When a constituent has been delisted due to a share transfer, etc. and the resulting newly created company, etc. is included as a constituent.	Initial listing date (*)
		When a spin-off of a constituent results in a new listing on the TSE Prime Market of the spun-off company between the ex-rights date and the effective date	Initial listing date (*)
	Periodic Review		Last business day of October
Removal	Delisting	When a constituent has been delisted due to a share transfer, etc. and the resulting newly created company, etc. is included as a constituent.	Initial listing date of the newly created company, etc.(normally two business days following the delisting date) (*)
		Other than the above (e.g., non-surviving company as a result of a merger, share exchange, etc.)	Delisting date (*)
	Periodic Review		Last business day of October

	Event Requiring Adjustment	Adjustment Date
	Market segment transfer from the TSE Prime Market	Transfer date
	Designation as Securities to Be Delisted or designation as Securities on Special Alert	Four business days after designation (*)

\*: Next business day when the date in question falls on a non-business day.

### III. Other

#### 1. Distribution of Index Values and Index Data

##### 1) Index Values

- JPX Prime 150 Index price index values are disseminated in real-time through the Market Information System to securities companies, news media, and other institutions all over the country. The price index is distributed every 1 second.
- The Total Return Index is calculated daily at market close.

##### 2) Index Data

- Index data relating to the JPX Prime 150 Index (base market value, etc.) is distributed through the Index Data Service.

#### 2. Licensing

- JPXI and/or its affiliates reserve all calculation, distribution, publication, usage, and other rights pertaining to the JPX Prime 150 Index. Because of this, the use of the JPX Prime 150 Index in the composition and/or sale of financial products such as funds or linked bonds (including its use as the basis for options, swaps, warrants, or other OTC derivatives) requires a license from JPXI.  
A license from JPXI is also required for the provision, distribution, etc. of the JPX Prime 150 Index to third parties.

#### 3. Contact

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