

JPX's Initiatives to Revitalize Japanese Market

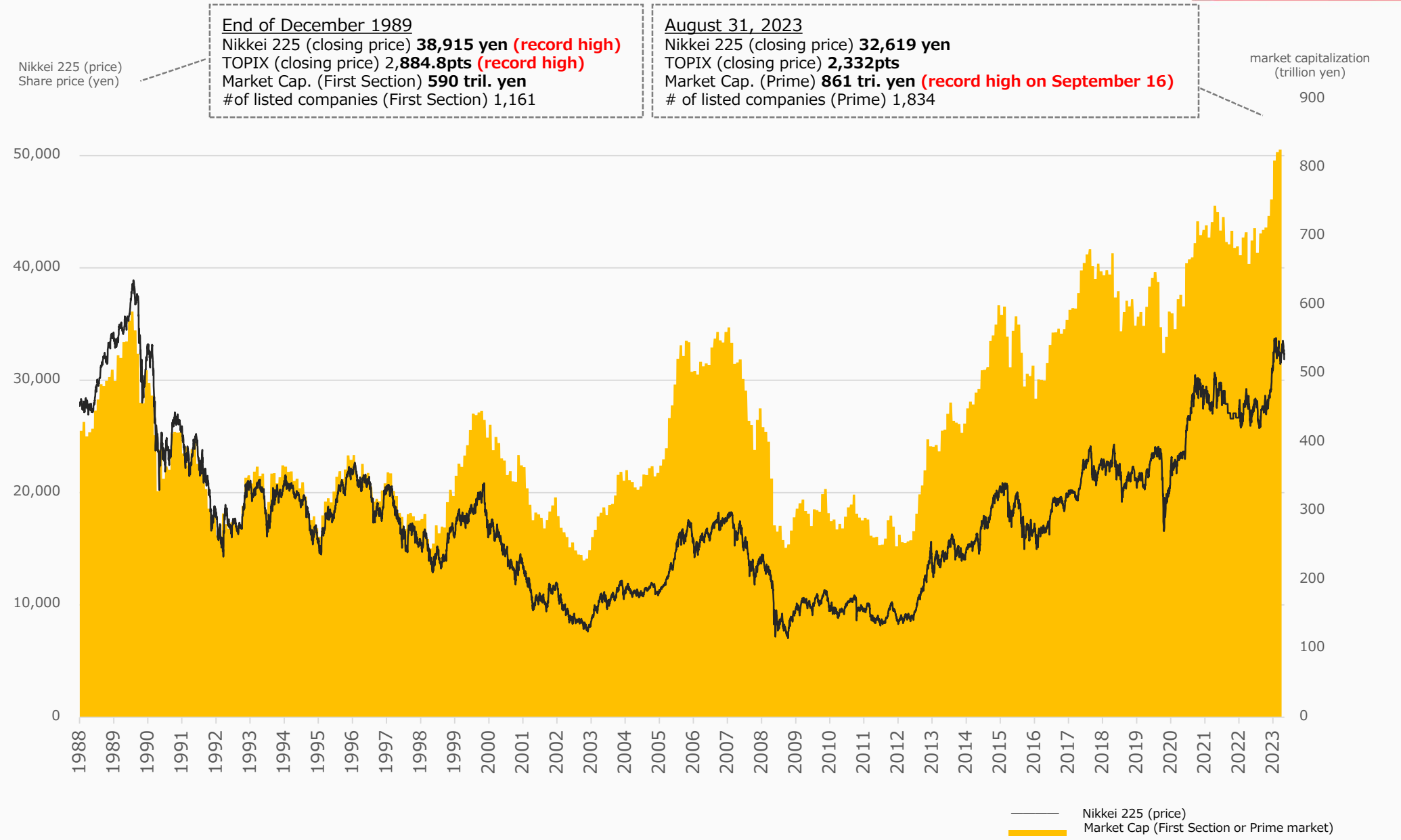
Japan Exchange Group, Inc.
Hiromi Yamaji, Group CEO

October 24, 2023



Recent Market Condition

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

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...

First Section

For companies with a high liquidity

Mothers

For Start-ups

Second Section

For companies w/ track record



For various companies
(with track record/startups)

Standard

Growth

<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...



Prime

For companies w/ high liquidity and governance standards and a focus on constructive dialogue with global investors

1,837 listed

Standard

For companies w/ sufficient liquidity and governance standards to invest in a publicly traded market

1,444 listed

Growth

For companies with high growth potential

551 listed

<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 Oct. 17, 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.

**177 companies transferred from Prime to Standard (as of Oct. 20)*

- Motivate efforts to improve corporate value over the medium to long term
 - (i) **Realize 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**

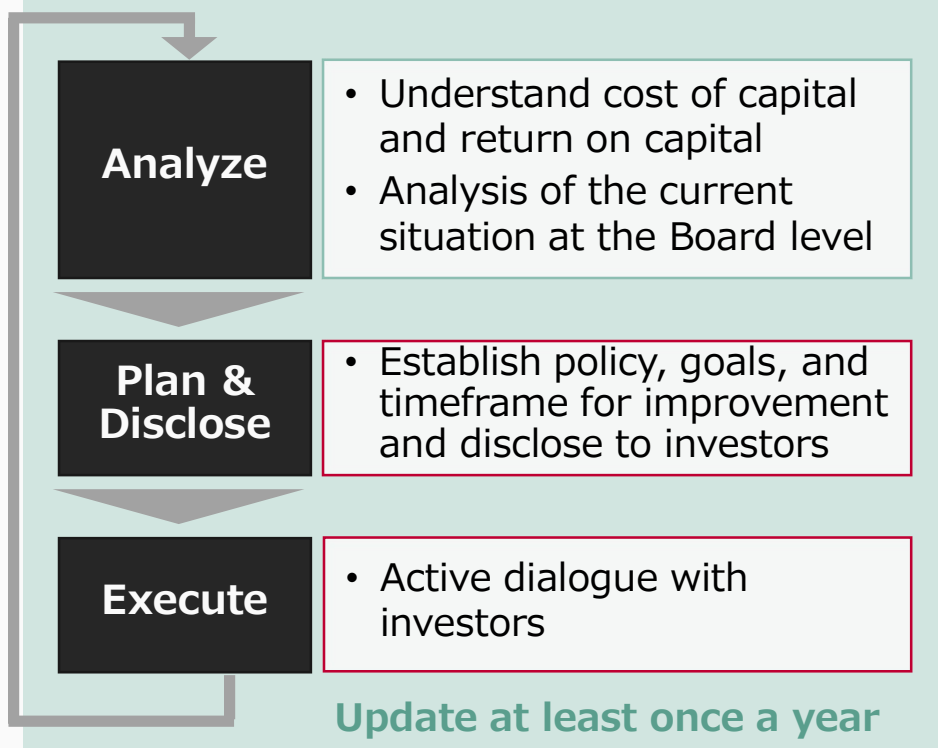
(Note) In order to increase the transparency of discussions, meeting materials and minutes are published on the website without delay after the meeting is held.

Request for Management Conscious of Cost of Capital and Stock Prices

- On March 31, 2023 TSE made requests to listed companies, publishing them with expectation that institutional investors, who will lead the conversation with listed companies, to engage in constructive dialogue using the requests

Implement management Conscious of cost of capital and stock price (Prime & Standard)

- Calling companies to take the 3 steps



Disclosure by PBR & Market Cap. (Prime Market)

- 31% (379 companies) of Prime companies have already disclosed, especially with large market cap. that are trading below book.

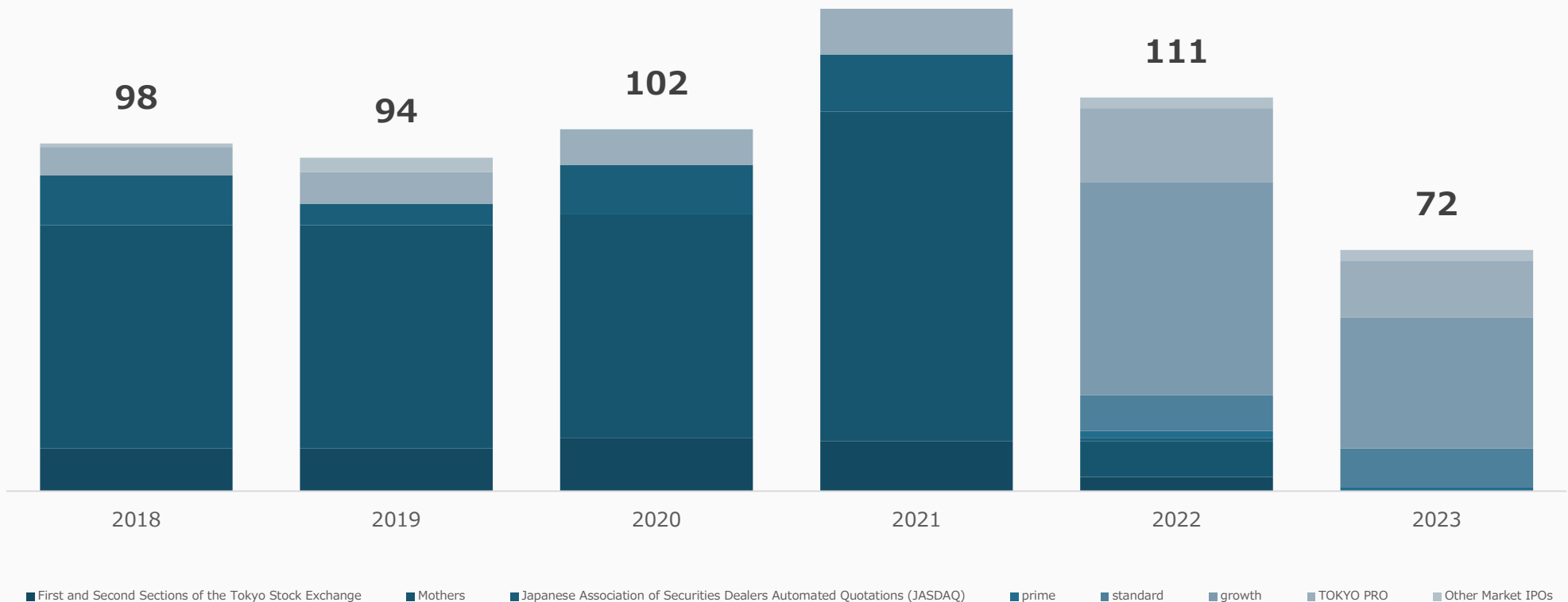
	PBR	
	Less than 1	1 or more
Market Cap. JPY 100 billion or more	45% disclosed Disclosed initiatives: 31% Disclosure status as "under consideration": 14% (n=240)	26% Disclosed initiatives: 21% Disclosure status as "under consideration": 5% (n=301)
JPY 25 billion – 100 billion	39% Disclosed initiatives: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

In addition, requested "Improvement in and disclosure of dialogue with shareholders" (Prime) and appropriate use of "Explain" in "comply or explain" (All companies)

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
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New NISA

JPX Prime 150 Index

- 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 18th, 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

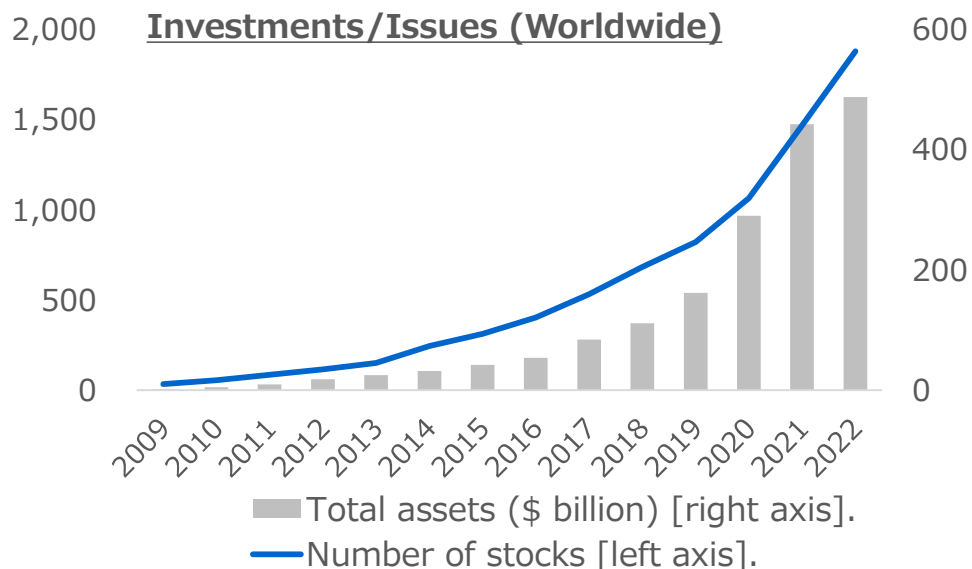
- **ETFs** are "**Exchange Traded Funds**" **traded on exchanges**. ETFs are highly valued for their **low holding costs and the** convenience of **real-time trading**, and **their** use has been expanding worldwide, with the balance of ETFs growing to about \$10 trillion. In recent years, the **market 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 have listed 7 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**

Global Active ETFs Outstanding

Investments/Issues (Worldwide)



Features of Active ETFs

Conventional:
Currently 284 stocks

Active ETF:
7 products
newly listed

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

Sustainability Initiatives

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.

Gov.

Feb. 2022

The GX League Conceptual Framework.

Creation of a carbon credit market

Feb. 2023

Basic Policies for the Realization of GX."

In fiscal year 2023
Creation of a carbon credit market

TSE



Sep. 2022 – Jan. 2023
Carbon Credit Market
Demonstration

Jul. 2023
Rules published

Oct. 11, 2023
Carbon Credit
Market Start

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

Phase 1

2023

2024

2025

GX-ETS

Demo Phase (FY2023-)
Support from Companies,
responsible for more than 40% of
Carbon Emission in Japan

Phase 2

2026

2027

2028

2029

2030

Launch of Carbon Emission Trading Platform (FY2026-)
Increase participation, require goal setting and third-party
certification, enforced discipline (monitor and compliance)

Phase 3

2030年代

Further expansion of
the market
Phased-in fee
charge from FY
2033

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

[Note on this document].

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