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Report of Compliance with the Principles for Financial  
Benchmarks by the International Organization of Securities  
Commissions

For the period from February 1 to June 30, 2019

Nikkei Inc.

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## Disclaimers

1. This report (the "Report") is prepared to provide information regarding compliance of the indexes calculated and provided by Nikkei Inc. with the "Principles for Financial Benchmarks" by the International Organization of Securities Commissions (IOSCO). The recipient of the Report is responsible for the use of this Report and Nikkei assumes no responsibility.
2. The recipient of this Report shall not reproduce and/or reprint without prior consent of Nikkei.
3. This Report is originally prepared in Japanese. The English version is provided for reference purposes. When and if there is a discrepancy between the Japanese and the English versions, the Japanese version should be considered the definitive document.

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## Section 1.

### IOSCO Principles and Nikkei Indexes

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## 1. Introduction

In July 2013, the International Organization of Securities Commissions (IOSCO) released the final report on “Principles for Financial Benchmarks” (“IOSCO Principles” or the “Principles”). IOSCO states in the report that the Principles are intended to promote the reliability of benchmark determinations and enhance benchmark governance, quality, and accountability mechanisms. The Principles have been released backed by the needs to control conflicts of interest and improve transparency of the operation of the wide range of financial benchmarks as triggered by the attempted manipulation of the interest rate benchmarks based on submitted data. The Principles also require benchmark administrators to disclose the status of their compliance with the Principles annually.

Nikkei Inc. (Nikkei) has been declaring the status of its compliance with the Principles regarding indexes, such as Nikkei Stock Average that Nikkei calculates and publishes since July 2014 through its Official Index Website. Nikkei redefined and reconstructed the responses for compliance in a rigorous manner, and received assurance regarding the designed, implementation and operating effectiveness of its responses for compliance with the Principles from Deloitte Touche Tohmatsu LLC (DTTL) to release this Report. The details of Nikkei’s responses to each item of the Principles and examinations performed by DTTL are presented in Section 4.

## 2. History of the Nikkei Indexes

After World War II, the Tokyo Stock Exchange (TSE) started to calculate and publish the “TSE Adjusted Average” in September 1950. This index was an average price of 225 stocks listed in the TSE and the denominator (divisor) was adjusted to maintain the continuity upon the corporate actions of the issuing parties and/or the changes in the constituents.

Nikkei’s involvement in the index business started when the TSE ceased to publish its Adjusted Average in 1970 and succeeded its calculation and publication with its group companies. The calculation method of the index was similar to that of the Dow Jones Industrial Average in the United States. Since the index was widely known as “Dow Average” in Japan, Nikkei acquired the right to use the “Dow” brand from Dow Jones & Company, Inc. and officially named it as the “Nikkei Dow Average” in 1975. The index was renamed to Nikkei Stock Average (the “Nikkei Average” or “Nikkei 225”) in May 1985 to the present time.

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The first use of the Nikkei 225 for financial instruments was in futures contracts. The first futures contract was listed in the Singapore International Monetary Exchange (currently, the Singapore Exchange or SGX) in September 1986. Then, the Osaka Securities Exchange (currently, the Osaka Exchange) and the Chicago Mercantile Exchange followed in 1988 and 1990, respectively. Nikkei Average futures are actively traded in these three exchanges currently.

Since the late 1980's, so-called passive investments have become popular, and the investment funds linked to the performance of the indexes (index funds) have increasingly established. In 2001, listed versions of passive funds which can be traded similar to ordinary stocks, referred to as an Exchange Traded Fund (ETF), was introduced in Japan. In the over-the-counter markets in Europe, a variety of non-listed products linked to the Nikkei 225 are actively developed and created.

As the use of the indexes in financial instruments expanded, the Nikkei worked on developing new indexes other than the Nikkei 225. In 1993, it released the Nikkei Stock Index 300 (Nikkei 300), which is calculated by the market value method, aiming at representing the market with a smaller number of stocks. In 2005, it announced the launch of Nikkei Japan 1000 index, which includes stocks outside of the first section of the TSE and is calculated by the free-float market capitalization method.

The Databank Bureau, a division in Nikkei, which provided information services for financial institutions and corporations, was initially responsible for the administration of Nikkei indexes such as the Nikkei 225. After the separation of the division as a new company, Nikkei established the "Index Business Office," which is an independent organization within headquarters, in 2010, and it currently retains primary responsibility for all aspects of the index administration.

The Index Business Office accelerated the development of the new indexes. In the same year of its establishment, the Nikkei Stock Average Dividend Point Index and Nikkei Stock Average Volatility Index were launched. The Dividend Point Index is an index which accumulates the dividends paid by the Nikkei 225 constituents. The Volatility Index is an index to measure the estimated future fluctuation rate of the market as evaluated in the options market. In 2011, to measure the performance of specific investment strategies, the "Nikkei Stock Average Strategy Index Series" was created. Under this new brand name, four new indexes, such as the "Nikkei 225 Leveraged Index," were released.

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In 2014, Nikkei, the Japan Exchange Group and the TSE jointly developed a new index, the JPX-Nikkei Index 400, focusing on the high appeal for investors and corporate governance. In 2017, the JPX-Nikkei Mid and Small Cap Index, an index that has the same concept of the JPX-Nikkei Index 400 and is composed of companies with middle and small market capitalization, was added. In the same year, Nikkei also launched the Nikkei High Divided Yield Stock 50 Index, which is an index of the stocks with high dividend yield selected from the Nikkei 225 constituents.

In addition to the domestic indexes, in response to the rapid development of the Asian economy, Nikkei developed the "Nikkei Asia300 Index" and released it in December 2016. The index is comprised of 300 leading companies in Asia selected by Nikkei as "Asia300" and is developed for reporting purposes. At the end of 2017, Nikkei launched the Nikkei Asia300 Investable Index, which employs numerical methodologies based on the concept of the "Asia300" concept and is intended to be used for financial instruments.

Nikkei is a major index provider in Japan, and its indexes calculated and publicized are disseminated globally by domestic and international information vendors and are widely accepted by financial institutions as well as individuals.

For more information regarding the Nikkei's Index business and each index, please visit the Official Index Website at the following URL. <https://indexes.nikkei.co.jp/en/nkave>

### **Chronology (selected items)**

1950	<ul style="list-style-type: none"><li>• The TSE started calculation and publication of the TSE Adjusted Average, now known as the Nikkei Stock Average. (September)</li></ul>
1970	<ul style="list-style-type: none"><li>• Upon discontinuation of the TSE Adjusted Average, Nikkei with its group companies succeeded the index. (July)</li></ul>
1975	<ul style="list-style-type: none"><li>• Nikkei entered into an exclusive agreement with Dow Jones and Company and named the index as Nikkei Dow-Jones Stock Price Average. (May)</li></ul>
1985	<ul style="list-style-type: none"><li>• With an agreement of the Dow Jones and Company, Nikkei renamed the index as the Nikkei Stock Average. (May)</li><li>• Nikkei started the real time calculation (1 min. interval) of the Nikkei Stock</li></ul>

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	Average. (October)
1986	<ul style="list-style-type: none"><li>● Futures contracts on the Nikkei Stock Average started trading in the Singapore International Monetary Exchange (currently known as SGX, Singapore Exchange). (September)</li></ul>
1988	<ul style="list-style-type: none"><li>● Futures contracts on the Nikkei Stock Average started trading in the Osaka Securities Exchange. (September)</li></ul>
1989	<ul style="list-style-type: none"><li>● Options contracts on the Nikkei Stock Average started trading in the Osaka Securities Exchange. (June)</li></ul>
1990	<ul style="list-style-type: none"><li>● Futures and options on the futures contracts on the Nikkei Stock Average started trading in the Chicago Mercantile Exchange. (September)</li></ul>
1993	<ul style="list-style-type: none"><li>● Nikkei started calculation and publication of the Nikkei Stock Index 300 (Nikkei 300). (October)</li></ul>
2000	<ul style="list-style-type: none"><li>● Nikkei revised the constituents reshuffle rule and changed the constituents accordingly. (April)</li></ul>
2001	<ul style="list-style-type: none"><li>● The Nikkei Stock Average Exchange Traded Funds (ETF) started trading in the TSE and the Osaka Securities Exchange. (July)</li></ul>
2005	<ul style="list-style-type: none"><li>● Nikkei started calculation and publication of the Nikkei JAPAN 1000. (March)</li></ul>
2006	<ul style="list-style-type: none"><li>● First overseas ETF on the Nikkei Stock Average started trading in Germany. (July)</li></ul>
2007	<ul style="list-style-type: none"><li>● Nikkei separated the Electronic Media Bureau to form Nikkei Digital Media Inc. who succeeded the index operation. (January)</li></ul>
2010	<ul style="list-style-type: none"><li>● Nikkei newly established the Index Business Office" within Nikkei Inc. and succeeded the index operation and management from Nikkei Digital Media. (January)</li><li>● Calculation intervals of the Nikkei Stock Average shortened to 15 seconds. (January)</li><li>● Nikkei started calculation and publication of the Nikkei 225 Dividend Point</li></ul>

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	<p>Index (April), and futures contracts on the index started trading. (June in SGX and July in the TSE)</p> <ul style="list-style-type: none"><li>● Nikkei started calculation and publication of the Nikkei Stock Average Volatility Index. (November)</li><li>● The Tokyo Financial Exchange (TFX) started Exchange Equity Index Margin Contracts trading, targeted to Nikkei Stock Average. (November)</li></ul>
2011	<ul style="list-style-type: none"><li>● Nikkei started calculation and publication of the Nikkei Stock Average Strategy Index Series (Nikkei 225 Covered Call Index, Nikkei 225 Risk Control Index, Nikkei 225 Leveraged Index, and Nikkei 225 Inverse Index). (June)</li></ul>
2014	<ul style="list-style-type: none"><li>● Nikkei, Japan Exchange Group, Inc. (JPX), and the TSE started calculation and publication of the jointly-developed JPX-Nikkei Index 400. (January)</li><li>● Nikkei started calculation and publication of the Nikkei 225 Double Inverse Index. (June)</li><li>● The Osaka Exchange started trading the futures contracts on the JPX Nikkei Index 400. (November)</li><li>● Nikkei started calculation and publication of the Nikkei 225 Currency Hedged Indexes (USD and EUR). (December)</li></ul>
2016	<ul style="list-style-type: none"><li>● Nikkei started calculation and publication of the Nikkei Asia300 Index (for reporting) based on the blue-chip companies chosen from 11 countries and regions in Asia. (December)</li></ul>
2017	<ul style="list-style-type: none"><li>● Nikkei started the calculation and publication of the Nikkei 225 High Dividend Yield Stock 50 Index. (January)</li><li>● Nikkei and the TSE started the calculation and publication of the jointly-developed JPX-Nikkei Mid and Small Cap Index. (March)</li><li>● Calculation intervals of the Nikkei Stock Average became every 5 seconds from 15 seconds. (July)</li><li>● Nikkei started the calculation and publication of the Nikkei Asia300 Investable Index (JPY and USD), which is comprised of 300 Asian listed</li></ul>

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	companies and intended to be used for financial instruments, such as investment trusts. (December)
2019	<ul style="list-style-type: none"><li>• Nikkei started the calculation and publication of the Nikkei 225 Estimated Divided Point Index. (March)</li><li>• Nikkei started the calculation and publication of the Nikkei 225 Domestic Exposure 50 Index and the Nikkei 225 Global Exposure 50 Index. (April)</li></ul>

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### 3. Scope of the Indexes

Among the indexes calculated and provided by Nikkei, this Report of Compliance covers the following indexes, mainly those used for financial instruments (“Nikkei Indexes”). The list may be reviewed from time to time, and new indexes may be added.

Nikkei Stock Average	Nikkei Stock Average (Nikkei Average, Nikkei 225)	It is a leading Japanese equity index widely used globally comprised of 225 stocks in the first section of the TSE and calculated as a price-weight index.
	Nikkei 225 Total Return Index	It measures the performance of the Nikkei 225 that includes both movements in the index level and reinvestment of dividend income from its component stocks.
Nikkei Stock Average Strategy Index Series	Nikkei 225 Covered Call Index	It measures the performance of the “Covered Call strategy” based on the Nikkei 225.
	Nikkei 225 Risk Control Index	Volatility of the index based on the Nikkei 225 is set lower than the Nikkei 225 and controlled within a limited range.
	Nikkei 225 Leveraged Index	It provides a doubled return of the Nikkei 225. When the Nikkei 225 rises by 1%, it rises by 2%.
	Nikkei 225 Inverse Index	It provides the inverse return of the Nikkei 225. When the Nikkei 225 rises by 1%, it falls by 1%.
	Nikkei 225 Double Inverse Index	It provides a doubled inverse of the return of the Nikkei 225. When the Nikkei 225 rises by 1%, it falls by 2%.

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Currency Hedged Index	Nikkei 225 USD Hedged Index	They measure the return of the Nikkei 255, eliminating the effect of changes in foreign currency rates when the Nikkei 225 is held in foreign currencies. They represent the mixed positions of the Nikkei 255 investment in currencies other than JPY and the relevant currency hedged transactions. The indexes based on the Nikkei 255 Total Return Index is also calculated and published.
	Nikkei 225 EUR Hedged Index	
Volatility Index	Nikkei Stock Average Volatility Index	It measures the future fluctuations of the Nikkei 225 anticipated by investors. It is based on the prices of the Nikkei 225 futures and Nikkei 225 options traded in the Osaka Exchange.
	Nikkei 225 VI Futures Index	It is designed to reflect the daily price fluctuation of a position that combines the near-term and the next-term Nikkei Stock Average Volatility Index Futures (traded in the Osaka Exchange) prices at specified weights. The weights are adjusted daily to keep the maturity of the combined future contracts constant as the term exact one month.
Smart Beta Index	Nikkei 225 High Dividend Yield Stock 50 Index	It is comprised of 50 high dividend yield stocks selected from the Nikkei 225 constituents. The index is calculated based on the dividend yield weight method".
Dividend Point Index	Nikkei 225 Dividend Point Index	It is an index that accumulates dividends received from the companies when investors are supposed to hold the constituents of the Nikkei Stock Average (Nikkei 225) on a calendar year basis, i.e. January to December in a year. The index is calculated by

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		substituting each actual dividend per share into the formula of the Nikkei 225 every time each dividend value is fixed. The index is expressed with a year since the index is calculated by accumulating the dividends every calendar year basis.
Nikkei Asia Index	Nikkei Asia300 Investable Index (JPY)	It is comprised of 300 Asian listed companies and intended to be used for financial instruments. By converting the criteria for selecting the "Asia300" companies for the editorial purposes into numerical standards, 300 stocks are chosen from 10 countries and regions in Asia: China (excluding Class A stocks), Hong Kong, Taiwan, South Korea, Indonesia, Malaysia, Philippines, Singapore, Thailand, and India. It is calculated by the free-float adjusted market value method.
	Nikkei Asia300 Investable Index (USD)	

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#### 4. Nikkei's basic policy for compliance with the IOSCO Principles

Nikkei, with its corporate creed of "fair and impartial," is a leading Japanese media organization, which evolved as a newspaper publisher with a history of nearly 140 years. Its basic postures are also reflected in the indexes calculated and published by Nikkei, such as the Nikkei Stock Average. As a media company, Nikkei excludes external influences and provides reliable information to the public. These postures constitute the basis of compliance with the IOSCO Principles.

Constituent selection and calculation of Nikkei Indexes are administered based on the methodologies made public, and their high transparency is a key characteristic. These indexes are calculated automatically using quoted market prices and pre-defined formulas by computers, and no subjective judgement is involved. Nikkei has established index administration policies: "General Policies for Nikkei Index Administration," "Policies for Nikkei Index Cessation and Transition," and "Policies for Nikkei Index Complaints Procedures."

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## Section 2. Management's Statement

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### **Management's Statement**

September 18, 2019

Nikkei Inc.

President and CEO  
Naotoshi Okada

Nikkei Inc. is responsible for appropriately implementing and fairly describing the responses to comply with the Principles for Financial Benchmarks published by the International Organization of Securities Commissions dated July 2013 (the "IOSCO Principles").

In addition, Nikkei Inc. is responsible for appropriately designing and effectively operating the responses to comply with the IOSCO Principles.

We express that:

- (a) The accompanying description at Section 4 fairly presents our policies and procedures to comply with the IOSCO Principles during the period from February 1, 2019 to June 30, 2019.
- (b) The responses described in Section 4 to comply with the IOSCO Principles are appropriately designed and effectively operated regarding the indexes described in Section 1 during the period from February 1, 2019 to June 30, 2019.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

Section 3.  
Independent Assurance Report

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## Independent Assurance Report

September 18, 2019

To the President and CEO of Nikkei Inc.  
Mr. Naotoshi Okada

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:

Kenji Ota

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### Scope

We have been engaged to report on Nikkei Inc. (the "Company")'s description in Section 4 related to the design, implementation and operating effectiveness of the responses to comply with the Principles for Financial Benchmarks published by the International Organization of Securities Commissions (the "IOSCO Principles") throughout the period from February 1, 2019 to June 30, 2019 (the "Description") in the form of a reasonable assurance opinion.

### Responsibilities of the Company

The Company is responsible for appropriately implementing the responses to comply with IOSCO Principles and preparing the Description in accordance with the criteria documented in Management's Statement (the "Criteria"). In addition, the Company is responsible for appropriately designing and effectively operating the responses to comply with IOSCO Principles.

### Responsibilities of the Practitioner

Our responsibility is to independently express an opinion to the Description based on the procedures we have performed.

We conducted a reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 "Assurance Engagements other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board.

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Our reasonable assurance engagement involves performing procedures to understand the Company's responses to comply with IOSCO Principles and obtain evidence about the suitably designed, implementation and operating effectiveness of the responses.

The procedures are selected and performed depend on our judgment, including the assessment of the risks that the Description is not fairly presented, and that responses are not suitably design, implemented or operated effectively.

The procedures selected and performed by us are described in Section 4 of the Description as "Work Performed by DTTL."

Our procedures included testing the operating effectiveness of those responses that we consider necessary to provide reasonable assurance that the Criteria was achieved. Our assurance engagement also includes evaluating the suitability of the Criteria.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Our Professional Ethics, Independence and Quality Control**

We performed procedures in accordance with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, where the fundamental principles are established including Integrity, Objectivity and Professional Competence and Due Care, Confidentiality and Professional behavior.

We complied with International Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Historical, Financial Information, and Other Assurance and Related Services Engagement." Accordingly, we maintain a comprehensive system of quality control.

### **Inherent Limitation**

The Company's responses to comply with IOSCO Principles are not necessarily operated to achieve the Criteria because of their nature and inherent limitation.

Also, the projection of any evaluation of effectiveness to future periods is subject to the risk that the Company's responses may become inadequate or fail.

### **Opinion**

Our opinion has been formed on the basis of the matters outlined in this report. The Criteria we used in forming our opinion are those described in Management's Statement.

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In our opinion, in all material respects:

(a)The Description fairly presents the responses as designed and implemented to comply with IOSCO Principles throughout the period from February 1, 2019 to June 30, 2019;

(b)The responses stated in the Description were suitably designed throughout the period from February 1, 2019 to June 30, 2019; and

(c)The responses stated in the Description were operated effectively throughout the period from February 1, 2019 to June 30, 2019.

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Section 4.

Nikkei's Responses to Comply with IOSCO Principles

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## Nikkei’s Responses to Comply with IOSCO Principles

For the period from February 1 to June 30, 2019, and in relation to in-scope Nikkei Indexes defined in Section 1 of this Report, Nikkei describes the arrangements established and implemented to comply with the IOSCO Principles under the “Nikkei’s Response” in the table below.

The accompanying “Work Performed by DTTL” summarizes the procedures performed by DTTL to validate that the design, implementation, and operating effectiveness of the responses summarized in the “Nikkei’s Response” to comply with the IOSCO Principles. This is the basis for the opinion as documented in Section 3 of this Report.

IOSCO Principles	Nikkei’s Response	Work Performed by DTTL
<b>Governance</b>		
<p><b>1. Overall Responsibility of the Administrator</b></p> <p>The Administrator should retain primary responsibility for all aspects of the Benchmark determination process. For example, this includes:</p> <p>a) Development: The definition of the Benchmark and Benchmark Methodology;</p> <p>b) Determination and Dissemination: Accurate and timely compilation and publication and distribution of the Benchmark;</p> <p>c) Operation: Ensuring appropriate transparency over significant decisions</p>	<p>Nikkei, as the administrator, retains primary responsibility for all aspects of the determination process of the “Nikkei Indexes,” which are stipulated in Section 1, subsection 3 of this Report. The Index Business Office, a department of Nikkei, administers the Nikkei Indexes in accordance with the policy documents* which set out the principles of administration. Such policies are made public through the Nikkei’s “Official Index Website”.</p> <p>Further details are available under the responses to the Principle 2 and below.</p> <p>*Policy documents - General Policies for Nikkei Indexes Administration</p>	<p>DTTL obtained “General Policies for Nikkei Indexes Administration” (“General Policy”), “Policies for Nikkei Indexes Cessation and Transition” (“Cessation Policy”), and “Policies for Nikkei Indexes Complaints Procedures” (“Complaints Policy”) and verified that the policies for the determination and administration of the indexes are established. DTTL also confirmed that those policies were disclosed on Nikkei’s website, the “Official Index Website.”</p> <p>Detailed procedures DTTL has performed are listed in the “Work Performed by DTTL” to responses to Principle 2 and below.</p>

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IOSCO Principles	Nikkei's Response	Work Performed by DTTL
<p>affecting the compilation of the Benchmark and any related determination process, including contingency measures in the event of absence of or insufficient inputs, market stress or disruption, failure of critical infrastructure, or other relevant factors; and</p> <p>d) Governance: Establishing credible and transparent governance, oversight and accountability procedures for the Benchmark determination process, including an identifiable oversight function accountable for the development, issuance and operation of the Benchmark.</p>	<p>("General Policy")</p> <ul style="list-style-type: none"> <li>- Policies for Nikkei Indexes Cessation and Transition ("Cessation Policy")</li> <li>- Policies for Nikkei Indexes Complaints Procedures ("Complaints Policy")</li> </ul>	
<p><b>2. Oversight of Third Parties</b></p> <p>Where activities relating to the Benchmark determination process are undertaken by third parties - for example collection of inputs, publication or where a third party acts as Calculation Agent - the Administrator should maintain appropriate oversight of such third parties. The Administrator (and its</p>	<p>Nikkei commissions third parties to calculate and/or administer some of the Nikkei Indexes. Activities to be undertaken by the third parties are stipulated in the "General Policy."</p> <ul style="list-style-type: none"> <li>a) Selection of the third party is based on the assessment of reliability, experience, and the possibility of conflicts of interest as prescribed in</li> </ul>	<p>DTTL obtained the "General Policies for Nikkei Indexes Administration" and verified that the policies included the selection and oversight of third party suppliers.</p> <ul style="list-style-type: none"> <li>a) DTTL obtained samples from a period subject to DTTL's work of agreements with third party suppliers who participate in the Benchmark</li> </ul>

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IOSCO Principles	Nikkei's Response	Work Performed by DTTL
<p>oversight function) should consider adopting policies and procedures that:</p> <p>a) Clearly define and substantiate through appropriate written arrangements the roles and obligations of third parties who participate in the Benchmark determination process, as well as the standards the Administrator expects these third parties to comply with;</p> <p>b) Monitor third parties' compliance with the standards set out by the Administrator;</p> <p>c) Make Available to Stakeholders and any relevant Regulatory Authority the identity and roles of third parties who participate in the Benchmark determination process; and</p> <p>d) Take reasonable steps, including contingency plans, to avoid undue operational risk related to the participation of third parties in the Benchmark determination process.</p>	<p>the "General Policy." Nikkei enters into written agreements with the third parties which stipulate roles and obligations.</p> <p>b) Nikkei takes appropriate communication measures to monitor the operations commissioned to the third parties as follows.</p> <p>- Affiliates Nikkei holds regular meetings with the affiliate and monitors significant changes in the systems and so on.</p> <p>- Third parties other than affiliates During the "Index Administration Meeting" facilitated by the Index Business Office, Nikkei assesses the governance of the third parties at least once a year.</p> <p>Members of the Index Business Office monitor the indexes calculated by the affiliates and third parties other than affiliates daily. The members of the</p>	<p>determination processes and confirmed that Nikkei had entered into outsourcing contracts in compliance with the corporate policies for outsourcing the calculation and publication of indexes.</p> <p>b) DTTL obtained samples from a period subject to DTTL's work of the minutes of regular meetings and verified that Nikkei monitors significant changes in the systems and so on. In addition, DTTL obtained samples of minutes of the Index Administration Meeting for a period subject to review and verified that Nikkei evaluated governance of the third party suppliers. DTTL also obtained samples from a period subject to DTTL's work of evidence about monitoring activities performed and verified that the members of the Index Business Office compare calculated indexes with the previous day indexes to monitor the calculation of Nikkei Indexes on a daily basis.</p>

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IOSCO Principles	Nikkei's Response	Work Performed by DTTL
<p>This Principle does not apply in relation to a third party from whom an Administrator sources data if that third party is a Regulated Market or Exchange.</p>	<p>Index Business Office compare the current day and previous day indexes to confirm there are no anomalous index values.</p> <p>c) Third parties and the indexes calculated are as follows:</p> <ul style="list-style-type: none"><li>- QUICK Corp. (a subsidiary of Nikkei) Nikkei Stock Average, its leveraged, inverse, double inverse indexes</li><li>- Osaka Securities Exchange (regulated futures market) Nikkei Stock Average Volatility Index</li><li>- S&amp;P Dow Jones Indices (global index vendor) Nikkei Asia300 Investable Index (JPY, USD)</li></ul> <p>These third parties are disclosed on the "Official Index Website".</p> <p>The Nikkei Asia300 Investable Index is administered by the methodologies of S&amp;P Dow Jones Indices.</p>	<p>c) DTTL confirmed by checking the "Official Index Website" that Nikkei discloses the fact the it outsources the calculation of indexes to QUICK Corp., Osaka Securities Exchange, and S&amp;P Dow Jones Indices.</p>

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IOSCO Principles	Nikkei's Response	Work Performed by DTTL
	<p>d) For the indexes calculated by the affiliate, computer centers which host the calculation system are duplicated and the transition procedures to follow in case of problems are prescribed. The drills are performed. In addition, in case of the severe system failures at the third parties' sites, Nikkei has the procedures to calculate the closing value of the indexes.</p>	<p>d) DTTL obtained samples from a period subject to DTTL's work of Nikkei's manuals for contingency plan for system failures and the training results of system failure drills and verified that Nikkei designed measures to cope with the contingency at the third party suppliers and conducted system failure drills.</p> <p>DTTL also confirmed that Nikkei has designed the procedures to calculate Nikkei Indexes when severe system failures occur at the third party suppliers.</p>
<p><b>3. Conflicts of Interest for Administrators</b></p> <p>To protect the integrity and independence of Benchmark determinations, Administrators should document, implement and enforce policies and procedures for the identification, disclosure, management, mitigation or avoidance of conflicts of interest.</p> <p>Administrators should review and update their policies and procedures as appropriate.</p> <p>Administrators should disclose any material conflicts of interest to their users and any relevant Regulatory Authority, if any.</p>	<p>Nikkei Indexes are determined using the prices formed in the regulated exchanges and calculated by pre-defined programs on the computer systems, and so, Nikkei judges that the risk of conflicts of interest is extremely low. Also, to protect the reliability as a media company which upholds the motto of "Fair and Impartial," Nikkei establishes a code of conduct which prohibits conflicts of interest and other improper actions. Nikkei requires all of its employees, including the Index Business Office members, to comply with the code of conduct.</p> <p>a) Nikkei Indexes are not prone to conflicts of interest in their nature and Nikkei sets out the following measures to prevent inappropriate influence on the</p>	<p>DTTL obtained Nikkei's code of conduct and confirmed that the compliance code of conduct included prohibition of conflicts of interests is required. DTTL also obtained the handbook distributed to all employees and verified that the code of conduct was informed and implemented internally by including it in the handbook.</p> <p>a) See below for the specific measures implemented to prevent inappropriate influence on the index determinations.</p>

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IOSCO Principles	Nikkei's Response	Work Performed by DTTL
<p>The framework should be appropriately tailored to the level of existing or potential conflicts of interest identified and the risks that the Benchmark poses and should seek to ensure:</p> <p>a) Existing or potential conflicts of interest do not inappropriately influence Benchmark determinations;</p> <p>b) Personal interests and connections or business connections do not compromise the Administrator's performance of its functions;</p> <p>c) Segregation of reporting lines within the Administrator, where appropriate, to clearly define responsibilities and prevent unnecessary or undisclosed conflicts of interest or the perception of such conflicts;</p> <p>d) Adequate supervision and sign-off by authorised or qualified employees prior to releasing Benchmark determinations;</p> <p>e) The confidentiality of data, information and other inputs submitted to, received by or produced by the Administrator,</p>	<p>index determinations.</p> <p>b) Personal interests do not influence the index administration because the holding and/or trading of the individual stocks and financial instruments related to the Nikkei Indexes by the member of the Index Business Office are restricted by its internal Insider Trading Policy. Since Nikkei, as a company, is not related to the creation, marketing, or clearing of the financial instruments, the potential risk of conflicts of interest at the corporate level is deemed to be extremely low.</p> <p>c) Index administration is a sole business of the Index Business Office in Nikkei. By separating the reporting lines from other business of Nikkei, responsibilities are clarified and unnecessary conflicts of interest are prevented.</p> <p>d), e) There is no prior approval procedure before releasing the Nikkei Indexes since the Nikkei Indexes are determined automatically by the computer systems. Since they are not based on the submitted data, there is no confidentiality in the input data. However, there are</p>	<p>b) DTTL obtained the Insider Trading Policy and verified that members of the Index Business Office are restricted to hold and/or trade individual stocks and other financial instruments related to the Nikkei Indexes.</p> <p>c) DTTL obtained the documents for segregation of duties and verified that the index administration is defined as responsibilities of the Index Business Office and the internal reporting line is separately established from other business divisions.</p> <p>d),e) As the pre-conditions with the determination of the financial indexes are different from those of IOSCO principles, Nikkei designs and implements no applicable processes. DTTL does not perform the procedures therewith.</p>

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<p>subject to the disclosure obligations of the Administrator;</p> <p>f) Effective procedures to control the exchange of information between staff engaged in activities involving a risk of conflicts of interest or between staff and third parties, where that information may reasonably affect any Benchmark determinations; and</p> <p>g) Adequate remuneration policies that ensure all staff who participate in the Benchmark determination are not directly or indirectly rewarded or incentivised by the levels of the Benchmark.</p> <p>An Administrator's conflict of interest framework should seek to mitigate existing or potential conflicts created by its ownership structure or control, or due to other interests the Administrator's staff or wider group may have in relation to Benchmark determinations. To this end, the framework should:</p>	<p>adequate check and approval processes regarding the index constituent changes and/or maintenance of the constituent's information (such as reaction to corporate actions) prior to their announcements.</p> <p>f) Nikkei establishes the Information Control Policy and the access control system is in place where information related to the index business cannot be accessed by those who are not the members of the Index Business Office.</p> <p>g) Nikkei's remuneration policy is not linked to the index determination process. Rewards and incentives are not given based on the performance of the indexes.</p>	<p>In regards to selections of stock used in the calculation of Nikkei Indexes and maintenance for accuracy of information about these stock, please refer to "Work performed by DTTL" to Principle 4.</p> <p>f) DTTL obtained the Information Control Policy and verified that the internal policy related to information management is in place. In addition, DTTL observed the operating screen of an employee who is not a member of the Index Business Office and verified that unauthorized employees are prohibited and not able to access information related to the index business.</p> <p>g) DTTL obtained the internal policies on wage and rewards and verified that employees are not remunerated based upon the determination process of Nikkei Indexes and the policies do not specify that employees are rewarded or incentivized by the performance of the indexes.</p>

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IOSCO Principles	Nikkei's Response	Work Performed by DTTL
<p>a) Include measures to avoid, mitigate or disclose conflicts of interest that may exist between its Benchmark determination business (including all staff who perform or otherwise participate in Benchmark production responsibilities), and any other business of the Administrator or any of its affiliates; and</p> <p>b) Provide that an Administrator discloses conflicts of interests arising from the ownership structure or the control of the Administrator to its Stakeholders and any relevant Regulatory Authority in a timely manner.</p>		
<p><b>4. Control Framework for Administrators</b>            An Administrator should implement an appropriate control framework for the process of determining and distributing the Benchmark. The control framework should be appropriately tailored to the materiality of the potential or existing conflicts of interest identified, the extent of the use of discretion in the Benchmark setting process and to the</p>	<p>In accordance with the "General Policy," Nikkei establishes an "Index Administration Meeting" in the Index Business Office to carry out the index determination and related operations.</p> <p>a) Refer to Principle 3.</p> <p>b) Members of the Index Business Office monitor the</p>	<p>DTTL obtained the "General Policy" and verified that it stipulates that the Index Administration Meeting is established in the Index Business Office and manages the determination and the related operations of Nikkei Indexes. In addition, DTTL obtained samples from a period subject to DTTL's work and of minutes of Index Administration Meetings regarding this determination.</p> <p>b) DTTL obtained samples from a period subject to</p>

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<p>nature of Benchmark inputs and outputs. The control framework should be documented and available to relevant Regulatory Authorities, if any. A summary of its main features should be Published or Made Available to Stakeholders.</p> <p>This control framework should be reviewed periodically and updated as appropriate. The framework should address the following areas:</p> <ul style="list-style-type: none"> <li>a) Conflicts of interest in line with Principle 3 on conflicts of interests;</li> <li>b) Integrity and quality of Benchmark determination: <ul style="list-style-type: none"> <li>i. Arrangements to ensure that the quality and integrity of Benchmarks is maintained, in line with principles 6 to 15 on the quality of the Benchmark and Methodology;</li> <li>ii. Arrangements to promote the integrity of Benchmark inputs, including adequate due diligence on input sources;</li> </ul> </li> </ul>	<p>indexes calculated daily. Members of the Index Business Office compare the current day and previous day indexes to confirm there are no anomalous index values.</p> <p>For the quality and calculation methodology of the indexes, refer to Principle 6 through 15. For accountability and complaints procedures, refer to Principle 16 through 19. Nikkei has concluded that the integrity of the inputs stipulated in Principle 4. b) ii is not applicable since Nikkei Indexes are determined using the prices formed in the regulated exchanges.</p> <p>The systems related to the calculation and administration of indexes are appropriately controlled by assigning the access authority based on the responsibilities of the employees.</p>	<p>DTTL's work of evidence about monitoring activities performed and verified that the members of the Index Business Office compare calculated indexes with the previous day indexes to monitor the calculation of Nikkei Indexes on a daily basis. DTTL also obtained samples from a period subject to DTTL's work of the indexes, recalculated the indexes selected following the calculation methodology, and confirmed that those indexes calculated by Nikkei matched DTTL's recalculation results.</p> <p>In regards to the quality and calculation of Nikkei Indexes and the accountability and complaints procedures, please refer to DTTL's responses to Principles 6 through 15 and 16 through 19, respectively.</p> <p>DTTL observed the operating screens of employees involved in the calculation of Nikkei Indexes and confirmed that unauthorized employees are not able to access the systems related to the calculation and administration of Nikkei Indexes.</p>

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<p>iii. Arrangements to ensure accountability and complaints mechanisms are effective, in line with principles 16 to 19; and</p> <p>iv. Providing robust infrastructure, policies and procedures for the management of risk, including operational risk.</p> <p>c) Whistleblowing mechanism: Administrators should establish an effective whistleblowing mechanism to facilitate early awareness of any potential misconduct or irregularities that may arise. This mechanism should allow for external reporting of such cases where appropriate.</p> <p>d) Expertise:</p> <p>i. Ensuring Benchmark determinations are made by personnel who possess the relevant levels of expertise, with a process for periodic review of their competence; and</p>	<p>c) Nikkei has an internal whistleblowing mechanism where actions or suspected actions against its Code of Conduct are reported.</p> <p>d) Nikkei conducts in-house trainings on its Information Control Policy and Insider Trading Policy for all the employees once a year. Nikkei stipulates in the "General Policy" that it holds workshops, for example, by inviting the outside professionals to improve the expertise of the members in the Index Business Office on an as-needed basis.</p>	<p>c) DTTL obtained the whistleblowing policies and verified that the whistleblowing mechanism is established. DTTL also observed that employees are able to report incidents through the intranet page of the Legal Division.</p> <p>d) DTTL obtained the "General Policy" and verified that it stipulates that in-house training should be held once a year on internal policies, including the Information Control Policy and the Insider Trading Policy. DTTL obtained the training session log and verified that in-house trainings related to insider training and information management have been carried out. In addition, DTTL obtained the training participation log and verified that training sessions lead by external lecturers for members of the Index Business Office have been held.</p>

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<p>ii. Staff training, including ethics and conflicts of interest training, and continuity and succession planning for personnel.</p>		
<p><b>Where a Benchmark is based on Submissions: Administrators should promote the integrity of inputs by:</b></p> <p>a) Ensuring as far as possible that the Submitters comprise an appropriately representative group of participants taking into consideration the underlying Interest measured by the Benchmark;</p> <p>b) Employing a system of appropriate measures so that, to the extent possible, Submitters comply with the Submission guidelines, as defined in the Submitter Code of Conduct and the Administrators' applicable quality and integrity standards for Submission;</p> <p>c) Specifying how frequently Submissions should be made and specifying that inputs or Submissions should be made for every Benchmark determination; and</p>	<p>Not applicable since Nikkei Indexes are not based on submissions.</p>	<p>As the pre-conditions with the determination of the financial indexes are different from those of IOSCO principles, Nikkei designs and implements no applicable processes. DTTL does not perform the procedures therewith.</p>

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<p>Establishing and employing measures to effectively monitor and scrutinise inputs or Submissions. This should include pre-compilation or pre-publication monitoring to identify and avoid errors in inputs or Submissions, as well as ex-post analysis of trends and outliers.</p>		
<p><b>5. Internal Oversight</b>            Administrators should establish an oversight function to review and challenge all aspects of the Benchmark determination process. This should include consideration of intended, expected or known usage of the Benchmark and the materiality of existing or potential conflicts of interest identified.</p> <p>The oversight function should be carried out either by a separate committee, or other appropriate governance arrangements. The oversight function and its composition should be appropriate to provide effective scrutiny of the Administrator. Such oversight function could consider groups of Benchmarks by type</p>	<p>Nikkei stipulates in the "General Policy" that the "Index Administration Meeting" established in the Index Business Office carries out the Nikkei Indexes determinations and the related operations, and the "Index Committee" is established to oversee the Index Administration Meeting. Based on the Nikkei's internal policies, members of the Index Committee are appointed by the CEO and include directors not related to the indexes business.</p> <p>For the material changes to the calculation methodology and the permanent cessation of the Nikkei Indexes, Nikkei stipulates in the "General Policy" and the "Cessation Policy" that they are proposed in the Index Administration Meeting and are reviewed and approved by the Index Committee.</p>	<p>DTTL obtained the "General Policy" and Cessation Policy", and verified that details of the Nikkei's response to this principle have been put into place.</p> <p>DTTL further obtained samples from a period subject to DTTL's work of Index Committee minutes and verified that Index Committee meetings were held and the members of Index Committee have been internally selected and they include members not related to the indexes business.</p>

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<p>or asset class, provided that it otherwise complies with this Principle.</p> <p>An Administrator should develop and maintain robust procedures regarding its oversight function, which should be documented and available to relevant Regulatory Authorities, if any. The main features of the procedures should be Made Available to Stakeholders. These procedures should include:</p> <ul style="list-style-type: none"> <li>a) The terms of reference of the oversight function;</li> <li>b) Criteria to select members of the oversight function;</li> <li>c) The summary details of membership of any committee or arrangement charged with the oversight function, along with any declarations of conflicts of interest and processes for election, nomination or removal and replacement of committee members.</li> </ul> <p>The responsibilities of the oversight function</p>	<p>Members of the Index Committee have profound knowledge of the market and economy. By including those who are not related to the index administration, its independence from the index administration is secured.</p> <p>All the members are chosen within Nikkei and as described in Principle 3, and as such, there is no concern for conflicts of interests.</p>	

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<p>include:</p> <p>a) Oversight of the Benchmark design:</p> <ul style="list-style-type: none"><li>i. Periodic review of the definition of the Benchmark and its Methodology;</li><li>ii. Taking measures to remain informed about issues and risks to the Benchmark, as well as commissioning external reviews of the Benchmark (as appropriate);</li><li>iii. Overseeing any changes to the Benchmark Methodology, including assessing whether the Methodology continues to appropriately measure the underlying Interest, reviewing proposed and implemented changes to the Methodology, and authorising or requesting the Administrator to undertake a consultation with Stakeholders where known or its Subscribers on such changes as per Principle 12; and</li></ul>		

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<p>iv. Reviewing and approving procedures for termination of the Benchmark, including guidelines that set out how the Administrator should consult with Stakeholders about such cessation.</p> <p>b) Oversight of the integrity of Benchmark determination and control framework:</p> <p>i. Overseeing the management and operation of the Benchmark, including activities related to Benchmark determination undertaken by a third party;</p> <p>ii. Considering the results of internal and external audits, and following up on the implementation of remedial actions highlighted in the results of these audits; and</p> <p>iii. Overseeing any exercise of Expert Judgment by the Administrator and ensuring Published Methodologies have been followed.</p> <p><b>Where conflicts of interests may arise in</b></p>		

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<p><b>the Administrator due to its ownership structures or controlling interests, or due to other activities conducted by any entity owning or controlling the Administrator or by the Administrator or any of its affiliates:</b> the Administrator should establish an independent oversight function which includes a balanced representation of a range of Stakeholders where known, Subscribers and Submitters, which is chosen to counterbalance the relevant conflict of interest.</p>		
<p><b>Where a Benchmark is based on Submissions:</b> the oversight function should provide suitable oversight and challenge of the Submissions by:</p> <p>a) Overseeing and challenging the scrutiny and monitoring of inputs or Submissions by the Administrator. This could include regular discussions of inputs or Submission patterns, defining parameters against which inputs or Submissions can be analysed, or querying the role of the Administrator in</p>	<p>Not applicable since Nikkei Indexes are not based on submissions.</p>	<p>As the pre-conditions with the determination of the financial indexes are different from those of IOSCO principles, Nikkei designs and implements no applicable processes. DTTL does not perform the procedures therewith.</p>

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<p>challenging or sampling unusual inputs or Submissions;</p> <p>b) Overseeing the Code of Conduct for Submitters;</p> <p>c) Establishing effective arrangements to address breaches of the Code of Conduct for Submitters; and</p> <p>d) Establishing measures to detect potential anomalous or suspicious Submissions and in case of suspicious activities, to report them, as well as any misconduct by Submitters of which it becomes aware to the relevant Regulatory Authorities, if any.</p>		
<b>Quality of the Benchmark</b>		
<p><b>6. Benchmark Design</b></p> <p>The design of the Benchmark should seek to achieve, and result in an accurate and reliable representation of the economic realities of the Interest it seeks to measure, and eliminate factors that might result in a distortion of the price, rate, index or value of the Benchmark.</p> <p>Benchmark design should take into account the following generic non-exclusive features,</p>	<p>Nikkei Indexes are designed based on the definitions of the value they measure and roles in the investment. The value and the roles are different for each index and described in the index guidebook under the sections such as "Introduction" and/or "Concept."</p> <p>Constituents (samples) of the Nikkei Indexes are listed and traded on the regulated exchanges and Nikkei has concluded that they sufficiently meet the adequacy standard. Liquidity of the stocks such as trading volume</p>	<p>DTTL obtained the index guidebook for a period subject to a review and verified that its contents include "Introduction" and/or "Concept."</p> <p>DTTL obtained the index guidebook for a period subject to a review and verified that it stipulates when selections of stocks used in the calculation of Nikkei indexes are determined, and the liquidity of these stocks is required</p>

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<p>and other factors should be considered, as appropriate to the particular Interest:</p> <ul style="list-style-type: none"> <li>a) Adequacy of the sample used to represent the Interest;</li> <li>b) Size and liquidity of the relevant market (for example whether there is sufficient trading to provide observable, transparent pricing);</li> <li>c) Relative size of the underlying market in relation to the volume of trading in the market that references the Benchmark;</li> <li>d) The distribution of trading among Market Participants (market concentration);</li> <li>e) Market dynamics (e.g., to ensure that the Benchmark reflects changes to the assets underpinning a Benchmark).</li> </ul>	<p>is part of the consideration in the determination of stocks comprising the indexes.</p> <p>Refer to each index guidebook for more detail.</p>	<p>to be considered.</p>
<p><b>7. Data Sufficiency</b></p> <p>The data used to construct a Benchmark determination should be sufficient to accurately and reliably represent the Interest measured by the Benchmark and should:</p> <ul style="list-style-type: none"> <li>a) Be based on prices, rates, indices or values that have been formed by the</li> </ul>	<p>Nikkei Indexes are determined using the prices formed in the regulated exchanges and meet the data sufficiency requirements.</p>	<p>As the pre-conditions with the determination of the financial indexes are different from those of IOSCO principles, Nikkei designs and implements no applicable processes. DTTL does not perform the procedures therewith.</p>

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<p>competitive forces of supply and demand in order to provide confidence that the price discovery system is reliable; and</p> <p>b) Be anchored by observable transactions entered into at arm's length between buyers and sellers in the market for the Interest the Benchmark measures in order for it to function as a credible indicator of prices, rates, indices or values.</p> <p>This Principle requires that a Benchmark be based upon (i.e., <i>anchored in</i>) an active market having observable <i>Bona Fide, Arms-Length Transactions</i>. This does not mean that every individual Benchmark determination must be constructed solely of transaction data. Provided that an active market exists, conditions in the market on any given day might require the Administrator to rely on different forms of data tied to observable market data as an adjunct or supplement to transactions.</p>		

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<p>Depending upon the Administrator's Methodology, this could result in an individual Benchmark determination being based predominantly, or exclusively, on bids and offers or extrapolations from prior transactions. This is further clarified in Principle 8.</p> <p>Provided that subparagraphs (a) and (b) above are met, Principle 7 does not preclude Benchmark Administrators from using executable bids or offers as a means to construct Benchmarks where anchored in an observable market consisting of <i>Bona Fide</i>, Arms-Length transactions.<sup>23</sup></p> <p>This Principle also recognizes that various indices may be designed to measure or reflect the performance of a rule-based investment strategy, the volatility or behaviour of an index or market or other aspects of an active market. Principle 7 does not preclude the use of non-transactional data for such indices that are not designed to represent transactions and where the nature of the index is such that non-transactional</p>		

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<p>data is used to reflect what the index is designed to measure. For example, certain volatility indices, which are designed to measure the expected volatility of an index of securities transactions, rely on non-transactional data, but the data is derived from and thus "anchored" in an actual functioning securities or options market.</p>		
<p><b>8. Hierarchy of Data Inputs</b>            An Administrator should establish and Publish or Make Available clear guidelines regarding the hierarchy of data inputs and exercise of Expert Judgment used for the determination of Benchmarks. In general, the hierarchy of data inputs should include:</p> <ul style="list-style-type: none"> <li>a) Where a Benchmark is dependent upon Submissions, the Submitters' own concluded arms-length transactions in the underlying interest or related markets;</li> <li>b) Reported or observed concluded Arm's-length Transactions in the underlying interest;</li> </ul>	<p>Nikkei Indexes are determined using prices derived in the regulated exchanges and there is no hierarchy of data inputs.</p>	<p>As the pre-conditions with the determination of the financial indexes are different from those of IOSCO principles, Nikkei designs and implements no applicable processes. DTTL does not perform the procedures therewith.</p>

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<p>c) Reported or observed concluded Arm's-length Transactions in related markets;</p> <p>d) Firm (executable) bids and offers; and</p> <p>e) Other market information or Expert Judgments.</p> <p>Provided that the Data Sufficiency Principle is met (i.e., an active market exists), this Principle is not intended to restrict an Administrator's flexibility to use inputs consistent with the Administrator's approach to ensuring the quality, integrity, continuity and reliability of its Benchmark determinations, as set out in the Administrator's Methodology. The Administrator should retain flexibility to use the inputs it believes are appropriate under its Methodology to ensure the quality and integrity of its Benchmark. For example, certain Administrators may decide to rely upon Expert Judgment in an active albeit low liquidity market, when transactions may not be consistently available each day. IOSCO also recognizes that there might be</p>		

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<p>circumstances (e.g., a low liquidity market) when a confirmed bid or offer might carry more meaning than an outlier transaction. Under these circumstances, non-transactional data such as bids and offers and extrapolations from prior transactions might predominate in a given Benchmark determination.</p>		
<p><b>9. Transparency of Benchmark Determinations</b></p> <p>The Administrator should describe and publish with each Benchmark determination, to the extent reasonable without delaying an Administrator publication deadline:</p> <p>a) A concise explanation, sufficient to facilitate a Stakeholder's or Market Authority's ability to understand how the determination was developed, including, at a minimum, the size and liquidity of the market being assessed (meaning the number and volume of transactions submitted), the range and average volume and range and average of price,</p>	<p>Nikkei stipulates in the "General Policy" that objectives, determination, constituent selection, and other calculation policies shall be described in the index guidebook and the index guidebook shall be made publicly available in the "Official Index Website".</p>	<p>DTTL obtained the "General Policy" and verified that Nikkei's response to this principle for the disclosure of the calculation methodology are described in the "General Policy". DTTL also confirmed that the index guidebook for each index included in Nikkei Indexes is disclosed in the "Official Index Website."</p>

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<p>and indicative percentages of each type of market data that have been considered in a Benchmark determination; terms referring to the pricing Methodology should be included (i.e., <i>transaction-based, spread-based or interpolated/extrapolated</i>);</p> <p>b) A concise explanation of the extent to which and the basis upon which Expert Judgment if any, was used in establishing a Benchmark determination.</p>		
<p><b>10. Periodic Review</b></p> <p>The Administrator should periodically review the conditions in the underlying Interest that the Benchmark measures to determine whether the Interest has undergone structural changes that might require changes to the design of the Methodology. The Administrator also should periodically review whether the Interest has diminished or is non-functioning such that it can no longer function as the basis for a credible Benchmark.</p>	<p>Nikkei stipulates in the "General Policy" that, at the Index Administration Meeting for the annual review of the index constituents, Nikkei shall review and decide if there is a structural change in the underlying interest which necessitate the changes to the calculation methodology. Refer to the Principle 12 regarding the changes to the methodology.</p>	<p>DTTL obtained the "General Policy" and verified that Nikkei Indexes are to be regularly reviewed as described in the Nikkei's response to this principle.</p> <p>DTTL further obtained Index Administration Meeting minutes and verified that the conditions in the underlying interest of Nikkei Indexes are periodically reviewed.</p>

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<p>The Administrator should Publish or Make Available a summary of such reviews where material revisions have been made to a Benchmark, including the rationale for the revisions.</p>		
<p><b>Quality of the Methodology</b></p>		
<p><b>11. Content of the Methodology</b></p> <p>The Administrator should document and Publish or Make Available the Methodology used to make Benchmark determinations.</p> <p>The Administrator should provide the rationale for adopting a particular Methodology. The Published Methodology should provide sufficient detail to allow Stakeholders to understand how the Benchmark is derived and to assess its representativeness, its relevance to particular Stakeholders, and its appropriateness as a reference for financial instruments.</p> <p>At a minimum, the Methodology should contain:</p> <p>a) Definitions of key terms;</p>	<p>As described under the Nikkei's response to the Principle 9, Nikkei publishes and makes available to the public the methodologies of Nikkei Indexes as an index guidebook.</p> <p>a), b) Information such as the definitions of key terms, determination process, input data selection and the combinations are described in the respective index guidebook.</p> <p>c) Since the Nikkei Indexes are determined using the prices derived from the regulated exchanges, there is no expert judgement in the determination.</p> <p>d) Nikkei stipulates in the "General Policy" that Nikkei determines the indexes using the latest available prices from the exchanges based on the procedures described</p>	<p>DTTL obtained the "General Policy" and Index guidebooks and verified that Nikkei's response to this principle are stipulated in the "General Policy" and/or "Index guide" as described. DTTL also confirmed that the index guidebooks were disclosed in the "Official Index Website." DTTL further confirmed that the "Contact Form" was available to the public on the "Official Index Website."</p>

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<p>b) All criteria and procedures used to develop the Benchmark, including input selection, the mix of inputs used to derive the Benchmark, the guidelines that control the exercise of Expert Judgment by the Administrator, priority given to certain data types, minimum data needed to determine a Benchmark, and any models or extrapolation methods;</p> <p>c) Procedures and practices designed to promote consistency in the exercise of Expert Judgment between Benchmark determinations;</p> <p>d) The procedures which govern Benchmark determination in periods of market stress or disruption, or periods where data sources may be absent (e.g., theoretical estimation models);</p> <p>e) The procedures for dealing with error reports, including when a revision of a Benchmark would be applicable;</p> <p>f) Information regarding the frequency for internal reviews and approvals of the</p>	<p>in the index guidebook.</p> <p>e) Nikkei stipulates in the "General Policy" the conditions and procedures to revise the indexes.</p> <p>f) Nikkei stipulates in the "General Policy" that reviews of the methodologies be conducted at the Index Administration Meeting when and where necessary.</p> <p>g) Nikkei stipulates in the "General Policy" that Nikkei accepts questions and comments from stakeholders and strives to respond to such questions promptly and appropriately. Nikkei provides the "Contact Form" on its "Official Index Website".</p> <p>h) Nikkei stipulates in the "General Policy" that potential limitations be discussed at the periodic review under Principle 10.</p>	

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<p>Methodology. Where applicable, the Published Methodologies should also include information regarding the procedures and frequency for external review of the Methodology;</p> <p>g) The circumstances and procedures under which the Administrator will consult with Stakeholders, as appropriate; and</p> <p>h) The identification of potential limitations of a Benchmark, including its operation in illiquid or fragmented markets and the possible concentration of inputs.</p>		
<p><b>Where a Benchmark is based on Submissions, the additional Principle also applies:</b></p> <p>The Administrator should clearly establish criteria for including and excluding Submitters. The criteria should consider any issues arising from the location of the Submitter, if in a different jurisdiction to the Administrator. These criteria should be</p>	<p>Not applicable since Nikkei Indexes are not based on submissions.</p>	<p>As the pre-conditions with the determination of the financial indexes are different from those of IOSCO principles, Nikkei designs and implements no applicable processes. DTTL does not perform the procedures therewith.</p>

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<p>available to any relevant Regulatory Authorities, if any, and Published or Made Available to Stakeholders. Any provisions related to changes in composition, including notice periods should be made clear.</p>		
<p><b>12. Changes to the Methodology</b>            An Administrator should Publish or Make Available the rationale of any proposed material change in its Methodology, and procedures for making such changes. These procedures should clearly define what constitutes a material change, and the method and timing for consulting or notifying Subscribers (and other Stakeholders where appropriate, taking into account the breadth and depth of the Benchmark's use) of changes.             Those procedures should be consistent with the overriding objective that an Administrator must ensure the continued integrity of its Benchmark determinations. When changes are proposed, the Administrator should specify exactly what</p>	<p>In its General Policy, Nikkei defines a material change in the methodology as "the changes in the underlying interest that the Nikkei Indexes intend to measure as well as the changes in the constituent selection rules or index calculation method which makes managers of the financial instruments linked to the Nikkei Indexes alter the composition of the products."             Necessity of a material change is discussed in the Index Administration Meeting and reviewed and decided by the Index Committee. To consider the responses by the stakeholders, such changes will be made after sufficient length of advanced notice period.             There was no material change from February 1, 2019, to June 30, 2019.</p>	<p>DTTL obtained the "General Policy" and verified that it included contents as described in the Nikkei's response to this principle. DTTL also made inquiry to a responsible person and confirmed that there was no material change in the calculation methodologies of Nikkei Indexes in the period from February 1, 2019, to June 30, 2019. DTTL inspected the "Official Index Website" to corroborate that there was no material change in the calculation methodologies of Nikkei Indexes.</p>

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<p>these changes entail and when they are intended to apply.</p> <p>The Administrator should specify how changes to the Methodology will be scrutinised, by the oversight function.</p> <p>The Administrator should develop Stakeholder consultation procedures in relation to changes to the Methodology that are deemed material by the oversight function, and that are appropriate and proportionate to the breadth and depth of the Benchmark's use and the nature of the Stakeholders. Procedures should:</p> <ul style="list-style-type: none"> <li>a) Provide advance notice and a clear timeframe that gives Stakeholders sufficient opportunity to analyse and comment on the impact of such proposed material changes, having regard to the Administrator's assessment of the overall circumstances; and</li> <li>b) Provide for Stakeholders' summary</li> </ul>		

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<p>comments, and the Administrator's summary response to those comments, to be made accessible to all Stakeholders after any given consultation period, except where the commenter has requested confidentiality.</p>		
<p><b>13. Transition</b> Administrators should have clear written policies and procedures, to address the need for possible cessation of a Benchmark, due to market structure change, product definition change, or any other condition which makes the Benchmark no longer representative of its intended Interest. These policies and procedures should be proportionate to the estimated breadth and depth of contracts and financial instruments that reference a Benchmark and the economic and financial stability impact that might result from the cessation of the Benchmark. The Administrator should take into account the views of Stakeholders and any relevant</p>	<p>Nikkei establishes the "Cessation Policy" and makes it available to the public through its "Official Index Website".</p> <p>a) Nikkei stipulates in the "Cessation Policy" that when an index being used for financial instruments is permanently ceased, considerations are rendered to the stakeholders such as the provider of the financial instruments by an alternative index or sufficient advanced notice period.</p> <p>b) Within each index guidebook, Nikkei includes the statements which stipulate that Nikkei has right to change or cease the index. The same statements are included in the license agreement for financial instruments, and for stakeholders to acknowledge</p>	<p>DTTL obtained the "Cessation Policy" and verified that it includes contents as described in the Nikkei's response to this principle. DTTL also confirmed that "Cessation Policy" was disclosed on the "Official Index Website."</p> <p>b) DTTL obtained samples from a period subject to DTTL's work of the license agreement of Nikkei Indexes and the index guidebook and verified that they included contents as described in Nikkei's response to this principle.</p>

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<p>Regulatory and National Authorities in determining what policies and procedures are appropriate for a particular Benchmark.</p> <p>These written policies and procedures should be Published or Made Available to all Stakeholders.</p> <p>Administrators should encourage Subscribers and other Stakeholders who have financial instruments that reference a Benchmark to take steps to make sure that:</p> <ul style="list-style-type: none"> <li>a) Contracts or other financial instruments that reference a Benchmark, have robust fall-back provisions in the event of material changes to, or cessation of, the referenced Benchmark; and</li> <li>b) Stakeholders are aware of the possibility that various factors, including external factors beyond the control of the Administrator, might necessitate material changes to a Benchmark.</li> </ul> <p>Administrators' written policies and</p>	<p>the possibility of significant change or cessation.</p> <p>There was no cessation or transition from February 1, 2019, to June 30, 2019.</p>	<p>DTTL further made inquiry to a responsible person and confirmed that there were no transitions of Nikkei Indexes in the period from February 1, 2019, to June 30, 2019.</p>

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<p>procedures to address the possibility of Benchmark cessation could include the following factors, if determined to be reasonable and appropriate by the Administrator:</p> <p>a) Criteria to guide the selection of a credible, alternative Benchmark such as, but not limited to, criteria that seek to match to the extent practicable the existing Benchmark's characteristics (e.g., credit quality, maturities and liquidity of the alternative market), differentials between Benchmarks, the extent to which an alternative Benchmark meets the asset/liability needs of Stakeholders, whether the revised Benchmark is investable, the availability of transparent transaction data, the impact on Stakeholders and impact of existing legislation;</p> <p>b) The practicality of maintaining parallel Benchmarks (e.g., where feasible, maintain the existing Benchmark for a defined period of time to permit existing</p>		

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<p>contracts and financial instruments to mature and publish a new Benchmark) in order to accommodate an orderly transition to a new Benchmark;</p> <p>c) The procedures that the Administrator would follow in the event that a suitable alternative cannot be identified;</p> <p>d) In the case of a Benchmark or a tenor of a Benchmark that will be discontinued completely, the policy defining the period of time in which the Benchmark will continue to be produced in order to permit existing contracts to migrate to an alternative Benchmark if necessary; and</p> <p>e) The process by which the Administrator will engage Stakeholders and relevant Market and National Authorities, as appropriate, in the process for selecting and moving towards an alternative Benchmark, including the timeframe for any such action commensurate with the tenors of the financial instruments referencing the Benchmarks and the</p>		

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<p>adequacy of notice that will be provided to Stakeholders.</p>		
<p><b>14. Submitter Code of Conduct</b>            Where a Benchmark is based on Submissions, the following additional Principle also applies:</p> <p>The Administrator should develop guidelines for Submitters ("Submitter Code of Conduct"), which should be available to any relevant Regulatory Authorities, if any and Published or Made Available to Stakeholders.</p> <p>The Administrator should only use inputs or Submissions from entities which adhere to the Submitter Code of Conduct and the Administrator should appropriately monitor and record adherence from Submitters. The Administrator should require Submitters to confirm adherence to the Submitter Code of Conduct annually and whenever a change to the Submitter Code of Conduct has occurred.</p>	<p>Not applicable since Nikkei Indexes are not based on submissions.</p>	<p>As the pre-conditions with the determination of the financial indexes are different from those of IOSCO principles, Nikkei designs and implements no applicable processes. DTTL does not perform the procedures therewith.</p>

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<p>The Administrator's oversight function should be responsible for the continuing review and oversight of the Submitter Code of Conduct.</p> <p>The Submitter Code of Conduct should address:</p> <ul style="list-style-type: none"><li>a) The selection of inputs;</li><li>b) Who may submit data and information to the Administrator;</li><li>c) Quality control procedures to verify the identity of a Submitter and any employee(s) of a Submitter who report(s) data or information and the authorization of such person(s) to report market data on behalf of a Submitter;</li><li>d) Criteria applied to employees of a Submitter who are permitted to submit data or information to an Administrator on behalf of a Submitter;</li><li>e) Policies to discourage the interim withdrawal of Submitters from surveys or Panels;</li><li>f) Policies to encourage Submitters to submit all relevant data; and</li></ul>		

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<p>g) The Submitters' internal systems and controls, which should include:</p> <ul style="list-style-type: none"><li>i. Procedures for submitting inputs, including Methodologies to determine the type of eligible inputs, in line with the Administrator's Methodologies;</li><li>ii. Procedures to detect and evaluate suspicious inputs or transactions, including inter-group transactions, and to ensure the Bona Fide nature of such inputs, where appropriate;</li><li>iii. Policies guiding and detailing the use of Expert Judgment, including documentation requirements;</li><li>iv. Record keeping policies;</li><li>v. Pre-Submission validation of inputs, and procedures for multiple reviews by senior staff to check inputs;</li><li>vi. Training, including training with respect to any relevant regulation (covering Benchmark regulation or any market abuse regime);</li><li>vii. Suspicious Submission reporting;</li></ul>		

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<p>viii. Roles and responsibilities of key personnel and accountability lines;</p> <p>ix. Internal sign off procedures by management for submitting inputs;</p> <p>x. Whistle blowing policies (in line with Principle 4); and</p> <p>xi. Conflicts of interest procedures and policies, including prohibitions on the Submission of data from Front Office Functions unless the Administrator is satisfied that there are adequate internal oversight and verification procedures for Front Office Function Submissions of data to an Administrator (including safeguards and supervision to address possible conflicts of interests as per paragraphs (v) and (ix) above), the physical separation of employees and reporting lines where appropriate, the consideration of how to identify, disclose, manage, mitigate and avoid existing or potential</p>		

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<p>incentives to manipulate or otherwise influence data inputs (whether or not in order to influence the Benchmark levels), including, without limitation, through appropriate remuneration policies and by effectively addressing conflicts of interest which may exist between the Submitter's Submission activities (including all staff who perform or otherwise participate in Benchmark Submission responsibilities), and any other business of the Submitter or of any of its affiliates or any of their respective clients or customers.</p>		
<p><b>15. Internal Controls over Data Collection</b> When an Administrator collects data from any external source the Administrator should ensure that there are appropriate internal controls over its data collection and transmission processes. These controls should</p>	<p>For the Nikkei Indexes not commissioned to the third parties and calculated by Nikkei, the following outside data points are used. Nikkei uses the spot and forward currency exchange rates provided by WM Reuters in the calculation of the Currency Hedged Indexes. These rates provided by WM</p>	<p>As the pre-conditions with the determination of the financial indexes are different from those of IOSCO principles, Nikkei designs and implements no applicable processes. DTTL does not perform the procedures therewith.</p>

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<p>address the process for selecting the source, collecting the data and protecting the integrity and confidentiality of the data. Where Administrators receive data from employees of the Front Office Function, the Administrator should seek corroborating data from other sources.</p>	<p>Reuters are the de facto standard in the finance field and widely used by other currency hedged indexes.</p> <p>The stock prices used in the calculation of the Nikkei 225 High Dividend Yield Stock 50 Index are those published by the TSE. The options prices used in the calculation of the Nikkei 225 Covered Call Index, and the futures prices and delivery months used in the calculations of the Nikkei 225 VI Futures Index are those published by the Osaka Exchange.</p> <p>Since these data points are widely used and sufficiently reliable, Nikkei has concluded that this Principle 15 is not applicable.</p> <p>Since Nikkei Indexes are determined using the prices formed in the regulated exchanges, Nikkei does not receive data from employees in the front office function.</p>	
<b>Accountability</b>		
<p><b>16. Complaints Procedures</b></p> <p>The Administrator should establish and Publish or Make Available a written complaints procedures policy, by which Stakeholders may submit complaints</p>	<p>Nikkei establishes the "Complaints Policy" and makes it available to the public through the "Official Index Website".</p> <p>"Complaints Policy" defines the "complaint" as "a</p>	<p>DTTL obtained the "Complaints Policy" and verified that it includes contents as described in the Nikkei's response to this principle. DTTL also confirmed that "Complaints Policy" was disclosed on the "Official Index Website."</p> <p>DTTL further inquired of a responsible person and</p>

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<p>including concerning whether a specific Benchmark determination is representative of the underlying Interest it seeks to measure, applications of the Methodology in relation to a specific Benchmark determination(s) and other Administrator decisions in relation to a Benchmark determination.</p> <p>The complaints procedures policy should:</p> <ul style="list-style-type: none"><li>a) Permit complaints to be submitted through a user-friendly complaints process such as an electronic Submission process;</li><li>b) Contain procedures for receiving and investigating a complaint made about the Administrator's Benchmark determination process on a timely and fair basis by personnel who are independent of any personnel who may be or may have been involved in the subject of the complaint, advising the complainant and other relevant parties of the outcome of its investigation within</li></ul>	<p>complaint or request pertaining to the Nikkei Index determination process submitted from a company which has a license to use the Nikkei Indexes". It provides the list of information to be supplied upon claiming the complaints and stipulates that Nikkei shall consider the complaint seriously and swiftly respond.</p> <p>Complaints are submitted through "Contact Form" on the "Official Index Website".</p> <p>Record of official complaints shall be kept for at least 5 years.</p>	<p>confirmed that there were no complaints to Nikkei Indexes in the past five years.</p>

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<p>a reasonable period and retaining all records concerning complaints;</p> <p>c) Contain a process for escalating complaints, as appropriate, to the Administrator's governance body; and</p> <p>d) Require all documents relating to a complaint, including those submitted by the complainant as well as the Administrator's own record, to be retained for a minimum of five years, subject to applicable national legal or regulatory requirements.</p> <p>Disputes about a Benchmarking determination, which are not formal complaints, should be resolved by the Administrator by reference to its standard appropriate procedures. If a complaint results in a change in a Benchmark determination, that should be Published or Made Available to Subscribers and Published or Made Available to Stakeholders as soon as possible as set out in the Methodology.</p>		

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<p><b>17. Audits</b></p> <p>The Administrator should appoint an independent internal or external auditor with appropriate experience and capability to periodically review and report on the Administrator's adherence to its stated criteria and with the Principles. The frequency of audits should be proportionate to the size and complexity of the Administrator's operations.</p> <p>Where appropriate to the level of existing or potential conflicts of interest identified by the Administrator (except for Benchmarks that are otherwise regulated or supervised by a National Authority other than a relevant Regulatory Authority), an Administrator should appoint an independent external auditor with appropriate experience and capability to periodically review and report on the Administrator's adherence to its stated Methodology. The frequency of audits should be proportionate to the size and complexity of the Administrator's Benchmark operations</p>	<p>Nikkei commissions an independent auditor on a yearly basis to assure the descriptions regarding the design, implementation and the operating effectiveness of the responses comply with the IOSCO Principles.</p>	<p>Independent Assurance Report is included in Section 3.</p>

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and the breadth and depth of Benchmark use by Stakeholders		
<p><b>18. Audit Trail</b></p> <p>Written records should be retained by the Administrator for five years, subject to applicable national legal or regulatory requirements on:</p> <ul style="list-style-type: none"> <li>a) All market data, Submissions and any other data and information sources relied upon for Benchmark determination;</li> <li>b) The exercise of Expert Judgment made by the Administrator in reaching a Benchmark determination;</li> <li>c) Other changes in or deviations from standard procedures and Methodologies, including those made during periods of market stress or disruption;</li> <li>d) The identity of each person involved in producing a Benchmark determination; and</li> <li>e) Any queries and responses relating to data inputs.</li> </ul>	<p>Nikkei maintains a database of the information used to calculate the indexes. Nikkei can confirm the determination process of the indexes for the past 5 years.</p> <ul style="list-style-type: none"> <li>a) Nikkei retains information such as security prices used to calculate the Nikkei Indexes in a database for five years.</li> <li>b) There is no expert judgement in the determination of the Nikkei Indexes.</li> <li>c) Changes in the index methodology and index determinations deviated from standard procedures are announced on the "Official Index Website". Information regarding the index management since 2000, including the changes and deviations, is available in the "News &amp; Release" section of the</li> </ul>	<p>DTTL obtained calculation results for the selected Nikkei Indexes and verified that there is a framework in place to check the calculations of Nikkei Indexes.</p> <ul style="list-style-type: none"> <li>a) DTTL obtained a selection of the calculation results of Nikkei Indexes and information used for the calculation, and verified that the information was retained for five years.</li> <li>b) As the pre-conditions with the determination of the financial indexes are different from those of IOSCO principles, Nikkei designs and implements no applicable processes. DTTL does not perform the procedures therewith.</li> <li>c) DTTL inspected the "Official Index Website" and noted that the information about Nikkei Indexes and the calculation methodology were disclosed on the website.</li> </ul>

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<p>If these records are held by a Regulated Market or Exchange the Administrator may rely on these records for compliance with this Principle, subject to appropriate written record sharing agreements.</p>	<p>"Official Index Website".</p> <p>d) Record of the members of the Index Administration Meeting and Index Committee are retained for five years.</p> <p>e) Queries and answers by telephone calls and "Official Index Website" are retained.</p>	<p>d) DTTL obtained the list of members of the Index Administration Meeting and Index Committee and verified that the participants were recorded for five years.</p> <p>e) DTTL obtained a selection of inquiries and the Nikkei's responses to those inquiries and verified that the record of those inquiries and responses were retained for five years.</p>
<p><b>When a Benchmark is based on Submissions, the following additional Principle also applies:</b></p> <p>Submitters should retain records for five years subject to applicable national legal or regulatory requirements on:</p> <p>a) The procedures and Methodologies governing the Submission of inputs;</p> <p>b) The identity of any other person who submitted or otherwise generated any of the data or information provided to the Administrator;</p> <p>c) Names and roles of individuals</p>	<p>Not applicable since Nikkei Indexes are not based on submissions.</p>	<p>As the pre-conditions with the determination of the financial indexes are different from those of IOSCO principles, Nikkei designs and implements no applicable processes. DTTL does not perform the procedures therewith.</p>

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<p>responsible for Submission and Submission oversight;</p> <p>d) Relevant communications between submitting parties;</p> <p>e) Any interaction with the Administrator;</p> <p>f) Any queries received regarding data or information provided to the Administrator;</p> <p>g) Declaration of any conflicts of interests and aggregate exposures to Benchmark related instruments;</p> <p>h) Exposures of individual traders/desks to Benchmark related instruments in order to facilitate audits and investigations; and</p> <p>i) Findings of external/internal audits, when available, related to Benchmark Submission remedial actions and progress in implementing them.</p>		
<p><b>19. Cooperation with Regulatory Authorities</b></p> <p>Relevant documents, Audit Trails and other documents subject to these Principles shall be made readily available by the relevant</p>	<p>Nikkei Indexes are administered by Nikkei, a media company. Since Nikkei does not have a regulatory authority, there is no specific arrangements. However, for the stability and development of the financial markets, Nikkei shares information with the authorities</p>	<p>DTTL inquired of to a responsible person and noted that the Nikkei does not have a regulatory authority; however, DTTL was informed that Nikkei would communicate with the relevant regulatory authorities if necessary.</p>

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parties to the relevant Regulatory Authorities in carrying out their regulatory or supervisory duties and handed over promptly upon request.	when necessary.	