

(Provisional Reference Translation)

Notes of Media Briefing by Mr. Atsushi Saito, President & CEO, Tokyo Stock Exchange Group, Inc. on February 28, 2012

1. Failure in the Equity Trading System
2. Revisions to Listing Rules Regarding Corporate Governance to Restore Confidence in the Securities Market

1. Failure in the Equity Trading System

I would like to first apologize to investors and other market users for the inconvenience caused by the failure in our equity trading system the other day.

The system failure, which caused a trading halt in some issues, was due to overconfidence in system reliability which led to a response lacking the hands-on approach that we should have taken in our responsibility as a market operator.

Our measures to prevent recurrence, which were released to the press on February 16, cover strengthening the monitoring structure during late night and early morning hours, check procedures during system failure, reviewing check items, and broadening the scope of events which are communicated or reported from the ground to the management. Through these measures, we will ensure that the management will also be aware of the detection of system failure which may have an impact on exchange business. We will also strive to establish a structure to swiftly and steadily respond and check our response to system failures.

The recent system failure occurred in the equity trading system. We will also conduct checks on the other systems which we operate and strengthen their corresponding structures in the same way.

We will continue to do our utmost to ensure stable and smooth market operations and hope to have your understanding and cooperation in our efforts.

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## 2. Revisions to Listing Rules Regarding Corporate Governance to Restore Confidence in the Securities Market

Let me now go over the measures TSE will be taking in response to the Olympus and Daio Paper incidents as compiled in the outline of our revisions.

The discussions on corporate governance of Japanese listed companies in the Legislative Council's Companies Act sub-committee resumed last week. I understand that the discussions have been heated and lively. These incidents had some effect on the public comments on the Ministry of Justice's interim proposal. We will continue to participate even more actively in the discussions and push more vigorously for the need for outside directors and that for tightening the requirements for outside directors.

However, the series of incidents have led to sudden extreme skepticism from both Japanese and overseas investors in the Japanese securities market. We are deeply concerned that waiting for the conclusions of the sub-committee and the laws which we then expect to be legislated may lead to disappointment among investors.

We believe that sending our message of swiftly restoring confidence to investors as a market operator bears extreme importance in this situation. After analyzing the details of facts uncovered by reports prepared by various committees established by the companies involved to reveal the truth, we found inadequacies in our listing rules which include the independent director/auditor (ID/A) system, as well as our awareness campaigns.

These revisions seek to take that first step toward restoring confidence in the Japanese securities market by quickly remedying the inadequacies in our ID/A system and our listing rules which were exposed by these two incidents.

We introduced the ID/A system in 2009. This rule requires listed companies to secure at least one outside director or outside auditor who satisfies the independence criteria as an ID/A. The revision will enhance disclosure regarding the independence of ID/As.

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Specifically, we will require listed companies to disclose information on ID/As who have conducted transactions with the company, those who come from another company which has a cross-directorship relationship, or those who receive donations and the like from the company. We will also request listed companies to provide such information in a manner that is easy for shareholders to use when exercising their voting rights at a general shareholders meeting.

We will also enhance the corresponding rules on outside directors who are not ID/As to bring attention to outside directors who are eligible to be ID/As and can readily become ID/As as long as they fulfill the criteria.

In the series of incidents, it was clear that there were some ID/As or outside directors who were not designated as ID/As, who have a relationship of cross-directorship or receive donations or some other relationship weighing on their independence which may have affected the decisions of shareholders. TSE will require listed companies to disclose this and provide them in a way that shareholders can use when exercising their voting rights.

Next, we will request listed companies to consider their ID/A composition.

Specifically, we will request them to strive to give sufficient consideration to the significance of including ID/As with voting rights in the board of directors when designating ID/As.

Both recent incidents involved ID/As who were only outside auditors. This means that, for example in the case at Olympus, the ID/A did not have the authority to participate in the motion on removing the representative director. In the case of Daio Paper, the ID/A did not have the authority to voice opposition to the structure of the corporate group which left the family business open to appropriation.

These facts clearly showed that there will be instances where the absence of someone like an outside director who has voting rights on the board of directors would result in an ID/A lacking the authority to function adequately even if he or she intended to do

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so.

As such, we would like listed companies to strive to thoroughly consider the meaning or rather the importance of including outside directors as ID/As when designating ID/As.

Learning from the recent incidents, we have also included requests to create a structure to facilitate the fulfillment of ID/A functions, and to appropriately build and operate internal control systems.

Besides the regulatory measures I just mentioned, we will also improve our campaigns to raise awareness. Specifically, we will publish a handbook targeting ID/As to clarify the role of ID/As and serve as a reference in executing ID/A duties.

The outline of these revisions will be open to public comment, and we will work to implement them in May 2012 after making the necessary revisions to the rules.

#### Q&A

Q: The system failure in arrowhead on February 2 led to 241 issues not being available for trading during the morning session. I understand that the reasons and measures to prevent recurrence have already been announced. Are there aspects which you could reflect upon in terms of organizational administration, corporate governance, or the awareness of management personnel, or aspects which have already been improved?

A: We have already begun working on the issues which we could immediately. Of course, there was a failure in a device, but the key point lay in the inadequacies of the structure for failure response. As I said earlier, the incident occurred at 1, 2, 3 a.m. in the morning when we were not fully-staffed. Operations during these hours are administered by employees of our subsidiary and some vendor SEs. We have laid down a structure to enable a swift response where a person who can make a

decision for the company on how to handle an emergency situation. We have already begun operating this structure.

Going into the specifics, previously, we had a rule which allowed system failures whose effect on business operations is not confirmed did not need to be communicated to the management. In future, cases which may affect business operations will need to be communicated. This will involve those responsible for operations and the management, and was probably a key point in the recent issue.

As you already understand, a device returns to normal about one and a half hours after a manual switching procedure. Of course, the vendor will take the device away to investigate the problem in the device itself. However, we must bear in mind that devices are not always working perfectly. We at TSE sufficiently recognize this as an issue for our business management.

This is why we have a double, even triple backup structure for our devices, but some failure meant that the devices did not function properly. The manufacturer investigates the cause and other aspects of the failure, but we could have taken manual procedures and coped with such a situation. As such, we decided to establish a structure for management, reporting and decision-making which enables a swift response.

This structure has almost been fully established. We will continue to conduct activities including training and drills, and will complete this phase by the end of March.

Q: One more question. Going into February, the Nikkei Average momentarily recovered to around 9600 points while the TSE 2nd Section index reached a new record for the first time in 37 years for days of consecutive gains. This seems to indicate that stock prices on a recovery trend. What does this mean? Do you think that this trend will continue?

A: It's hard to say, but I mentioned a few months ago that the relative position of the

Japanese economy and our finances are not poor. That is why the yen is gaining. After the Lehman Shock, the yen soared, and an exceptional amount of global liquidity is shying away from risk, and running toward places with stable returns. The world today is left with few such havens.

In such a situation, looking at the countries that are comparatively better-off, Japan's financial system, the bad debt situation, and its size, do not seem all that bad.

The situation is quiet serious in Europe. However, in the near-term, we see signs of a slight recovery even in Europe. Reports in the media seem to indicate a rather severe problem, but the Greek rescue package has been passed by the German Parliament. What is left is for the Greek bill to be passed. Anyhow, both have run it very close and temporary signs of improvement can be seen in Europe.

As you all understand, the stance of the BOJ sent out quite a strong message to the market. In this highly unusual trend of worldwide monetary easing, the central bank of Japan is unexpectedly firm on its balance sheet. The governor also mentioned CPI (consumer price index) 1% as a target. I think this was a very important message to the world. It also had an element of surprise. With this, the yen is falling and has returned to the 80-yen level against the dollar.

We are facing an oversupply of money on a global scale and no developed nation is spared from huge social welfare costs. Since no nation has a monopoly over exports, this resource of foreign currency reserves is diminishing. This is why it is now time for a global reshuffling. Even in this highly unstable global situation, Japan stands out as being relatively stable, probably even more stable than we Japanese think.

As such, Japanese securities have been extraordinarily cheap, and those that have been discarded at very low prices have all been snapped up, powering a sharp recovery. TOPIX and the Nikkei average have probably been the top performers worldwide since the start of the year. I think this is the situation we are in at this moment.

Those that should have been somewhat valued higher were not. I think this became even clearer with the BOJ's stance and now the situation has returned to normal.

Q: I have two questions.

Almost one month has passed since the system failure on February 2nd. In the end, we do not know the cause of the hardware failure or why switching failed. I do not think the reliability of the system has been recovered without knowing these. Why have we still not found these reasons?

My other question is related to the business combination with Osaka Securities Exchange (OSE). How will this incident affect the system side of things in the combination?

A: The reply to your first question is that rather than an issue on our side, this is a technical problem on the vendor side. As such, while we will not be announcing it publicly, well we know it was a problem with the device.

As for your second question, we both need to give this issue due consideration. However, we do not think that this will be any critical impact on the business combination.

Q: For the first question, are we waiting for an announcement from Fujitsu and not from TSE?

A: No. We do not know if there will be any announcement by them. We don't know even whether that should be announced. In any case, we already know that it was a technical problem.

Q: Some media reports say that OSE shareholders are asking, among other things, to revise the conditions of the business combination with TSE. Could you tell us if

there is any truth in such reports and what your views are on this?

A: I have read about this in the foreign media but, other than this, I have not heard about this directly.

My understanding of the matter is, to put it in English, "It's done". Both parties have reached an agreement, and, rather than us, it is an issue to be discussed between OSE and its shareholders. After such discussion, I believe the shareholders will understand.

In addition, nothing was amended in our agreement. We reached an agreement based on what we think is a fair valuation by our FA.

Q: How do you view the AIJ issue? I understand that you were a former colleague of an AIJ executive. Do you have anything to share on the issue?

A: I came across the news on AIJ in the papers totally all of sudden. Honestly, I was shocked that this happened.

I definitely know some of the names that have been appearing in the papers or magazines. We just happened to be in the same company more than 10 years ago. We have not been in contact, and I don't think I have anything to say in particular. Some reports say that there seems to be several issues that need to be resolved. However, I do not have enough information on these, and so I cannot make any comments.

Q: Some materials reveal investment managers leaving a figure amounting to 126 trillion yen in investments to their discretion. This is an extremely huge figure. While I don't think it might be appropriate to ask you, do you have any views on this?

A: Discretionary accounts exist worldwide so it would not be productive to talk about regulating the system itself.

The key is, similar to corporate governance, adequate explanation. What is the money entrusted in the discretionary accounts? For example, for pension fund capital, there will of course be governors or committees. Normally, how the money is being managed or what risk exists should be discussed, maybe not every month, but perhaps quarterly.

So if we talk about the pros and cons of the discretionary account system, then we will be talking about the Japanese asset management business itself that would be regulated. That would be counterproductive. I have experience in pension fund management. There was debate over the Ministry of Health, Labor and Welfare and the Financial Services Agency in a two-fold regulatory regime.

I may have said this before, in Sweden, the central bank manages pension fund assets. Since pensions are important to workers in their old age, they should be managed sincerely with a more national, easy to understand, and transparent approach.

We hear the term fiduciary duty a lot. In the US, former president Carter greatly improved the US pension system. He was the one to introduce the concept of fiduciary duty and it was under him that transparent pension management was legislated. This dramatically changed pension management in the US, increasing transparency and raising returns. With this, even though the pension funds such as those of school teachers and California's public employees fluctuated between plus and minus, ultimately all went well.

With this in mind, I think we should take this opportunity to have a professional discussion as a nation on aspects such as supervision and fund management, including those of the national pension. Also, I personally think that there should also be only one supervisory agency.

Q: Elpida filed for company reorganization proceedings yesterday. Could you tell us

your thoughts on this?

A: There were some rumors and if we look closer, creditors or banks had already withdrawn quite a bit of what is known to be reserve capital. Of course, Elpida had also tried its best, but coming to this, if the reorganization plan is approved, then I hope that they will quickly draw up a rehabilitation plan.

Reports in the media say that major creditors had accumulated substantial funds in reserve and shareholders had already pulled out to some extent. In that case, I hope that they will commit and proceed with the rehabilitation plan in earnest.

Q: You said earlier that the cause of the system failure has already been ascertained internally. What is the feeling about the response of Fujitsu, the vendor? Is it one of helplessness or rather that it was a fundamental mistake? Could you share your opinion on this incident?

A: It was largely a device-based problem and not something akin to, for example, a mistake in design. If we look at markets around the world, we know that devices are not perfect and we will continue to conduct maintenance together with Fujitsu. We will also be having their cooperation in good faith. We want to take quick measures so that this will not happen again. We have heard about their structure, and we have also explained what will be our structure. I believe that they will do their best, and we can only go forward together.