



# **JPX-Nikkei Index 400 Guidebook**

April 4, 2022

JPX Market Innovation & Research, Inc.  
Nikkei Inc.

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## Record of Changes

DATE	Changes
2014/6/2	<ul style="list-style-type: none"><li>• Clarified the treatment of the eligible constituents in the periodic review</li><li>• Added a remark for the final component selection in the periodic review</li><li>• Clarified the inclusion rule in addition to the periodic review</li></ul>
2014/10/8	<ul style="list-style-type: none"><li>• Added of a description about the Net Total Return Index (start calculating from 2014/10/20)</li></ul>
2016/6/2	<ul style="list-style-type: none"><li>• Clarified the description about a part of selection process for the periodic review.</li><li>• Clarified the description about the process for deciding the company to be considered as the main body of a newly established company in a merger.</li><li>• Added a description about the treatment of modified international accounting standards in data used for selection.</li><li>• Added a description about the treatment of “Japan Post Holdings Co., Ltd.” in changes in number of shares used for index calculation.</li><li>• Added a description about the retroactive calculation.</li></ul>
2016/8/5	<ul style="list-style-type: none"><li>• Clarified the treatment of Securities on Alert in “Removal of Constituents in addition to the Periodic Review”</li><li>• Revised criteria used for determining qualitative scores (effective as of the next periodic review (August 2017))</li></ul>
2017/7/11	<ul style="list-style-type: none"><li>• Added "V. Other 3. Information Disclosure" in accordance with a change in the entities that disclose information about JPX-Nikkei Index 400</li></ul>
2017/12/27	<ul style="list-style-type: none"><li>• Clarified criteria for exclusion from the pool of eligible constituents in the periodic review</li></ul>
2018/12/17	<ul style="list-style-type: none"><li>• Revised criteria used for determining qualitative scores (effective as of the next periodic review (August 2019))</li><li>• Revised the selection process for the periodic review (effective as of the next periodic review (August 2019))</li></ul>
2019/12/18	<ul style="list-style-type: none"><li>• Clarified criteria for exclusion from the pool of eligible constituents in the periodic review (effective as of the next periodic review (August 2020))</li><li>• Added a description about the financial data (effective as of the next periodic review (August 2020))</li><li>• Revised the data period used for determining qualitative scores and added a description thereof (effective as of the next periodic review (August 2020))</li><li>• Revised the date for adjusting base market value following the shortening of stock settlement cycle to T+2</li></ul>

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DATE	Changes
2020/6/30	<ul style="list-style-type: none"><li>• Revision to bring forward the date for minor adjustments related to ex-dividend</li></ul>
2022/4/4	<ul style="list-style-type: none"><li>• Revised eligible constituents in line with TSE market restructuring</li><li>• Added information and some rule clarifications in connection with the change of free-float weight calculation methodology, and the transition plan for the methodology change in line with the restructuring on April 4, 2022</li><li>• Revised the process for deciding the ranking of final scores (effective as of the next periodic review (August 2022))</li><li>• Revised the selection procedure for additional issues in the periodic review (effective as of the next periodic review (August 2022))</li><li>• Revised the criteria and data used for determining qualitative scores (effective as of the next periodic review (August 2022))</li><li>• Added revisions with regard to the business transfer to JPXI (applied on April 1, 2022 retroactively)</li><li>• Revised for clarification</li></ul>

## **Introduction**

- JPX Market Innovation & Research, Inc. (JPXI) and Nikkei Inc. (Nikkei) (hereinafter JPXI and Nikkei are collectively referred to as “the Index Provider”) calculate and publish JPX-Nikkei Index 400 (hereafter “JPX-Nikkei 400”) in accordance with the methods described in this document. If an event not specified in this document occurs, or if the Index Provider determines that it is difficult to apply the methods described in this document, the Index Provider may use an alternative method of index calculation and management as it deems appropriate.
- Copyright of this document is owned by the Index Provider and any copies, reprints and reproductions of this document in whole or in part are prohibited without the prior approval of the Index Provider. This document is prepared solely for the understanding of indices calculated and published by the Index Provider, and is not to be construed as a solicitation for trading any securities or related financial instruments. The Index Provider shall accept no liability or responsibility for any loss or damage arising from errors, delays, or termination of the calculation or publication of JPX-Nikkei 400, changes to its calculation or publication method, the use of JPX-Nikkei 400 or all or any part of this document or other similar events.
- The Index Provider calculates both price and total return versions of JPX-Nikkei 400.

(Reference Translation)

## **I. Outline of the Index**

- JPX-Nikkei 400 is composed of common stocks whose main market is the Tokyo Stock Exchange (TSE) Prime Market, Standard Market or Growth Market (In addition, the Index Provider may include equivalent issues whose inclusion it deemed is particularly necessary.). Constituents shall be selected by the Index Provider based on market capitalization, trading value, ROE, and other factors. Please refer to III. JPX-Nikkei Index 400 Constituent Selection for more details.
- The number of JPX-Nikkei 400 constituents shall be 400, as a general rule. This base number of constituents shall be used in the periodic review occurring in August. The number of constituents may temporarily fall below the base number due to delistings and other factors between reviews.
- A periodic review of constituents will be conducted once a year (August).
- The base date for index calculation is August 30, 2013. The base value is 10,000.

(Reference Translation)

## II. Index Calculation

### 1. Outline

- JPX-Nikkei 400 is calculated using free-float adjusted market value weighting. The index is denominated in points and is calculated to the second decimal place (values beyond the second decimal are rounded).

### 2. Formula

$$\text{Index} = \frac{\text{CMV}}{\text{BMV}} \times \text{Base Point}$$

CMV = Current market value

BMV = Base market value

Current Market Value

$$= \sum (\text{Number of Shares for Each Constituent} \\ \times \text{Stock Price for Each Constituent})$$

### 3. Stock Price Used for Calculation

- The stock prices used for calculating JPX-Nikkei 400 are determined by the following order of priority:

(1) Special quote or sequential trade quote, (2) Contract price, (3) base price for index Calculation when neither (1) or (2) are available (determined in the following order: (1) Theoretical ex-rights price, (2) Most recent special quote or sequential trade quote on or before the previous trading day, (3) Most recent contract price before the previous trading day.)

### 4. Number of Shares Used for Index Calculation

- The number of shares used for index calculation is determined by multiplying the total number of listed shares by the free-float weight (FFW) ratio following cap-adjustment .

$$\text{Number of Shares Used for Index Calculation for Each Stock} \\ = \text{Total Number of Listed Shares} \times \text{FFW Ratio following cap-adjustment}$$

(Reference Translation)

- The number of listed shares used for index calculation is the number of shares obtained through processes specially arranged for index calculation, based on the number of listed shares. Regularly, the number of each issue's listed shares used for index calculation is equivalent to that of each issue's outstanding shares, however, in the case of a stock split, for example, a temporary difference could occur between the two figures. This is because the number of listed shares changes on the listing change date, while the number of listed shares for index calculation changes on the ex-rights date.
- FFW ratio used in JPX-Nikkei 400 shall be the FFW ratio after cap-adjustment (FFW ratio x cap-adjustment ratio) with a maximum 1.5% constituent ratio based on market capitalization weight on the periodic selection base date. In cases where the cap maximum is exceeded following periodic selection, the cap-adjustment ratio shall not be altered until the periodic selection application date of the following year.
- However, in cases where there is a remarkable change in the constituent weight due to, for example, periodic review of the FFW described below or corporate consolidation, merger, acquisition, etc. of a JPX-Nikkei 400 constituent, an extraordinary revision of the cap-adjustment ratio of constituents may be conducted.

## **5. Free-Float Weight**

### (1) Outline

- Free-float weight (FFW) is the percentage of listed shares deemed to be available for trading in the market. The Index Provider calculates FFW for each listed company and uses this value in index calculation. The FFW of Company A may be different from that of Company B.
- A FFW is calculated by first estimating the number of non-free-float shares (listed shares deemed not to be available for trading in the market) using published materials such as securities reports, etc. (including data prepared by TOYO KEIZAI INC. based on annual securities reports. The same applies hereinafter.) Next, the non-FFW (Non-free-float shares / total listed shares) is calculated, then the FFW is obtained by subtracting the non-free-float factor from 1 (1 - Non-FFW). FFW is expressed as a figure in the range of 0.00000 to 1.00000 in increments of 0.00001.
- FFW is reviewed once a year in order to reflect the latest share ownership distribution. The timing of the FFW review varies depending on when earnings are announced. In



(Reference Translation)

addition to the periodic review, extraordinary reviews are conducted at the Index Provider's discretion if FFW changes significantly due to events such as third-party allotment.

## (2) Periodic Review

- The announcement date and effective date of the periodic FFW review varies according to when listed companies announce earnings as below:

Settlement Term	Announcement Date	Effective Date*
January – March	Fifth business day of October	Last business day of October
April – June	Fifth business day of January	Last business day of January
July – September	Fifth business day of April	Last business day of April
October – December	Fifth business day of July	Last business day of July

\*Adjustments will be made before markets open.

- At the periodic review, FFW is rounded up to the nearest 0.05 as below after subtracting the non-FFW from 1 (1 – Non-FFW).
- FFW for periodic review

1 – Non FFW	≤ 0.05	≤ 0.10	≤ 0.15	≤ 0.20	≤ 0.25	≤ 0.30	≤ 0.35	≤ 0.40	≤ 0.45
FFW	0.05	0.10	0.15	0.20	0.25	0.30	0.35	0.40	0.45

≤ 0.50	≤ 0.55	≤ 0.60	≤ 0.65	≤ 0.70	≤ 0.75	≤ 0.80	≤ 0.85	≤ 0.90	≤ 0.95	≤ 1.00
0.50	0.55	0.60	0.65	0.70	0.75	0.80	0.85	0.90	0.95	1.00

## (3) Extraordinary Review

- The Index Provider may review FFW in the following cases where it deems that the existing FFW is expected to be significantly affected.

Third-party allotment, conversion of preferred shares or exercise of subscription warrants, demerger, merger/stock swap, take-over bid (TOB) and other events deemed applicable by the Index Provider.
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## (4) Estimation of non-free-float shares

(Reference Translation)

a. Documents

Published materials such as securities reports, etc.

b. Estimation of non-free-float shares

The Index Provider considers the following to be non-free-float shares:

Shares held by the top 10 major shareholders, treasury and other similar stock (including “Cross-Shareholdings” (shares with limited voting rights as specified in Article 308 (1) of the Companies Act)), shares held by board members and other representatives, shares held by other listed companies for investment purposes other than pure investment (hereinafter “Specified Equity Securities”), and other shares deemed by the Index Provider to be unavailable for trading in the market.

- The Index Provider may treat shares held by the top 10 major shareholders as free-float shares set out in the below table (the list below is not exclusive.)
- Securities deemed to be held, as indicated in the section on the state of corporate governance, etc. in the securities report, will not be included in the estimation of non-free-float shares.

Condition	Major shareholder
Shares considered as free-float as a general rule	Securities finance companies, securities depositories, nominees for depository receipts
Shares likely to be deemed as free-float. Cases where any of the following conditions are met and the Index Provider deems it appropriate to consider* such shares as free-float. - There are descriptions in the securities report on the type of trust, the purpose of purchase of shares, etc. - It is clear that shares are held by several beneficiaries and managed centrally - It is clear that shares are held for margin transactions	Trust banks, master trusts, global custodians, insurance companies, securities companies, etc.

\*There are cases where the need to restrain extreme movements in FFW may be taken into account.

(5) Other (transition to the new FFW in line with the restructuring on April 4, 2022)

Changes in FFW due to the revision of the calculation method will be carried out as below.

Transition stage	Announcement date	Implementation date*
1 <sup>st</sup>	April 7, 2022	April 28, 2022

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2 <sup>nd</sup>	Same as above	May 31, 2022
3 <sup>rd</sup>	Same as above	June 30, 2022

\*Adjustments will be made before markets open.

In addition, the transition will be carried out as follows.

- For stocks whose FFW before cap-adjustment based on the current calculation methodology minus the FFW before cap-adjustment based on the revised calculation methodology exceeds 0.1, the upper limit of the fluctuation during the transition period will be set to 0.1.
- The same upper limit will be applied to post-transition periodic reviews of the FFW, which will be carried out according to the fiscal year end of each company after July 2022.
- The regular periodic reviews carried out at the end of April 2022, for listed companies with fiscal years ending July, August and September 2021, will also use the three-stage transition as above.

### **III. JPX-Nikkei Index 400 Constituent Selection**

#### **1. Initial Selection and Periodic Review**

##### **(1) Outline**

- Initial selection shall be conducted according to (2) Selection Criteria, with a base date of June 28, 2013.
- Periodic review of JPX-Nikkei 400 constituents (addition/removal) shall be conducted according to (2) Selection Criteria, based on market capitalization, etc. of issues on the base date.
- The base date for periodic review shall be the final business day of June of each year. The list of issues to be added/removed shall be released on the 5th business day of each August, and calculation of the index using the new constituents shall commence from the final business day of the August following the periodic review.

##### **(2) JPX-Nikkei 400 Selection Criteria**

- The selection process shall be conducted as follows. The “market capitalization” indicated below is based on the number of listed shares used for index calculation.

##### **i. Selection of eligible constituents**

###### **(a) Common stocks**

Common stocks whose main market is the TSE Prime Market, Standard Market or Growth Market on the base date (for dual-listed foreign stocks, as a general rule, only when their trading value at TSE in the most recent year from the base date is greater than that on their other listed exchanges) are regarded as eligible constituents.

However, at the initial selection stage, common stocks whose main market was the TSE 1st Section, 2nd Section, Mothers, or JASDAQ market on the base date (for dual-listed foreign stocks, as a general rule, only when their trading value at TSE in the most recent year from the base date is greater than that on their other listed exchanges) are regarded as eligible constituents.

###### **(b) Non-common stocks**

Issues other than common stocks may be included into the eligible constituents if they are regarded equivalent to common stocks and their inclusion is deemed particularly necessary by the Index Provider.

(Reference Translation)

- ii. Issues which fall under any of the following items shall be removed from the pool of eligible constituents.
  - (a) Listed for under 3 years on the base date (excluding cases of a company which underwent technical listing and was listed for 3 or more years prior to delisting)
  - (b) Non-disclosure of the latest earnings reports as stipulated in 4.(1) (a) below or internal control reports, except in cases that the Index Provider deems this to be unavoidable.
  - (c) Liabilities in excess of assets at the beginning or end of any of the periods in 4.(1) (a) below.
  - (d) Operating deficit in all of the periods in 4.(1) (a) below (for companies which have not disclosed operating profits, a deficit for the profits used in 4.(1) (c) below.
  - (e) Overall deficit in all of the earnings periods in 4.(1) (a) below.
  - (f) Notes regarding the going concern assumption in financial statements, etc. in the most recent earnings period of those in 4.(1) (a) below (including the quarterly financial statements, etc. submitted following such).
  - (g) Statement that there is a significant insufficiency that should be disclosed or that it is not possible to release appraisal of internal controls in the internal control report pertaining to the most recent earnings period of those in 4.(1) (a) below.
  - (h) Falling under any of the following on the base date:
    - (i) Security to be Delisted
    - (ii) Security on Alert
  - (i) Falling under any of the following within 1 year from the base date where the reason is significant
    - (i) Subject to public announcement measures
    - (ii) Requested to submit an improvement report for public inspection (including cases of resubmission)
    - (iii) Subject to payment of listing agreement violation penalty

Note: Circumstances of eligible constituents between the base date and the time of selection may also be considered as needed for (f) through (i) above.

- iii. The top 1,000 market capitalization issues shall be selected in descending order from the 1,200 issues remaining after ii. which have the highest total trading value over the 3 years up to the base date.

In cases of an absorption-type merger/stock swap during the relevant period, as a

(Reference Translation)

general rule, the trading value of the surviving company following the merger or the new parent company following the stock swap shall be used prior to such merger/stock swap.

In cases of technical listing via a stock transfer, merger for creating new company, or demerger, the trading value of the company which the Index Provider deems the subject of the corporate action pertaining to such technical listing in 4.(1) (a) below shall be used prior to the technical listing.

- iv. Overall scores are calculated after ranking scores are given to the issues in iii. above according to the following items. (For what data is used, please refer to 4. Handling of Data used for Selection.)
- (a) 3-year average ROE ranking (1<sup>st</sup>: 1,000 pts. – 1000<sup>th</sup>: 1 pt.)
  - (b) 3-year cumulative operating profit ranking (1<sup>st</sup>: 1,000 pts. – 1000<sup>th</sup>: 1 pt.)
  - (c) Market capitalization on the base date ranking (1<sup>st</sup>: 1,000 pts. – 1000<sup>th</sup>: 1 pt.)

Overall Score	=	0.4 ×	(a) 3-year average ROE ranking score
		+ 0.4 ×	(b) 3-year cumulative operating profit ranking score
		+ 0.2 ×	(c) market capitalization on the base date ranking score

- v. Qualitative scores shall be given to the issues in iii. above in consideration of the following matters. (The score is determined so that at most around 10 constituents are different from those chosen with only quantitative score in iv. above.) Matters used for determining qualitative scores may change considering the fulfillment situation, etc.

Item	Criteria	Reference Material
Appointment of independent directors and female board members/executive officers	- Out of the total number of directors, a majority are independent directors. - Out of board members and executive officers, at least one female is appointed as disclosed in "members of the board and executive officers" in the Securities Report.	Corporate Governance Report and Securities Report
Adoption of IFRS	Creation of the earnings report	TDnet

(Reference Translation)

	according to international financial reporting standards (IFRS), or disclosure of plans to apply IFRS	
Disclosure of English earnings information and/or Corporate Governance Report	English documents regarding the earnings information and/or Corporate Governance Report are disclosed via TDnet (Company Announcements Distribution Service in English)	TDnet

vi. The scores of above iv. and v. are added to determine the final scores.

$$\text{Final Score} = \text{Overall score in iv. above} + \text{Qualitative score in v. above}$$

Ranking of final scores shall be made from highest to lowest. However, issues whose 3-year average ROE and most recent ROE are both in the bottom 10% of the issues in iii. above or negative, or whose 3-year cumulative operating profit is negative shall be ranked lowest. In cases of issues with the same final score, ranking preference shall be given to the issue with the higher iv. (c) market capitalization on the base date ranking score.

vii. Selection shall be conducted as below, based on the final scores in vi. above.

(a) Initial Selection

The top 400 issues shall be selected according to the rankings in vi. above.

(b) Periodic Review

(i) The top 440 issues shall be selected according to the rankings in vi. above from the issues eligible as constituents of JPX-Nikkei 400 on the base date.

(ii) If 400 issues are not selected in the preceding paragraph (i), the top ranking issues according to the rankings in vi. above that meet the two conditions indicated below shall be selected until the number of constituents reaches 400.

- Either 3-year average ROE or latest ROE surpasses the median ranking in iii. above
- Ranking is at or within the top ranking 400 issues in vi. above

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- (iii) If the number of selected issues falls below 400 even after selection according to the preceding paragraph (ii), then the top-ranking 400 issues in vi. that were not selected shall be selected according to the rankings of 3-year average ROE until the number of constituents reaches 400.
- viii. If, as a result of the selection process above, the 400 constituents contain issues that will be delisted due to stock transfer, etc., adjustments for the final constituents may be conducted where deemed necessary.

Additionally, in cases where the Index Provider deems a selected issue significantly inappropriate as a constituent of the JPX-Nikkei 400, said issue may not be added.

## **2. Non-Periodic Removal**

- In cases where constituents are delisted, designated as Securities to be Delisted, or designated as Securities on Alert, they shall be removed from JPX-Nikkei 400 (see Chapter IV).
- Additionally, in cases where the Index Provider deems the continued inclusion of a constituent to be significantly inappropriate, said issue shall be removed from JPX-Nikkei 400.

## **3. Non-Periodic Inclusion**

- In cases where constituents are delisted due to conducting a stock transfer, stock swap, merger for the creation of a new company, or demerger pursuant to the former Commercial Code (shareholder-directed spinoff), and the newly created, surviving, or succeeding company resulting from said stock transfer, etc. is listed without delay, said newly created company, etc. shall be added only if the company that the Index Provider deems to be the subject of the newly created company (determined in consideration of allotment ratio, market value, trading value etc.) was a JPX-Nikkei 400 constituent (see Chapter IV).
- Even if the number of constituents in JPX-Nikkei 400 decreases between periodic reviews due to the removal of constituents by means other than the periodic review as described in the previous item 2., no supplementary inclusions are made to meet the intended number of constituents (inclusions to meet the intended number of constituents are only made during the periodic review in August).



#### 4. Handling of Data used for Selection

As a general rule, the following data is used for selection of the JPX-Nikkei 400 constituents.

##### (1) Financial Data

###### (a) General Rules pertaining to Financial Data

- The earnings reports of a listed company from the fiscal year ended in April 3 years prior to the year in which the base date falls to the fiscal year ended in March immediately preceding the base date shall be used.  
(Ex.) For selection in August 2013, earnings reports from the fiscal year ended April 2010 to the fiscal year ended March 2013 will be used.
- Consolidated earnings figures will be given preference. In cases of a fiscal year in which only non-consolidated earnings figures were disclosed, non-consolidated figures shall be used.
- In cases of an absorption-type merger/stock swap during the relevant period, as a general rule, the information of the surviving company following the merger or the new parent company following the stock swap shall be used for the fiscal years prior to such merger/stock swap.
- In cases of technical listing via succession due to a stock transfer, merger for the creation of a new company, or demerger, etc., the information of the company which the Index Provider deems the subject of the corporate action pertaining to said technical listing shall be used for the fiscal years prior to the technical listing (to be determined in consideration of factors such as stock transfer ratio, trading value, market capitalization, and other factors).
- The figures as of the end of the previous fiscal year shall be used as those for the beginning of the target fiscal year.

###### (b) 3-year average ROE

For companies using Japanese general accounting standards, the 3-year average ROE shall be calculated as below.

$$\text{3 year average ROE} = \frac{\text{Total Net Income in past 3 years}}{\text{Total equity capital (beginning to end of year average) in past 3 years}} \times 100$$

- For companies that prepare consolidated financial statements (Japanese standards), from the beginning of consolidated fiscal year started in April 1, 2015 “net income attributable to owners of the parent company” shall be used in place of “net income”.

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- For companies using IFRS/modified international accounting standards, “net profit of parent company holder” shall be used in place of net income, and “total equity (of parent company holder)” shall be used in place of total equity capital.
- For companies using US accounting standards, “net income of shareholders” shall be used in place of net income and “shareholders’ equity” shall be used in place of total equity capital.
- In cases where the number of months included in the fiscal years referred to in (1) (a) above exceeds or falls below 36 due to an irregular accounting period, related figures shall be adjusted to be equivalent to those for a 36-month period.

(c) 3-year cumulative operating profit

3-year cumulative operating profit shall be calculated as below.

$$3 \text{ year cumulative operating profit} = \text{Total operating profit in past 3 years}$$

- Companies which do not disclose operating profit shall use ordinary profit or income before taxes (in that order).
- In cases where the number of months included in the fiscal years referred to in (1) (a) above exceeds or falls below 36 due to an irregular accounting period, related figures shall be adjusted to be equivalent to those for a 36-month period.

(2) Data pertaining to matters for calculating qualitative score

(a) Corporate Governance Reports

The most recent Corporate Governance Report submitted by the 10th business day of July following the base date, after the end date of the most recent fiscal year of those in (1) (a) above shall be used (in cases where no report was submitted during such period, no qualitative score will be given pertaining to the appointment of independent outside directors).

(b) TDnet

- The qualitative score for "Adoption of IFRS" shall be determined using information registered at the time of the base date.
- The qualitative score for "Disclosure of English earnings information" will be determined using information registered by the end of the 3rd month after the end date of the most recent fiscal year of those in (1) (a) above.
- The qualitative score of "Disclosure of English Corporate Governance Report" will be determined using information registered in the past one year before the base date.

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- In cases where no information is registered as of the relevant time or during the relevant time period, no qualitative score will be given for the item in question.

(c) Securities Report

- For appointment status of female board members and executive officers, information provided in "Members of the Board and Executive Officers" in the Securities Report will be used.

## IV. Adjustments to Base Market Value

Whenever the market value of the index changes due to an increase or decrease in constituent issues, capital raising, or similar events other than market fluctuations, the base market values for JPX-Nikkei 400 is adjusted as follows to maintain continuity.

### 1. Events that Require Adjustment

#### (1) Inclusion or Removal of Constituents

	Event Requiring Adjustment		Adjustment Date	Stock Price Used for Adjustment
Inclusion	New listing of a newly established company resulting from a stock transfer, etc. (*1) that results in a JPX-Nikkei 400 constituent being delisted and the new company being included in JPX-Nikkei 400.		New listing date (*2)	Base Price
	Periodic review in August		Last business day of August	Stock price on business day before adjustment date
Removal	Delisting	New listing of a newly formed company resulting from a stock transfer, etc. (*1) that results in a JPX-Nikkei 400 constituent being delisted and the new company being included in JPX-Nikkei 400	New listing date of the newly formed company (normally two business days following delisting date)	Stock price on business day before delisting date (*3)
		Delisting other than those stated above (e.g. non-surviving company as a result of merger/stock swap, etc.)	Delisting date	Stock price on business day before adjustment date
	Designation as Securities to be Delisted or Securities on Alert		Four business days after such a designation (*4)	Stock price on business day before adjustment date
	Periodic review in August		Last business day of August	Stock price on business day before adjustment date

- Adjustments to the base market value are made after the end of trading on the business day before the adjustment date (i.e., before the market opens on the adjustment date). The same shall apply hereinafter.

\*1: Stock transfer, stock swap, merger for the creation of a new company, or demerger

\*2: Next business day when the new listing date falls on a holiday.

\*3: During the period from the delisting date to the business day before the date of removal from the index, the price on the business day before the delisting date is used for index calculation.

\*4: If the date of designation as Securities to be Delisted or Securities on Alert falls on a holiday, it will be the following business day.

#### (2) Changes in Number of Shares Used for Index Calculation

## (Reference Translation)

Event Requiring Adjustment		Adjustment Date	Stock Price Used for Adjustment
Change of FFW ratio following cap-adjustment		Change date	Stock price on business day before adjustment date
Public offering		Additional listing date (day after the payment date) (*1)	Stock price on business day before adjustment date
Third-party allotment		Five business days after additional listing date which is two business days after payment date	Stock price on business day before adjustment date
Capital increase through allotment to shareholders		Ex-rights date	Payment price per share
Exercise of subscription warrants		Last business day of the month following exercise	Stock price on business day before adjustment date
Conversion of preferred stock, etc.		Last business day of the month following conversion	Stock price on business day before adjustment date
Cancellation of treasury stock		Last business day of the month following cancellation	Stock price on business day before adjustment date
Merger /stock swap	Situations in which a constituent of JPXI-calculated indices (*2) is the non-surviving entity (mergers/stock swaps between two issues that are both constituents of an index calculated by JPXI)	Delisting date of the non-surviving entity	Stock price on business day before adjustment date
	Situations other than those described above	Listing change date (effective date)	Stock price on business day before adjustment date
Sale of shares held by the Japanese government (Nippon Telegraph and Telephone, Japan Tobacco, and Japan Post Holdings only)		Date determined by the Index Provider (*3)	Stock price on business day before adjustment date
Rights offering (*4)		Ex-rights date	Payment price per share
Demerger (absorption-type)		Additional listing date (effective date)	Stock price on business day before adjustment date
Other adjustments (*5)		Last business day of the month in which the information announced in "Sho-ho" (TSE Notice) or the last business day of the following month	Stock price on business day before adjustment date

- Since market value does not change when there is a stock price revision made due an increase (or decrease) in the number of shares used for index calculation such as a stock split or reverse stock split, etc., no adjustment is made to base market value (BMV).

(Reference Translation)

- \*1: Next business day when the additional listing date falls on a holiday (the same apply hereafter)
- \*2: As a general rule, limited to constituents of JPXI-calculated indices which are common stocks.
- \*3: Generally the delivery date
- \*4: Capital increase through gratis allotment of subscription warrants (namely, rights offering) corresponds to an increase in shares by the number of shares calculated by multiplying the number of listed shares used for index calculation as of the last day with rights by the number of subscription warrants allotted per share.
- \*5: For example, situations in which an issuer of convertible bonds or other securities conducts a stock split; the number of shares calculated based on ratios for stock splits, reverse stock splits, or share allotments to shareholders, etc. is different than the final number of shares determined after the effective date; or revisions have been made by listed companies after data has been reflected in index calculation.

**(3) Data Source**

- Information on the reasons for base market value adjustments, details on the adjustment, adjustment dates and other data are available through the “Sho-ho” (TSE Notice) published daily by TSE based on reports, etc. submitted by issuers. (Please refer to Section II 5. for information on calculating FFW.)
- If an issuer revises the contents of a previously published report that resulted in an index adjustment, retroactive index adjustments will NOT be made based on the revised contents

**2. Adjustment Method**

**(1) Indices that do not reflect dividends (i.e. price indices)**

i. Adjustment Method

- The base market value will be adjusted according to the formula below in order to maintain the continuity of the index:

$$\frac{\text{Previous Business Day Market Value}}{\text{Old Base Market Value (Before Adjustment)}} = \frac{(\text{Previous Business Day Market Value} \pm \text{Adjustment Amount})}{\text{New Base Market Value (After Adjustment)}}$$

\*Adjustment Amount = Increase (Decrease) in Number of Shares Used for Index Calculation x Stock Price Used for Adjustment

Therefore,

(Reference Translation)

$$\text{New Base Market Value} = (\text{Old Base Market Value} \times (\text{Previous Business Day Market Value} \pm \text{Adjustment Amount})) / (\text{Previous Business Day Market Value})$$

ii. Adjustment Example

- If, for example, the old base market value is 200 trillion yen and the previous day's market value is 400 trillion yen, the index value on the previous day will be:

$$\text{Previous Day's Index} = \text{¥}400 \text{ tn} \div \text{¥}200 \text{ tn} \times 10,000 = 20,000.00$$

- Now, suppose that the number of listed shares of Stock A used for index calculation increases by 100 million shares due to a public offering. If its closing price on the previous day was ¥2,000, the adjustment amount is 100 million shares x ¥2,000 = ¥200 billion. The new base market value, therefore, is:

$$\text{New Base Market Value} = \text{¥}200 \text{ tn} \times (\text{¥}400 \text{ tn} + \text{¥}200 \text{ bn}) \div \text{¥}400 \text{ tn} = \text{¥}200.1 \text{ tn}$$

- As illustrated below, if there is no price change in any constituent, the value for the index today is the same as the previous day: 20,000 points. Thus, continuity in the index is maintained through adjustments to base market value even if the market value of constituents changes due to public offering.

$$(\text{¥}400 \text{ tn} + \text{¥}200 \text{ bn}) \div \text{¥}200.1 \text{ tn} \times 10,000 = 20,000 \text{ points}$$

**(2) Total Return Index**

- Dividends used in calculating the Total Return Index are gross (i.e. before tax)
- Since the dividend amount for the current period is not fixed as of the ex-dividend date, adjustments made to reflect dividends in the base market value are made in two stages: 1) adjustment using estimated dividends and 2) minor adjustments made to reflect differences between estimated dividend and dividend amount announced in the earnings report, etc.

**a. Adjustments Using Estimated Dividends**

- The total dividend amount for all constituents is calculated on ex-dividend dates using estimated dividends, and the base market value is adjusted as above. In principle, the

(Reference Translation)

estimated dividend amount used is as follows:

- i. Dividend amount for the current period as announced in timely disclosure documents, if available.
  - ii. Dividend amount for the previous period if the dividend for the current period is not fixed (e.g. the dividend is not announced in disclosure documents as i. above, or the amount is not determined, etc.)
- The base market value adjustment method is basically as described in the previous section, except an adjustment is made to reflect dividends as follows:

$$\text{New Base Market Value} = \frac{\text{Old Base Market Value} \times (\text{Previous Business Day Market Value} - \text{Total Dividends} \pm \text{Adjustment Amount})}{\text{Previous Business Day Market Value}}$$

\*Dividends per Constituent = Number of Shares Used for Index Calculation on Business Day Before Ex-Dividend Date × Estimated Dividend Per Share

\*Total Dividends = Sum of Dividends for All Constituents

\*Adjustment Amount = Increase (Decrease) in Number of Shares Used for Index Calculation × Share Price Used for Adjustment

**b. Minor Adjustment to Reflect Difference Between Estimated Dividend and Dividend Announced in the Earnings Report, etc.**

- Minor adjustments are made with respect to those constituents for which the estimated dividend used on the ex-dividend date and the dividend announced in the earnings report or the notice of dividends of surplus (hereinafter the “earnings report, etc.”) are different. Specifically, the total dividend adjustment amount is calculated and the base market value adjustments are made on the last business day of the month in which the dividend is announced in the earnings report, etc. (hereinafter the “publication date”; if the publication date is one business day before the last business day of the month or the last business day of the month, adjustments will be as a general rule, made on the last business day of the next month).

$$\text{New Base Market Value} =$$



(Reference Translation)

$$\frac{\text{Old Base Market Value} \times (\text{Previous Business Day Market Value} - \text{Total Adjusted Dividends} \pm \text{Adjustment Amount})}{\text{Previous Business Day Market Value}}$$

- \* Adjusted Dividend per Constituent = Number of Shares Used for Index Calculation on Business Day Before Ex-Dividend Date  $\times$  (Dividend Announced in Earnings Report, etc. - Estimated Dividend per Share)
- \* Total Adjusted Dividends = Sum of Adjusted Dividends for All Constituents
- \* Adjustment Amount = Increase (Decrease) in Number of Shares Used for Index Calculation  $\times$  Stock Price Used for Adjustment

### **(3) Net Total Return Index**

- In addition to the Total Return Index explained above, the Net Total Return Index which reflects the tax rate applied to constituent stock dividends is also calculated.
- The base market value adjustment to reflect the dividend amount is made at the same time as (2). But when calculating the base market value, the "total dividend amount" and the "total dividend minor adjustment amount" shall each be multiplied by (1 minus the dividend tax rate).
- The tax rate used in calculating the Net Total Return Index is withholding tax rate for listing shares (except for the local tax) at the adjustment date.

## **V. Other**

### **1. Publication/Dissemination of Index Data**

#### **(1) Index Values**

- The JPX-Nikkei 400 price index values are disseminated in real-time (every 1 second) through the Market Information System to securities companies, news media, and other institutions all over the country.
- Total return index value and Net total return index value of JPX-Nikkei 400 are calculated daily at market close.
- This index is calculated retroactively to August 30, 2006 on an end-of-day basis. As scoring based on qualitative factors and the preferential rule for existing constituents were not applied in the past, the retroactive calculation of the index value is not fully in line with the rule in "JPX-Nikkei Index 400 Guidebook".

#### **(2) Index Data**

- Index data relating to JPX-Nikkei 400 (base market value, number of shares for each constituent, etc.) are provided for a fee through the Tokyo Market Information service and Nikkei Indexes "Premium Data Package".

### **2. Licensing**

- JPX-Nikkei 400 is a copyrighted material calculated in a methodology independently developed and created by the Index Provider and the Index Provider is the sole exclusive owner of the copyright and other intellectual property rights in JPX-Nikkei 400 itself and the methodology to calculate JPX-Nikkei 400. Commercial use of JPX-Nikkei 400 must be licensed by the Index Provider. Such uses include, but not limited to, provision of derivative products such as futures and options, creation and marketing of linked funds or linked securities, or distribution of the index for the data and analytic services.