

September 30, 2021
Tokyo Stock Exchange, Inc.
Nikkei Inc.

(Consultation Reopened) 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") gathered comments through the Index Consultation on revisions of Guidebooks for the JPX-Nikkei Index 400 and JPX-Nikkei Mid and Small Cap Index (hereinafter collectively referred to as the "JPX-Nikkei Indices") from August 6, 2021 to September 6, 2021. In response, we received multiple opinions regarding the revision to the process for deciding the ranking of final scores. Taking these opinions into account, we have revised our proposal regarding the revision to the process for deciding the ranking of final scores as below and are now gathering opinions about said proposal.

1. Revised Proposals

Item to be revised	Current rule	Previous proposal	New proposal
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 <u>is negative</u> 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	Ranking of final scores shall be made from highest to lowest. However, issues whose 3-year average ROE and most recent ROE <u>are both in the bottom of 10% of the issues in ③ above</u> 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	Ranking of final scores shall be made from highest to lowest. However, issues whose 3-year average ROE and most recent ROE <u>are both in the bottom 10% of the issues in ③ above or negative</u> , or whose 3-year cumulative operating profit is negative shall be ranked lowest. In cases of issues with the same final score,

(Reference Translation)

Item to be revised	Current rule	Previous proposal	New proposal
	given to the issue with the higher ④ (c) market capitalization on the base date ranking score.	given to the issue with the higher ④ (c) market capitalization on the base date ranking score.	priority shall be given to the issue with the higher ④ (c) market capitalization on the base date ranking score.
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 is 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 "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 are both in the bottom of 10% of the issues in ④ above 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 are both in the bottom 10% of the issues in ④ 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 "⑤(a) 3-year average ROE ranking".

2. Background to reopening the consultation

We received multiple opinions agreeing with our first proposal for the revision to the process for deciding the ranking of final scores, including those that rated our proposal to consider the effects of fluctuations in the ROE levels of the entire constituent universe by changing the absolute criteria to relative criteria. On the other hand, we received multiple opinions that in order to strengthen the selection criteria even if the ROE level

(Reference Translation)

declines overall, the current criteria of "3-year average ROE and most recent ROE is negative shall be ranked lowest" should be kept and the new criteria added to it. As described in 3. Reference data, looking at the JPX-Nikkei Indices constituent selection for 2021, the ROE level of the bottom 10%, which is the new criteria, is below 0, and we have therefore confirmed that the original proposal could possibly lead to the selection criteria being weakened, as pointed out in these opinions. In addition, we received requests for additional information disclosure to enable users to understand the specific effects of this revision.

Based on the above circumstances, as the Index Providers, we have decided that it is appropriate to revise the previous proposal and reopen the Index Consultation to gather opinions.

3. Reference data

(1) The ROE level of "the bottom 10%" as described above in the past periodic reviews

	3-year average ROE	Most recent ROE
2014	1.8%	3.0%
2015	2.3%	2.8%
2016	3.1%	2.2%
2017	3.2%	3.0%
2018	3.6%	3.8%
2019	3.6%	3.0%
2020	2.8%	1.3%
2021	1.6%	-2.5%

(Reference Translation)

JPX-Nikkei Mid and Small Cap Index

	3-year average ROE	Most recent ROE
2017	1.5%	1.8%
2018	1.9%	2.9%
2019	2.5%	1.5%
2020	1.6%	0.5%
2021	-1.9%	-3.7%

(2) Current constituents which fall under "the bottom 10%" as described above*

Index	Applicable current constituents
JPX-Nikkei Index 400	1
JPX-Nikkei Mid and Small Cap Index	0

*Calculated using the financial figures used for the 2021 periodic review.

4. Timeline and related procedures

Date	Procedures
Sept. 30, 2021 (Thu.) to Oct. 13, 2021 (Wed.)	Opinions gathered through Index Consultation - Opinions can be submitted via the official JPX website. Submissions must specify the following: (i) Name of submitter,

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Date	Procedures
	(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) - Because this is a reopened Index Consultation, the comment period will be two weeks.
Around the end of October 2021 (planned)	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 together with the results of "Index Consultation on Revisions of Guidebooks for JPX-Nikkei Index 400 and JPX-Nikkei Mid and Small Cap Index".

5. Implementation date (planned)

The revisions will be implemented respectively in the periodic reviews for each index from August 2022.