

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

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<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)

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

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

(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:

Item to be revised	Current	After revisions
III. JPX Nikkei Index 400 Constituent Selection 1. (2) ⑦(b)iii.	If the number of selected issues falls below 400 in the preceding paragraph ii., then the non-selected top ranking 400 issues <b>according to the rankings</b> in ⑥ above shall be selected until the number of constituents reaches 400.	If the number of selected issues falls below 400 in the preceding paragraph ii., then the non-selected top ranking 400 issues in ⑥ <b>shall be selected according to the rankings of 3-year average ROE</b> 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 400 Constituent Selection 1. (2) ⑤	Item: Appointment of independent outside directors  Criteria: Out of the total number of directors, at least one-third or a minimum of three directors are appointed as independent	Item: Appointment of independent outside directors <b>and female corporate officers</b>  Criteria: - Out of the total number of directors, <b>a majority are appointed</b> as independent outside directors.

(Reference Translation)

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

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

(e) Eligible constituents

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

Item to be revised	Current	After revisions
<p>I. Outline of the Index</p>	<p>JPX-Nikkei 400 is composed of common stocks whose main market is the TSE <b><u>1st Section, 2nd Section, Mothers, or JASDAQ market</u></b> (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.</p>	<p>JPX-Nikkei 400 is composed of common stocks whose main market is the TSE <b><u>Prime Market, Standard Market or Growth Market</u></b> (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.</p>

(Reference Translation)

Item to be revised	Current	After revisions
III. JPX-Nikkei Index 400 Constituent Selection 1. (2) ①i	i. Common stocks Common stocks whose main market is the TSE <b><u>1st Section, 2nd Section, Mothers, or JASDAQ market</u></b> 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.	i. Common stocks Common stocks whose main market is the TSE <b><u>Prime Market, Standard Market or Growth Market</u></b> 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.

\*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 and Small Cap Index Constituent Selection 1.(2) ⑦	Ranking of final scores shall be made from highest to lowest. However, issues whose 3-year average ROE and most recent ROE <b><u>is negative</u></b> 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 "⑤ (a) 3-year average ROE ranking".	Ranking of final scores shall be made from highest to lowest. However, issues whose 3-year average ROE and most recent ROE <b><u>are both in the bottom of 10% of the issues in④ above</u></b> 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 "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 and Small Cap Index Constituent Selection 1.(2)⑧(b)iii.	If the number of selected issues falls below 200 in the preceding paragraph ii., then the non-selected top ranking 200 issues according to the rankings in ⑦ above shall be selected until the number of constituents reaches 200.	If the number of selected issues falls below 200 in the preceding paragraph ii., then the non-selected top ranking 200 issues in ⑦ <b><u>shall be selected according to the rankings of 3-year average ROE</u></b> 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 and Small Cap Index Constituent Selection 1.(2) ⑥	<p>Item: Appointment of independent outside directors</p> <p>Criteria: Out of the total number of directors, at least one-third or a minimum of three directors are appointed as independent outside directors. If one-third of the total number of directors is less than two, at least two independent outside directors are appointed.</p> <p>Reference Material: Corporate Governance Report</p>	<p>Item: Appointment of independent outside directors <b><u>and female corporate officers</u></b></p> <p>Criteria:</p> <ul style="list-style-type: none"> <li>- Out of the total number of directors, <b><u>a majority are appointed</u></b> as independent outside directors.</li> <li>- <b><u>Out of the corporate officers, at least one female corporate officer is appointed based on information in "members of the board and executive officers" of the securities report.</u></b></li> </ul> <p>Reference Material: Corporate Governance Report <b><u>and Securities Report</u></b></p>

(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 and Small Cap Index Constituent Selection 4.(2) ③	- Newly created	③ <b><u>"Securities Report"</u></b> <b><u>For appointment status of female corporate officers, information in "members of the board and executive officers" of the securities report will be used.</u></b>

(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 common stocks whose main market is the TSE <b><u>1st Section, 2nd Section, Mothers, or JASDAQ market</u></b> (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 Mid Small Constituent Selection for more details.	JPX-Nikkei Mid Small is composed of common stocks whose main market is the TSE <b><u>Prime Market, Standard Market or Growth Market</u></b> (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 Mid Small Constituent Selection for more details.
III. JPX-Nikkei Mid and Small Cap Index Constituent Selection 1.(2)①i	i. Common stocks Common stocks whose main market is the TSE <b><u>1st Section, 2nd Section, Mothers, or JASDAQ market</u></b> 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.	i. Common stocks Common stocks whose main market is the TSE <b><u>Prime Market, Standard Market or Growth Market</u></b> 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.

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

(Reference Translation)

### 3. Timeline and related procedures

Date	Procedures
Aug. 6, 2021 (Fri.) to Sept. 6, 2021 (Mon.)	Opinions gathered through Index Consultation *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 2021 (tentative)	Final decision by the Index Providers *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.

### 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.