

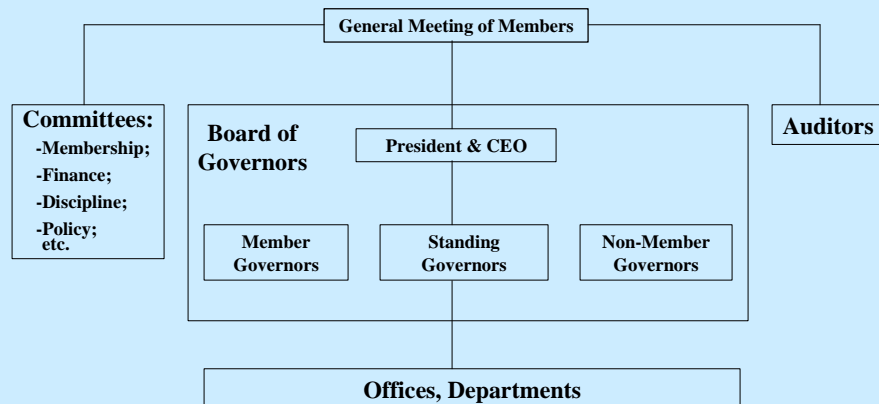
*Demutualization of
Tokyo Stock Exchange*
(Experience and Challenges)

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*Organizational Structure
(Under Membership)*



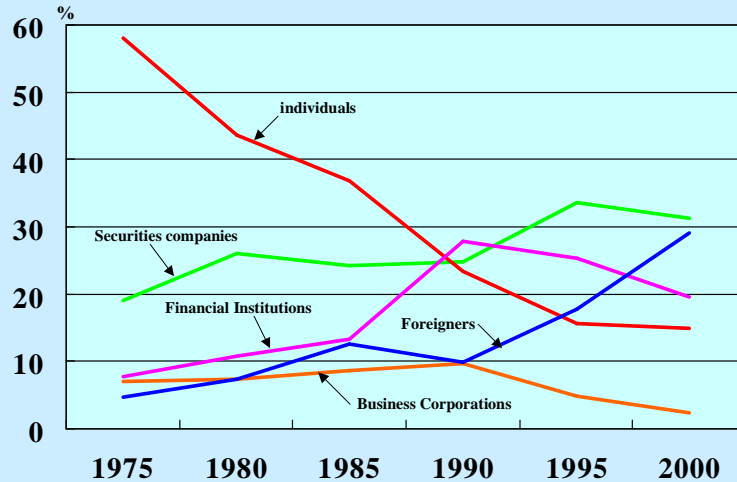
Backgrounds

- **Environmental changes in securities markets after financial deregulation in Japan;**
- **Increasing competition among marketplaces for stock exchange “business”;**
- **Stock exchange becoming a huge electronic processing service entity, requiring heavy amount of investment; and**
- **Growing international trend toward demutualization of stock exchanges.**

Environmental Changes after Deregulation(1)

- **Three major deregulations that have given impacts on stock exchange:**
- **Complete lifting of fixed brokerage commission rates (Oct. '99) ;**
- **Change from licensing system to registration system for doing securities business--easier entry to and exist from securities business (Dec. '98).**
- **Repeal of stock exchange rule restricting members' off-exchange trading (Dec. '98); and**

Stock Transactions by Types of Investors (Based on Trade Value)



Environmental Changes after Deregulation (2)

- **Negotiable brokerage commission and easier entry in securities business have intensified competition among member firms, leading to difficulty in forming consensus among them about exchange policy decisions.**
- **Repeal of market concentration rule, together with liberalization of brokerage commission, has reduced incentive for member firms to bring orders to the exchange market, leading to competition between stock exchange and member firms for order flow.**

Procedural Prerequisites for Demutualization

- **Necessary amendments to Securities and Exchange Law to permit a stock exchange to become a for-profit corporation; and**
- **Agreement from overwhelming number of member firms.**

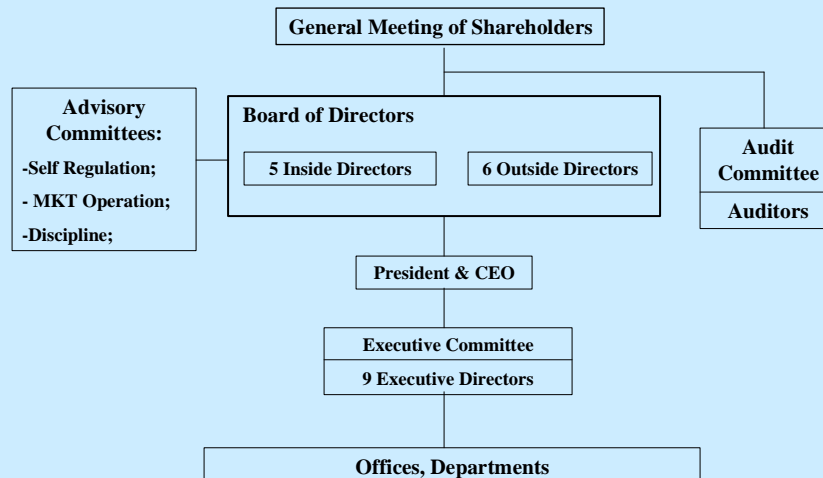
Policy Makers' Concerns

- **Possible conflict of interests between “for-profit” status and self-regulation; and**
- **Preservation of a stock exchange as public goods.**

Member Firms' Concerns

- **Possible impairment of their influence on management of stock exchange;**
- **Possible dilution of their interests in the value of stock exchange; and**
- **Corporate governance of the demutualized stock exchange, including composition of the Board of Directors.**

Organizational Structure (Under Corporate Status)



Tokyo Stock Exchange, Inc.

(Main Features)

- **Paid-in capital:** 11.5 billion yen
- **Shareholders:** 115 participants (former member firms), each having 20,000 shares
- **Adoption of participant system:** General Trading Participant; Government Bond Futures Trading Participant; Stock Index Futures Trading Participant; and Equity Options Trading Participant
- **Admission fee:** 100 million yen for general participant; 30 million yen for government bond futures participant; and 10 million yen for other participant
- **Adoption of new clearing/settlement system:** creation of clearing and non-clearing participants and clearing fund

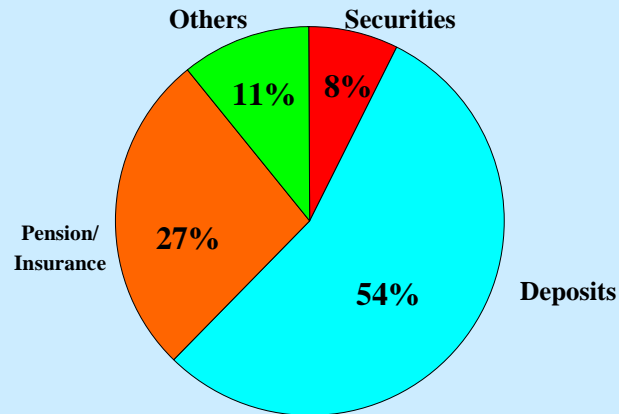
Challenges Ahead

- **How to build a firm base for stable profitability as a for-profit corporation, by offering better services, while enhancing self-regulatory function;**
- *Can we build a sound business/financial base which is resilient against market activity which tends to be capricious?*
- *Can we be ready to convince its shareholders that the stock exchange business should be based on long-term perspective for the benefit of its users?*



Go public and list !

Households' Financial Assets (Japan)



End of 2000

Thank you

