

Notes on Media Briefing by Atsushi Saito, President & CEO, Tokyo Stock Exchange Group, Inc. on November 20, 2012

1. Extraordinary General Meeting of Shareholders
2. Corporate Value Improvement Award

1. Extraordinary General Meeting of Shareholders

As all of you already know, we held an extraordinary general meeting of shareholders here at the TSE Hall from 10 a.m. today to seek approval on the merger agreement with OSE and other agenda items. Some of you may have watched the meeting on your monitors. A total of 97 shareholders exercised 2,093,740 voting rights, including voting rights exercised in writing or electromagnetic means. All agenda items were duly approved in their original form by a shareholder majority. At the OSE extraordinary general meeting of shareholders held in Osaka, shareholders also approved the merger. With today's meetings in Tokyo and Osaka we have overcome the final hurdle ahead of the launch of the new company, Japan Exchange Group, Inc. on January 1, 2013.

As I said last month, for us this merger isn't simply "one and one makes two" but three, four or even more. We aim to become a globally competitive market that is the world's preferred venue. In order to achieve this, we have to steadily proceed with the planned consolidation of market functions and integration of systems to quickly increase the convenience to market participants and generate merger synergies.

Today's meeting and the launch of the new Japan Exchange Group on January 1 are both important milestones. However, they are merely milestones, not our final destination. The real test lies ahead. We will prepare ourselves and dedicate our energies toward making this merger a success.

2. Corporate Value Improvement Award

Next, let me talk about the "Corporate Value Improvement Award," a new award that was established this year for listed companies.

Since the Lehman Shock in September 2008, the market has been sluggish with TOPIX at about 60% of its pre-Lehman levels while the trading value is about the half of its peak, partly due to factors such as regulatory tightening in the financial sector and the European debt crisis.

It is often said that the stock market is a mirror that reflects the state of an economy and is its barometer. While it is difficult for us to have a direct influence on the prices in the market, we are trying to stimulate the market from a mid- to long-term perspective by means such as promoting IPOs of growth companies or offering more opportunities for listed companies to disseminate corporate information, thereby raising their profile in the public.

The “Corporate Value Improvement Award” is part of these efforts. The purpose of this award is to spread the word on and encourage business management aimed at raising corporate values that incorporate capital costs and other aspects from investors' viewpoints. At the same time, we want this award to become a platform to showcase the attractiveness of Japanese companies.

Let me briefly explain the process of selecting the winner of the “Corporate Value Improvement Award.” First, we pick the top 100 or so of the approximately 2,300 TSE-listed companies based on quantitative criteria such as ROE level or the relationship between ROA and WACC (Weighted Average Cost of Capital). Then, we send a questionnaire to these 100 companies, and the selection committee examines their responses and selects the winner. The members of the selection committee are: Mr. Kunio Ito (Professor, Hitotsubashi University), Mr. Atsuto Sawakami (Chairman, Sawakami Asset Management Inc.), and Mr. Scott Callon (Chief Executive Officer and Partner, Ichigo Asset Management, Ltd.). On October 9, they selected 5 finalists for the award: Eisai Co., Ltd., UNITED ARROWS LTD., HOYA CORPORATION, Marubeni Corporation, and Mitsubishi Corporation.

The selection committee selects the winner based on the questionnaire responses and other information from a perspective that questions whether the level of capital cost is considered, whether the management targets such as ROE or ROA consider capital costs, whether there is a management system or compensation program in place for achieving the targets, whether the criteria for evaluating the performance of or making decisions

on new investments or withdrawal from existing investments incorporates capital costs, and whether the concept of capital cost or optimal capital structure is shared throughout the company.

Before deciding the winner next month, the selection committee members will interview the finalists' top management persons. They will also consider the opinions of investors submitted via our website before picking one out the five candidates.

It is widely known that WACC consists of debt financing cost and shareholders' equity cost. Since the cost of shareholders' equity is equal to the expected rate of return to investors, management that considers WACC directly translates into management from the perspective of investors.

Against the backdrop of an almost 20% decline in TOPIX in the last decade, the stock prices of half of the companies listed on TSE had risen. Among the gainers, we see a clear tendency of the higher the ROE, the greater the price gains. This may serve as evidence that investors regard capital efficiency as one of the most important factors, although I'm not saying that ROE is everything.

If more companies incorporate investors' perspectives in their management policies, their appeal toward investors will grow, and this will lead to the invigoration of the market. We have plans to hold an open symposium on how to enhance corporate value and, going forward, we will proactively conduct activities of this kind.

We are scheduled to announce the winner of the "Corporate Value Improvement Award" next month and I hope you look out for our announcement.

## Q&A

Q: Thank you. Let me ask 2 questions.

The first question is related to the dissolution of the Diet and the upcoming general election. During the slightly over 3 years under DPJ (Democratic Party of Japan) administration, they rolled out the New Growth Strategy of establishing Japan's status as a main financial market in Asia. The decision by TSE and OSE to merge seemed to be a sort of response to this government policy. However, the reality is

that the market remains sluggish. How do you evaluate the performance of the DPJ administration over the last 3 years, especially in terms of their policy? Also, could you give me your view on the dissolution and the general election?

A: 3 years is a short period of time. However, despite various efforts to counter the strength of the yen, or perhaps as a result of some policies, for the past few years, the level of the yen has clearly defied common sense. For example, the yen appreciated even in the wake of the Great East Japan Earthquake, or even during a series of incidents that occurred as Japan's relationship with China worsened. The yen continued to appreciate, seemingly indifferent to every single incident which, in theory, should have led to its depreciation. In my opinion, something is critically wrong with the valuation mechanism of the market. The DPJ government should have acted to change the situation. They could not sufficiently correct the situation and the yen rose to unnecessarily higher levels. I know some people still say that the yen is far from expensive even at 77 yen to the dollar. However, history tells us that, in recessions, nations normally race to weaken their currencies. Nations, mainly developed nations, chose to adopt monetary easing to an extraordinary extent to stimulate their economies. It is clear that this is nothing but currency depreciation, or a beggar-thy-neighbor approach, whether directly or indirectly. I think that they were found wanting in terms of actions toward a response or coordination on a global scale.

However, quantitative easing without concrete policies may cause short-term effects, but not bring long-term results. The market reacts to government inaction on the high corporate tax. The market will also evaluate its stance on issues such as TPP where there can be no one-sided view, once the government takes fundamental and concrete measures. It doesn't matter whether the effects of these measures can be seen immediately. The government has clearly expressed its intent to participate in TPP. However, if this had happened 2 years ago, the market would have been very different.

Let's look at the environmental issue or nuclear power plant issue. This is a really difficult problem. We cannot simply say we want to decommission all the nuclear power plants or to have more of them in the future. But the stable supply of electricity is an essential infrastructure for industries. Electric power is a fundamental cost of the industry. If we want to keep our global competitive edge in

spite of increasing power costs, there must be concrete measures or our industries will suffer.

Nowadays politicians and the media tend to take a sort of populist approach and are focusing on individual phenomenon and not on the big picture of the Japanese economy. They do not present the nation with a perspective or something akin to inter-industry relations tables which analyses the relationships among industries and shows how an action in one industry may affect another.

I remember that in my younger days the government explained public spending plans using inter-industry relations tables saying "this budget will have this or that effect," and the press duly reported these to the public. This perspective has totally disappeared. What is happening today is that the government takes a populist approach on a single phenomenon to garner voter approval. We have seen many cases of policies gaining extraordinary popularity, only for the government to later say that it is unable to do what was said, or face the adverse effects resulting from their implementation.

Therefore, in spite of their efforts, the DPJ government met with difficult circumstances and failed to form a clear policy and express it explicitly. They came to power just after the so-called Lehman Shock. However, even as stock markets elsewhere, barometers of their economies, have recovered to pre-Lehman levels, the Japanese stock market is still 40% short of its pre-Lehman levels. I think this tells us something about the performance of the DPJ government.

Q: Thank you. My second question is about the rule on deposits for margin trading. The plan is to ease the regulation in January next year. To what extent will this deregulation affect the market in your view? Will it, for example, lead to increased market liquidity?

A: I think that liquidity will increase as a result of the deregulation. Currently, individual investors account for about 20% of trading in the market. The ratio of margin trading in that is about 62%, and growing. Next January's deregulation will surely lead to higher turnover. I expect trading volume, or liquidity, to increase because investors no longer need to park their money for 3 days. We should

welcome this deregulation in terms of the soundness of the market.

Q: Concerning the comprehensive exchange, you said last time that you had your hands full with the business combination between TSE and OSE. Now that you will be making a fresh start after crossing the final hurdle today, could you offer some insight into the ideas you have about the future vision for the comprehensive exchange, such as bringing commodity exchanges or other stock exchanges like Sapporo, Nagoya, or Fukuoka under the group?

A: Again, I have to say that we have finally come to the starting point of the business combination with OSE. Going forward, we will have to deal with concrete, detailed, and important items. As for other items, we will try to understand the needs of the market, who the users are, and what they are saying.

You mentioned commodity exchanges. We are not directly involved and I want to refrain from commenting about other exchanges. All I will say is that location is an important factor for commodity markets. Why Chicago? Why are major commodity markets being formed one after another in China? The reason is because they are located where there are high concentrations of consumers or producers. The concentration of users in certain locations has led to the formation of venues for trading.

I don't think that the concept of a comprehensive exchange is necessarily inappropriate, especially when I think of the positioning of Japan in Asia. However, I have heard that commodities markets in Japan have been facing a lot of difficulties partly due to the harsh stance of consumer groups, which prevents solicitation to individual investors. In Korea, one of the world's leading commodities markets, most of the investors are individuals. Ordinary people can invest in commodities using very small amounts of money. There are many conditions for the success of a market and the necessary arrangements must be made.

If we were to be proactive, there are a lot of things that will need to be done. We will need to come up with a thorough strategy and discuss with those concerned to draw up common rules and improve the transparency of the market. We will then need to carefully develop and nurture unique products, and ease regulations to attract both

domestic and overseas investors to the market.

Q: Can I ask again about the merger officially approved today?

For several years, we have seen a trend of cross-border consolidation of exchanges all over the world. As the competition to attract high-speed trading and institutional investors intensifies between exchanges, how would you strengthen your IT system, taking high-speed trading into consideration? At the same time, I also want to hear your views on the worldwide concern over high-speed trading.

As for my second question, I want to ask what you think of the circumstances brought about by the increasing use of high-speed trading, where some of the small and mid-sized securities companies are forced to windup their business.

A: Regarding high-speed trading, the current situation is that there is a lot of research or papers, even discussions on its definition. I think it's still too early to clearly define high-speed trading and identify its pros and cons.

High-speed trading accounts for more than 60% of trading in the U.S. and Europe. This ratio is about 40% in TSE, mainly centered on trading conducted via our co-location service.

The research paper released in Australia the other day says that high-speed trading has, in fact, a positive effect on the market. In terms of market liquidity, it is clear that high-speed trading contributes to liquidity.

However, I think that further discussions should be made about how the pricing mechanism functions. The mechanism is hardly visible to third parties because it is processed in high speed. The result of the pricing process is visible from an exchange after a trade is executed. We may need to make this visible in a certain way.

Is high-speed trading is an inappropriate technique in itself or is it a double-edged sword which will work to our benefit with proper regulation, in other words, the ultimate question is how to use it properly? Most of the incidents that occurred in the U.S. would fall under the latter. The share of trading at NYSE is only 20%.

Although NYSE is also able to accommodate high-speed trading, the reality is that 50 to 60 NYSE-listed stocks are traded in alternative trading venues under rules that are different from those of NYSE. This is distorting trading and causing problems.

In the case of Japan, we have a rule where the trading of a certain stock will be automatically halted if its price fluctuates beyond a certain range. This rule used to be very unpopular. This rule also applies to high-speed trading. Therefore, it would be theoretically impossible for stocks prices to nosedive in a fraction of a moment like what happened in the Flash Crash.

For opening prices, exchanges in Japan employ the “Itayose” method that is similar to a call auction, and is totally different from those used in the U.S. In my opinion, the market can reach high levels of liquidity by incorporating such technology in combination with the appropriate rules, and in theory a market with high liquidity can provide nearly fair pricing. I'm not insisting that there are no problems at all with our rules, but I want to positively evaluate this aspect of the Japanese market.

Going on to your question on small or medium-sized securities companies, there are various initiatives in the U.S., including one by NYSE where they established a special program targeting retail investors. However as far as I know, the program hasn't garnered the trading volume they expected. They seem to be struggling in the U.S. I think we need to continue discussing whether we should bring back a trading environment that allows small or medium-sized securities companies to better respond to the best bids and offers. I'm always thinking about this problem of small or medium-sized securities companies, but I don't have any solutions in my mind right now.

Q: What options do you have for the major issues to be addressed in the Medium-Term Management Plan, which will be drawn up next year, especially in terms of the intensifying global competition between exchanges?

A: To be honest, it is rather difficult. People often say that, going forward, more foreign companies will get listed on TSE now that we have launched a certain market. Of course, I look forward to that prospect. However, as some of you have reported, Japanese individual investors are trading foreign stocks actively while shying away

from Japanese stocks. I have read some articles saying that about 30% of securities companies' brokerage commission now comes from trading of foreign stocks.

We are now right in the middle of an IT revolution. Our world has become flat, and there are actually far more people than you would expect who trade stocks at 2 or 3 o'clock in the morning. A look at the structure of securities companies reveals that there are actually many such investors. This is a global phenomenon today. So, I think we have to ask ourselves if it makes any sense to bring a foreign stock all the way to Japan. If yes, then we will have to consider specific methods that produce merits, for example in terms of foreign exchange rates.

Rather than this issue, what interests me most is how to encourage small and medium-sized companies to come to market. We are making a lot of efforts to encourage IPOs by these companies. While we are looking at Japanese and foreign companies, my guess is that the majority of them will end up being Japanese companies. I am expecting about 50 Japanese companies to get listed in total this year. The stock price performance of such newly listed companies on Mothers or JASDAQ has been rather good. Unfortunately, institutional investors do not include the stocks of growth companies into their portfolios and I hope they will reconsider their policies. Going on to liquidity, it is similar to the chicken-and-egg problem and one we will have to carefully to nurture.

Stock prices are the barometer of the economy and show us signs of its health. In Japan, stock prices have fallen by 75% in 2 decades. 20 years ago, this nation scored around 80 points, but now the score is only 20. It's clear sign, but instead we are seeing an astonishing lack of action. There are no changes to the tax regime and there are no special economic zones. In the U.S., it took them only 1 year to respond to the recession with the enactment of the JOBS Act, which relaxes SOX obligations for growth companies.

When the unemployment rate is high, any country would try to nurture small and medium-sized companies. Big enterprises do not absorb the workforce. Big enterprises tend to cut their workforce or personnel in order to maintain profitability. We cannot criticize them for that. The recovery of an economy can only be achieved by generating new industries and new companies which absorb the unemployed into the workforce.

In China, they are establishing special economic zones in various provinces. The companies which set up shop in these special economic zones automatically are eligible for listing on the market called the "Xin Sanban" or "New Third Board" without having to meet any other conditions. This is another example of a national initiative to generate new companies to absorb new workers.

In Great Britain, they have AIM (Alternative Investment Market). Although we are trying to develop a similar market in Japan, it hasn't really taken off.

As I mentioned before, the U.S. enacted the JOBS Act in a very short period of time. Although there are some issues with the JOBS Act and the details of its enforcement and rules are yet to be written, one of the main purposes of the JOBS Act is to make it dramatically easier for companies to raise money by using Internet platforms like "crowdfunding" or "crowd financing" even without the necessity of support from securities companies, something that is only possible in the IT era. The U.S. is employing a national strategy of simplifying the process and trying to bring new industries and new enterprises to the market.

As for our market, once the business combination with OSE is completed, one of our biggest missions will be to nurture growth companies. Our fundamental mission as an exchange is to provide risk money. In the course of doing this we open our doors to companies from all over the world. We welcome Chinese companies. We also welcome Korean companies. In fact, 2 Korean companies were listed on the TSE markets last year, and there is a huge TOKYO PRO-BOND program registered by SK Telecom, another Korean company. Many Korean companies are coming to raise money in Japan, and we hope to welcome more foreign companies to our market.

Q: To conclude, let me ask one more question. You mentioned before that the merger will bring about cost reductions of JPY 7 billion. Where will this JPY 7 billion be allocated to? What are your options?

A: This is not a question of allocating 7 billion yen of cash. This figure was obtained through calculations which estimate of the sum of money which we will save from

streamlining and getting rid of costs and expenses doubly borne by TSE and OSE through the integration of our systems. We will achieve this amount or even more, although it may take some time. Next comes the question of where we should spend this money. We are not going to use it all at once. For example, the "+YOU" project, currently in process, involves holding seminars, even overseas. We have held them in about 70 venues across Japan. All of these come at a cost. This project does not directly contribute to revenue, but we are doing this as part of the mission of an exchange.

As I've said again and again today, we cannot afford to remain idle as our barometer continues to show signs of declining. Today, people only look at results, thinking of methods to boost stock prices or speculating on whether our merger will lift the market. Instead of this, we should seek to act with concrete policies. As such, we have been proceeding with these small projects at TSE on our own. These come at a cost. Sometimes staff members need to go China or other countries. This is what we want to do. We want to succeed in attracting more participants to the Japanese market through means such as the remote membership scheme with Hong Kong. My wish is that the authorities and policymakers in Japan understand and support our initiatives.

Thank you very much.