August 6, 2021 Tokyo Stock Exchange, Inc. Nikkei Inc.

# Index Consultation on Revisions of Guidebooks for JPX-Nikkei Index 400 and JPX-Nikkei Mid and Small Cap Index

Tokyo Stock Exchange, Inc. and Nikkei Inc. (hereinafter collectively referred to as the "Index Providers") are conducting an Index Consultation on the proposed revisions of guidebooks for JPX-Nikkei Index 400 and JPX-Nikkei Mid and Small Cap Index (hereinafter collectively referred to as the "JPX-Nikkei Indices") as follows:

#### 1. Reason for Proposed Revisions

The Index Providers started the calculation of JPX- Nikkei Index 400 in January 2014 as "the new stock index composed of 'companies with high appeal for investors', which meet requirements of global investment standards, such as efficient use of capital and investor-focused management perspectives" and approximately seven years have passed since then.

During this period, the Index Providers have revised the guidebooks from time to time in response to various changing circumstances.

In June 2021, Japan's Corporate Governance Code<sup>1</sup> has been partially revised, which requires Prime Market-listed companies to appoint the number of independent outside directors to be at least one-third out of the total number of directors as well as from the perspective of supporting the companies' sustainable growth, ensure diversity, including active participation of women.

In light of this situation, the Index Providers has proposed to revise the guidebooks as follows with the aim of further strengthening the concept of JPX-Nikkei Indices, which are indices composed of "companies with high appeal for investors". In addition, the Index Providers will make the required revisions in consideration of the new market segments to be applied in April 2022 by Tokyo Stock Exchange.

The policy will be to actively proceed with revisions of the guidebooks that will contribute to strengthening the concept in the future in line with the progress of information disclosure of listed companies while also taking into consideration the evaluation data availability.

#### 2. Proposals

(1) "JPX-Nikkei Index 400" revision details

(a) Process for deciding the ranking of final scores

<sup>&</sup>lt;sup>1</sup> Publication of Revised Japan's Corporate Governance Code (June 11, 2021) https://www.jpx.co.jp/english/news/1020/20210611-01.html

## (Reference Translation)

Item to be revised	Current	After revisions
III. JPX Nikkei Index	Ranking of final scores shall be made from	Ranking of final scores shall be made from
400 Constituent	highest to lowest. However, issues whose	highest to lowest. However, issues whose
Selection	3-year average ROE and most recent ROE	3-year average ROE and most recent ROE
1. (2) ⑥	is negative or whose 3-year cumulative	are both in the bottom of 10% of the
	operating profit is negative shall be ranked	issues in ③ above or whose 3-year
	lowest. In cases of issues with the same	cumulative operating profit is negative
	final score, ranking preference shall be	shall be ranked lowest. In cases of issues
	given to the issue with the higher $(4)(c)$	with the same final score, priority shall be
	market capitalization on the base date	given to the issue with the higher $\textcircled{4}$ (c)
	ranking score.	market capitalization on the base date
		ranking score.

The process for deciding the ranking of final scores will be revised as follows:

(b) Revisions of the selection procedure for additional issues in the periodic review

The selection procedure	for additional	issues in a	periodic	review	will be	revised as follows:
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Item to be revised	Current	After revisions
III. JPX Nikkei Index	If the number of selected issues falls	If the number of selected issues falls
400 Constituent	below 400 in the preceding paragraph ii.,	below 400 in the preceding paragraph ii.,
Selection	then the non-selected top ranking 400	then the non-selected top ranking 400
1. (2) ⑦(b)iii.	issues according to the rankings in (6)	issues in ⑥ shall be selected according
	above shall be selected until the number of	to the rankings of 3-year average ROE
	constituents reaches 400.	until the number of constituents reaches
		400.

(c) Matters used for determining qualitative scores

"Appointment of independent outside directors", which is an item used for determining qualitative scores, will be revised as follows:

Item to be revised	Current	After revisions
III. JPX Nikkei Index	Item:	Item:
400 Constituent	Appointment of independent outside	Appointment of independent outside
Selection	directors	directors and female corporate officers
1. (2) ⑤		
	Criteria:	Criteria:
	Out of the total number of directors, at	- Out of the total number of directors, <u>a</u>
	least one-third or a minimum of three	<u>majority are appointed</u> as
	directors are appointed as independent	independent outside directors.

Item to be revised	Current	After revisions
	outside directors. If one-third of the total	- Out of the corporate officers, at
	number of directors is less than two, at	least one female corporate officer is
	least two independent outside directors are	appointed based on information in
	appointed	<u>"members of the board and</u>
		executive officers" of the securities
		<u>report</u>
	Reference Material:	
	Corporate Governance Report	Reference Material:
		Corporate Governance Report and
		Securities Report

## (d) Data pertaining to matters for calculating qualitative scores

Data pertaining to matters for calculating qualitative scores will be revised as follows:

Item to be revised	Current	After revisions
III. JPX Nikkei Index	- Newly created	③ "Securities Report"
400 Constituent		- For appointment status of female
Selection		corporate officers, information in
4. (2) ③		<u>"members of the board and</u>
		executive officers" of the securities
		<u>report will be used.</u>

## (e) Eligible constituents

Eligible constituents will be revised as follows, in response to revisions of market segments.

Item to be revised	Current	After revisions
I. Outline of the Index	JPX-Nikkei 400 is composed of common	JPX-Nikkei 400 is composed of common
	stocks whose main market is the TSE $\underline{1st}$	stocks whose main market is the TSE
	Section, 2nd Section, Mothers, or	Prime Market, Standard Market or
	JASDAQ market (In addition, the Index	Growth Market (In addition, the Index
	Provider may include equivalent issues	Provider may include equivalent issues
	whose inclusion it deemed is particularly	whose inclusion it deemed is particularly
	necessary.). Constituents shall be selected	necessary.). Constituents shall be selected
	by the Index Provider based on market	by the Index Provider based on market
	capitalization, trading value, ROE, and	capitalization, trading value, ROE, and
	other factors. Please refer to III. JPX-	other factors. Please refer to III. JPX-
	Nikkei Index 400 Constituent Selection	Nikkei Index 400 Constituent Selection
	for more details.	for more details.

Item to be revised	Current	After revisions
III. JPX-Nikkei Index	i. Common stocks	i. Common stocks
400 Constituent	Common stocks whose main market is the	Common stocks whose main market is the
Selection	TSE 1st Section, 2nd Section, Mothers,	TSE <b>Prime Market, Standard Market</b>
1. (2) ①i	or JASDAQ market on the base date (for	or Growth Market on the base date (for
	dual-listed foreign stocks, as a general	dual-listed foreign stocks, as a general
	rule, only when their trading value at TSE	rule, only when their trading value at TSE
	in the most recent year from the base date	in the most recent year from the base date
	is greater than that on their other listed	is greater than that on their other listed
	exchanges) are regarded as eligible	exchanges) are regarded as eligible
	constituents.	constituents.

\*Please note that the constituents of JPX-Nikkei Index 400 will not be reviewed due to revisions of the market segments.

(2) Revision details for "JPX-Nikkei Mid and Small Cap Index"

(a) Process for deciding the ranking of final scores

The process for deciding the ranking of final scores will be revised in the same way as for JPX-Nikkei Index 400.

Item to be revised	Current	After revisions
III. JPX-Nikkei Mid	Ranking of final scores shall be made from	Ranking of final scores shall be made from
and Small Cap Index	highest to lowest. However, issues	highest to lowest. However, issues
Constituent Selection	whose 3-year average ROE and most	whose 3-year average ROE and most
1.(2) ⑦	recent ROE is negative or whose 3-year	recent ROE are both in the bottom of
	cumulative operating profit is negative	10% of the issues in (a) above or whose
	shall be ranked lowest. In cases of issues	3-year cumulative operating profit is
	with the same final score, ranking	negative shall be ranked lowest. In cases
	preference shall be given to the issue with	of issues with the same final score, ranking
	the higher "(5)(a) 3-year average ROE	preference shall be given to the issue with
	ranking".	the higher " $(5)(a)$ 3-year average ROE
		ranking".

(b) Revisions of the selection procedure for additional issues in the periodic review

The selection procedure for additional issues in the periodic review will be revised in the same way as for JPX-Nikkei Index 400.

## (Reference Translation)

Item to be revised	Current	After revisions
III. JPX-Nikkei Mid	If the number of selected issues falls	If the number of selected issues falls
and Small Cap Index	below 200 in the preceding paragraph ii.,	below 200 in the preceding paragraph ii.,
Constituent Selection	then the non-selected top ranking 200	then the non-selected top ranking 200
1.(2)⑧(b)iii.	issues according to the rankings in $\bigcirc$	issues in ⑦ shall be selected according
	above shall be selected until the number of	to the rankings of 3-year average ROE
	constituents reaches 200.	until the number of constituents reaches
		200.

(c) Matters used for determining qualitative scores

"Appointment of independent outside directors", which is an item used for determining qualitative scores, will be revised in the same way as for JPX-Nikkei Index 400.

Item to be revised	Current	After revisions
III. JPX-Nikkei Mid	Item:	Item:
and Small Cap Index	Appointment of independent outside	Appointment of independent outside
Constituent Selection	directors	directors and female corporate officers
1.(2) ⑥	Criteria:	Criteria:
	Out of the total number of directors, at	- Out of the total number of directors, <u>a</u>
	least one-third or a minimum of three	<u>majority are appointed</u> as
	directors are appointed as independent	independent outside directors.
	outside directors. If one-third of the total	- Out of the corporate officers, at
	number of directors is less than two, at	least one female corporate officer is
	least two independent outside directors	appointed based on information in
	are appointed.	<u>"members of the board and</u>
		executive officers" of the securities
	Reference Material:	<u>report.</u>
	Corporate Governance Report	Reference Material:
		Corporate Governance Report <u>and</u>
		Securities Report

(d) Data used for calculating qualitative scores

Data pertaining to matters for calculating qualitative scores will be revised in the same way as for JPX-Nikkei Index 400.

### (Reference Translation)

Item to be revised	Current	After revisions
III. JPX-Nikkei Mid	- Newly created	③ "Securities Report"
and Small Cap Index		For appointment status of female
Constituent Selection		<u>corporate officers, information in</u>
4.(2) ③		<u>"members of the board and executive</u>
		officers" of the securities report will be
		used.

(e) Eligible constituents

In response to revisions of the market segments, eligible constituents will be revised in the same way as for JPX-Nikkei Index 400, as shown below:

Item to be revised	Current	After revisions
I. Outline of the Index	JPX-Nikkei Mid Small is composed of	JPX-Nikkei Mid Small is composed of
	common stocks whose main market is the	common stocks whose main market is the
	TSE 1st Section, 2nd Section, Mothers,	TSE <u>Prime Market, Standard Market</u>
	or JASDAQ market (In addition, the	or Growth Market (In addition, the
	Index Provider may include equivalent	Index Provider may include equivalent
	issues whose inclusion it deemed is	issues whose inclusion it deemed is
	particularly necessary.).	particularly necessary.). Constituents
	Constituents shall be selected by the	shall be selected by the Index Provider
	Index Provider based on market	based on market capitalization, trading
	capitalization, trading value, ROE and	value, ROE and other factors. Please refer
	other factors. Please refer to III. JPX-	to III. JPX-Nikkei Mid Small Constituent
	Nikkei Mid Small Constituent Selection	Selection for more details.
	for more details.	
III. JPX-Nikkei Mid	i. Common stocks	i. Common stocks
and Small Cap Index	Common stocks whose main market is	Common stocks whose main market is the
Constituent Selection	the TSE 1st Section, 2nd Section,	TSE <b>Prime Market, Standard Market</b>
1.(2)①i	Mothers, or JASDAQ market on the	or Growth Market on the base date (for
	base date (for dual-listed foreign stocks,	dual-listed foreign stocks, as a general
	as a general rule, only when their trading	rule, only when their trading value at TSE
	value at TSE in the most recent year from	in the most recent year from the base date
	the base date is greater than that on their	is greater than that on their other listed
	other listed exchanges) are regarded as	exchanges) are regarded as eligible
	eligible constituents.	constituents.

\*Please note that the constituents of JPX-Nikkei Mid and Small Cap Index will not be reviewed due to revisions of the market segments.

Date	Procedures	
Aug. 6, 2021 (Fri.) to Sept. 6,	Opinions gathered through Index Consultation	
2021 (Mon.)	*Opinions can be submitted via the official JPX website.	
	Submissions must specify the following:	
	(i) Name of submitter,	
	(ii) Occupation of submitter,	
	(iii) Name and business type of the corporation,	
	organization, etc. to which the submitter belongs,	
	(iv) Contact information (phone number and email	
	address), and	
	(v) Opinions on the proposed matter(s)	
Around the end of September	Final decision by the Index Providers	
2021 (tentative)	*The Index Providers will make the final decision on the	
	proposed matter(s) taking into consideration the opinions	
	submitted. The finalized measures will be published on	
	the Index Providers' official websites.	

## 3. Timeline and related procedures

## 4. Implementation Date (tentative)

The revisions of "I. Outline of the Index" in "(e) Eligible constituents" will be implemented on April 4, 2022 while other revisions will be implemented respectively in the periodic review to be scheduled for August 2022 onwards.