

(Reference Translation)

April 30, 2021
Tokyo Stock Exchange, Inc.

Comments Submitted on "Revisions of TOPIX and Other Indices"

Tokyo Stock Exchange, Inc. (TSE) sought comments on "Revisions of TOPIX and Other Indices" through an index consultation from December 25, 2020 to February 26, 2021. As a result, it received comments from 24 parties. TSE also reopened the index consultation on revisions to the Tokyo Stock Exchange Mothers Index from March 26, 2021 to April 9, 2021 and received comments from six parties.

Below is an outline of the comments received and TSE's responses to them.

No.	Outline of Comments	TSE's Response
1. Revision of TOPIX		
(1) Overall plan for revising TOPIX		
1	- Overall, we agree with the revisions of TOPIX.	- Thank you for your valuable comments.
2	- TOPIX is used as a benchmark since it works as an investable index. It is also managed in the full replication method like in ETFs. I think the real problem lies in the listing rules. - I do not completely deny the difficulty in managing investments in the index when some constituent stocks have low liquidity. However, inclusion for such constituents can mean that investors such as asset managers communicate with them, leading to growth in response to the dialogue. Automatically excluding them from the index may deprive index investors of profit-earning opportunities.	- Based on the Final Report by the "Expert Study Group on the Structure of Capital Markets in Japan" of the Financial System Council's Capital Market Working Group, the revisions of TOPIX are aimed at further improving its functionality as an investable index by reducing weighting in stages to minimize impact on the market, etc. - Concerning how to select constituents after the revisions are in place, we will propose a plan through a separate index consultation and seek comments from market participants. - In order for TOPIX to be continuously used as an investable index in a wide range of fields, TSE will strive to have market participants gain a better

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		understanding of this matter.
3	- The definition and concept of TOPIX need to be clearly specified.	- TOPIX is and will continue to be aimed at being widely used as a market benchmark with functionality as an investable index, covering a wide range of Japanese stock market.
(2) Handling of constituents on the date of implementation of listing rules for new market segments		
(3) Changes to the index calculation rules on and after the implementation date		
(3a) Designation of "phased weighting reduction constituents" based on tradable share market capitalization		
(3b) Adjustment to the weighting of phased weighting reduction constituents		
4	- In principle we agree with the proposal to ensure consistency with the post-market restructure liquidity criteria of the Prime Market by designating constituents with less than JPY 10 billion of tradable share market capitalization as phased weighting reduction constituents, and ultimately removing them from TOPIX.	- Thank you for your valuable comments.
5	- We agree with the proposal for the weighting of excluded constituents to be gradually reduced in ten stages to minimize the impact on such constituents as much as possible.	- Thank you for your valuable comments.
6	- If an event that could have a great impact on the market occurs, like what we have seen with the Covid-19 pandemic, we predict that the transition period would need to be adjusted flexibly. In that case, we request for TSE to take sufficient time to inform market participants of the change to allow them to respond flexibly.	- With regard to procedures for extreme market conditions, we will respond in accordance with Article 4 of "Policies Concerning Calculation of TSE Indices" and consider different responses to those specified in the calculation methodologies (such as suspension or postponement of periodic reviews) as needed.
7	- What are the reasons or judgments behind the criteria for designation of phased weighting reduction constituents (tradable share market capitalization of JPY 10 billion and traded value ratio of 0.2)? And how will constituents be selected after January 2025 when the transition is completed?	- The criterion of JPY 10 billion tradable share market capitalization is based on the final report of the Expert Study Group on Capital Markets in Japan of the Financial System Council published in December 2019. - The criterion for traded value ratio of 0.2 has been set to measure market

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		<p>liquidity as a criterion for reinstating weightings of phased weighting reduction constituents if their tradable share market capitalization exceeds JPY 10 billion at the re-evaluation.</p> <ul style="list-style-type: none">- In designating constituents, the traded value ratio is used in global index methodologies as a liquidity criterion. We set the number at 0.2 based on these criteria.- We will determine how to select constituents after the transition through a separate index consultation.
8	<ul style="list-style-type: none">- While there are plenty of opportunities for those designated as phased weighting reduction constituents at the first decision to remain as constituents, if a constituent meets the criteria at the first decision, they will be able to remain in TOPIX even if their market value falls considerably and they fail to meet the criteria later.- We consider it desirable to evaluate stocks that have met the criteria at the first decision again at a later time.	<ul style="list-style-type: none">- The revisions provide a framework with the aim of reflecting efforts of listed companies to enhance tradable share market capitalization.- Also, in designating phased weighting reduction constituents, since tradable share market capitalization may change in some companies due to market conditions, etc., we need to establish a framework which considers fairness, etc. such as by introducing a system which allows multiple designations and re-evaluations.- We will determine how to select constituents after the transition through a separate index consultation.
9	<ul style="list-style-type: none">- With regards to the re-evaluation date in October 2023, considering the increase of trading volume with the transition, we suggest that TSE remove the option of returning to pre-reduction weight and provide only 2 options (Stopping weight reduction and Continuing weight reduction to 0%) at the re-evaluation date.	<ul style="list-style-type: none">- The revisions provide a framework with the aim of reflecting efforts of listed companies to enhance tradable share market capitalization. In light of this purpose, we will reinstate the weightings of constituents that have improved their tradable share market capitalization.- Still, as we need to consider market impact when reinstating weightings, we will check the liquidity of the eligible stocks by measuring their traded value

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		<p>ratio.</p> <ul style="list-style-type: none">- As pointed out, there is a possibility that trading volume will surge on particular days due to the transition. For this reason, when the monthly traded value ratio is calculated, the median of the traded value will be used as follows: Traded value ratio = (median of daily traded value in trading sessions at TSE in the given month) x (number of business days) ÷ free float adjusted market capitalization on the last business day of the month before the transition factor was applied
10	<ul style="list-style-type: none">- For constituents that meet the tradable share market capitalization criterion after the re-evaluation, rather than dividing them into "weighting reduction halted" and "weighting returned to pre-reduction level" depending on their annual traded value ratio, it would be simpler and easier to understand if all of them were returned to their pre-reduction levels.	<ul style="list-style-type: none">- When returning reduced weightings to their original level after the re-evaluation, we will consider trading trends in the market and ensure a certain level of liquidity in the market based on the traded value ratio.
11	<ul style="list-style-type: none">- Concerning the method of returning reduced weightings to their pre-reduction level after the re-evaluation, from the viewpoint of mitigating market impact, we propose that returning transition factors to 1.0 should be done carefully like when weightings are reduced, for example raising them by 0.1 every three months.	<ul style="list-style-type: none">- Based on your proposal, considering the market impact further, when returning the transition factor for constituents that have met the criteria for tradable share market capitalization and traded value ratio at the re-evaluation in October 2023, we will raise the transition factor in stages by 0.1 from the fifth stage.
12	<ul style="list-style-type: none">- Phased weighting reduction constituents should not be designated while the Covid-19 pandemic is still impacting stock prices of individual companies. The designation should be based on stock prices in normal times after the pandemic ends.	<ul style="list-style-type: none">- The revisions of TOPIX and other indices will be made in connection with the new market segments to be introduced in April 2022.- The revisions will be made in stages while considering market impact, etc. based on the final report of the Expert Study Group on Capital Markets in

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		<p>Japan of the Financial System Council.</p> <ul style="list-style-type: none">- In the course of the revisions of TOPIX, there are multiple stages in evaluating constituents, etc. to consider fairness, etc. "Phased weighting reduction constituents" will be designated in two stages, the first in July 2021 and the second in October 2022, and there will be a re-evaluation in October 2023.- This framework is also built to consider market impact, etc.
13	<ul style="list-style-type: none">- We are concerned that it will be difficult to accurately keep track of the constituent weightings, since the transition will be carried out over many stages and a long period of time.- For instance, the transition period could be shortened to about one year (monthly phased reductions) with a small market impact.	<ul style="list-style-type: none">- The revisions provide a framework with the aim of reflecting efforts of listed companies to enhance tradable share market capitalization.- The revisions of TOPIX are different from an ordinary rebalancing of index constituents in that this is an index which has not had regular constituent selections until now, and that the revisions will cover not only exclusion and inclusion of some constituents but also affect a wide range of constituents.- Considering these particular circumstances, in this transition, our proposed revisions factor in market impact, etc. based on a provisional calculation of expected impact on individual constituents due to the transition.- For these reasons, the number of stages and the time period will remain as our original proposal.
14	<ul style="list-style-type: none">- If in practice, some stocks experience a significant impact on trading due to the rebalancing, we would like TSE to leave itself room to consider moves to help conduct smooth rebalancing, such as changing the frequency.	<ul style="list-style-type: none">- In this transition, our proposed revisions factor in market impact, etc. based on a provisional calculation of expected impact on individual constituents due to the transition.- For this reason, the number of stages and the time period will remain as our original proposal.- With regard to procedures for extreme market conditions, we will respond in

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		accordance with Article 4 of "Policies Concerning Calculation of TSE Indices" and consider different responses to those specified in the calculation methodologies (such as suspension or postponement of periodic reviews) as needed.
15	- The decision on phased weighting reduction constituents should be made not based on the closing price on June 30, 2021 but on the monthly average or the average of a number of business days at the end of the month, etc.	- Tradable share market capitalization will be calculated using the calculation formula specified in the "second set of revisions pertaining to cash equity market restructuring". The stock price used for calculating tradable share market capitalization is a three-month-average value.
16	- With regard to capital transfer from weighting rises and rises in FFW during the transition period for phased weighting reduction constituents, we would like TSE to consider some measures to prevent unnecessary trading.	- In the transition of TOPIX, weighting will be reduced in stages after a thorough consideration of market impact. During the transition period, we will also maintain the characteristics of an index with free float adjusted market capitalization weighting and continue the calculations reflecting the condition of free float shares at each stage.
3c. Handling of stocks carrying out initial listings or transfer		
3d. Handling of cases where a constituent transfers markets		
17	- Issues that select the Prime Market on April 4, 2022 while listed on a market other than the 1st Section will be incorporated into TOPIX all at once at the end of May 2022. We would like TSE to implement measures to minimize the market impact.	- With regard to issues that are incorporated into TOPIX due to their selection of the Prime Market, there are rules to minimize the market impact such as incorporating them into the index by multiplying the FFW ratio by the fixed liquidity factor of 0.75. - The selection results announcement for the new market segments is planned for January 2022. If, based on this, we deem that it will be difficult to smoothly operate the index because, for example, the number of constituents will hugely increase on the last business day in May 2022, we will immediately

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		conduct an index consultation and consider measures such as phased incorporation.
e. Securities on Alert		
18	- I agree with excluding Securities on Alert from TOPIX.	- We appreciate your valuable comment.
19	- We request that TSE should consider exclusions from TOPIX using the rule on "corporate liabilities in excess of assets" which has been taken into account until now.	- As stocks with liabilities in excess of assets will not automatically be subject to measures under the listing rules, we will not immediately exclude such stocks from TOPIX constituents.
20	- With respect to designation and removal of the Securities on Alert, we think there is enough leeway for TSE to make qualitative decisions. Since TOPIX is being used as a tracking indicator for a large number of products under management, we hope that with the aim of ensuring stronger investor protection, TSE will continue to consider the establishment of more transparent criteria and rules.	<p>- Designations and removals of Securities on Alert for listed companies are made following the judgements of Japan Exchange Regulation, an independent self-regulatory organization, which are based on the Financial Instruments and Exchange Act and TSE's own Securities Listing Regulations, among other things. The fairness, transparency, and independence of such judgements are guaranteed.</p> <p>- Exclusions from TOPIX in the case of designation as Securities on Alert will be conducted based on such judgements, for which fairness, transparency, and independency are guaranteed.</p>
21	- There are concerns that index turnover rates will increase, pushing up costs for passive investment management.	<p>- As you point out, if stocks are excluded from TOPIX due to designation as Securities on Alert, index turnover rates will increase. However, from the viewpoint of further enhancing the functionality of TOPIX as an investment target, designation of Securities on Alert will be a criterion for exclusion from TOPIX as originally proposed.</p> <p>- For during the transition period, TSE will determine whether or not it will include stocks which Securities on Alert has been removed at the time of the</p>

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		re-evaluation. However, for after the completion of the transition, we will determine inclusion in accordance with the methodology to select constituents after the transition for which a separate index consultation is planned.
f. Introduction of upper weighting limit		
22	- In consideration of the issues regarding concurrent parent-child listings and cross shareholdings, consideration should be given to the handling of cases where the total weighting of a group company exceeds 10%.	- Our proposal for an upper limit on TOPIX constituent weightings was made in consideration of domestic and overseas regulations on investment diversification, as part of enhancing the functionality of TOPIX as an investment target. - Moreover, even now, in calculating free-float weight used for index calculation, group companies and so-called strategic shareholdings are taken into consideration based on the situation regarding the major shareholders indicated in annual securities reports. - In addition, we have reviewed the method for calculating free-float weight and will begin to designate specified equity securities as non-free-float shares, which will be taken into consideration in calculating TOPIX weightings.
2. Revisions of other indices		
(1) Indices to be discontinued		
23	- In consideration of impacts on investors who invest in index-tracking products (investment trusts, listed futures, etc.), with respect to indices to be discontinued that have succeeding indices, instead of discontinuing the existing indices and then creating the new indices, could you transition to the new indices through phased weighting revisions?	- The TSE Mothers Index is currently defined as an index whose constituents are all domestic common stocks listed on the TSE Mothers market. - With the market restructure, the Mothers market, which is the premise for the index, will be abolished. - Based on this situation, in the index consultation, we proposed to discontinue

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	<ul style="list-style-type: none">- For example, instead of discontinuing the TSE Mothers Index and newly creating the TSE Growth 250 Index, you could transition to the TSE Growth 250 Index over the course of perhaps a year, by implementing phased revisions to the TSE Mothers Index constituents and calculation method, etc.- It is also likely that if the TSE Mothers Index is discontinued, TSE Mothers Index futures will be delisted and futures on the succeeding TSE Growth 250 Index will be newly listed. In this case, if the listing period of these futures overlaps, there will be concerns over liquidity dispersion, etc., so we think that consideration is needed for action such as preventing both futures from being concurrently listed.	<p>the TSE Mothers Index after continuing index calculation for approximately one year after the market restructure (i.e., from April 4, 2022 to March 31, 2023) and then start calculating the TSE Growth 250 Index as its successor.</p> <ul style="list-style-type: none">- Since we received multiple requests for continued calculation of the TSE Mothers Index, due to concerns as you pointed out over continuity and liquidity of financial instruments that track the performance of the index, we will continue calculating the index without setting a time limit for discontinuation. As is the case with TOPIX, we will revise the rules in stages to make the index one based on constituent selections separated from a market segment.
24	<ul style="list-style-type: none">- We request that, instead of discontinuing the current TSE Mothers Index, TSE should keep it alive as is the case with TOPIX, and change its target market for constituent selection from Mothers to the Growth Market by revising the index calculation method. The reasons are as follows.- 1) The concepts of the Mothers Index and the proposed TSE Growth 250 Index can be thought of as the same. We think that the Mothers market and the Growth Market have a common consistent concept as a market for emerging companies and that the differences in the listing criteria make said concept clearer. As such, a different target market does not mean a different index concept, and we think that the consistency of the index can be retained in terms of concept even if it were to be continued while changing the target market. Current users of the TSE Mothers Index and users of passive management products such as futures and ETNs linked to the TSE Mothers Index are using the index as a representative indicator for emerging companies listed on TSE, and a change of the target market will not contradict this. We also consider that the	<ul style="list-style-type: none">- Consequently, we will not start calculation of the TSE Growth 250 Index, which was planned as the successor to the TSE Mothers Index.

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	<p>continuation of the index will make it possible to minimize impacts on passive management products such as futures and ETNs.</p> <ul style="list-style-type: none">- 2) The name "Growth 250 Index" is difficult to distinguish from the term "growth" which indicates a category of style indices generally used in names of investment trusts and various other indices, so it could be confusing. The name "Growth 250" especially suggests the top 250 growth companies in terms of market capitalization, which may be misleading for an index which is based on the new market segment for emerging companies. As such, a name should be used which is different from the name of the market segment, as is the case with TOPIX. We think it needs to be a name which clearly indicates the concept of the index, such as "TSE Emerging Companies Stock Index".- 3) We think that a transitional period should be introduced for the transition to new index calculation standards to lessen the impact of constituent changes on holders of passive products and users of futures and suppress distortion of price formation. We think that TSE should take measures such as implementing constituent changes in several stages, taking sufficient time.	
25	<ul style="list-style-type: none">- We want to confirm that the TSE 2nd Section Index and JASDAQ Index will continue to be calculated for one year for funds which use these indices in their names.	<ul style="list-style-type: none">- We will discontinue the TSE 2nd Section Index and JASDAQ Index, in line with their target markets being abolished.- At the same time as the above indices are discontinued, we will start calculation of new indices such as the TSE Prime Market Index, TSE Standard Market Index, and TSE Growth Market Index. Please consider use of these indices.
26	<ul style="list-style-type: none">- Some of the indices for which calculation will be discontinued are often used in academic analysis on the Japanese cash equity market. To avoid the discontinuation of the indices	<ul style="list-style-type: none">- At the same time as the market restructuring, we will start calculation of new indices such as the TSE Prime Market Index, TSE Standard Market Index, and

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	causing issues with this analysis, such as deteriorating data availability, TSE should take heed of the actual usage situations of the indices.	TSE Growth Market Index. Please consider use of these indices.
(2) Continued Indices		
(3) New Indices		
27	<ul style="list-style-type: none">- A reference index should be calculated as was calculated at the time of the introduction of free-float adjustment for TOPIX.- Publishing a reference index will enable us to respond to investor needs for adopting the new TOPIX at their chosen timing, in addition to enabling us to diversify the execution timing of existing index management.	<ul style="list-style-type: none">- At the time of introducing free-float adjustment for TOPIX and the Tokyo Stock Exchange REIT Index, the issues subject to the transition were decided, and a reference indicator was calculated for the purpose of, among other things, ensuring operational flexibility.- In contrast, the currently scheduled transition of TOPIX is different from the past free-float adjustments for TOPIX and other indices in that the issues that will be constituents after the transition cannot be fixed at the time of commencement of phased weighting reduction, due to the fact that, among other things, a re-evaluation opportunity will be provided in October 2023 and issues meeting certain standards will be removed from the phased weighting reduction constituents. In these circumstances, we do not think it consistent with the concept of designation and re-evaluation over several occasions to calculate a reference indicator reflecting the revisions ahead of the transition.- In addition, since our current proposals for revisions of TOPIX involve a transition conducted with significant consideration of impact on the overall market and individual issues, such as conducting the transition in ten stages, we do not think it appropriate to calculate a reference indicator as it could cause unexpected market impact, etc.

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		<ul style="list-style-type: none">- In light of the above, TSE has decided that a reference indicator will not be calculated in this transition.
28	<ul style="list-style-type: none">- Among the new indices scheduled to be calculated from April 2022, some are calculated for transition purposes while others are for statistical purposes. In this regard, we request TSE to provide detailed information about the purpose of calculating the new indices.	<ul style="list-style-type: none">- Among the new indices scheduled to be calculated starting on April 4, 2022, the below indices are scheduled to be calculated and disseminated once a day with the assumption that the main usage will be for statistical purposes.<ul style="list-style-type: none">➤ Indices for New Market Segments (TSE Prime Market Index/TSE Standard Market Index/TSE Growth Market Index)➤ TSE Prime Market Composite Index➤ Ex-TSE First Section Index- Taking into consideration the recommendation in the report by the Expert Study Group on the Structure of Capital Markets in Japan of the Financial System Council's Capital Market Working Group that an index aimed at being an investment target should be delinked from market segments, we will calculate Indices for New Market Segments and the TSE Prime Market Composite Index on the assumption that their main usage will be for statistical purposes. However, TSE does not intend to restrict the usage purpose of these indices.- Since the "Ex-TSE First Section Index" will be calculated maintaining the TOPIX constituents as of immediately before the implementation date of the new market segments, its constituents will be different from TOPIX, but it will be calculated using the same method, which is free float adjusted market capitalization. In addition, TSE plans to calculate an Ex-TSE First Section Index for the TOPIX transition period as a reference indicator for the transition.

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29	<ul style="list-style-type: none">- While the TSE Growth Core Index (Provisional) and TSE Standard TOP20 Index (Provisional) are proposed as free-float adjusted market capitalization indices, the current Tokyo Stock Exchange Mothers Core Index and JASDAQ-TOP20 are price-weighted indices and have gained a certain level of recognition after having been calculated for more than 10 years with this calculation methodology. Since they are aimed at being successors to the current indices, we think it desirable for them to be price-weighted average indices, the same as the current ones.- In addition, the market capitalization of the Standard Market will be dominated by issues which temporarily transfer from the Prime Market due to corporate scandals, etc. If the market capitalization weighted method is used, an issue which is temporarily included in the Standard Market would have a large impact on the index and it would be less likely to reflect the characteristics of an index composed of growth stocks and SMEs.- Accordingly, we think it desirable for this to be a price-weighted index.- While a large number of changes in component stocks would be undesirable for the sake of index continuity, as the index is aimed at enabling investment in growth stocks, issues with no growth potential should be removed. Accordingly, we think it would be desirable to replace approximately the two issues with the lowest market capitalization.	<ul style="list-style-type: none">- Taking into consideration these comments, TSE has decided that the calculation methodology of TSE Growth Market Core Index and TSE Standard Market TOP20 Index will be price-weighted.- In addition, taking into consideration the comments, TSE has decided to implement revisions such as adding criteria to encourage the replacement of approximately two issues at the periodic review. Please refer to Reference 3 for details.- For the names of these indices, TSE has decided on "TSE Growth Market Core Index" and "TSE Standard Market TOP20" in order to clarify that the constituents are selected from each market.
30	<ul style="list-style-type: none">- We do not think it very suitable to use the term of "growth" in the name of indices since it reminds us growth in the context of growth/value.	<ul style="list-style-type: none">- For the names of these indices, TSE has decided on "TSE Growth Market Core Index", "TSE Standard Market TOP20" and "TSE Prime Market Composite Index" in order to clarify that the constituents are selected from each market.
31	<ul style="list-style-type: none">- From the viewpoint of understanding the movement of the overall TSE stock market, it might be good to introduce an index which calculates the weighted average of free-float market capitalization of the TSE Prime Market Index, TSE Standard Market Index and TSE	<ul style="list-style-type: none">- Thank you very much for your valuable comments.

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	Growth Market Index combined.	
3. Revision of Calculation Method for Free Float-Weight (FFW) Ratio		
32	- "Tradable shares" are mainly used for examinations of listing eligibility, etc. while "free-float shares" are mainly used for TOPIX calculation, etc. However, there are similarities and commonalities between what the two values represent. As such, they would be easier to understand and more consistent as criteria if they were consolidated into one or the other.	- While "free-float weight ratio" is a similar concept to "tradable shares" under the listing rules, free-float weight ratio is just one of the factors used to determine relative weight of an index, whereas tradable share ratio is used as an absolute standard to judge whether an individual listed company meets the listing rules. Since their purposes are different, different definitions are provided.
33	- While strategic holding shares are calculated using data on specified equity securities, these are not primary data disclosed in annual securities reports, etc. Accordingly, the data used to calculate free-float shares should be disclosed to ensure the validity of the figures.	- While the results of free-float weight ratio calculations will be provided via the Tokyo Market Information (TMI) service as is the case currently, we do not plan to disclose the data used in the calculation process. - The compiling of strategic holding shares will be conducted, from the perspective of objectivity, by compiling the total number of specified equity securities held by other listed companies, using data prepared by TOYO KEIZAI INC based on annual securities reports, which are statutory disclosure documents disclosed by all the listed companies subject to calculation.
34	- In relation to newly adding specified equity securities to the definition of non-free float shares, even if the purpose of investing in shares is classified as "pure investment" when the free-float weight ratio is calculated, if the shares were formerly classified as "strategic holding shares" before being classified as "pure investment", we request TSE to consider them as "strategic holdings shares".	- From the perspective of objectivity, the free-float weight ratio will be calculated using uniform standards based on the "specified equity securities (shares held for purposes other than pure investment)" described in the "Status, etc. of Corporate Governance" sections of annual securities reports, which are statutory disclosure documents disclosed by all the listed companies subject to calculation.
35	- For calculating free-float weight ratio, in addition to specified equity securities, shares	

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	<p>which are very unlikely to be traded in the near future should be included, even if they are classified as "pure investment" in the annual securities reports and/or statement of large-volume holdings. Specifically, if shares are classified as "pure investment" but are also recorded in "investment and other assets", they should be excluded from the calculation of free-float shares. As is indicated in the accounting standards for financial instruments, "other securities" are classified as "investment and other assets", and given that shareholders announce in the statutory disclosure documents that they will not trade these shares for at least the next year, such shares should not be included in free-float shares.</p>	
36	<p>- We think the calculation method of free-float shares should be fundamentally revised by, among other things, calculating a more accurate free-float share figure through, for example, designating shares as non-free-float shares if they are found, using the JASDEC system, etc., to be held for more than one year.</p>	
37	<p>- While the definition of free-float weight ratio is schedule to be changed from April to June 2022, a regular periodic review will also be implemented in April 2022 for issues whose fiscal year is from July to September 2021. We think the turnover ratio could be restrained by calculating the free-float weight ratio at the April 2022 periodic review under the new definition rather than current definition.</p>	<p>- For companies whose fiscal year is from July to September 2021, the regular periodic review and the transition of the free-float weight ratio will be implemented simultaneously.</p>
38	<p>- In the case of issues whose fiscal year ends in March, while companies will have time to liquidate strategic holding shares up to the end of March 2022 for tradable share market capitalization purposes, they will only have up to the end of March 2021 to improve their free-float weight ratios, resulting in different deadlines for different initiatives within the same company.</p>	<p>- Under the original proposal, we intended to carry out the transition in three stages at the end of April, May and June 2022 based on the results of estimates of trading impact caused by the revision of the free-float weight ratio calculation method.</p> <p>- Regarding this, to ensure the further reduction of market impact and provide</p>

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	<ul style="list-style-type: none">- In addition, thinking about the rebalancing in practice, at the end of October 2022, which is four months after the rebalancing in connection with application of the new free-float weight ratio at the end of March 2021, there will be another rebalancing based on the data as of the end of the new fiscal year in March 2022. We are concerned that carrying out two rebalances in such a short period of time will increase the rebalancing turnover ratio and associated costs.- We think there is room for further consideration about the necessity of the rebalancing in connection with application of the new free-float weight ratio at the end of March 2021.	<p>opportunities to reflect the efforts of listed companies which have a lot of room to increase free-float shares, among other things, for issues whose free-float weight based on the current calculation methodology minus the free-float weight based on the new calculation methodology exceeds 0.1, the upper limit of the fluctuation during the transition period (from April to June 2022) will be set to 0.1. The same upper limit will be applied to periodic reviews of the free-float weight, which will be carried out according to the fiscal year end of these issues after July 2022.</p> <ul style="list-style-type: none">- The regular periodic reviews carried out at the end of April 2022, for listed companies with fiscal years ending July, August and September 2021, will also use the three-stage transition as above.
39	<ul style="list-style-type: none">- TSE should estimate the impact caused by changes in the calculation method and introduce measures to restrain the turnover ratio.- The change in free-float weight ratio will be conducted in October for companies whose fiscal year ends in March, so it would be a more efficient transition if changes in the handling of strategic holding shares were reflected starting in October 2022, as the revision of said calculation method can be reflected in the normal review based on the financial data for the fiscal year ended March 2022.	
40	<ul style="list-style-type: none">- We are concerned that it will be difficult to accurately keep track of the constituent weightings, since the transition will be carried out over many stages and a long period of time. TSE should consider carrying out the transition to the new definition of FFW in one go, for example in October 2022.	
41	<ul style="list-style-type: none">- Since TSE normally implements periodic reviews of free-float weight ratio every quarter,	

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	we suggest that changes due to the definition revision should also be conducted every quarter.	
42	- Regarding the possible cases where TSE can deem shares as free-float shares despite being held by the top 10 major shareholders, TSE should add shares "managed in an overseas investment trust whose purpose is to manage investment funds based on a discretionary investment contract, etc." to the list and treat these as free-float shares.	- Currently, in cases where the term investment trust is clearly stated within the name of one or more of the top 10 major shareholders described in the annual securities report, the shares are included in "Shares likely to be deemed as free-float". We will continue to treat these shares as suggested.
43	- We agree that strategic holding shares should be excluded from free-float shares for the purpose of encouraging sales of strategic holding shares from the perspective of improving corporate governance and capital efficiency, and reflecting the actual situation regarding liquidity.	- Thank you very much for your valuable comments.
44	- We think TSE should consider integrating the new method for strategic holding shares into the free float weight ratio in a way that means the ratio can be reflected immediately after sales of strategic holding shares rather than a uniform calculation of once a year.	- From the perspective of objectivity, the compiling of data on strategic holding shares will be conducted using data prepared by TOYO KEIZAI INC, based on annual securities reports, which are required by law to be disclosed in every year by all the listed companies subject to calculation. - Accordingly, the periodic review of free-float weight ratio will continue to be conducted once a year for every company.
45	- While it is stated that the information source of data on strategic holding shares will be annual securities reports, there will be a huge time lag due to different fiscal years (assuming that information from March 2021 is used for companies whose fiscal year ends in March, and information from December 2021 used for companies whose fiscal year ends in December, the information will refer to very different periods). In addition, TSE has not made clear the specific method to be used for reflecting subsequent changes in strategic holding shares into free-float weight ratios.	

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46	- In addition to further promulgation of the purpose of 1.4.1 of the supplementary principles of Japan's Corporate Governance Code, we think there is room for consideration about, among other things, a calculation method for free-float weight ratio which could encourage the holders of strategic shareholdings to liquidate their shareholdings.	- Thank you very much for your valuable comments.
47	- It is suggested that free-float shares will be designated based on the "names" of stated shareholders using external data on shareholders. In this regard, we think it desirable to ensure the transparency of index governance such as by disclosing an outline of the rules for designation, including the differences from the current "Free Float Weight Calculation Methodology" rules.	- The calculation of free-float weight ratios will be conducted using data prepared by TOYO KEIZAI INC, based on annual securities reports, which are statutory disclosure documents disclosed by all the listed companies subject to calculation. - In addition, we will plan to publish the "Free Float Weight Calculation Methodology" based on this revision of the calculation method of free-float weight ratio.
Others		
48	- As TOPIX will be separated from market segments, TSE should improve index governance more than ever, including objectivity and transparency.	- TSE complies with the IOSCO Principles for Financial Benchmarks, sets forth and publishes various rules such as "Policies Concerning Calculation of TSE Indices", and makes index operations subject to external audit by a third-party organization. In doing so, we guarantee the credibility, fairness, and transparency of indices, and will continue with these efforts.
49	- The timing of rebalancing for different indices should not overlap where possible, in order to avoid market impact.	- We appreciate your valuable comment.
50	- As some investment products invest in "TSE 1st Section-listed stocks", the existing TOPIX should continue to be calculated.	- For the revisions of TOPIX, etc., during the transition period we will calculate an "Ex-TSE First Section Index" comprised of the TOPIX constituents as of April 1, 2022. Please consider use of this index.

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51	- We request that index related data provided by TSE should be based on the current specifications. In addition, TSE should provide sample data for pre-launch testing.	- For changes in TMI services, we will separately notify our users based on the decisions made as a result of the Index Consultation.
52	- Figures used as criteria such as "number of tradable shares" and "tradable share market capitalization" should be disclosed by TSE appropriately.	- We do not plan to disclose "number of tradable shares" nor "tradable share market capitalization". - Information on constituents of indices will be provided through TMI services.
53	- We would like for TSE to carry out promotional activities on an ongoing basis, including making opportunities to explain to investors about specific impacts of the rule revisions. We would especially like TSE to keep in mind overseas investors and enhance English explanatory materials, etc., so as not to hinder the inward flow of global investment capital.	- Thank you very much for your valuable comments.
(Consultation Reopened) Revisions to Tokyo Stock Exchange Mothers Index		
54	- We agree with the continuation of the TSE Mothers Index as we think it will make transitions of derivatives and funds that track the Mothers Index easier.	- We appreciate your valuable comment.
55	- In addition to determining issues subject to exclusion from the index based on market capitalization criteria, TSE should exclude, among others, (1) companies whose market capitalization has not increased for five years or more, (2) companies whose operating income does not exceed what it was in the year of listing, (3) companies whose total operating income for five years is negative, and (4) companies that have issued MSCBs or implemented a public offering of shares with a dilution of 15% or more. - We feel that it is not correct for the paying of dividends to be one of the selection criteria for the TSE Growth Market Core Index.	- The TSE Mothers Index is currently defined as "an index based on all the stocks listed on the Mothers market". As such, we proposed the constituent selection based on market capitalization so as to make the index widely cover the TSE Growth Market even after the market restructuring. - With respect to the TSE Growth Market Core Index, in consideration of your comment, we will make changes such as deletion of the dividend criteria for periodic reviews. Please refer to Reference 3 for details.
56	- An index consultation is scheduled to decide on the method of periodic reviews of TOPIX, but the periodic reviews of the TSE Mothers Index are set to be implemented from	- The Final Report by the Expert Study Group on Capital Markets in Japan of the Financial System Council made specific recommendations about the

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	<p>October 2022 and the method of these has been specifically stipulated.</p> <ul style="list-style-type: none">- It would have been preferable for reviews of TSE-calculated indices carried out due to the market restructure to be conducted en bloc and for periodic review methods for TOPIX and the TSE Mothers Index to have been discussed and considered together.- We think that it would be desirable, when finalizing changes in the periodic review method for TOPIX, to also revise the method for the TSE Mothers Index on an ongoing basis.	<p>direction of the TOPIX review.</p> <ul style="list-style-type: none">- Based on this, we have indicated a policy for the TOPIX transition that takes into consideration, among other things, impact on the markets and continuity of TOPIX as part of an index consultation, and will be implementing a separate index consultation to gather comments on the post-transition constituent selection rules for TOPIX, in consideration of the above report, etc.- Also, as TOPIX and the TSE Mothers Index are largely different in terms of, for example, features of target markets, number of index users, and volume of linked assets, we decided to consider the reviews on different schedules.- Going forward, if at the time of considering the post-transition TOPIX constituent selection method, etc. we determine that reviews of other TSE-calculated indices including the TSE Mothers Index are necessary, we will conduct a separate index consultation.
57	<ul style="list-style-type: none">- We agree with the selection method that fixes the number of constituents.- When fixing the number of constituents, it would be desirable that the number is chosen in consideration of the number of stocks in the index universe and the proportion of market cap covered, etc.	<ul style="list-style-type: none">- As you mentioned, we think that the relationship between the total number of stocks in the index universe and the number of constituents is important. If the number of stocks in the index universe falls below 300, the number of constituents will be the total number of stocks in the universe minus 50.
58	<ul style="list-style-type: none">- Constituent selections should not be based on listed market capitalization. We think that by using tradable share market capitalization, which will be used as an exclusion criterion for TOPIX, index operations would be standardized with those of TOPIX, further enhancing the consistency and transparency of TSE-calculated indices. Also, we think it desirable that not only market capitalization but also liquidity should be considered.	<ul style="list-style-type: none">- Since TOPIX and the TSE Mothers Index are largely different in terms of, for example, features of target markets, number of users, and volume of linked assets, we considered and proposed criteria and thresholds that are suitable to each index.- Going forward, if at the time of considering the post-transition TOPIX constituent selection method, etc. we determine that reviews of other TSE-

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		calculated indices including the TSE Mothers Index are necessary, we will conduct a separate index consultation.
59	<p>- With respect to the addition of stocks (excluding TOPIX constituents) that switch to the Growth Market from markets other than the Mothers market as a result of the market selection on April 4, 2022 and stocks (excluding TOPIX constituents) that newly list on the Growth Market or transfer to the Growth Market from other market segments after that date, the system is such that such stocks may be removed immediately by the periodic review, meaning that very short-term trading can occur. Therefore, it would be desirable to introduce a certain level of restrictions on interim inclusions, as is the case with size-based TOPIX indices.</p>	<p>- TOPIX (including size-based indices) and TSE Mothers Index are largely different in terms of, for example, features of target markets, number of users, and volume of linked assets.</p> <p>- As you mentioned, if we established criteria for non-periodic constituent inclusions, it can be assumed that levels of trading frequency and trading size would decrease for investment managers who track the indices. However, considering that the Growth Market is a market for emerging companies and that the volume of assets that track the TSE Mothers Index is limited, we think that we should reflect stock price changes after new listings to the index speedily and for as many stocks as possible.</p> <p>- With respect to TSE-calculated indices, we continuously check whether or not their rules are appropriate in light of their actual usage.</p>

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