Nomura Japan Equity Top 400 Ex-Financials Index

EQUITY QUANTITATIVE RESEARCH (INDEX)

Index rulebook

Global Markets Research

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Research analysts

Japan index products

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Nomura Japan Equity Top 400 Ex-Financials Index

The Nomura Japan Equity Top 400 Ex-Financials Index reflects the performance of an equally weighted portfolio of stocks in non-financial sectors that rank in the top 400, in terms of market capitalization, of the universe of all common stocks listed on the First Section of the Tokyo Stock Exchange.

Index characteristics

- Reflects equally weighted investment in non-financial stocks that rank in the top 400 of the First Section of the Tokyo Stock Exchange in terms of market capitalization
- Reconstituted once a year, as a general rule

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Contents

1. Periodic reconstitutions

1.1 Periodic reconstitution date

The periodic reconstitution date for the Nomura Japan Equity Top 400 Ex-Financials Index is the first business day of April each year. The reconstitution is carried out after the close of trading on the business day before the periodic reconstitution date.

1.2 Periodic reconstitution base date

The periodic reconstitution base date is the last business day in February. Constituent stocks and the number of shares in each constituent stock to be included in the index following its periodic reconstitution are determined on the basis of calculations using data as of the periodic reconstitution base date.

1.3 Announcement of periodic reconstitutions

As a general rule, an announcement will appear on our website at around 16:00 (JST) 10 business days before a periodic reconstitution, except in the case of unforeseen circumstances or when information cannot be confirmed.

2. Stock selection

2.1 Stock selection universe

The stock selection universe is all stocks listed on the First Section of the Tokyo Stock Exchange as of the periodic reconstitution base date.

Stocks that meet the following criteria as of the periodic reconstitution base date are excluded.

- Equities other than common stock

As a general rule, only common stock is included in the stock selection universe. However, exceptions to this rule will be made if necessary.

- Stocks assigned for delisting

Stocks assigned for delisting are not included in the universe.

- Stocks under supervision[1]

Stocks under supervision (examination) and stocks under supervision (confirmation) that are not included in the index immediately prior to the periodic reconstitution are not included in the stock selection universe.

- TOB target companies[2]

Stocks that are the target of a tender offer (ie, a TOB) may be excluded from the stock selection universe only if all of the following requirements are met:

(1) the offer close date falls between the stock selection universe determination date (the periodic reconstitution base date) and the periodic reconstitution date;

(2) the company conducting the tender offer plans to acquire all the outstanding shares in the target company; and

(3) the company conducting the tender offer is planning to acquire all of the shares of the target company in exchange either for money or its own shares, and the target company agrees to the offer.

- Listed investment trusts/REITs

- Foreign stocks

Stocks listed on foreign sections of Japanese exchanges or stocks regarded as overseas companies are excluded, even if these stocks are traded on Japanese markets.

- Other

Latent stock, warrants, and rights on them are excluded.

[1] This rule will apply from the April 2019 periodic reconstitution onwards.

[2] This rule will apply from the April 2019 periodic reconstitution onwards.

2.2 Stock selection method

Constituent stocks are selected from the stock selection universe (as defined in 2.1 Stock selection universe above) using the method set out below.

(1) **Market cap-based screening**

First, the top 400 stocks in the stock selection universe (2.1) in terms of the market capitalization of outstanding shares are selected.

(2) **Sector-based screening**

From the 400 stocks selected in (1) above, stocks in the "banks", "securities and commodities futures", "insurance", and "other financing business" (based on the Tokyo Stock Exchange's 33 sector classifications) are then excluded. The remaining stocks are the constituent stocks of the Nomura Japan Equity Top 400 Ex-Financials Index.

2.3 Index composition

2.3.1 Index weightings of constituent stocks

The index is constructed in such a way that the constituent stocks selected using the method set out in 2.2 Stock selection method above have equal weightings in the index, based on data as of the periodic reconstitution base date. See 4.5 Adjustment to reflect change in index inclusion ratio for adjustments to the number of shares in each stock included in the index between the periodic reconstitution base date and the next periodic reconstitution date.

2.3.2 Number of shares included in index and index inclusion ratio for each constituent stock

The number of shares included in the index and index inclusion ratio for each constituent stock are calculated using data as of the periodic reconstitution base date to ensure that their index weightings are the same as those determined using the method set out above.

Market capitalization of shares in stock$_i$ included in index

= index weighting$_i$ X index market cap

No. of shares in stock$_i$ included in index

= market capitalization of shares in stock$_i$ included in index ÷ Nomura composite share price for stock$_i$

Index inclusion ratio for stock$_i$

= no. of shares in stock$_i$ included in index ÷ no. of shares outstanding in stock$_i$ for index calculation purposes

Here, $_i$ indicates the $_i$th constituent stock.

Nomura composite share price

The Nomura composite share price is the share price on the stock exchange selected for each stock on the basis of trading frequency and volume over the preceding 60 business days. As a general rule, the exchange is selected on a daily basis. The share price is selected according to the following order of precedence:

Contract price on selected exchange (see note) > standard price on selected exchange > Nomura composite share price on previous business day

Note: Priority is given to the special quotation price or continuous confirmed quotation price on the selected exchange if these are available.

3. Unscheduled index reconstitutions

3.1 Response to stock swaps, stock transfers, mergers, etc

Temporary exclusions of stocks from the index are avoided and the consistency of index constituents is maintained based on the following rules.

3.1.1 Stock swaps and absorption-type mergers
When a stock is delisted because it is about to become a wholly owned subsidiary or be merged into another company (hereafter, merged company), it is included in the index after delisting but removed from the index on the listing change date (or on the following business day if this is a non-business day). Following its delisting, and until its removal from the index, the merged company's valuation is based on the market value of the company that will become the parent company or the surviving company multiplied by the exchange or merger ratio. Also, the index inclusion ratio of the parent company or surviving company will be changed on the listing change date (or on the following business day if this is a non-business day) based on the exchange or merger ratio.

3.1.2 Stock transfers and consolidation mergers
When an unlisted parent company or surviving company in a merger (hereafter, surviving company) assumes the operations of another company and becomes listed after a short period of time, the merged company is removed from the index on the new listing date of the surviving company (or on the following business day if this is a non-business day). The price used for the delisted merged company is the price on the day before its delisting. Also, the price used for the surviving company is the price on its new listing date. However, if it is clear that the surviving company will not be included in the index after the periodic reconstitution, the merged company is removed from the index on the delisting date.

3.2 Removal of stocks

3.2.1 Designation as securities to be delisted
Stocks designated as securities to be delisted are removed from the index four business days later (or four business days after the following business day if the designation occurs on a non-business day). However, stocks listed on more than one market that have not been designated for delisting on one or more of the markets will not be removed.

3.2.2 Delisting
Stocks delisted for reasons other than those cited in 3.1 Response to stock swaps, stock transfers, mergers, etc, are removed from the index on the delisting date.

3.2.3 Marked loss of eligibility for inclusion in stock selection universe
In the case of an event that is regarded as having seriously damaged a constituent stock's eligibility for inclusion in the stock selection universe as defined in 2.1 Stock selection universe above, the stock may be removed from the index following an official announcement by the company in question, the stock exchange, or a government/regulatory agency. However, after the stock has been removed from the index, if the grounds for the stock's removal from the index no longer apply as of the periodic reconstitution base date, it will stop being regarded as ineligible for inclusion in the stock selection universe.

4. Index calculation

4.1 Index base date, base value, announcement date

The base date for the Nomura Japan Equity Top 400 Ex-Financials Index is 30 March 2001 and the value of the index on the base date (base value) is 10,000.

Publication of index values starts on 22 May 2018.

4.2 Calculation of index market capitalization

Market capitalization of shares in stock$_i$ included in index

= Nomura composite share price for stock$_i$ x no. of shares in stock$_i$ included in index

Index market cap

= Σ_i (market cap of shares in stock$_i$ included in index)

Here, $_i$ indicates the $_i$th constituent stock and Σ_i indicates the sum for all index constituents.

4.3 Calculation of index values

To prevent index values from being affected by changes in market capitalization that are not related to market fluctuations, eg, changes in capital structure and index constituents, the index is calculated as follows, using base market capitalization[3]. Here, $_t$ represents the day in question, and $_{t\text{-}1}$ represents the previous business day.

Calculation of yen-denominated index values

- Index excluding dividends

$$\text{Base market capitalization}_t = \text{index market capitalization}_{t-1} + \text{adjusted market capitalization}_t$$

$$\text{Return}_t = \frac{\text{index market capitalization}_t}{\text{base market capitalization}_t} - 1$$

$$\text{Index value}_t = \text{index value}_{t-1} \times (1 + \text{return}_t)$$

- Index including dividends

$$\text{Base market capitalization}_t = \text{index market capitalization}_{t-1} + \text{adjusted market capitalization}_t - \text{adjusted total dividends}_t$$

$$\text{Return}_t = \frac{\text{index market capitalization}_t + \text{total dividends}_t}{\text{base market capitalization}_t} - 1$$

$$\text{Index value}_t = \text{index value}_{t-1} \times (1 + \text{return}_t)$$

[3] Adjusted market capitalization is calculated as the change in market capitalization resulting from a change in capital structure at an index constituent or a change in market capitalization resulting from a change in index constituent stocks. Adjusted total dividends is calculated as the difference between forecast dividends and actual dividends if there is a difference between these two values.

Method for reflecting dividends

For the index including dividends, dividend data are reflected on the ex-dividend date. However, as the value of the dividend has not yet been determined on the ex-dividend date, the company's announced dividend forecast is used (or Toyo Keizai's dividend forecast if the company has not announced its own dividend forecast)[4]. In the event of a difference between the dividend forecast and the actual dividend, the base market capitalization is adjusted on the last business day of the month of the company's earnings announcement. However, if the company announces its earnings on the last business day of the month, the adjustment is made on the last business day of the following month. In addition, if dividend adjustment is required, the base market capitalization is adjusted on the last business day of the month in which this became clear (if the day in which this became clear is the last business day of the month, the base market capitalization is adjusted on the last business day of the following month).

[4] This rule applies starting from accounting periods ending on 31 December 2011. For accounting periods before this, the actual dividend on the ex-dividend date is used.

4.4 Adjustment of base market capitalization

The base market capitalization is adjusted as shown below in the event of a change in capital structure or in index constituent stocks (Figure 1). However, base market capitalization is not adjusted to reflect changes in capital structure that do not involve payment, such as stock splits and reverse stock splits, as these do not affect market capitalization.

Fig. 1: Timing of adjustments resulting from changes in capital structure

	Type of change in capital structure	Adjustment date	Share price used
Stock replacement	Stock transfer, stock swap, merger	Swap date	Previous day's price
	Corporate divestiture (company/division spinoff)	Ex-rights date	(Not used)[5]
	Stock replacement	Replacement date	Previous day's price
Capital increase	Rights offering	Ex-rights date	Issue price
	Gratis allocation of stock acquisition rights	Ex-rights date	Exercise price
	Gratis allocation of treasury stock	Ex-rights date	Previous day's price
	Public offering	Business day following payment date (listing date of new shares when settlement is on issuance date)	Previous day's price
	Capital increase via third-party placement	Five business days after date of listing change	Previous day's price
	Conversion of preferred stock into common stock	Last business day of month in which number of converted shares becomes known	Previous day's price
	Conversion of CBs Exercise of stock acquisition rights	Last business day of month in which number of new shares for which rights were exercised becomes known	Previous day's price
	Corporate divestiture (new shares in continuing company)	Date of listing change	Previous day's price
Capital decrease	Retirement of treasury stock	Last business day of month following month in which shares are retired	Previous day's price
	Rights offering refusal	Last business day of month in which rights offering refusal is announced (or last business day of following month if announcement is within five business days of month-end)	Previous day's price
	Capital reduction with compensation	Effective date	Previous day's price
Other	Other adjustments	Other adjustments to the base market capitalization, if required, are made on the last business day of the month of the announcement of the relevant report (or the last business day of the following month if the announcement is within five business days of month-end)	Previous day's price

Source: Nomura

[5] In the case of a corporate divestiture (company/division spinoff), the base market capitalization is adjusted for the reduction in capital. Definitions of reductions in capital are as follows:

(1) when the company does not announce the value of the divested division or of the shares of the divested company:

capital reduction = amount by which shareholders' equity is expected to be reduced; and

(2) when the company does announce the value of the divested division or of the shares of the divested company:

capital reduction = value of divested division or value of divested company's shares × total number of shares

4.5 Adjustment to reflect change in index inclusion ratio

Constituent stocks are replaced in periodic and unscheduled reconstitutions and also when necessary for other reasons. In addition, when the following changes in capital structure result in a change in the number of shares outstanding for index calculation purposes, the index inclusion ratio is changed so that the number of shares in the stock that are included in the index does not change.

- Stock transfer, stock swap, merger[6]
- Rights issue offering
- Gratis allocation of stock acquisition rights
- Public offering
- Capital increase via third-party placement
- Conversion of preferred stock into common stock
- Exercise of CBs, exercise of stock acquisition rights
- Corporate divestiture (new shares in continuing company)
- Retirement of treasury stock
- Rights offering refusal
- Capital reduction with compensation
- Other adjustments

[6] If a wholly owned subsidiary (merged company) is an index constituent, the number of shares in the parent company (merging company) will be adjusted to reflect the exchange ratio (merger ratio).

5. Data publication services

Nomura Japan Equity Top 400 Ex-Financials Index access points[7]

Information on the Nomura Japan Equity Top 400 Ex-Financials Index is available on the following media:

Bloomberg:

NMRIJOTP<index> (index excluding dividends, yen-denominated)

NMRIJITP<index> (index including dividends, yen-denominated)

QUICK:

NRIJ@

Reuters:

.N400EXFIN (index excluding dividends, yen-denominated)

.N400EXFINTR (index including dividends, yen-denominated)

Website:

http://qr.nomura.co.jp/jp/ntpexf/index.html (Japanese only)

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[7] Published data are all for reference only.

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See the following link for details:

http://qr.nomura.co.jp/en/guides/index.html

- Index Calculation Policy
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- Glossary (Equity)
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Appendix A-1

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Transactions involving Japanese equities (including Japanese REITs, Japanese ETFs, and Japanese ETNs) are subject to a sales commission of up to 1.404% of the transaction amount (or a commission of ¥2,808 for transactions of ¥200,000 or less). When Japanese equities are purchased via OTC transactions (including offerings), only the purchase price shall be paid, with no sales commission charged. However, Nomura Securities may charge a separate fee for OTC transactions, as agreed with the customer. Japanese equities carry the risk of losses owing to price fluctuations. Japanese REITs carry the risk of losses owing to fluctuations in price and/or earnings of underlying real estate. Japanese ETFs carry the risk of losses owing to fluctuations in the underlying indexes or other benchmarks.

Transactions involving foreign equities are subject to a domestic sales commission of up to 1.026% of the transaction amount (which equals the local transaction amount plus local fees and taxes in the case of a purchase or the local transaction amount minus local fees and taxes in the case of a sale) (for transaction amounts of ¥750,000 and below, maximum domestic sales commission is ¥7,668). Local fees and taxes in foreign financial instruments markets vary by country/territory. When foreign equities are purchased via OTC transactions (including offerings), only the purchase price shall be paid, with no sales commission charged. However, Nomura Securities may charge a separate fee for OTC transactions, as agreed with the customer. Foreign equities carry the risk of losses owing to factors such as price fluctuations and foreign exchange rate fluctuations.

Margin transactions are subject to a sales commission of up to 1.404% of the transaction amount (or a commission of ¥2,808 for transactions of ¥200,000 or less), as well as management fees and rights handling fees. In addition, long margin transactions are subject to interest on the purchase amount, while short margin transactions are subject to fees for the lending of the shares borrowed. A margin equal to at least 30% of the transaction amount (at least 33% for online transactions) and at least ¥300,000 is required. With margin transactions, an amount up to roughly 3.3x the margin (roughly 3x for online transactions) may be traded. Margin transactions therefore carry the risk of losses in excess of the margin owing to share price fluctuations. For details, please thoroughly read the written materials provided, such as listed securities documents or documents delivered before making a contract.

Transactions involving convertible bonds are subject to a sales commission of up to 1.08% of the transaction amount (or a commission of ¥4,320 if this would be less than ¥4,320). When convertible bonds are purchased via OTC transactions (including offerings), only the purchase price shall be paid, with no sales commission charged. However, Nomura Securities may charge a separate fee for OTC transactions, as agreed with the customer. Convertible bonds carry the risk of losses owing to factors such as interest rate fluctuations and price fluctuations in the underlying stock. In addition, convertible bonds denominated in foreign currencies also carry the risk of losses owing to factors such as foreign exchange rate fluctuations.

When bonds are purchased via public offerings, secondary distributions, or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Bonds carry the risk of losses, as prices fluctuate in line with changes in market interest rates. Bond prices may also fall below the invested principal as a result of such factors as changes in the management and financial circumstances of the issuer, or changes in third-party valuations of the bond in question. In addition, foreign currency-denominated bonds also carry the risk of losses owing to factors such as foreign exchange rate fluctuations.

When Japanese government bonds (JGBs) for individual investors are purchased via public offerings, only the purchase price shall be paid, with no sales commission charged. As a rule, JGBs for individual investors may not be sold in the first 12 months after issuance. When JGBs for individual investors are sold before maturity, an amount calculated via the following formula will be subtracted from the par value of the bond plus accrued interest: (1) for 10-year variable rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used, (2) for 5-year and 3-year fixed rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used.

When inflation-indexed JGBs are purchased via public offerings, secondary distributions (uridashi deals), or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Inflation-indexed JGBs carry the risk of losses, as prices fluctuate in line with changes in market interest rates and fluctuations in the nationwide consumer price index.The notional principal of inflation-indexed JGBs changes in line with the rate of change in nationwide CPI inflation from the time of its issuance. The amount of the coupon payment is calculated by multiplying the coupon rate by the notional principal at the time of payment. The maturity value is the amount of the notional principal when the issue becomes due. For JI17 and subsequent issues, the maturity value shall not undercut the face amount.

Purchases of investment trusts (and sales of some investment trusts) are subject to a purchase or sales fee of up to 5.4% of the transaction amount. Also, a direct cost that may be incurred when selling investment trusts is a fee of up to 2.0% of the unit price at the time of redemption. Indirect costs that may be incurred during the course of holding investment trusts include, for domestic investment trusts, an asset management fee (trust fee) of up to 5.4% (annualized basis) of the net assets in trust, as well as fees based on investment performance. Other indirect costs may also be incurred. For foreign investment trusts, indirect fees may be incurred during the course of holding such as investment company compensation.

Investment trusts invest mainly in securities such as Japanese and foreign equities and bonds, whose prices fluctuate. Investment trust unit prices fluctuate owing to price fluctuations in the underlying assets and to foreign exchange rate fluctuations. As such, investment trusts carry the risk of losses. Fees and risks vary by investment trust. Maximum applicable fees are subject to change; please thoroughly read the written materials provided, such as prospectuses or documents delivered before making a contract.

In interest rate swap transactions and USD/JPY basis swap transactions ("interest rate swap transactions, etc."), only the agreed transaction payments shall be made on the settlement dates. Some interest rate swap transactions, etc. may require pledging of margin collateral. In some of these cases, transaction payments may exceed the amount of collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the transaction. Interest rate swap transactions, etc. carry the risk of losses owing to fluctuations in market prices in the interest rate, currency and other markets, as well as reference indices. Losses incurred as such may exceed the value of margin collateral, in which case margin calls may be triggered. In the event that both parties agree to enter a replacement (or termination) transaction, the interest rates received (paid) under the new arrangement may differ from those in the original arrangement, even if terms other than the interest rates are identical to those in the original transaction. Risks vary by transaction. Please thoroughly read the written materials provided, such as documents delivered before making a contract and disclosure statements.

In OTC transactions of credit default swaps (CDS), no sales commission will be charged. When entering into CDS transactions, the protection buyer will be required to pledge or entrust an agreed amount of margin collateral. In some of these cases, the transaction payments may exceed the amount of margin collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the financial position of the protection buyer. CDS transactions carry the risk of losses owing to changes in the credit position of some or all of the referenced entities, and/or fluctuations of the interest rate market. The amount the protection buyer receives in the event that the CDS is triggered by a credit event may undercut the total amount of premiums that he/she has paid in the course of the transaction. Similarly, the amount the protection seller pays in the event of a credit event may exceed the total amount of premiums that he/she has received in the transaction. All other conditions being equal, the amount of premiums that the protection buyer pays and that received by the protection seller shall differ. In principle, CDS transactions will be limited to financial instruments business operators and qualified institutional investors.
No account fee will be charged for marketable securities or monies deposited. Transfers of equities to another securities company via the Japan Securities Depository Center are subject to a transfer fee of up to ¥10,800 per issue transferred depending on volume.

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