

Summary of TOPIX Calculation Rule Revisions

(1) Overview of TOPIX revisions

- TSE will carry out revisions to TOPIX in relation to the market structure changes, based on the report from the "Expert Study Group on Capital Markets in Japan" of the Financial System Council.
- The revisions aim to improve TOPIX's functionality as an investable index as well as how accurately it represents the market, without being bound to market segments.
- The revisions will be carried out in stages, taking in account the large amounts of capital in TOPIX-based passive funds and the impact on the market.
- Plans for the transition will be decided with the input of related parties (expected for the end of March 2021).
- Periodic review rules for after the transition will also be created taking into account opinions from related parties, which will be gathered separately.

(2) TOPIX post-transition calculation rules

Rule	Details
Existing constituents	Constituents as of April 1, 2022 will continue to be included after the market restructure on April 4, 2022, regardless of their selected market segment. However, <u>constituents with a tradable share market capitalization of under JPY 10 billion will be designated as "phased weighting reduction constituents" and their weighting will be gradually reduced every quarter in ten (10) stages starting from the last day of October 2022.</u>
New constituents	<ul style="list-style-type: none"> - Initial listings on or transfers to the Prime Market - Technical listings whose previous companies were TOPIX constituents
Exclusions	Designation as Securities to be Delisted, delisting <u>Designation as Securities on Alert</u>
Introduction of upper weighting limit	<u>10%</u>

(3) Designation and re-evaluation of phased weighting reduction constituents

Timing	Details
First decision July 2021	TSE will confirm <u>whether each company's tradable share market capitalization is JPY 10 billion or above</u> (Figures used will be from the "Notice on whether the company is meeting the continued listing criteria for the new market segments" which has a base date of June 30, 2021.).
Second decision October 2022	For companies whose tradable share market capitalization was under JPY 10 billion as of the first decision, TSE will confirm <u>whether the situation had improved</u> as of the next reporting period. If their tradable share market capitalization is found to have still been under JPY 10 billion at this point, the company will be designated as a "phased weighting reduction constituent". <u>Their TOPIX weighting will be gradually reduced in ten (10) stages starting October 2022.</u>
Re-evaluation October 2023	For each phased weighting reduction constituent, TSE will confirm: 1) whether their <u>tradable share market capitalization for the reporting period following the second decision was JPY 10 billion or over</u> , and 2) whether their <u>annual traded value ratio was 0.2 or above</u> . - If a company meets both criteria 1) and 2), its weighting will be <u>returned to its pre-reduction level</u> . - If a company meets only 1), its weighting <u>reduction will be halted</u> . - If a company meets neither 1) nor 2), its weighting <u>reduction will be continued</u> .

(4) Progression of coverage of current TOPIX (weighting-based)

Before transition	During transition	After transition
TOPIX 100%	Tradable share market capitalization JPY 10 billion and over - continued inclusion	TOPIX 99% or more
	Tradable share market capitalization under JPY 10 billion - phased weighting reduction (over ten (10) stages)	

(1) Index revisions other than TOPIX

- The below revisions will also be carried out in relation to the market restructure. Schedules and details will be decided with input from related parties.

Discontinued April 4, 2022 (planned)	Discontinued after the transition of index license users April 3, 2023 (planned)	Newly calculated April 4, 2022 (planned)
TSE Second Section Index JASDAQ INDEX J-Stock Index TOPIX Composite Index Series	TSE Mothers Index TSE Mothers Core Index JASDAQ-TOP20	(all names provisional) Indices for the new market segments TSE Growth 250 Index TSE Standard-TOP20 Index TSE Growth Core Index TSE Prime Market Composite Index Ex-TSE First Section Index

(2) Changes to the calculation method for free-float weight (FFW) ratio

- TSE will partly change the calculation method for the FFW ratio, which is used to calculate index weightings for all index constituents, in order to focus more on the liquidity situation in the market.
- Shares held for policy purposes, so-called “strategic shareholdings”, will be newly designated as non-free-float shares, meaning that the FFW ratio of companies whose shares are held by other companies as strategic shareholdings will be lower.
- To lessen the impact of this change on trading, it will be carried out in three (3) stages at the end of each month starting April 2022.

(3) Schedule of changes

