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January 25, 2023

To whom it may concern

Company: Japan Securities Finance Co., Ltd.  
Representative Executive Officer & President: Shigeki Kushida  
(Code No. 8511, TSE Prime)  
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### Profit and Loss Recognition Classification of Shares held for net investment purposes

Japan Securities Finance Co., Ltd. (hereinafter “the Company”) announces that the following is the opinion of the Company's Executives regarding the "Request for Filing an Action to Enforce Liability" sent to the Company's Audit Committee by the Company's shareholders as notified in the “Shareholder's Request for Filing to Enforce Liability” dated January 20, 2023.

Furthermore, if the Company's Audit Committee decides whether or not to file an action to enforce liability, the Company will promptly announce such decision.

#### 1. Background

- (1) The Company previously treated the shares of Japan Exchange Group, Inc. (“JPX Shares”) as cross-shareholdings, but in light of the 2018 revision of the Corporate Governance Code, the Board of Directors deliberated on the purpose of holding the shares and judged that there was no need to continue holding the shares as cross-shareholdings and changed to them to shares held for net investment purpose. Since that year, the significance of cross-shareholdings has been verified annually by the Board of Directors, and there has actually been a change in the purpose of holding shares other than JPX Shares.
- (2) The Treasury Department makes specific decisions regarding the purchase, holding, sale, etc. of shares held for net investment purposes based on the Securities Investment Policy, which is decided upon by the Company's ALM Committee, approved by the Management Committee, and reported to the Board of Directors, while taking market conditions and other factors into account.
- (3) Also, shares held for net investment purposes and cross-shareholdings do not coexist as the same securities, but are held for their respective purposes on an issue-by-issue basis.

## 2. Verification results

### (Conclusion)

As the trading of JPX Shares is acknowledged to be conducted as the Company's primary business activity, it is appropriate to record the profit and losses from such trading as operating profit (loss). Even if a security is classified as "other securities" on the balance sheet, it is appropriate under accounting standards to report it as an operating profit (loss) on the income statement when it is traded as a primary business activity.

### (Rationale)

- (1) Although the Company has positioned JPX Shares as being held for net investment purposes, they are not held for dealing purposes (i.e., for the purpose of frequent trading in a short period of time). For this reason, JPX Shares are classified as "other securities" rather than "trading securities" in the accounting classification of securities. Furthermore, the Company does not have any securities that are classified as trading securities in the first place.
- (2) The Company is a securities finance company which is licensed under the Financial Instruments and Exchange Law and is engaged in the securities finance business as its principal business. In addition, as stated in the Articles of Incorporation, operating activities include the purchase and sale of securities, and even shares held for net investment purposes, which are classified as "other securities" for accounting purposes, are positioned as if the purchase and sale of such securities were a principal operating activity.
- (3) In "Corporate Accounting Principles" "No.2 Income Statement Principles" and "2 Income Statement Classification," "A: Operating Income and Loss Calculation Classification" shall be used to calculate operating income by stating expenses and income arising from the operating activities of the relevant corporation. For the Company, dividends and gains or losses on sales of shares held for net investment purpose, which are classified as "Other securities," are reported in the operating profit (loss) line item because the management of such securities is part of the Company's principal operating activities.
- (4) Also, for the Company, both shares held for net investment purposes and cross-shareholdings shares are classified as "Other securities," and changing cross-shareholdings to net investment purpose will not result in a change in the classification of securities holdings.
- (5) Q68 of the Q&A regarding Accounting for Financial Instruments ("Q68") states that gains or losses on trading securities "shall be included as an operating profit (loss) item when the principal business is trading securities, and a component of non-

operating profit (loss) in other cases". Since the judgment is made based on whether or not the principal business is the trading of securities, it is appropriate that the profit (loss) from the trading of other securities should also be an operating profit (loss) item if such trading can be considered as the principal business activity. Also, the description in Q68 regarding profit (loss) on trading of other securities states that it is appropriate to report extraordinary profit (loss) as extraordinary transaction and to report it as non-operating profit (loss) if it deemed to be ordinary transaction to a certain extent. This is, however, considered to assume a general business corporation that is not primarily engaged in financial transactions. For a company such as our Company that is engaged in the securities finance business, it is appropriate to include in operating profit (loss) the income and losses on a recurring basis from the sale and purchase of securities, which is one of its principal business activities.

This time, when the Company sought the opinion of Mr. Yoshihiko Terada, a certified public accountant (representative of Trustees Terada & Matsuzaki Accounting Office), a third party who has no interest in the Company, the Company received an opinion that he has no objection to the above arrangement.

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