

Notes on Media Briefing by Atsushi Saito, President & CEO, Tokyo Stock Exchange Group, Inc. on July 27, 2012

1. 1st Quarter Financial Results for Fiscal Year ending March 2013
2. Revision to Cabinet Office Ordinance Concerning Calculation Method of Customer Margin for Margin Trading, etc.

1. 1st Quarter Financial Results for Fiscal Year ending March 2013

The following is a breakdown of the 1st quarter financial results of Tokyo Stock Exchange Group, Inc. (TSE Group) for the fiscal year ending March 2013. The figures are those compared with the same period of the previous fiscal year (the 1st quarter of the fiscal year ending March 2012) for consolidated financial results.

While stock trading value declined 10.4%, derivatives trading was comparatively active. Trading volumes of JGB futures and TOPIX futures were up 43.6% and 14.9%, respectively. As a result, trading participation fees were almost at the same level as the previous year. Income from securities settlement was up 6.1% due to an increase in derivatives clearing fees at a TSE Group's subsidiary, Japan Securities Clearing Corporation.

Listing fees were up 4.8%. This is attributable to an 89.5% increase in the amount of fundraising by listed companies and a large-scale REIT IPO of JPY 100 billion by Activia Properties Inc. of Tokyu Land Group on June 13, 2012.

Income from information services was down 4.9% due to a decrease in the number of real-time data distribution terminals which was caused by the economic slump. Overall operating revenue increased by 4.1% to JPY 13.5 billion.

Meanwhile, operating expenses fell 4.8% to JPY 10.2 billion. Depreciation costs were substantially down 26.5% to JPY 750 million. This is attributable to a significant decrease in depreciation costs from the same period of previous year when the old futures trading system was subject to advanced depreciation ahead of the migration of

futures trading to the Tdex+ System in November 2011. Personnel costs and real estate rental fees were down 5.4% and 7.4%, respectively.

As a result, operating profit was up 47.9% to JPY 3.2 billion while ordinary profit, after including dividend income from Singapore Exchange Ltd., was up 39.9% to JPY 3.6 billion. Net income for the quarter after taxes was up 46% to JPY 2.1 billion.

2. Revision to Cabinet Office Ordinance Concerning Calculation Method of Customer Margin for Margin Trading, etc.

I would also like to talk about the "Revision to Cabinet Office Ordinance Concerning Calculation Method of Customer Margin for Margin Trading, etc." The Japanese Financial Services Agency (the JFSA) began soliciting public comments on the revision on July 10, 2012. It is a long-standing hope for market-related parties including us and will have a large impact on the market.

When conducting margin trading, investors are required to submit at least 30% of trading value to securities companies as a deposit. The deposit is called "customer margin". Under the current system, securities companies keep such customer margin deposited by investors until the day when the cash or equity position is closed via offsetting trades. The settlement date comes three days after the execution date. This means investors have to deposit customer margin for at least three days until the settlement date even though they do not need to deposit such margin after conducting offsetting trades to close their positions.

The JFSA's revision under consideration is to allow investors to withdraw customer margin on the day of offsetting trades without restricting such margin until the settlement date.

If this revision is implemented, the period for customer margin to be withdrawn will be shortened by three days, and this will enhance fund efficiency and investor convenience. For example, when conducting margin transactions and offsetting trades several times on the same day, investors are, as a general rule, required to deposit customer margin for each margin transaction. However, they will be able to use the customer margin of each

margin transaction whose position was closed for that of a new margin transaction. As such, this will allow investors to conduct margin trading very efficiently.

Currently, margin trading accounts for at least 50% of transactions by individual investors. This revision is expected to increase trading volume, improve price formation functions, and expand execution opportunities in the market. This may be somewhat technical, but I wanted to talk about this topic as I think the draft revision is very important to revitalizing the stock market.

Q&A

Q: The business combination with OSE was approved by the Fair Trade Commission (FTC). First of all, what are your thoughts on the approval and what is your prospect for the success of the TOB?

A: As we announced earlier, the FTC gave approval the other day. We greatly appreciate that the FTC proactively and promptly examined and approved our business combination. The offering period of the TOB is until August 22, 2012. As we plan to announce the status of the TOB on the following day, August 23, 2012, I must decline to comment on the current status of the TOB.

Not only TSE but the press are interested in whether the TOB is successful. Of course, I believe it will be successful. Our purchase price is JPY 480,000. There is not a significant change in the TOPIX level at the time of deciding the purchase price and the current TOPIX level. Though it is not an accurate numerical figure, the market value at the time of deciding the purchase price was around JPY 400,000. We offered a price of JPY 480,000 with 20% premium.

OSE is listed on JASDAQ and the liquidity is significantly limited. Many of its shareholders seem to be institutional investors, but if they try to sell the stock, the price may fall significantly. We will buy a large amount of shares with a certain price at the TOB. As a JPY 480,000 stock belongs to a higher price range, I think many investors will be able to make a profit if they participate in the TOB. I hope and believe that the TOB will succeed.

Q: The other question is related to corporate governance. The Legislative Council of the Ministry of Justice presented a draft outline of revisions to the Companies Act, which will, among others, postpone obligating listed companies to appoint outside directors. What is your view?

A: Much speculation has appeared in media reports recently, but I heard the Council would finalize the draft outline on August 1, 2012. Some media agencies reported that the appointment of outside directors is not an obligation, but TSE has insisted consistently that such appointment should be an obligation. Some related parties were against it, and academics were also divided on the pros and cons.

Although this is a matter of formality, one of the reasons for our insistence is that OECD issued a comment in 2004 that it would be desirable to appoint outside independent directors as a means of governing the management in the board of directors. It has been eight years since then, and all OECD members except Japan have already responded to this comment in some form. Such responses differ, depending on each country. For example, some countries developed the appointment of outside directors as a market rule, enacted it as law or introduced it as a combination of market rules and laws. For example, countries other than OECD like China and Taiwan adopted outside directors under law.

Of course, this is not only a matter of a formality. However, as Japan is a main member of OECD, I don't understand why only Japanese companies are not willing to conform to such global trends as appointing outside directors.

There are various reasons for falling Japanese stock prices such as a decline in corporate earnings. The Japanese stock prices have fallen to about 60% while US stock prices have increased to 110%, compared with immediately before the Lehman Shock. Even in Shanghai, the stock price has decreased to 90%. As a main indicator, only the Japanese stock price remains down 30 to 40%. Against this background, investors see that Japanese listed companies are not very interested in capital management and returns, and therefore, they are not willing to invest in Japanese stocks.

In relation to this, we believe that management with high transparency reflecting opinions from third parties will benefit Japan, society, and companies. That is why we have insisted on the necessity of appointing outside directors for a long time. If the Council concludes that we should include the obligation for such appointment in our exchange rules, we would be happy to do so. However, even if the Council concludes it is unnecessary, we will not give up. Like we did in the past, we will take opportunities to reiterate our insistence.

In fact, as a result of having repeated our insistence, more than 50% of listed companies and particularly more than 60% of world-renowned companies and companies with many overseas investors have already appointed outsider directors.

The other day, a leading Japanese heavy electric machinery manufacturer and a chemical company appointed outside directors at the general shareholders meetings. Surprisingly, the heavy electric machinery manufacturer decided to increase the number of outside directors to surpass its in-company directors. I believe this is a model which stimulates other listed companies and may change the current trend.

TSE will continue to insist the appointment of outside directors for the benefit of shareholders, listed companies, and the Japanese economy.

In media reports, some suggest that TSE should require listed companies to appoint outside directors as a listing rule. However, this is no easy task. Many academics have discussed it, but they have not yet reached a conclusion. If TSE alone requires such appointments, there is a concern it will cause a backlash and confusion. I am not saying someone has expressed strong opposition, but we don't think just making such an obligation as TSE rule will be sufficiently effective. After all, exchanges are private companies under free competition.

In addition, exchanges in the UK do not obligate listed companies to appoint outside directors, either. A semi-governmental organization called the Financial Reporting Council and the British FSA made a comment that it would be desirable for listed companies to appoint outside directors. Although LSE has not made a specific comment, UK companies, at the time of or after listing, actually appoint outside directors and this is the same as most European countries.

The US is a special case. In fact, NYSE obligates listed companies to appoint outside directors. However, as the name of the country, the United States of America, suggests, states have the initiative and Companies Acts are prescribed in each state's laws, not Federal Law. In its long history, the NYSE rules have taken on some federal roles, backed by the SEC.

Therefore, it depends on the conclusion of the Council. However, if the Council concludes that it cannot get sufficient support from the administration or obligate companies under law, and TSE alone insists on obligating such appointment, it will fail to obtain the agreement of listed companies and other related parties, cause confusion, and raise a question for validity. As I mentioned earlier, about 55% of listed companies have appointed outside directors through our efforts. As we are almost there, we hope to gain further public support and continue promotion activities in cooperation with the administration.

Q: I would like to ask a couple of questions related to systems.

First, the latency of arrowhead was slightly reduced this month. Since the launch of arrowhead in 2010, how has its lower latency contributed to TSE's corporate earnings?

Secondly, not limited to arrowhead, what do you currently recognize as a system-related challenge?

Lastly, it may be difficult to answer before the business combination with OSE, but the latency of overseas systems has been significantly reduced to the microsecond-level. What is your goal and future outlook as Japan Exchange Group, Inc., in relation to further acceleration of systems in the Japanese market?

A: Thank you. The question is how arrowhead improves our corporate earnings. Depending on the day, the recent trading volume is less than JPY 1 trillion, but orders via the Co-Location Services exceed 40% of the total. Execution ratio is 30% to 40%.

After the launch of arrowhead, I visited many market related parties around the world with our staff members. This has prompted internationally-renowned hedge

funds which had not traded on the TSE market and those with excellent fund managers to participate in the TSE market directly. Without their participation, the trading volume at the TSE would be a little over JPY 600 billion.

This is not the only benefit of arrowhead, but in terms of increasing trading volume, the system launch surely has worked for us. If we continued to use old systems, we could not have reported the trading volume and financial results I mentioned earlier. Limited to the first quarter of this fiscal year, transaction fees derived from derivatives trading account for approximately 25% of trading participation fees for the first time. Of course, as we are not sure whether this trend will continue, I don't want to say something too positive. However, the ratio between cash equities and derivatives has for the first time become 75 to 25. As such, we can say that the profitability structure has changed slightly and we have adapted ourselves to the times. I know it is self-admiring and may invite criticism, but I appreciate your understanding.

There are some challenges. Basically, I don't think all exchange trading or market trading should be conducted via high-frequency trading (HFT) or algorithmic trading. Exchanges and capital markets bear social missions and social responsibility. If we make capital investment or venture investment using bank deposits with less risk, it would not lead to development of the country and society or employment creation. In order to break the current global or Japanese trend, there should be risk money providers. Otherwise, no businesses, plans or challenges will be created. In this sense, exchanges or capital markets assume quite a major role.

If anything, buy and hold investment provides risk money. What is most desirable is to increase the provision of funds via long-term investments to respond to capital increases or IPOs.

Hong Kong once demonstrated such a trend. However, it was not only promoted by Hong Kong itself but also supported by Mainland China. Japan also saw this trend in our youth. A lot of funds came from all over the world as Japan was expected to develop economically in the future. Although there were already some problems, such as those that are peculiar to Japan and are being discussed, stock prices went up with many transactions. It is time to nurture businesses with such risk money, but

the market environment has yet to be fully prepared for risk money provision with long-term investments.

However, in terms of providing liquidity, HFT has made a considerable contribution. We call it an inefficient market if you cannot sell stocks when you want to sell or buy when you want to buy, stock prices jump, prices go down with your sell orders, or stock prices go up with your buy orders. In terms of resolving or alleviating the issue, I think HFT fulfills its role sufficiently.

As such, the combination of HFT and long-term investments is important. We continue to respond to transactions in milliseconds executed via HFT or the Co-Location Services, but on the other hand, we should not forget that we focus on long-term investments.

We established the Marketing and Promotion Unit in April last year. The Unit is conducting "caravans", holding more than 70 seminars in 40 cities nationwide to show investors the attractiveness of Japanese stocks. This afternoon, they are visiting Shiga prefecture. In addition, TSE is working to increase the analyst coverage ratio from the viewpoint of enriching information distributed by listed companies. As TSE believes it to be very important, we included the issue in our Business Plan for FY2012. This may not be a system-related challenge, but I want to emphasize that TSE should not focus on latency only.

What would market users think about transactions in microseconds? In fact, some hedge funds in Singapore or London use systems operating at around 100 microseconds, 10 times faster than ours. As their systems operate faster, they always request our system to respond much faster. I don't think that latency is everything as it would be terrible if an accident occurred.

I know that nothing can be assured, but I believe we have to operate our system with certain assurance at our own technological level. If there is a big gap between TSE and other exchanges in system latency, we will have to take some measures, but we have already been internationally competitive in terms of latency. We still have such requests from market users, but we maintain the current latency while taking those requests in full consideration. When the business combination with OSE is

completed, derivatives would account for quite a large share of our transactions. At that time, we may need to further reduce latency and reconsider it.

Q: My question is on the issue of the insider trading at Nomura Holdings. Two top executives were forced to resign yesterday. I remember that you severely criticized Nomura at the previous press conference, but what do you think about their resignations?

A: My comment is the same as before. I think the entire situation is very regrettable for everyone and should not happen. It is regrettable for the securities industry, the Japanese capital market, and me. It has been ten years since I quit working at Nomura, but it is frustrating and disappointing for me to see my fellow workers involved in such incident.

However, the resignation of the two executives, the CEO and the COO, has a serious impact on the company, employees, shareholders, and other related parties. As such, I hope that successors and related parties will admit the faults of the past and move forward.

Q: I heard yesterday that several facts were newly discovered when the results of the additional investigation were publicized. It gives me an impression that the company still has deep-seated problems. How do you feel it?

A: As I'm not familiar with the content of such investigation, I will decline to comment. If the company still has problems, it should immediately make them clear, but some of them are not yet specified in laws. Perhaps, I think that concerned parties, particularly their successors, hope to clarify the problems as soon as possible, and they don't intend to hide them anymore.

Q: Again, I would like to ask a question related to capital increase through a public offering. Some hedge funds seek information from securities companies, which has raised questions. What is your view?

Second, the FSA announced it will inspect twelve securities companies at the same time with regard to relations with Japan Advisory Ltd. What do you expect to be clarified in the inspections?

A: I only know about the inspections through your media coverage and I'm not in a position to comment on individual inspections by financial authorities. With regard to your first question, if some hedge funds actually seek information from securities companies, I don't think it is tolerable. They know such acts are illegal.

However, such issue is difficult to prove. For example, if they only seek information, but do nothing, I'm not sure whether it is illegal. Based on common sense, it may not be illegal under past and current laws if they only seek information, but do nothing. I heard that insider trading restrictions will be reviewed, and I think the authorities will have to revise the restrictions from various perspectives.

I must decline to comment on the cases under investigation by the authorities and our self-regulatory corporation in light of my position.

Q: With respect to the insider trading issue, we found in the inspection report that some hedge funds did various things using non-public information. I believe the problem will not be resolved fundamentally unless securities companies change their business model. Is it necessary to impose more stringent measures? Is it related to a moral issue for individuals or is it an issue with the management of non-public information? What do you think is the solution?

A: I understand what you mean. For your reference, as a business practice on Wall Street, the press is not allowed to report sensitive information such as capital increases before the company has made an official announcement. Media coverage is allowed only after the company announces such information at a press conference.

On the other hand, the Japanese press often reports non-public information. I don't know why you can get such information before a company announces it, but generally, it is not allowed in the US. Information that concerned parties do not publicize is not recognized as authentic information.

However, the Japanese press often report information beforehand. If you put events in chronological order, you will find trading were sometimes conducted based on such information. I think this is also a problem.

When information is reported in an evening paper and the company makes an announcement on the following day, those who read the evening paper published at one o'clock would trade in the afternoon session on the day. It is not a concern for such people. The information has already become public to them, but it is not public information for the company because it has not been announced. Non-public information appears in the paper and investors trade based on such information, but as the information is not confirmed, they can say they just traded based on speculation.

For example, if you carefully read the Wall Street Journal, it says the information is based on speculation and has been unconfirmed. In addition, this kind of article is written under the name of a reporter. As such, the reporter takes responsibility for the article.

The Japanese press does not have such system. Therefore, it is quite difficult to decide who is to blame. I think insider trading is wrong, but it is very difficult to judge whether an act falls under insider trading.

Though it is a rare case, some companies announce capital increases, etc. during auction trading. TSE used to request listed companies make such announcements after auction trading had closed, but unlike the period when all the trading was closed at three o'clock, transactions are now conducted around the clock. Therefore, it is not necessarily fair to disclose such information after auction trading has closed.

In the past, listed companies used to make announcements after all stock trading was closed in Japan. However, the timing is difficult when indices and options are traded in Chicago while transactions are closed in Japan.

Of course, there are issues related to hedge funds or the management system of securities companies as you pointed out previously. Insider trading is not acceptable as a major principle, but at the same time, we should carefully identify what insider

trading is. Insider information is different from general information. If those who have stocks sell them as a hedge or conduct short selling based on public information on dilution, they are considered general transactions. Whether the amount of such trading increases or not, it is a general action or response to dilution as shareholders. Therefore, it is impossible from a global perspective to forbid such an act.

The issue is that we should prevent recurrence of insider trading, unfair trading using insider information earlier than other investors. If securities companies did it as part of business, it will be out of the question. I cannot completely answer your question about how insider trading can be prevented, but in short, I think it is a moral issue.

In Europe and the US, it is said if you earn a lot, you can get a higher bonus. However, if this system goes too far, insider trading will likely occur. As this issue is complicated, the only solution is for securities companies to sufficiently consider the issue in their management system. There are tens of thousands securities companies around the world, but as of now, only several companies were reported to do business using insider information. Other securities companies set firewalls to prevent insider trading appropriately. I think they should operate with a consciousness of the parties concerned.

Q: You will go on a business trip to Shanghai next week to participate in a seminar held by SSE (Shanghai Stock Exchange). Could you please tell us the purpose of the seminar, and do you have any ideas to strengthen cooperation between the Tokyo and Chinese markets?

A: With respect to relations with SSE, TSE listed a "Listed Index Fund China A Share (Panda) CSI300". At the time of listing, we discussed cross listings of each other's ETFs, such as the listing of an ETF tracking TOPIX on SSE. We started discussions three to four years ago, but the listing of the TOPIX ETF has been delayed due to various reasons on the Chinese side.

A new head of the CSRC in Beijing visited Tokyo this spring. When I requested that we should proceed with the listing of the TOPIX ETF on SSE, he said they would

consider it positively. I'm not sure whether that was a response to my request, but China started listing ETFs tracking Chinese indices on overseas markets and ETFs tracking Hong Kong Hang Seng Index on its market. I hope TOPIX ETFs will be listed on SSE as soon as possible. The main purpose of this trip is continuing such approach to China.

Of course, we exchange information with Beijing as well as Shanghai very closely. We will be very happy if our experience helps nurture the Chinese capital market. In light of relations between Japan and China, I think we should continue such activities. What we are discussing with Chinese authorities is to list TOPIX ETFs on SSE as soon as possible.