



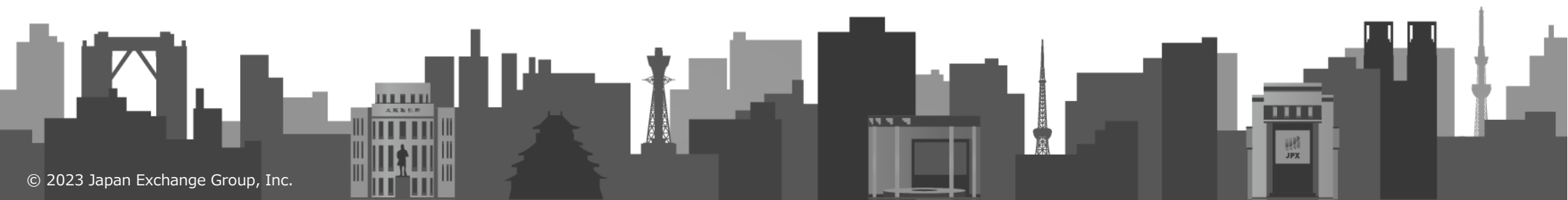
# JPX's Initiatives to Revitalize Japanese Market

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## Exchange & beyond

Japan Exchange Group, Inc.  
Hiromi Yamaji, Group CEO

October 5, 2023

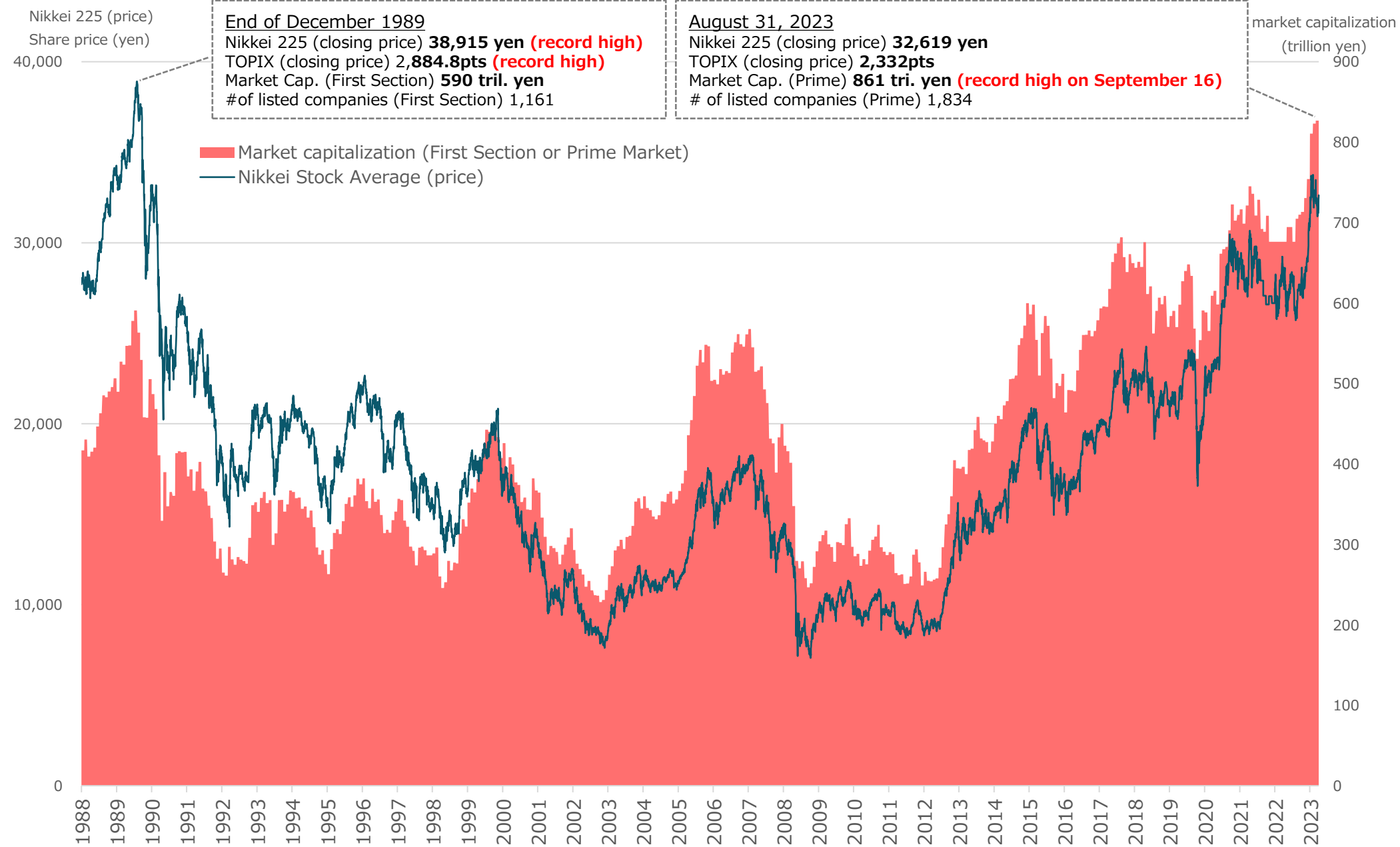


# Recent Market Condition

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# Nikkei 225 and Market Capitalization



(Data period: 6/1/1988 - 7/31/2023 Market capitalization (right axis) as of the end of each month  
 \*\* Market capitalization on the First Section of the Tokyo Stock Exchange before March 2022, and market capitalization on the Prime Market after April 2022.

# Incentivizing Growth of Listed Companies

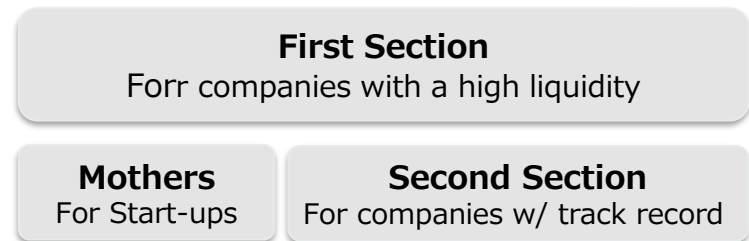
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# Market Restructuring

- Tokyo Stock Exchange (TSE) reorganized the market classification on April 4, 2022 with the aim of providing an attractive cash market that supports sustainable growth of listed companies and enhancement of corporate value over the medium to long term and is highly supported by diverse investors in Japan and overseas.

## Previously...



## <Issues pointed out>

- ❑ The concept of each market segment is unclear.
- ❑ Lack of motivation to increase corporate value
- ❑ No index has functionality as an investment target

April 4, 2022  
Transition

## Now...



## <Basic Concept

- ❑ Establishing criteria in alignment with each market concept
- ❑ Listing criteria and listing maintenance criteria at the same level

(Note: # of listed companies as of Sep. 27, 2023).

# Follow-up on Market Restructuring

- Establishment of the "**Council of Experts Concerning the Follow-up of Market Restructuring**," an expert panel to enhance the effectiveness of the market restructuring.
- In January 2023, TSE released a summary of the issues and TSE's future response to them.
- One to clarify when the grace period will end and **encourage all listed companies** not subject to the transitional measures **to take steps to improve their corporate value**.

## Issues identified at Follow-up Council

- From the viewpoint healthy dynamics of the market, the **end of the grace period**, should be **clarified immediately**.

- **A framework** should be **created to motivate voluntary efforts to improve corporate value over the med-to-long-term**, including the promotion of management that is conscious of the cost of capital.

## TSE Response

- Grace period will **end 3 years after transition (March 2025)**
- Prime companies can re-selection Standard Market.  
*\*More than 150 companies (as of Sep. 22)*

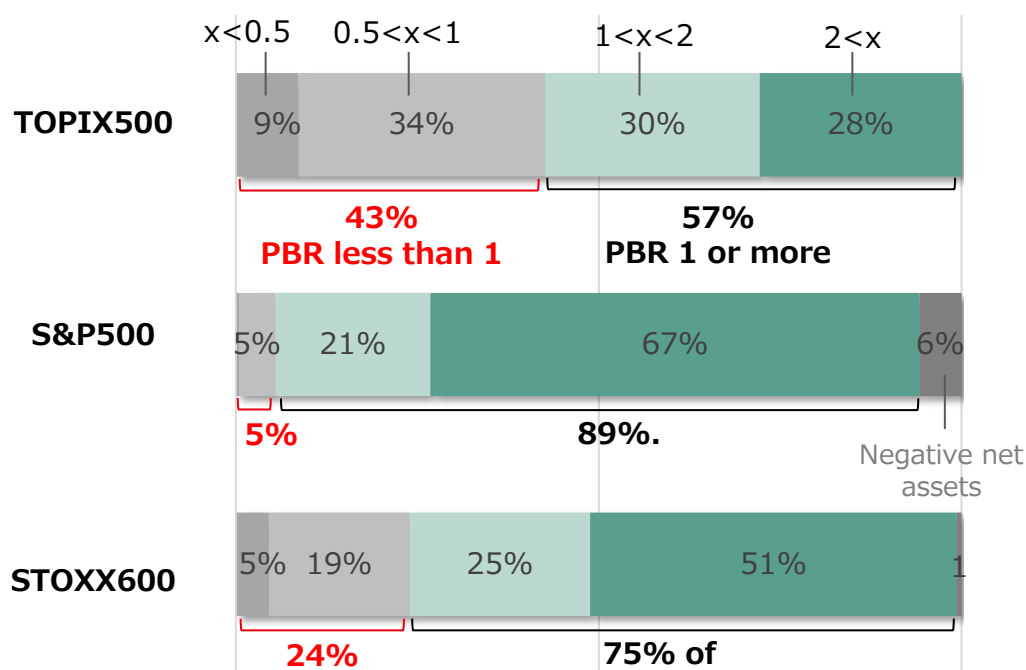
- Motivate efforts to improve corporate value over the medium to long term
  - (i) **Riase literacy on cost of capital and stock prices**
  - (ii) **Improve quality of corporate governance**
  - (iii) **Expand English disclosure**
  - (iv) **Improve effectiveness of dialogue with investors**

(Note) In order to increase the transparency of discussions, meeting materials and minutes are published on the website without delay after the meeting is held.

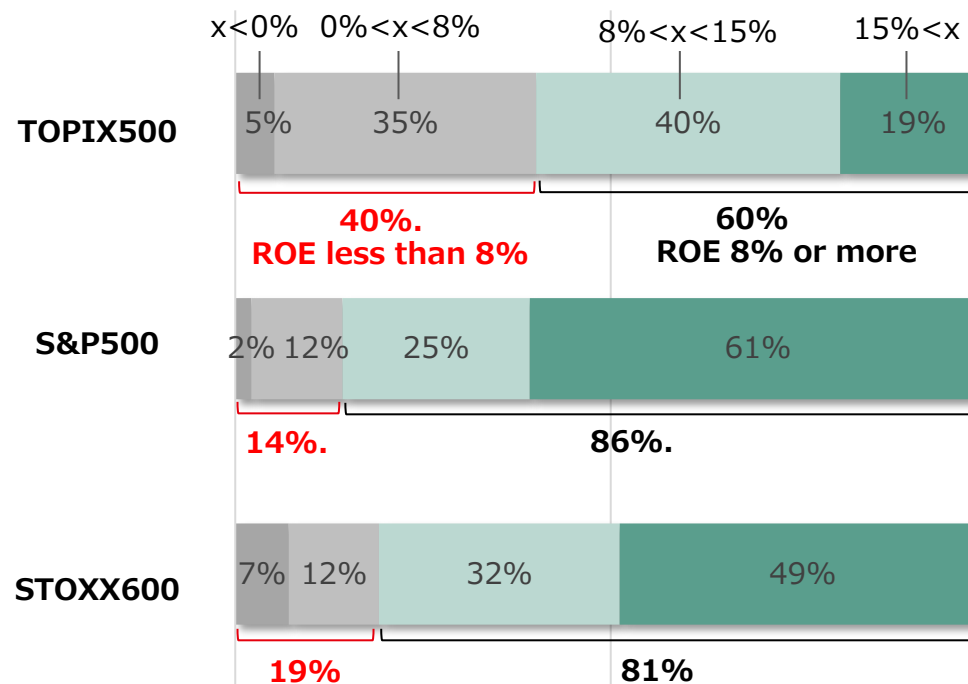
# Global Comparison of PBR and ROE

- About 40% of Japan's major companies (TOPIX 500 constituents) (about 50% of Prime and 60% of Standard) are trading below book and have ROE < 8%, indicating issues in terms of return on capital and growth potential.
- In light of this current situation, the follow-up meeting noted the need for a change in management awareness of the cost of capital and stock price in order to realize future increases in the corporate value of each company.

## Global Comparison of PBR



## Global Comparison of ROE



(Note) Data from Bloomberg analyzed by TSE, as of July 1, 2022.

# Request for Management Conscious of Cost of Capital and Stock Prices

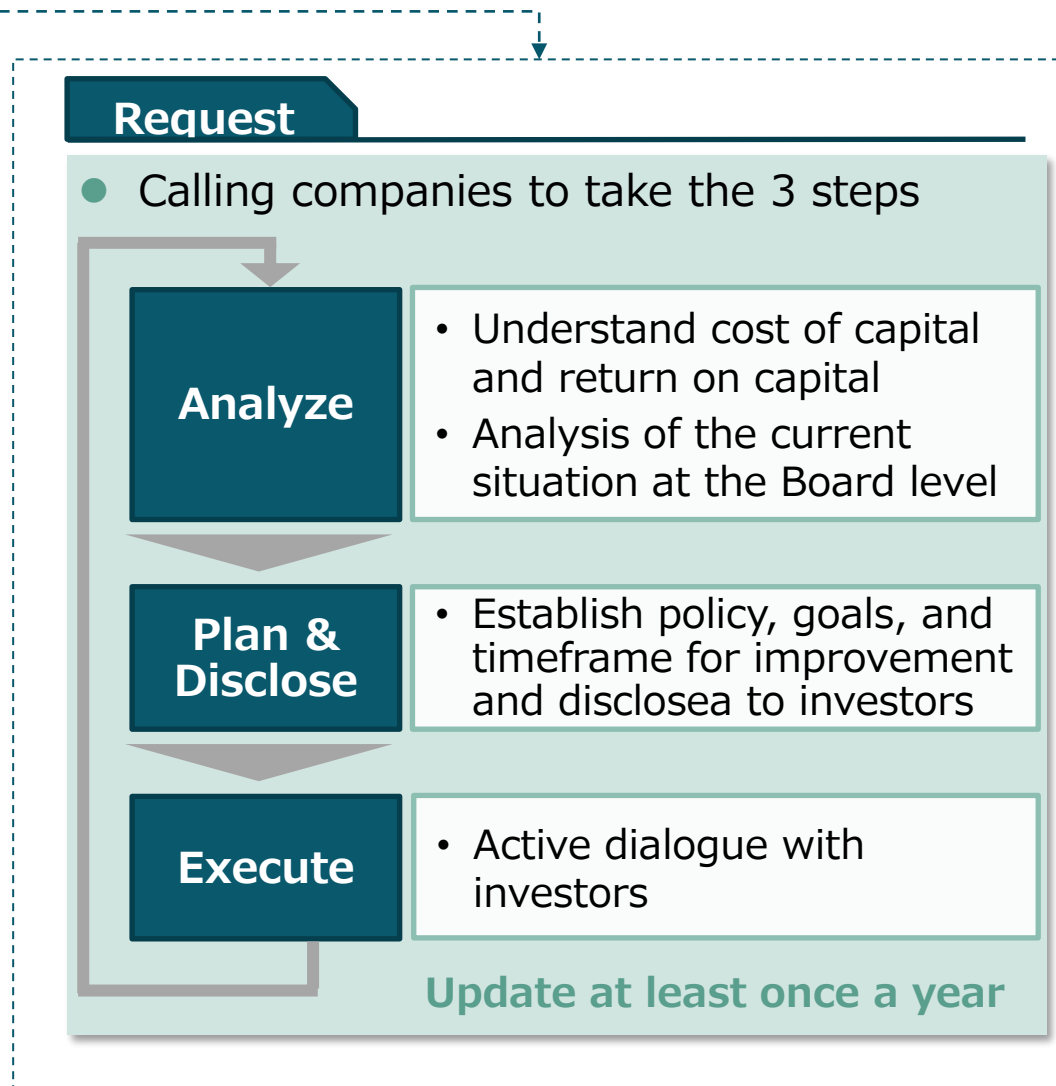
- On March 31, 2023 TSE made three requests to listed companies based on the issues identified by the "Council of Experts Concerning the Follow-up of Market Restructuring."
- TSE published the requests, expecting institutional investors, who will lead the conversation with listed companies, to engage in constructive dialogue using the requests

## Three Requests from TSE (March 2023)

**Implementing management that is conscious of cost of capital and stock price (Prime and Standard listed companies)**

**Improvements in dialogue with shareholders and disclosure regarding this (Prime listed companies)**

**Appropriate use of the "explain" of "comply or explain" to contribute to constructive dialogue – key points and examples (Listed Companies)**





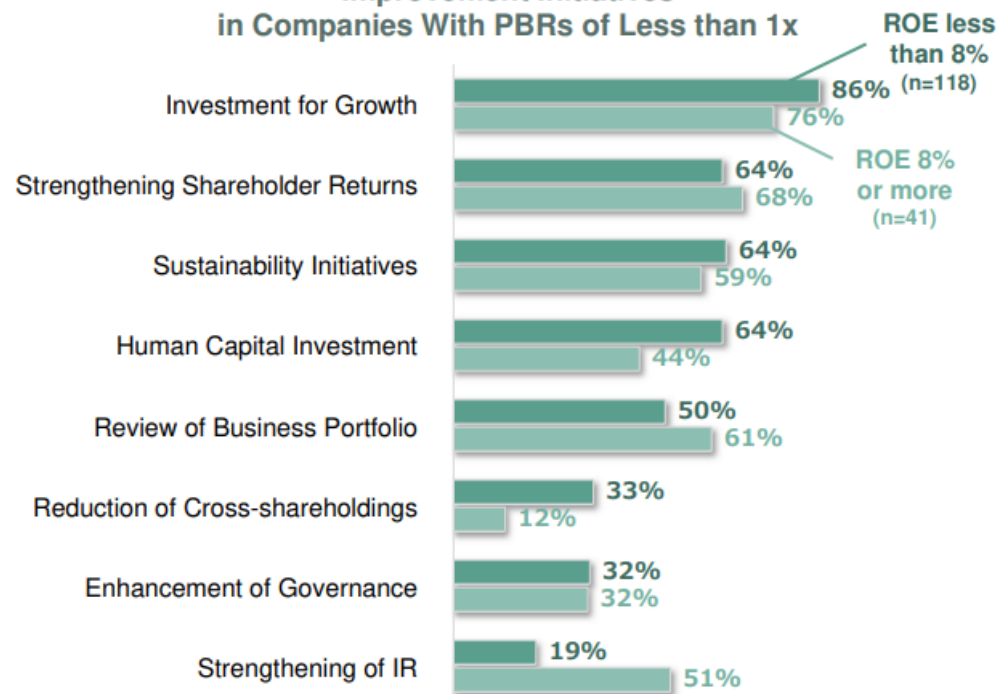
# Status of Response

- No specific deadline for the timing disclosure, as sufficient analysis of the current situation is required to formulate and disclose a plan, however, **31% (379 companies) of Prime companies have already disclosed their plans** (for companies whose fiscal year ends on March 31).
- **Companies with lower PBR and larger market capitalizations are more likely to disclose their information.**
- **Many mentioned investment for growth to improve return on capital and market valuation (almost no companies are simply committed to shareholder return alone)**

## Disclosure by PBR & Market Cap. (Prime Market)

	PBR	
	Less than 1	1 or more
<b>Market Cap. JPY 100 billion or more</b>	<b>45% disclosed</b> Disclosed initiatives: 31% Disclosure status as "under consideration": 14% (n=240)	<b>26%</b> Disclosed initiatives: 21% Disclosure status as "under consideration": 5% (n=301)
<b>JPY 25 billion – 100 billion</b>	<b>39%</b> Disclosed initiatives: 22% Disclosure status as "under consideration": 17% (n=319)	<b>15%</b> Disclosed initiatives: 9% Disclosure status as "under consideration": 6% (n=165)
<b>Less than JPY 100 billion</b>	<b>25%</b> Disclosed initiatives: 12.5% Disclosure status as "under consideration": 12.5% (n=136)	<b>15%</b> Disclosed initiatives: 8% Disclosure status as "under consideration": 7% (n=74)

## Improvement Initiatives in Companies With PBRs of Less than 1x



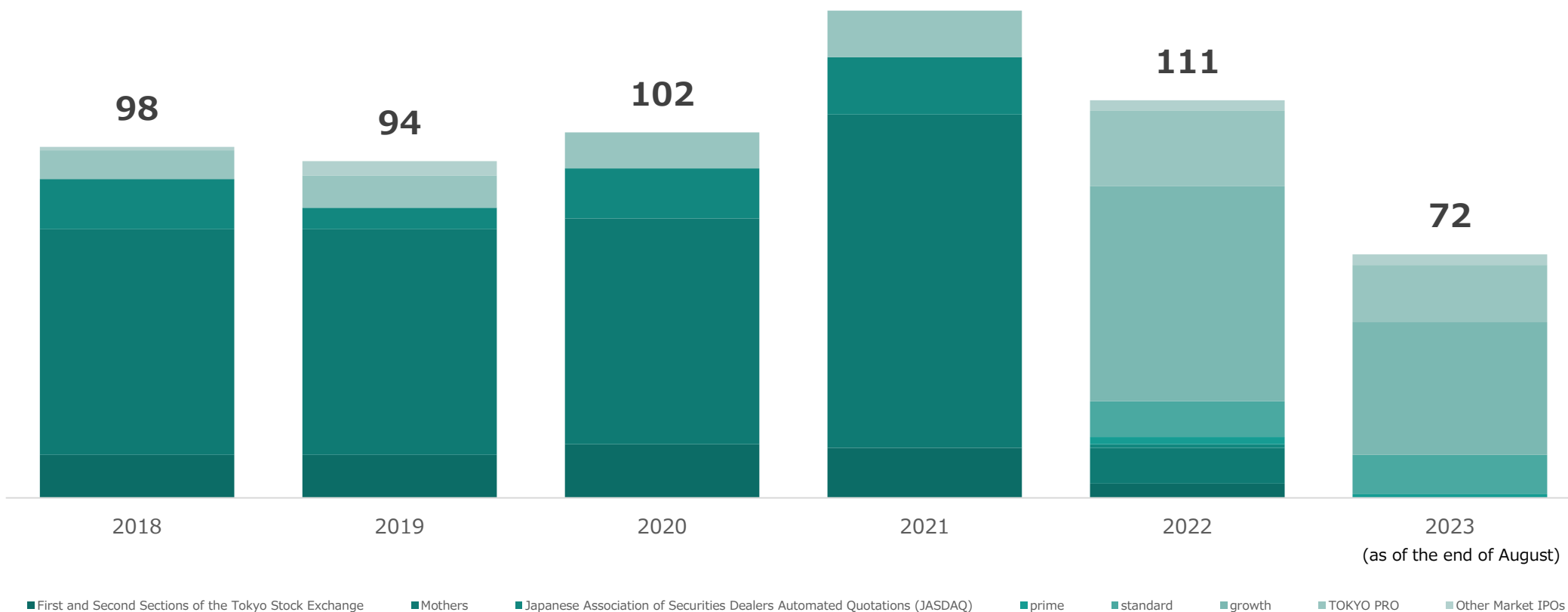
Note: Based on corporate governance reports and other information as of July 14, 2023, for companies in the prime market with fiscal years ending in March.

Note: Compiled for prime market companies whose fiscal year ends in March and who have disclosed their initiatives as of July 14, 2023.

# Encouraging Growth of Start-up

- **Approximately 100 IPOs every year.**
- With the strong support of Japanese Government's Start-up Strategy, TSE provides **variety of guidelines for various types of companies' IPO.**
- **Supporting the growth of startups in the region and the development of management personnel aiming for an IPO, in cooperation with local governments, regional financial institutions, universities, etc.**

# of IPOs (2018 – 2023)



Note: Includes new listings on TOKYO PRO Market and excludes listings via TOKYO PRO Market

# New NISA

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- Calculation of JPX Prime 150 Index, a new index focused on value creation, from July 3, 2023.
- JPX Prime 150 Futures will be listed on Osaka Exchange on March 18<sup>th</sup>, 2024
- Visualize the value-creating companies representing Japan, and aim to penetrate value-creating management and improve the attractiveness of the Japanese stock market by making the index and its constituent stocks eligible for medium-to long-term investment by domestic and overseas institutional investors and individual investors.

## Basic concept

Index consisting of representative companies in our country whose value creation is estimated

## Selection Methodology

## By market capitalization Screening

- Targeting the top 500 companies by market capitalization among all stocks in the TSE Prime Market as of the date for periodic selection
  - ※Excluding stocks that do not meet the continued listing criteria and stocks designated as Securities to Be Delisted

## ✓ Selection of value-creating companies from the 2 indicators of equity spread and PBR

## Criteria(1) Estimated Equity Spread

- Select the companies whose value creation are estimated in terms of financial performance
  - Select the top 75 stocks with estimated equity spreads (= ROE - cost of equity capital)

## Criteria(2) PBR

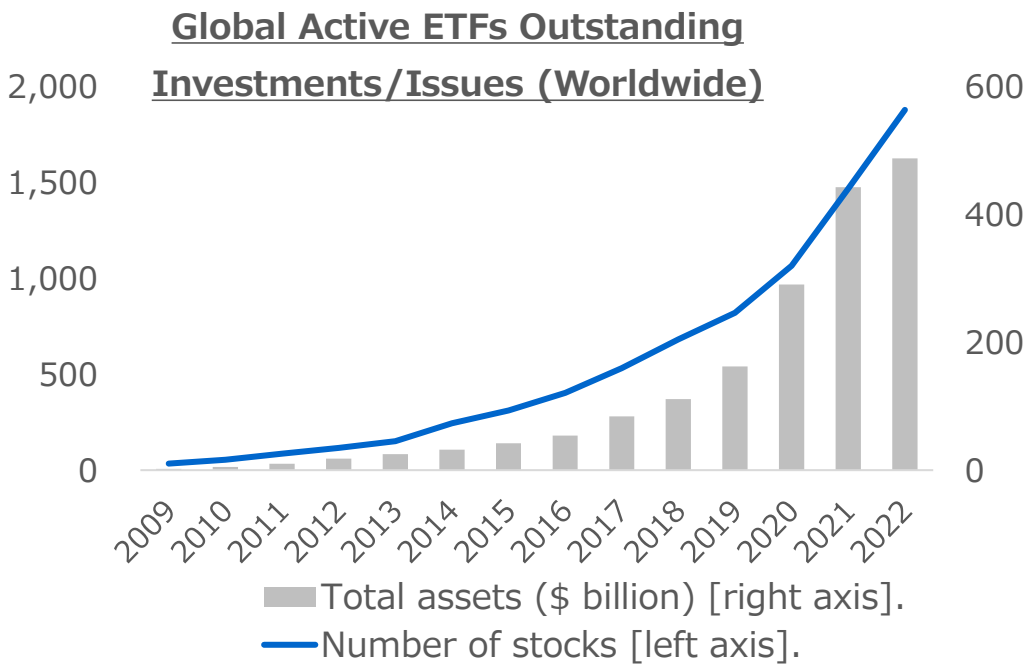
- Select the companies whose value creation are estimated based on market evaluation
  - Except for stocks selected according to criteria (1), among stocks with PBR exceeding 1x, the top 75 stocks by market capitalization are selected.

# Listing of Active ETFs

- **ETFs** are "**Exchange Traded Funds**" traded on exchanges. ETFs are highly valued for their **low holding costs and the convenience of real-time trading, and their use has been expanding worldwide, with the balance of ETFs growing to about \$10 trillion. In recent years, the market for active ETFs, which do not have a specific index to be linked to, has been expanding.**
- TSE introduced a new listing rule for active ETFs in June and on September 7, 2012, 6 new products including ETFs focusing on PBR, ROE, and dividend yield were listed on the market.
- Active ETFs allow for flexible product composition and management by asset managers.

## (Ref.) Global Expansion of Active ETFs

- Steady growth in total assets and number of active ETFs globally
- Improvement of listing system will **also** contribute to **maintaining and improving international competitiveness**



## Features of Active ETFs



	TSE Index-linked ETF	TSE Active ETF	(Ref.) Active investment trust
Listing on Exchanges	Listed		unlisted
transaction price	<b>Market price (real time)</b>		Reference Price
Operation Target	index-linked	<b>Growth of Trust Assets</b>	
flexibility	Low	<b>High</b>	
Cost of Ownership	Low	Mid	High
Disclosure of holdings	daily	<b>daily</b>	Every fiscal year

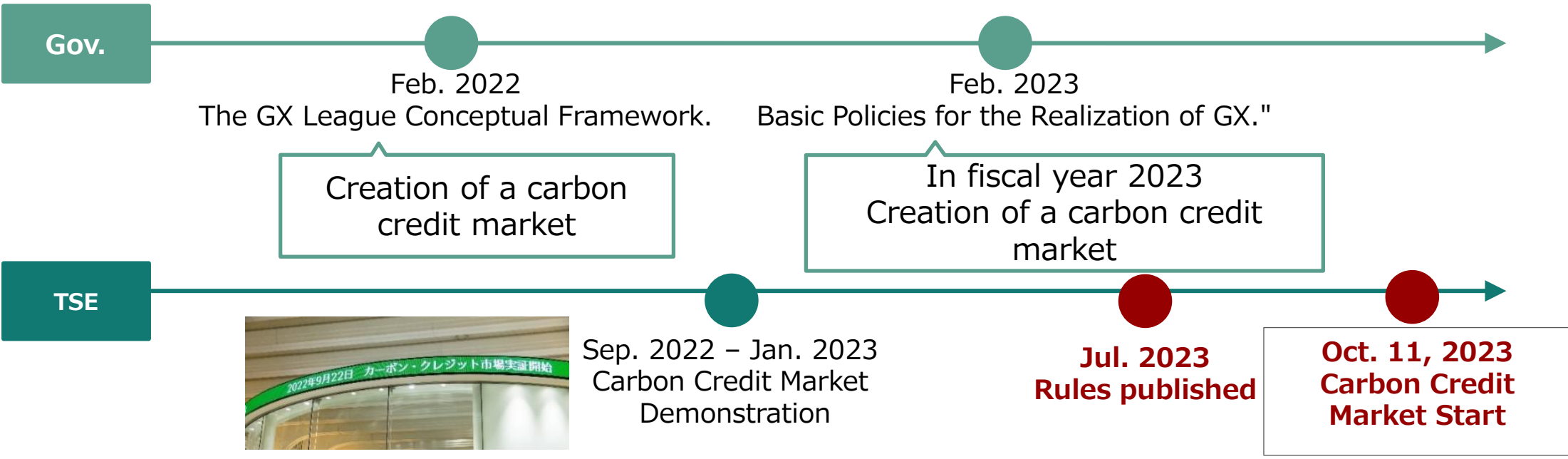
# Sustainability Initiatives

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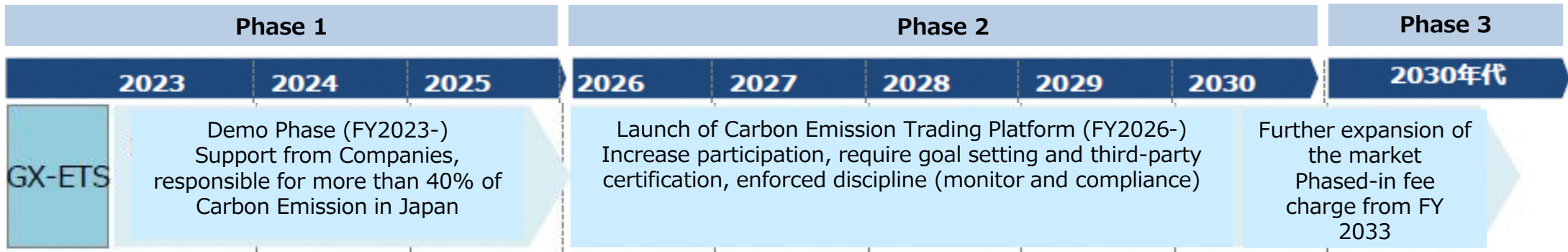


# Establishment of a Carbon Credit Market

- TSE plans to open a carbon credit market on **October 11, 2023** (initially J-credit trading), contributing to realization of carbon neutrality in Japan as an exchange, while taking into account the results of the market demonstration in FY2022.



## <Basic Policy for the Realization of GX - Overall Roadmap for the Next 10 Years>



Source: Prepared by JPX based on the "Basic Policy for Realizing GX," a cabinet decision on February 10, 2023.

## Non-financial information disclosure

- Revised Corporate Governance Code (June 2021) **Disclosure of Sustainability Initiatives**
  - ✓ **Disclosure based on TCFD, etc. for Prime listed companies**
  - ✓ **Disclosure on investments in human capital and intellectual property, etc.**
- **JPX ESG Knowledge Hub**, a collection of useful information for ESG information disclosure, launched.
- **Published "ESG Information Disclosure Practice Handbook"** which introduces key points to consider for ESG disclosure and examples of disclosure.

## Ensuring Diversity

- Corporate Governance Code revised (June 2021) **Diversity of core corporate personnel** (women, foreigners, mid-career hires), **diversity of board of directors** (gender, internationality, professional experience, age)
- **Realization of a Virtuous Circle of Women's Activity and Economic Growth** Leading to the Women's Version of the Framework Policy 2023
- Revision of the listing rule (October 2023). The following provisions are incorporated into the "Desired Matters" of the "Code of Business Conduct".
  - ✓ Strive to appoint **at least one** female board member **by 2025**.
  - ✓ Aim to increase the ratio of female executives to at least **30% by 2030**.
  - ✓ Recommendation to **develop an action plan** to achieve the above goals

## Carbon Neutrality

- **Convert 100% of the JPX's electricity consumption to renewable energy by the end of FY2024**
- Aiming for **carbon neutrality in securities market operations (value chain)** by 2030



# Reference

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# Overall Schedule for Implementation of the Trading Rules (Cash Equity Trading System Upgrade)

- Respond to changes in the market environment, diversifying investor needs, to further enhance resilience, market convenience, and international competitiveness, we plan to extend trading hours and introduce a closing auction when we upgrade the cash equity trading system
- ✘ Based on discussions at the Council for Recurrence Prevention Measures in Response to System Failure and the Working Group for Strengthening the Functions of the Cash Equity Market, the response measures was announced in Oct. 2021 in the “Action Program for Strengthening the Functions of the Cash Equity Market”
- **Implemented the publication of trading rules outline and public comments on 11th May, 2023. the new trading rules were released on 20th September, 2023.**

FY2021		FY2022		FY2023		FY2024	
Second half		First half		First half		Second half	
★ Public announcement of action programs Briefings for related organizations, etc.		Publication of trading rules outline (Public comments)		★ Announcement the new trading rules			
	★ First briefing for participants	★ Second briefing for participants	★ Briefing for asset management companies	★ Third briefing for participants			
Explanation and provision of information to market participants, etc.							
Concretization of how to proceed, etc.		Consider among each business category and type of business		Responding to extension of trading hours at Each Company			
		★ Relate to system upgrades Disclosure of connection specifications	Various system tests, Drill				

**System Renewal, Implementation of trading hours extension (Nov. 5)**

# New Derivatives Products

(Nikkei 225 micro futures and mini-options, short-term interest rate futures)

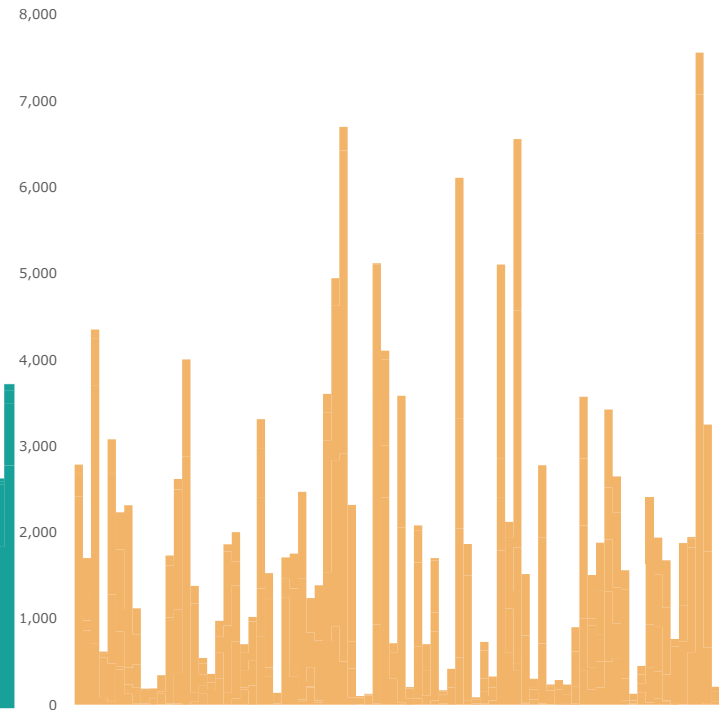
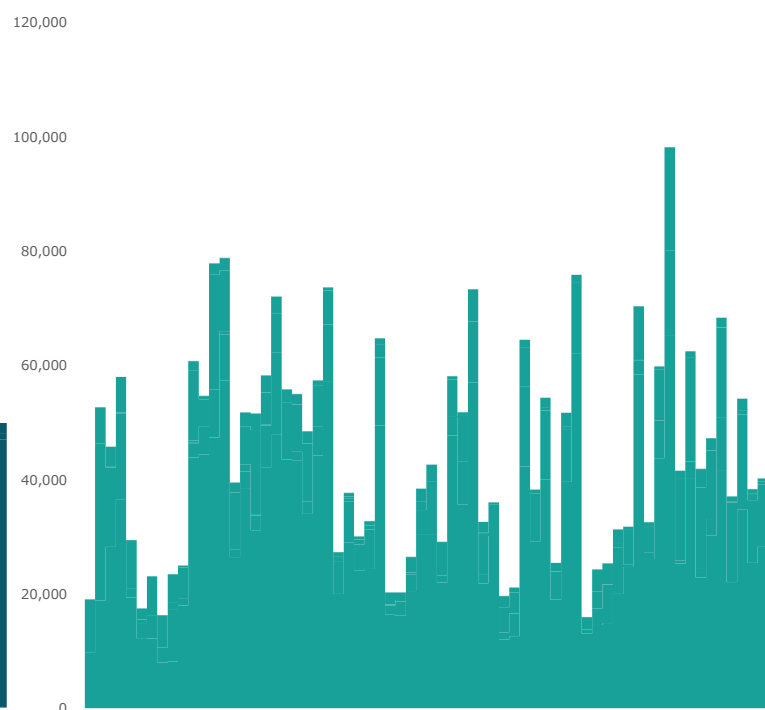
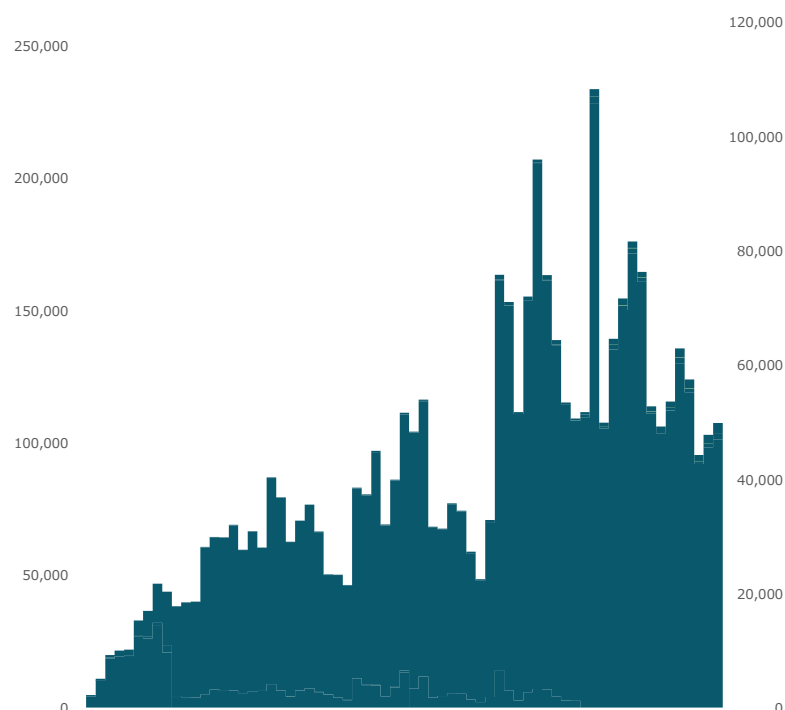


- **May 29, 2023, Nikkei 225 micro futures and mini-options and short-term interest rate futures began trading on the Osaka Exchange, and trading has been steady since then**

Nikkei 225 Micro Futures

Nikkei 225 Mini Options

Short-term Interest Rate Futures

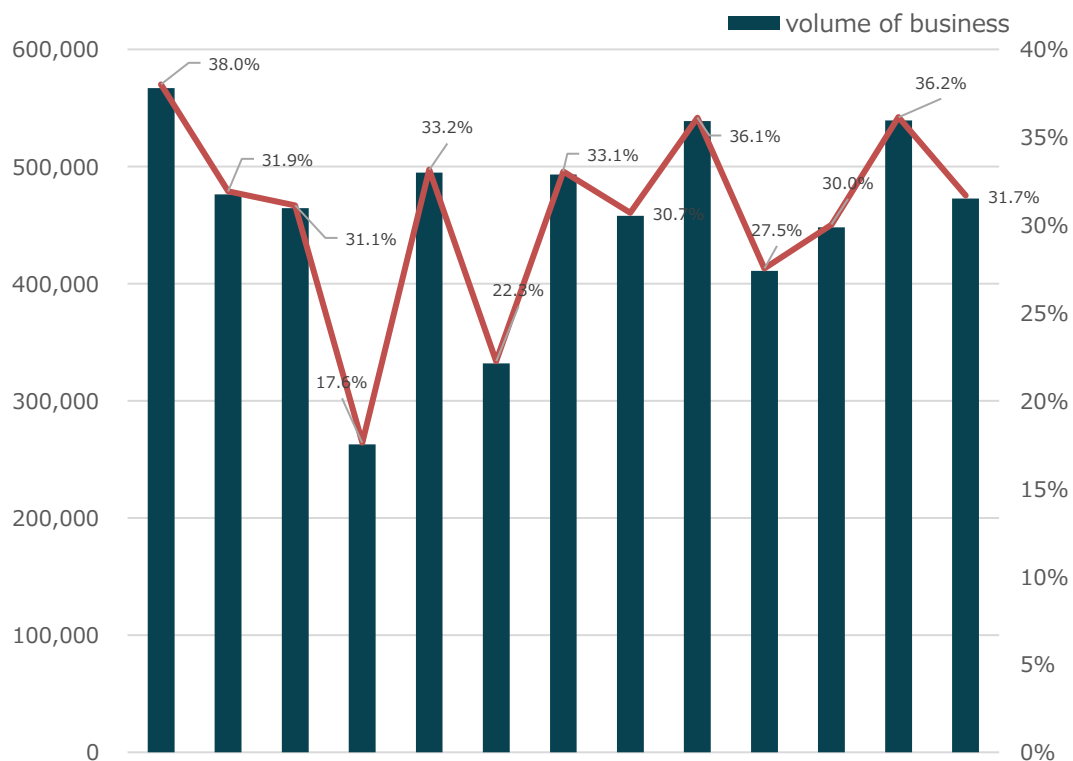


\*Unit is the number of lots. Period for Nikkei 225 Micro Futures and Mini Options: 5/29 - 9/19; Period for Short-term Interest Rate Futures: 5/29 - 8/31.

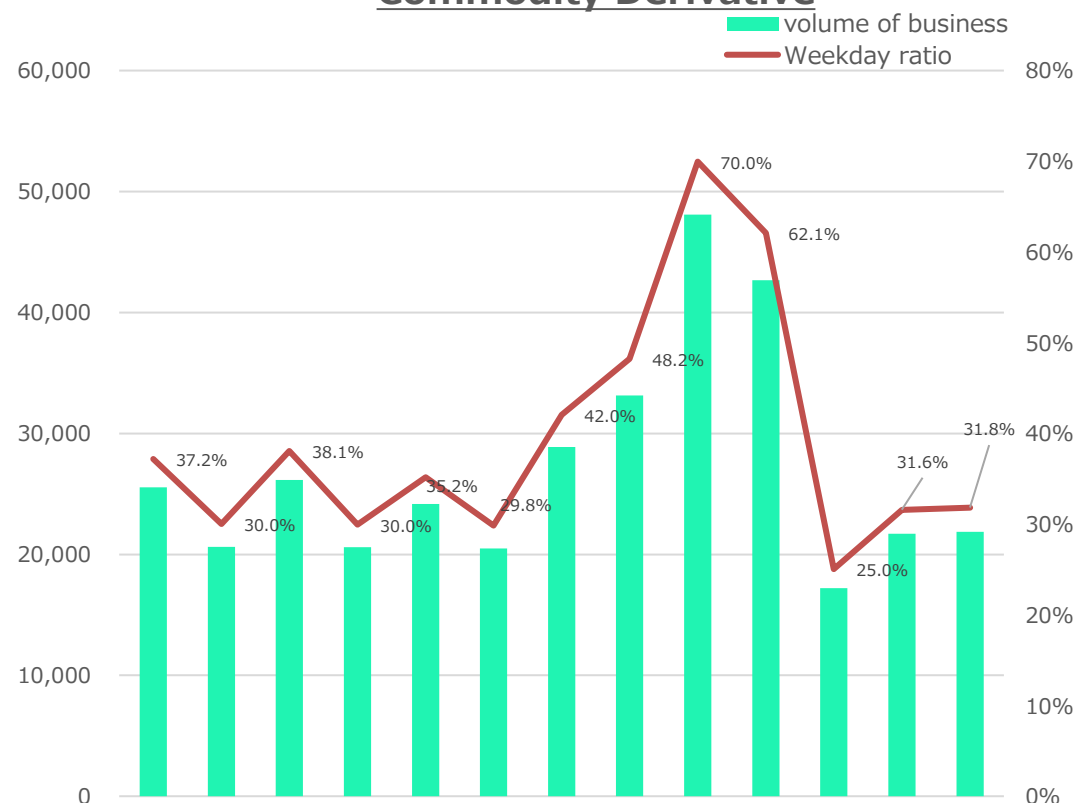
# Implementation of holiday transactions

- Osaka Exchange and Tokyo Commodity Exchange began holiday trading on September 23, 2022 (Friday) for the convenience of investors.
- Thirteen trading sessions have already been held in total and the total trading volume is approximately 30-40% of that of weekdays.

### Equity Derivative



### Commodity Derivative



\*...Weekday ratios are compared to daily trading volume (excluding holiday trading) in 2022.



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