



ANNUAL REPORT 2017

THE 13TH TOKYO FINANCIAL EXCHANGE INC.

Ended March 31, 2017



Tokyo Financial Exchange Inc.



We contribute to the sound development of financial markets and economy of Japan by developing financial instruments markets as public infrastructure related to financial instruments transactions that provide a superior degree of **fairness, reliability and convenience** in accordance with the Financial Instruments and Exchange Act.

We, as a comprehensive exchange for financial derivatives, have now listed products that cover all three major sectors of financial derivatives: **foreign exchange, stocks** and **interest rates**.



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President and CEO

Shozo Ohta

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To Our Stakeholders

In fiscal 2016, the global economy stuck in a low growth with the slowdown of advanced national economics resulting from the increasing weak performance of the corporate sector in the US and the EU. However, from the fall of 2016 to 2017, there was an increase in production and exports mainly in the US and the EU which also had a positive effect on capital spending. Consequently, we saw a progress in the recovery.

For Japanese economy, the capital expenditures and the exports remained in the adjustment phase due to the sluggish personal consumption, whereas ongoing improvements in corporate earnings and healthy employment conditions.

Trading volumes of Click 365, FX Daily Futures contracts, marked a temporal surge in relation with Brexit and the US presidential election, but they decreased year-on-year due to a trend of the yen's appreciation in the first half of the fiscal year and strengthened uncertainty about the future of US policy management in the second half.

Trading volumes of Click Kabu 365, Equity Index Daily Futures contracts, increased in the second half of the fiscal year on the backdrop of the outlook for economic recovery and global high stock prices though they remained weak in the first half due to lower volatility of stock markets. Therefore, they largely decreased year-on-year.

Trading volumes of Euroyen futures hovered extremely at lower levels because the short-term interest rate stated in a stalemate due to the prolonged ultra-easing monetary policy by the Bank of Japan (BOJ), and hit a record low.

Under the above-mentioned tough situations, in FY 2016, we secured surplus as a result of our strict cost management.

It is anticipated that our business environment will be continuously severe, and so we think that strengthening profitability is our urgent task.

In the three-year new medium-term management plan which starts in FY 2017, we will aggressively expand Daily Futures business, including the development of new products and entry into new business fields with the aim of strengthening the profitability.

We will seek to reduce costs by integrating the system for Interest Rate Futures contracts with that for Daily Futures contracts.

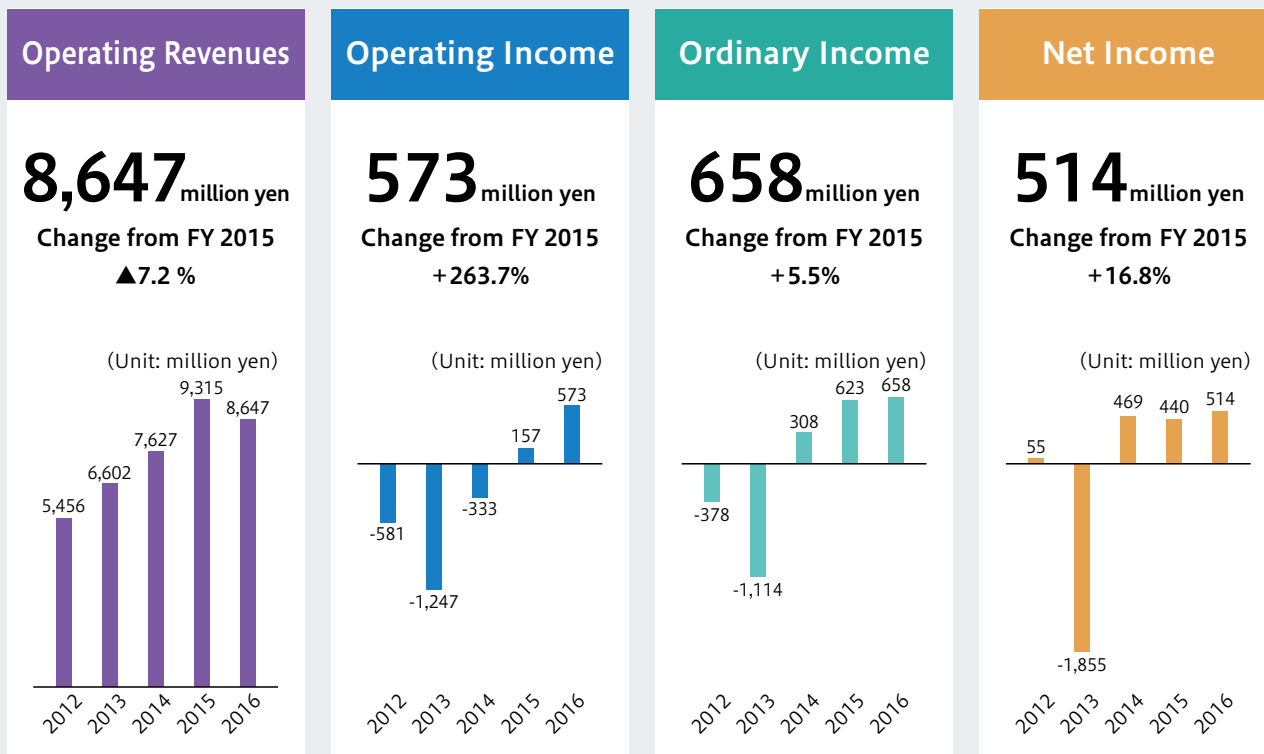
At present, political challenges are the improvement in labor productivity and the achievement of work-life balance through Workstyle Reforms. We will develop human resources and introduce new personnel/pay system for creating a vital organization.

Additionally, it is expected that the Fourth Industrial Revolution, that utilizes AI and IoT, will cause drastic change such as a reverse of existing social systems and industrial structures. We will seriously and immediately make efforts toward positive applications of big data and AI for operations of the Exchange.

We sincerely ask you for your continued understanding and support.

September 2017

1 Financial Accounts in FY 2016

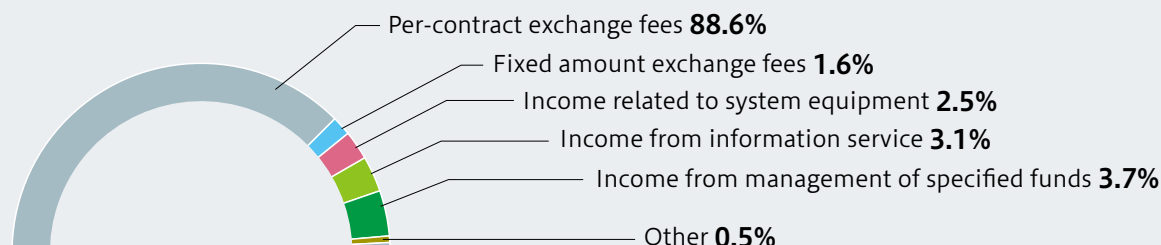


Operating revenues decreased 7.2% year-on-year to 8,647 million yen because of a decrease in the per-contract exchange fees, resulting from a decrease in trading volumes and a decrease in income from management of specified funds associated with deterioration of the fund investment environment caused by introduction of Negative Interest Rate Policy by the BOJ.

Operating income increased 263.7% year-on-year to 573 million yen because expenses were cut through a reduction in rent resulting from the relocation of headquarters carried out February 2016.



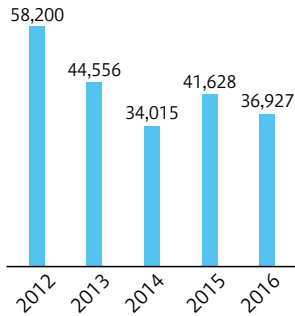
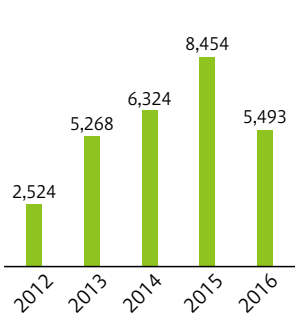
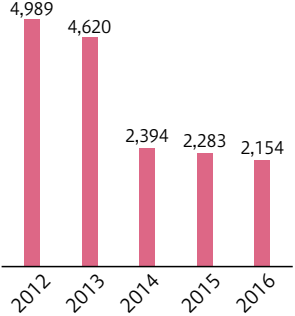
Ordinary income increased 5.5% year-on-year to 658 million yen and net income increased 16.8% to 514 million yen.

2 Operating Revenues Composition



- Per-contract exchange fees are based on trading volumes of trading members
- Fixed amount exchange fees are based on the qualification for trading members.
- Income related to system equipment is based on use of exchange systems by trading members.
- Income from information service is based on use of market information.
- Income from management of specified funds comes from interest income from term deposits.

3 Trading Volume

	FX Daily Futures contracts “Click 365” 	Equity Index Daily Futures contracts “Click Kabu 365” 	Interest Rate Futures contracts
Features	Click 365 is a FX Daily Futures contracts, which provides 29 currency pairs. (i) Reliable FX product listed on the public exchange market (ii) Provided by the trading members who meet high standard of the necessary qualifications (iii) Margin deposit is protected by the exchange in segregated accounts (iv) Competitive and transparent bid and offer prices are offered by Market Maker scheme (v) Swap points are fixed to be a single price, regardless of receipt and payment (vi) No rejection of trade or slippage	Click Kabu 365 is a Daily Futures contracts which covers the world's major equity indices in Japan, the US and the Europe. (i) Tradable for almost 24 hours including holidays (ii) Dividends to be paid (same as cash stocks) (iii) Leverage transactions by depositing margin as collateral (iv) No expiration date (rolling spot contract) (v) Trading overseas equity indices without currency risk	Three-month Euroyen futures is an interest rate future contracts which is derived from the Japanese representative benchmark interest rate Japanese Bankers Association (JBA) Euroyen TIBOR (i) Enable to trade Three-month interest rate futures up to five year (ii) Trading members are leading financial institutions who meet high financial requirements (iii) SPAN®, the industry standard risk assessment method is adopted for margin calculation
FY 2016 (daily average) Change from FY 2015	39,627,814 lots (152,416 lots) ▲4.8%	5,493,975 lots (22,357 lots) ▲35.0%	2,154,178 lots (8,793 lots) ▲5.7%
Trend of trading volumes (in thousands)			
Trading overview (FY 2016)	In the first half of the fiscal year, trading volumes temporarily surged due to an increase in volatility affected by the June UK referendum (Brexit). After then, the yen-market activity was getting lower, with yen's appreciation in particular against US dollar, and consequently trading volumes decreased. In the second half, the contracts increased due to the November US presidential election and the associated weakness in the yen. However, the market became low-activity due to the uncertainty of economic operation by the US government, and continuously went seesaw afterwards. Consequently, trading volumes remained weak.	Since the Nikkei stock average remained in a trading range of 15,000- 17,000 yen with low volatility in the first half of the fiscal year, trading volumes showed a trend of gradual decrease. After the November US presidential election, stock prices globally went on an upward trend, in particular the Dow Jones Industrial Average. The Nikkei stock average also hiked toward the target of 20,000 yen. In this upward process, trading volumes of Click Kabu 365 showed a recovery. For a full year, however trading volumes of Click Kabu 365 resulted in a large decrease.	After the introduction of Negative Interest Rate Policy in February 2016, the short-term yen interest rate market experienced a further weakness. Trading volumes of interest rate futures contracts remained at a low level early the fiscal year. Toward the middle of the fiscal year, the interest rate futures volumes temporarily increased due to mixed people's envisions over monetary policies around the globe, the results of Brexit and the US presidential election. After the BOJ decided to adopt Yield Curve Control in September, the short-term interest rate fell in a further stalemate.

Trading volumes of all products (Annual total) **47,275,967 lots** year-on-year **▲9.7%** (Daily average: 183,566 lots)

I. Formulation of the New Medium-term Management Plan

01 Results of the previous medium-term management plan

Based on the major measures in the medium-term management plan which was formulated in FY 2014, we listed the currency pair of TRY/JPY, the emerging currency, on Click 365 and Click 365 Large, which expanded investor base to overseas and corporate investors. Furthermore, we aggressively introduced new products with strong needs from investors such as the DJIA Daily Futures contract which covers the well-known the NY Dow Jones index for Click Kabu 365.

Also, we introduced a variety of measures toward improving the convenience of investors and market participants including introduction of the integrated management of margin accounts for Click 365 and Click Kabu 365, as well as combination of clearing membership.

Concurrently, we largely cut down expenses by saving the system cost and relocating our office.

02 Environment at the time of formulation of the new medium-term management plan

Even after FY 2014, when the previous medium-term management plan was made, the BOJ has maintained the ultra-easing monetary policy. The BOJ adopted a Negative Interest Rate Policy in February 2016 and determined the introduction of Quantitative and Qualitative Monetary Easing with Yield Curve Control in September 2016. As the results, the interest rate remains at an extremely low level without fluctuations, and trading volumes of Three-month Euroyen futures hit a new low. The environment surrounding Interest Rate Futures business continues to be troubled.

Also in Daily Futures business, competition for narrowing a difference between selling prices and buying prices in OTC FX transactions (“spread competition”) became fierce and investors withdrew from or refrained from their transactions under yen’s appreciation and increasing uncertainty over the economic environment. As their results, our business environment remains highly challenging.

03 Basic policy for the new medium-term management plan

Under the above-mentioned environment, it is essential to aggressively strengthen the profitability with immediately responding to rapid changes of society and financial markets, based on the new medium-term management plan.

Concretely, we will diversify our listed products, enter into new business fields and create a new trading market for Daily Futures contracts. As for Interest Rate Futures contracts, we will attract interest rate swap users by bringing in Packs and Bundles .

In addition, we will integrate the systems for Interest Rate Futures contracts with that for Daily Futures contracts and promote training and utilization of human resources by introducing new personnel/pay system.



II. New Medium-term Management Plan

(FY2017-FY2019)

[Basic strategies of the new medium-term management plan]

1	Expansion of Daily Futures contracts and entering new business fields	TFX intends to not only expand Daily Futures contracts by broadening domestic and foreign investor bases through the improvement in the convenience of investors and the creation of new trading markets and by developing various new products, but also endeavors to enter new business fields.
2	Ensuring trading volumes of Interest Rate Futures contracts	Amid the harsh business environment due to the ultra easing-monetary policy, TFX not only strives to secure as many transactions as possible but also prepares prompt responses to the changes of market environment in the future.
3	Development of the system infrastructure that utilizes the latest technologies	In establishing the next-generation system, TFX intends to not only achieve cost reduction by integrating the system for Interest Rate Futures contracts and the system for Daily Futures contracts but also improves convenience by renovating the ASP. In addition, TFX is going to consider positive application of FinTech to the operations of the Exchange.
4	Strengthening profitability	TFX intends to strengthen our profitability by expanding Daily Futures contracts through various innovations, entering new business fields and reducing system costs, etc.

[Specific Initiatives of the new medium-term management Plan]

1	Expansion of Daily Futures contracts and entering new business fields	<p>① Broadening of the investor base by improving convenience</p> <ul style="list-style-type: none"> • Promote transactions by establishing integrated management of margin accounts • Encourage the participation of new investors through the next-generation system, such as providing the DMA environment <p>② Creation of a new trading market</p> <ul style="list-style-type: none"> • Create a new market for off-market transactions for large volume investors, such as foreign investors • Consider the creation of the covered transactions market for OTC FX firms <p>③ Diversification of listed products</p> <ul style="list-style-type: none"> • Expand emerging nations' currency pairs in Click 365 • Develop new products from diversified underlying assets • Create new index products <p>④ Entering new business fields</p> <ul style="list-style-type: none"> • Launch clearing business of over-the-counter FX covered trades
2	Ensuring trading volumes of Interest Rate Futures contracts	<p>① Increase interest-rate swap users through the system development for Packs and Bundles</p> <p>② Acquire new foreign investors (i.e., asset management, fund, market makers, etc.).</p>
3	Development of the system infrastructure that utilizes the latest technologies	<p>① Reduce costs through the integration of the system for Interest Rate Futures contracts and the system for Daily Futures contracts</p> <p>② Improve convenience by renovating the Daily Futures contracts ASP</p> <p>③ Consider positive application of big data and FinTech, such as AI, in the operations of the Exchange</p>
4	Reinforcement of the risk management system	Improve the risk management system to respond to “Principles for Financial Market Infrastructures”
5	Implementation of the new personnel/pay system	<p>① Achieve the work-life balance of employees through diversified workstyle reforms (to abolish the traditional membership-type employment system applied to all employees and adopt the job-type employment system in addition)</p> <p>② Improve labor productivity, foster human resources and create innovations by modifying the seniority-based pay system and strengthening the performance-based pay system</p>

III. Points of the New Medium-term Management Plan

01 Point ①: Expansion of Daily Futures contracts and entering new business fields

(1) Expansion in emerging currency pairs

We will launch MXN/JPY, which has attracted higher interest since the start of the Trump administration, as a new currency pair of Click 365.

For Click 365, high-yielding emerging currencies including ZAR/JPY contracts and TRY/JPY contracts won the favor of investors, appreciated with respect to the safety of transactions at the exchange and the competitiveness of swap points.

The MXN is a high-interest-rate currency same as the ZAR and TRY. In Mexico, the policy interest rate stands at 7.00% (as of the end of July 2017) which is higher than that in South Africa.

The MXN/JPY will be listed on October 30, 2017.

(2) Development of new products with a wide variety of underlying assets

We aim at listing new products for Daily Futures contracts, following FX and equity index products.

Specifically, we will develop new products with underlying assets of ETF and new index products.

Among others, ETF has recently attracted higher interest as investment products

effectively to build stable assets.

We expect that the development will lead to expansion of Daily Futures business.

(3) Entry into clearing business of OTC FX cover trades

The Japanese FX market has developed into the largest market in the world, with monthly trading volumes of 300-500 trillion yen. Along with the expansion of the FX market, OTC FX firms largely increase an amount of cover trades. Monthly cover trades amount to 172 trillion yen*, a market scale equal to more than 60% of Tokyo interbank market*.

To secure the liquidity of cover trades made by FX firms, Tokyo Financial Exchange who is the public infrastructure is making an effort to establish a system for clearing cover trades made by FX firms (“FX Clearing”).

The FX Clearing contributes to the soundness of the entire FX market in Japan and is consistent with the global trend of central clearing of OTC derivative contracts after the collapse of Lehman Brothers. We will introduce the system as soon as possible and have many FX firms use the system.

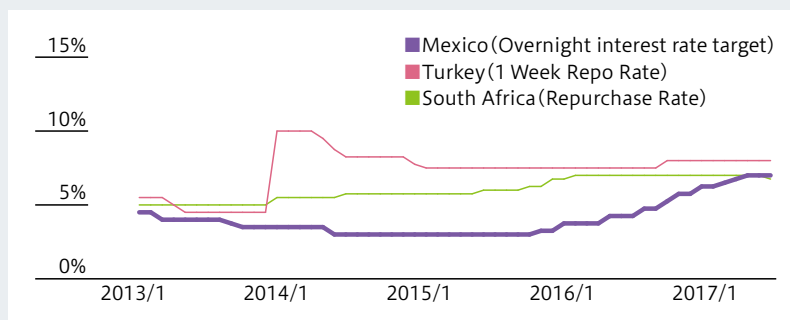
*Actual results for April 2016 (surveyed by the Financial Futures Association of Japan)

[Interest rate of high-interest-rate currency]

■ List of policy interest rate (as of the end of July 2017)

Country	Policy interest rate
Mexico	7.00%
Turkey	8.00%
South Africa	6.75%

■ Trend of policy interest rate



Point ②: Ensuring trading volumes of Interest Rate Futures contracts

(1) TIBOR Reform

Three-month Euroyen futures is a financial product which is derived from the Euroyen TIBOR ("Tokyo InterBank Offered Rate") published by Japanese Bankers Association (JBA) TIBOR Administration.

In the Financial Stability Board (FSB)'s report "Reforming Major Interest Rate Benchmarks" (published in July 2014), FSB required administrators of major financial benchmarks to consider the introduction of alternative benchmarks which are more anchored in an actual transaction. This reform was also applied to JBA TIBOR, and on July 24, 2017, the revised "JBA TIBOR Code of Conduct" came into effect.

It is expected that this will provide a further transparency of the calculation/determination process of the rate offered by reference banks, and helps to reflect the actual transaction from a wider range of data.

It is also expected that reflection of actual market transactions into JBA TIBOR will revitalize Three-month Euroyen futures market.

(2) Introduction of Packs and Bundles trades

In tandem with the above-mentioned TIBOR reform, we will add Packs and Bundles to Strategies by the end of November 2017 to include the needs for interest rate swaps into Euroyen futures market.

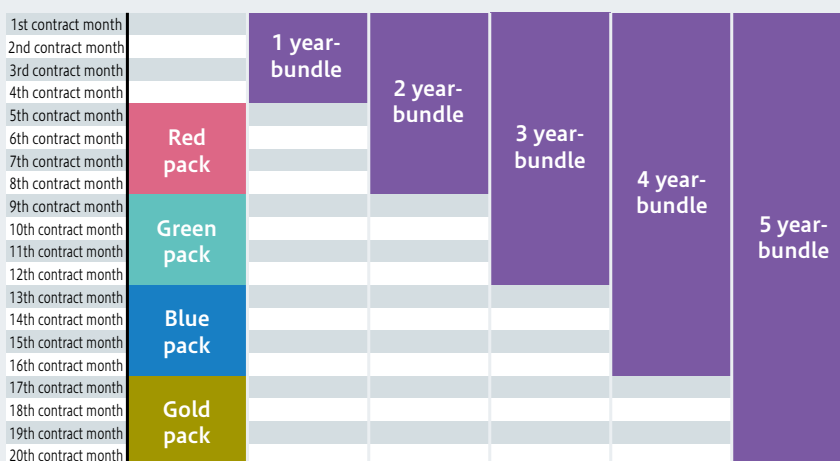
We expect that packs and bundles trades will increase transparency of prices in the Three-month Euroyen futures market.

Specifically, Packs and Bundles trades have following benefits:

- ① Packs and Bundles execute multiple contracts of Three-month Euroyen futures in the lump and have the same economic benefits as interest rate swaps. Therefore, it is possible to use Packs and Bundles as a substitute for interest rate swaps.
- ② Packs and Bundles are futures contracts which provide simplified operation and easier management of positions and margins.
- ③ The hedge accounting is applicable for Packs and Bundles same as interest rate swap.

[Packs and bundles trades]

- Pack trades enable to execute four consecutive quarterly contract months as a whole.
- Bundle trades enable to execute quarterly contract months consecutive after the first nearest contract month as a whole



03 Point ③: Development of the system infrastructure that utilizes the latest technologies

(1) Reducing cost by integrating the base for system for Interest Rate Futures contracts and that for Daily Futures contracts

We have started developing the next-generation system for Interest Rate Futures contracts and Daily Futures contracts. The renovation will be completed in the first quarter of FY 2019.

Basic policy for the next-generation system includes the following three points:

① Reducing cost by integrating systems

Employ the same developer for developing the systems for Interest Rate Futures contracts and Daily Futures contracts and integrate the base for those systems for the purpose of cost reduction

② Necessary and sufficient system scale

Ensure the necessary and sufficient processing ability and capacity possible to accommodate rapid market fluctuations in view of the current assumption of market environment after system renovation

③ Ensuring scalability

Ensure the scalability possible to strengthen the system in a short period in case of an unanticipated increase in the processing

(2) Improving the convenience by renovating Daily Futures ASP

In tandem with renovating the next-generation system, we will renovate the ordering system (ASP), which is offered to Daily Futures contracts trading members.

While the existing ASP offers the minimum function necessary for contracts, the new ASP will offer a higher level of convenience through improved operability and additional functions including chart presentation function, new ordering method and prepared ledger sheets for tax return.

By the new ASP, trading members can customize functions and performance more easily according to their needs.

(3) Examining proactive application of FinTech including big data and AI to Exchange operation

We seek to use FinTech including big data and AI in real-time monitoring of clearing risk, product development and market monitoring operation.

[Use of FinTech including big data and AI]

Use of big data

The base of big data built into the next-generation system will enable us to use both historical and real-time data. Using the base, we realize real-time monitoring and simulation of clearing risk.

We examine future use of the big data for product development and sales activities.

Use of AI

To secure reliable markets, we constantly monitor the markets and identify orders which may prevent appropriate price making and we implement countermeasures required to respond to changes in the market liquidity and extreme and rapid fluctuations in prices.

Now, we assess abnormalities based on predetermined reference values. We seek to implement AI technology to increase the accuracy and efficiency in market monitoring operation by detecting abnormalities based on analysis of orders from past to present, market liquidity and price fluctuations.

Point ④: Implementation of the new personnel/pay system

(1) Background of implementation of the new system

- ① The government established the Council for the Realization of Work Style Reform and indicates an increase in labor productivity and realization of work-life balance by Work Style Reforms as a political challenge.
- ② We had adopted the Japanese employment system, which includes seniority-based pay system and lifetime employment (membership-type employment), irrespective of non-carrier track position and carrier track position.

However, we face the task of responding to changes in social structures and labor environment and a future plan of employees and realizing diversified work styles in order to ensure excellent human resources.

(2) Intents of the new personnel/pay system

- ① Enable diversified work styles and realize work-life balance
- ② Promote the performance-based pay system and seek to increase labor productivity, development and use human resources and create innovation in order to establish a vital organization

(3) Summary of the system

- ① Adjust the membership-type employment system, where all employees are uniformly dealt, and add the job-type employment system
- ② Establish three job categories based on work styles
- ③ Set qualifications of finance and IT areas and language skill as requisites for promotion

■ Three job categories

Job category	Details of job
Job M	There are no limitations on details of jobs and it is required to work overtime.
Job J	There are limitations on details of jobs and basically it is not required to work overtime.
Job S	The job consists of certain specialist jobs and it may be required to work overtime.

(4) Environmental improvement for introduction of the system

We make efforts to increase labor productivity along with the introduction of the new personnel/pay system.

To thoroughly promote the efficiency of operations, we comprehensively review existing process of operations of all departments.

[Review of the process of operations (efforts to increase labor productivity)]

Efforts in FY 2016

- ① Simplify and reduce the documents to be prepared including reports
- ② Rationalize statistical materials
- ③ Program and execute conventional operations
- ④ Reduce unnecessary printed materials
- ⑤ Discontinue formal office procedures
- ⑥ Promote the efficiency of running meetings
- ⑦ Promote the efficiency of flows of operations
- ⑧ Discontinue low-value added operations

Efforts in FY 2017

- ① Computerize internal procedures
- ② Introduce ERP (Enterprise Resource Processing), the system integrally managing operations ranging from personnel and labor to accounting
- ③ Renovate groupware and promote the efficiency of operations with the latest applications such as work flow and information sharing
- ④ Use the remote access to groupware and smart devices

I. Business Activities

01 Listing of DJIA Daily Futures contract

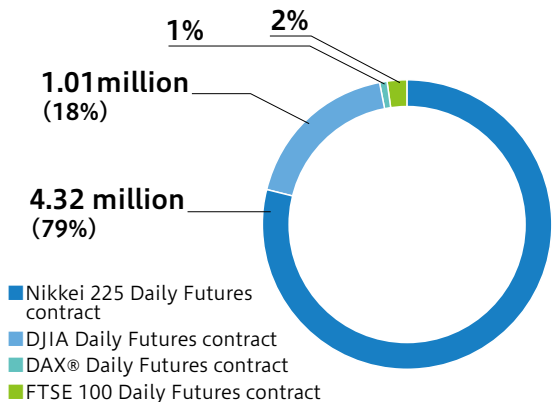
In June 2016, we listed DJIA Daily Futures contract on Click Kabu 365.

(1) Features of DJIA Daily Futures contract

The DJIA Daily Futures contract, which is based on well-known index, has a feature that investors can trade in yen without currency risk. In FY 2016, trading volumes reached 1,010,000 lots. The DJIA Daily Futures contract become the second most popular product following Nikkei 225 Daily Futures contract.

With its capability for gain high dividend equivalents, we expect that DJIA Daily Futures contract will increase trading volumes.

Percentage of contracts by product of Click Kabu 365 (FY 2016)



Points of DJIA Daily Futures contract

- | | | |
|---|---|--|
| 1 | Trade the DJIA index in yen | The world equity indexes can be traded without currency risk. |
| 2 | Almost 24 hour trades including holidays | Market opens from 8:30 AM to 6:00 AM on the next day. (JST, Regular Hours) |
| 3 | Dividends to be paid | Dividend equivalents is paid to long position holders. |
| 4 | No Expiration date | There is no expiration date. |
| 5 | Leveraged trading | Customers can make a trade almost 20-30 times the amount of values by depositing margin. |

(2) Holding of the seminar for commemorating the listing of DJIA Daily Futures contract

On June 2016, we held the seminar for commemorating the listing of DJIA Daily Futures contract at three sites in Tokyo, Osaka and Nagoya for the purpose of having investors understanding DJIA Daily Futures contract which was newly listed and cover the globally major US equity index (the number of visitors: 750).



02

New Market Participants

(1) Trading members

The leading online broker SBI Securities acquired the qualifications of trading membership and clearing membership in Click Kabu 365 in November 2016 and started offering services in January 2017.

The company has aggressively executed a variety of promotional activities since the start of offering services (campaign for commemorating the start of handling, holiday trading campaign, premium Friday campaign and campaign for commemorating the first anniversary of listing DJIA Daily Futures contract) and largely increased the number of accounts and trading volumes. It contributes to the market expansion of Click Kabu 365.

SBI証券

(2) Intermediate brokers

In June 2017, ALPHIX Co, Ltd. joined as an intermediate broker of OKAYASU SHOJI in Click 365. The company aggressively executes a variety of promotions including holding seminars at TFX Plaza.

As of the end of June 2017, the number of all providers for Click 365 is 27 (17 trading

members, 6 intermediate brokers and 4 financial instruments intermediary service providers) and 16 for Click Kabu 365 (12 trading members and 4 financial instruments intermediary service providers).



03

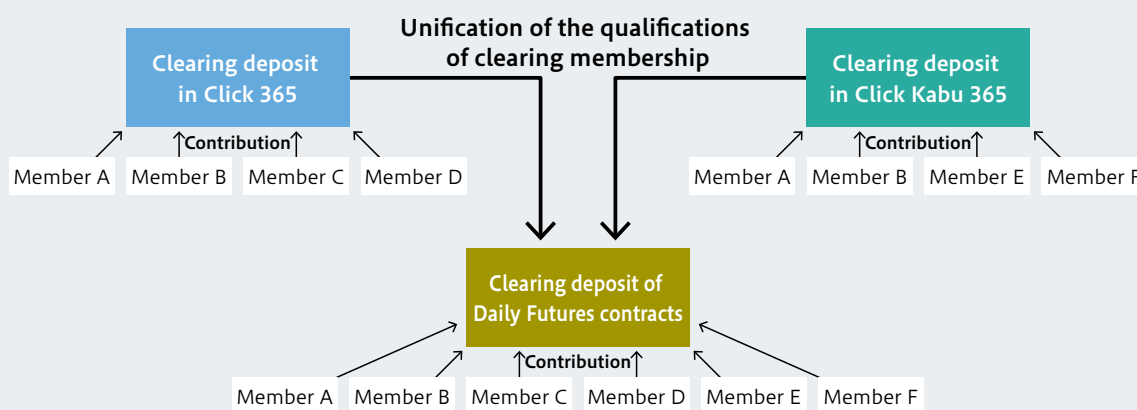
Combining of clearing membership in Click 365 and Click Kabu 365

Excluding the underlying assets, there are common details of market systems between Click 365 and Click Kabu 365. Many trading members join both markets, but their qualifications of clearing membership differ from each other. Therefore, clearing members bore clearing deposit (prepared for losses incurred at the collapse of clearing members) for each market.

In February 2017, the qualifications of clearing membership were unified in Click 365 and Click Kabu 365, and clearing deposit was aggregated. This reduces the amount of clearing deposit per clearing member.

This also reduces an amount incurred by surviving clearing members at the time of collapse of the clearing members. Consequently, the stability of clearing system was increased.

[Effect of unification of the qualifications of clearing membership]



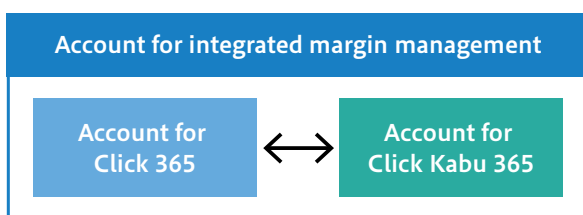
04 Introduction of Integrated Management of Margin Accounts for Click 365 and Click Kabu 365

Conventionally, investors were not allowed by the law to combine Click 365 and Click Kabu 365 in calculating margins and profit/loss. Accordingly, if the margin for Click 365 falls short, a loss-cut trading may take place for Click 365 even if the margin remains for Click Kabu 365, or investors cannot start new trading of Click 365 with evaluated profit from Click Kabu 365, which was inconvenient.

Recently, the law was revised to allow the integrated margin management whereby the margins for Click 365 and Click Kabu 365 can be combined.

Consequently, clients who established an account for integrated margin management can place an order if the margin in one account falls short but the margin in another account exceeds the shortage, which has made the trading more convenient and enabled clients to use their funds more effectively.

Also, the loss cut is determined by a combination of Click 365 and Click Kabu 365 accounts in the calculation of margins and evaluated profit and loss, which enabled more appropriate risk control.



05 Sophisticated Risk Control by Review of Clearing Deposit Distribution Method

The amount of clearing deposit for daily futures contracts that should be deposited by clearing members to the Exchange was

conventionally calculated in accordance with the position of the clearing members.

In February 2017, we sophisticated the risk control in order to reflect the investor's attribute in the calculation of clearing deposit because the size of risk taken by clearing houses depends on the investor's attribute, such as individuals, corporations and market makers, etc.

06 Evaluation to Utilize AI Technology

In March 2017, we agreed with Fujitsu Limited (based in Minato-ku, Tokyo and represented by Tatsuya Tanaka, President; hereinafter referred to as "Fujitsu") to integrate our expertise on market monitoring and Fujitsu's on AI technology (anomaly detection technology) to jointly evaluate the improvement in accuracy and efficiency in the market monitoring operation. By using anomaly detection technology that allows automatic detection of "unusual status" via machine learning of normal market data, we examine the capability to capture a change (or sign) of condition which may cause abnormality very accurately without use of sophisticated analysis know-how.



07 Domestic Promotion Activities

In FY 2016, we held the following seminars and events of Click 365 and Click Kabu 365 for purposes of increasing the market recognition of Click 365 and Click Kabu 365, appealing products to investors, expanding business, etc.

(1) Holding of “Click Festival 2016”

In November 2016, we held “Click Festival 2016” in Shinjuku under cooperation with Nikkei CNBC, Stock Voice TV, Nikkei Money, FOREX PRESS and other media and many investors attended there (around 1,000 visitors).

11 trading members ran booths at the event venue and appealed their products.

On the day, the event began with a keynote speech followed by a talk show by commentators from Nikkei CNBC/Market Analyze and other programs to meet investors’ needs.

Many media covered the event scene was featured by TV Asahi and TV Tokyo in their news shows. Also, the investors questionnaire indicated that they were highly satisfied with the festival.



(2) Promotion of trading by “Click 365 Large” and exploration of trading needs from principal transaction divisions of securities firms

- ① In order to increase trade with “Click 365 Large,” we renewed our webpage exclusive to it, enhanced the dispatch of information on merchantability and held seminars for firms
- ② In order to explore trading needs from proprietary trading divisions of securities firms, we contacted such divisions individually, held joint briefing sessions for dealers and provided seminars with support by Bloomberg As a result, securities companies interested in principal transactions have started it

(3) Support to “Market Forum 2016”

In October 2016, we supported, and set up a booth in, the “Market Forum 2016 (Tokyo and Osaka)” sponsored by Market Forum, a non-profit organization, in order to enhance our presence in the financial industry, make our listed products well known and build a relationship with financial market players (i.e. self-dealers from securities companies, prospective new participants, etc.).

(4) Provision of a program to “Stock Voice TV”

As a sponsor of a program “Tokyo Market Wide (Tokyo MX-TV)” produced by “Stock Voice TV” which is a media specialized in the market, we are trying to awareness appeal our products to investors.

In October, 2016, we supported the “Stock Voice Forum 2016 (Tokyo, Osaka and Nagoya)” sponsored by the above company and promoted it in collaboration of TV and seminars.

(5) Support to investment seminars held by providers

We worked on the market promotion in cooperation with the providers of Click 365 and Click Kabu 365 by sending lecturers 20 times or more in the year to the investment seminars held by such providers.

(6) Holding “TFX Plaza Seminars”

We leased a promotion space called “Financial Exchange Plaza” to the providers of 400 or more “TFX Plaza Seminars.”

We are working on organizing seminars in full cooperation with the providers.



About 20% of Three-month Euroyen futures trading in FY 2016 was made by newly-participated investors from overseas, including without limitation China and Singapore.

(1) Overseas Trade Show

We participated in “FIA EXPO 2016 (Chicago)” and “FIA Asia Derivatives Conference (Singapore)” respectively in October 2016 and December 2016.

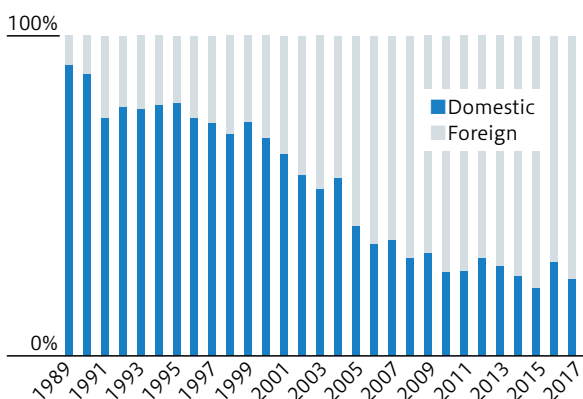
In Chicago, we hosted a reception along with the schedule of trade show Three-month Euroyen futures and other listed products and Japanese financial market were promoted to over 300 market players in the reception.



08 International Marketing Activities

In the current interest rate futures market, foreign-based participants have over 70% share of the market volume. We have been putting emphasis on overseas marketing and improving accessibility to the market for those investors.

■ Trading ratio between domestic players and foreign-financed players in the yen interest rate futures market



(2) Educational Seminars on Yen Interest Rate

We held seminars at multiple locations globally to capture the interest from investors which has been increased since introduction of negative interest rate by the BOJ.



II. Relationship with Market Participants and Research Activities, etc.

01 Click Association

We establish “Click Association” for purposes of sharing of business strategies, exchange of opinions, promotion of communication among the trading members of Click 365 and Click Kabu 365.

In December 2016, we held Click Association meeting at the Imperial Hotel to which 50 persons attended.

President Ota made a speech that TFX and trading participants will cooperate with each other in having united efforts to promote and enhance the market.



02 Traders Club

An annual event “Traders Club” was held in June 2016 to honor participants for their contributions and to have an opportunity to expand relations. We held a presentation regarding market trend, and more than 30 attendees including trading members,

information vendors and ISVs exchanged their opinions vigorously.



03 Financial Derivative Market Research Group

We establish “Financial Derivative Market Research Group” as a place of research on issues about financial derivative market by academic experts specialized in finance and economics.

The Group consists of five university professors led by Mr. Kazuto Ikeo (professor of Keio University, Faculty of Economics).

04 Financial Market Study Group

We set up “Financial Market Study Group” consisting of 10 members, including those from financial institutions and think tanks and university professors, for purposes of information gathering and exchange of opinions about timely topics on domestic and overseas economies and finance as reference for the market operation.



05 Public Lectures for Finance and Economy

As a public infrastructure, TFX has a mission to contribute to a sound development of finance and economy of Japan. As a part of it, we are committed to the educational activities.

To enable the attendees to understand derivative trading more closely and correctly, we are holding lectures for finance and economy in affiliation with local community and educational institutions similarly in the last year.

In FY 2016, we held 26 lectures for finance and economy on topics such as foreign exchange, the Nikkei Stock Average and so on in local community centers.

Municipalities [Days of lectures]	Facilities	Held in:
Chiba city, Chiba prefecture	Konakadai community center and Kotehashidai community center	April and July, 2016
Narashino city, Chiba prefecture	Kikuta community center	May to June, 2016
Saitama city, Saitama prefecture	Harigaya community center, Okubo community center, Ryoke community center, Miyahara community center, Suzugaya community center, Kitauwara community center, Yonohommachi community center, Uekisaki community center, Shimoochiai community center and Higashiomiya community center	May to July, September and November 2016 January and March, 2017
Urayasu city, Chiba prefecture	Horie community center and Miama community center	June 2016
Kawaguchi city, Saitama prefecture	Kawaguchi Citizen's College (Nishi community center)	September to October 2016
Toda city, Saitama Prefecture	Misasa community center	October 2016
Shiki city, Saitama prefecture	Iroha Yugakukan	November 2016

06 Education for Students

As an activity targeting young generation who will play important roles in the future, we organized lectures and tours to TFX for university students, etc.

We provided the following lectures in FY 2016.

School	Contents	Held in:
Union of Student Investment Clubs (USIC)	Lectures for economy and finance and tour to the Exchange	July and October 2016
Hokuriku University	Lectures for economy and finance and tour to the Exchange	September 2016
Yamaguchi Prefectural Hofu High School	Lectures for economy and finance and tour to the Exchange	December 2016
Meiji University	Visiting lectures for exchange and stock index	December 2016



III. Human Resources Development and Internal Activation

01 Human Resources Development

(1) Human Resources Vision

We have established a vision for positive human resources development.

■ TFX's Human Resources Vision

- 1 Those who voluntarily learn with a strong sense of advancement and keep challenging with high aim
- 2 Those who always pursue creativity and respond to all environmental changes flexibly and promptly
- 3 Those who have a wide field of view to enhance personal quality, accept diversity and settle problems in unified cooperation with others

(2) Training programs, etc.

We introduce the following trainings to achieve our vision.

Also, we have a system to support human resources development to foster expertise of employees.

	Systems	Details
Training by employee's position	Training of new employees	Basic training for member of society, training for corporate practices, basic job training, follow-up training, and man-to-man training system
	Training of management	Training of evaluators and assessors, and dispatch to outside training institutions
Business training	Dispatch to seminars	Dispatch to seminars to acquire new staff and latest information, etc.
	Correspondence study	Correspondence lectures for derivatives must be taken.
Outside dispatch	Language study	Dispatch to overseas short-term intensive language study
	Loan	Loan to financial authorities and private companies
System to support personal development	Subsidy for qualification acquisition	Subsidy for qualification and examination fee in language, finance, IT, legal and other wide range of fields

02 Recommendation to Take Paid Leave

As a part of creating an employee friendly workplace, we recommend employees to take paid leave. We are making efforts to achieve the entire company's numerical target of 70% as the rate of paid leave taken.

Also, we permit employees to take paid leave on half-day basis.

03 System to Support Child Care and Nursing Care

We are working to enrich a system to support employees who face a time constraint due to child care or nursing care so that they can maintain a work-life balance.

Especially for child-care leave, we permit employees to take leave more than permitted by laws.

	Details
Child-care leave	Can be taken from a day next to the day when a leave after childbirth ends as long as a child is less than three years old, provided that the leave can be taken till a child reaches the age of elementary school only if the child is not admitted to a nursery center for any reason.
Exemption from overtime work or holiday work	Exempted as long as a child is less than three years old.
Short-time work	Daily work hours can be reduced to six as long as a child is less than three years old.
Child-custody leave	Can be taken on half-day basis, up to five days in a year (or ten days for more than one child) until a child reaches the age of elementary school.
Nursing care leave	Can be taken up to 93 days for one family member each time nursing is needed, up to three times.
Short-time work	Daily work hours can be reduced by one hour by reason of nursing, up to for three years.
Nursing leave	Can be taken on half-day basis, up to five days for one family member who needs nursing or ten days for more than one family member. In addition, the accumulated leave can be used up to 50 days.

04 Initiative for Internal Activation

We have a volunteer group system for purposes of increasing communication among employees and fostering corporate culture to explore diversified ideas and solutions.

In the volunteer groups, all employees participate in activities, such as "sports promotion", "corporate event planning", "social contribution and charity", "improvement in internal hygiene, environment and facilities" and "support to company newsletter production" and each team give variety to their activities.

05 Raising Retirement Age

We raised the retirement age from 60 to 63.

Also, we permit employees to have side business during employment with us except business that cause a conflict of interest or business with our competitors.

We accept diversified ways of working and expect employees to widen their fields of view and have various experiences during employment with us.

I. TFX's Management Base

01 Governance Structure

- 1 The Board of Directors makes decisions on important matters regarding fundamental management policy and business activities, and supervises the director's performance of duties. In order to be able to make decisions from a broader standpoint and supervise execution of duties from an objective standpoint, Outside Directors account for the majority of the Board of Directors.
- 2 The Board of Auditors, of which Outside Statutory Auditors account for the majority, audits the director's performance of duties, and submits an audit report to the shareholders' meeting in accordance with the internal control policy.
- 3 The Nomination and Compensation Committee, of which Outside Directors account for the majority, deliberates on the election and dismissal of officers and remuneration for officers.
- 4 The Self-regulatory Committee, of which Outside Directors account for the majority, makes decisions on self-regulatory operations to ensure the fairness, transparency and credibility in the market, based on delegation from the Board of Directors.

Corporate Organization	Company with a Board of Auditors
Number of Directors	9 Directors (including 5 Outside Directors)
Number of Statutory Auditors	3 Statutory Auditors (including 2 Outside Statutory Auditors)
Advisory Committee	The Nomination and Compensation Committee, Market Operation Committees
Self-regulatory Committee	3 Directors (including 2 Outside Directors)

02 Internal Control System/ Compliance

- 1 We formulate "the Basic Policy for the Creation

of Internal Control System" to ensure the proper conduct of the business operations.

- 2 Based on its social responsibilities and public mission, TFX established "Standard of Conduct," which both officers and employees are required to observe and holds regular training programs designed to enhance understanding and awareness of the importance of compliance for officers and employees.
- 3 A helpline for employees has been established to facilitate internal reporting concerning any improper acts as well as consultation to confirm whether the acts fall under violation of laws and regulations.

03 Risk Management Framework

- 1 We establish the General Risk Management Policy, which specifically prescribes, major risks subject to management, the definition of risk management, risk management framework, and risk management method.
- 2 We establish the Risk Management Committee, which discusses any important matters about the risk management and makes quarterly and annual reports to the Board of Directors.
- 3 We establish a rigorous risk management system in order to respond to "Principles for Financial Market Infrastructure", etc.

04 Business Continuity Plan (BCP)

- 1 We formulate the "Contingency Plan on System Failures and Other Emergencies" and established a system for continuing operations in the event of system failure or other emergencies.
- 2 We set up the "Business Continuity Plan (BCP)"

and established a system for business continuity in case of the occurrence of any risks which threaten TFX's business continuity, such as major earthquakes or terrorisms.

- ③ In the BCP, we clarify the approach and response policies of business continuity at the time of occurrence of risk events leading to suspension of business functions, and aims to restore vital information systems for TFX's important operations within two hours and transactions within 24 hours.
- ④ In preparation for the occurrence of a disaster, we implemented the following systems and infrastructure development.

[Frameworks and Infrastructures in Event of Disasters]

1. Secure necessary manpower
2. Ensure means of telecommunication
3. Set up backup offices
4. Set up secondary data center
5. Organize manuals
6. Conduct testing and educational training

[Message from an Outside Director]

Approaches to Corporate Governance

In recent years, strengthening the effectiveness of corporate governance have been hailed as highly significant among even average companies, but for exchanges, which are public infrastructures, have a great influence on the market as well as the economy and thus have a social responsibility to conduct market operations with fairness, credibility, and convenience, it is critical to maintain more strict governance systems than average companies. At TFX, five of the nine directors are outside directors, and the Market Operation Committee has also been set up as an advisory body to the Board of Directors, composed of directors and officers of major trading members and academic experts, and renders opinions as needed. This framework enables TFX to reflect broad objective opinions from external parties on the exchange operations.

In addition, TFX sets up a governance and risk management system in accordance with the

“Principles for Financial Market Infrastructure” (“PFMI”) published by the International Organization of Securities Commissions (IOSCO), composed of financial supervisory authorities all over the world, as governance standards. Discussions and decisions at the Board of Directors meeting also comply with PFMI. This strict governance system is unique to exchanges playing a public role.

As an example, the Board of Directors establishes the General Risk Management Policy, and receives reports as needed in addition to quarterly and annually. We realized that the role of outside directors in corporate governance is becoming increasingly important, such as an annual review of the risk management system in various aspects including risks of credit, liquidity, systems, and operations.

Junko Hirakawa

Partner of City-Yuwa Partners

II. Directors and Statutory Auditors

Directors



Shozo Ohta
President & CEO

July 1969

Joined Ministry of Finance

August 1999

Vice Chairman, Bio-oriented Technology Research Advancement Institution

July 2002

Senior Managing Director & COO, The Tokyo International Financial Futures Exchange (currently Tokyo Financial Exchange Inc.)

April 2004

Senior Managing Director of the Company

October 2009

President, CEO and Senior Managing Director

June 2010

President and CEO (Present)



Wataru Ito
Senior Managing Director

April 1980

Joined the Sanwa Bank, Ltd. (currently the Bank of Tokyo-Mitsubishi UFJ, Ltd.)

January 2006

Market Sales Manager, Tokyo Financial Futures Exchange Inc. (currently Tokyo Financial Exchange Inc.)

April 2007

Market Manager of the Company

October 2009

Market Manager and Executive Officer

June 2011

Managing Director

June 2016

Senior Managing Director and COO (Present)



Takuo Hirota
Managing Director

April 1979

Joined Daiichi Kangyo Bank, Ltd. (currently Mizuho Bank, Ltd.)

April 2005

Manager of Integrated Risk Management Department

March 2006

Manager of Integrated Risk Management Department, Head New BIS Promotion Office Integrated Risk Management Department

April 2008

Standing Statutory Auditor

June 2011

Managing Director of the Company (Present)



Ryuji Obara
Managing Director

April 1983

Joined Fujitsu Ltd.

June 2006

System Manager of the Company

June 2011

System Manager, Executive Officer

June 2013

System Manager, Senior Executive Officer

June 2016

Managing Director (Present)



Takashi Imai
Director (Outside)

April 1952

Joined Fuji Iron & Steel Co., Ltd.

June 1993

Representative Director and President of Nippon Steel Corporation (currently Nippon Steel & Sumitomo Metal Corporation)

April 1998

Representative Director and Chairman of the Board of Directors

May 1998

Chairman of the Japan Federation of Economic Organizations (currently The Japan Business Federation)

May 2002

Honorary Chairman (Present)

June 2003

Senior Advisor, Honorary Chairman, Nippon Steel Corporation

June 2008

Company friend and Honorary Chairman (Present)

June 2009

Director of the Company (Present)



Masahiro Okuno
Director (Outside)

August 1974

Assistant Professor, Department of Economics, University of Illinois at Champaign-Urbana

April 1989

Professor, Faculty of Economics, the University of Tokyo

April 2010

Professor, Faculty of Economics, Ryutsu Keizai University

June 2010

Professor Emeritus, the University of Tokyo (Present)

June 2012

Director of the Company (Present)

April 2013

Professor, Faculty of Political Economy, Musashino University

June 2015

Chairman of Foundation for the Welfare and Education of the Asian People (Present)



**Shusaku
Tsuchida**
Director (Outside)

April 1983
Joined Fuji Bank, Ltd. (currently Mizuho Bank, Ltd.)

April 2012
Managing Executive Officer in charge of sales branches, Mizuho Bank, Ltd.

April 2015
Senior Managing Executive Officer, Mizuho Financial Group, Inc.,
Senior Managing Director, Mizuho Bank, Ltd.

June 2015
Member of the Board of Directors, Mizuho Financial Group, Inc.

April 2017
Deputy President and Deputy President & Executive Officer
Head of Sales division, Mizuho Bank Co., Ltd. (Present)

June 2017
Director of the Company (Present)



**Junko
Hirakawa**
Director (Outside)

April 1973
Licensed as an attorney-at-law admitted in Japan
Joined Yuasa and Hara Law & Patent Office

February 1979
Licensed as an attorney-at-law admitted in the State of New York, U.S.A.

October 1983
Partner of Yuasa and Hara

July 1997
Founding Partner of Hirakawa, Sato & Kobayashi (currently City-Yuwa Partners)

February 2003
Partner of City-Yuwa Partners (Present)

June 2011
Director of the Company (Present)



**Shin
Yoshidome**
Director (Outside)

April 1974
Joined Daiwa Securities Co., Ltd.

April 2007
President, Daiwa Securities SMBC Co., Ltd.
Deputy President & COO and Director of the Board, Daiwa Securities Group Inc.

June 2011
Chairman, Daiwa Securities Capital Markets Co., Ltd.

April 2012
Special Advisor, Daiwa Securities Co., Ltd.

June 2013
Director of the Company (Present)

April 2014
Special Advisor, Daiwa Institute of Research Business Innovation, Ltd.

April 2016
Advisor, Daiwa Securities Co., Ltd. (Present)

Statutory Auditors



**Makoto
Fukuchi**
Standing
Statutory Auditor

April 1981
Joined the Chuo Trust and Banking Co. Ltd. (currently the Sumitomo Mitsui Trust Bank Limited.)

October 1991
Joined Tokyo Financial Futures Exchange Inc. (currently Tokyo Financial Exchange Inc.)

July 2007
Head of Self-Regulation Bureau of the Company

January 2010
Manager, General Administration Department

January 2012
Manager, Accounting Department

June 2017
Statutory Auditor of the Company (Present)

**Toshiyuki
Tsukasaki**
Statutory Auditor
(Outside)

April 1970
Joined the Finance Ministry

July 1998
Deputy Director-General

September 2001
Senior Managing Director, Facilitation Fund for Industrial Structural Adjustment

April 2009
Attorney at Sakai, Aizawa, Mimura Law Firm

June 2011
Discipline Committee member of the Company

June 2015
Statutory Auditor of the Company (Present)

April 2016
Special adviser, Uryu & Itaga Law Firm (Present)



**Shigeyuki
Maeda**
Statutory Auditor
(Outside)

April 1967
Assistant to Law Department, the University of Tokyo

April 1993
Head of law department, Hosei University

April 1997
Professor of social science, University of Tsukuba

April 2004
Professor, Graduate School of Law, Gakushuin University

July 2007
Discipline Committee member of the Company

June 2011
Chairman of Discipline Committee

February 2013
Licensed as an attorney-at-law

June 2015
Statutory Auditor of the Company (Present)

I. Financial Statements (Summary)

[Income Statement(Summary)]

(in million yen, rounded off to millions)

Account Titles	FY2015 As of March 31, 2016	FY2016 As of March 31, 2017
Operating Revenues	9,315	8,647
Fixed amount exchange fees	139	136
Per-contract exchange fees	8,187	7,664
Income related to system equipment	217	215
Other exchange fees	35	36
Member registration fees and others	17	8
Income from information services	271	263
Income from management of specified funds	447	322
Operating Expenses	9,158	8,073
Selling, general and administrative expenses	9,158	8,073
Operating income	157	573
Non-operating Revenues	471	88
Non-operating Expenses	5	4
Ordinary Income	623	658
Extraordinary Losses	234	-
Income before income taxes	389	658
Income taxes - current	69	93
Income taxes - deferred	▲120	49
Net Income	440	514

[Balance Sheet (Summary)]

(in million yen, rounded off to millions)

Account Titles	FY2015 As of March 31, 2016	FY2016 As of March 31, 2017
(Assets)		
Current Assets	15,860	19,969
Cash and bank deposits	14,650	19,058
Accounts receivable - trade	776	667
Accounts receivable - other	227	80
Prepaid expenses	34	35
Deferred tax assets	170	124
Others	1	2
Non-current Assets	543,786	459,814
Tangible fixed assets	1,232	947
Buildings	464	443
Furniture and equipment	767	503
Intangible fixed assets	2,217	1,629
Software	2,205	1,455
Software development in progress	-	163
Others	11	10
Investment and other assets	3,800	1,098
Assets held for guarantee from members	536,536	456,139
Total Assets	559,646	479,783

Account Titles	FY2015 As of March 31, 2016	FY2016 As of March 31, 2017
(Liabilities)		
Current Liabilities	1,200	1,085
Accounts payable - trade	632	494
Accounts payable - other	395	329
Income taxes payable	7	65
Consumption taxes payable	24	33
Others	140	161
Non-current Liabilities	537,177	456,846
Deposits received from members	536,536	456,139
Others	641	707
Total Liabilities	538,378	457,931
(Net Assets)		
Shareholders' Equity	21,565	21,864
Common stock	5,844	5,844
Capital surplus	6,045	6,045
Retained earnings	9,674	9,973
Default compensation reserve	4,600	4,600
Retained earnings brought forward	5,074	5,373
Valuation/Translation Adjustments	▲297	▲12
Total Net Assets	21,268	21,852
Total Liabilities and Net Assets	559,646	479,783

[Statement of Changes in Net Assets Fiscal Year 2016 (from April 1, 2016 to March 31, 2017)]

(in million yen, rounded off to millions)

	Shareholder's Equity										Valuation/translation adjustments		Total net assets
	Common stock	Capital surplus		Retained earnings					Total shareholder's equity	Valuation difference of other securities	Total valuation / translation adjustments		
		Capital reserve	Total capital surplus	Other retained earnings								Total retained earnings	
				Default compensation reserve for Interest Rate Futures contracts	Default compensation reserve for FX Daily Futures contracts	Default compensation reserve for Equity Index Daily Futures contracts	Default compensation reserve for Daily Futures contracts	Retained earnings brought forward					
Balance as of April 1, 2016	5,844	6,045	6,045	1,000	2,808	792	-	5,074	9,674	21,565	▲297	▲297	21,268
Changes during the term													
Dividend paid	-	-	-	-	-	-	-	▲215	▲215	▲215	-	-	▲215
Transfer to default compensation reserve	-	-	-	-	-	-	3,600	-	3,600	3,600	-	-	3,600
Default compensation reserve withdrawn	-	-	-	-	▲2,808	▲792	-	-	▲3,600	▲3,600	-	-	▲3,600
Net Income	-	-	-	-	-	-	-	514	514	514	-	-	514
The amount changed during this term except shareholders' equity item	-	-	-	-	-	-	-	-	-	-	285	285	285
Total amount changed during the term	-	-	-	-	▲2,808	▲792	3,600	299	299	299	285	285	584
Balance as of March 31, 2017	5,844	6,045	6,045	1,000	-	-	3,600	5,373	9,973	21,864	▲12	▲12	21,852



Tokyo Financial Exchange Inc.

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