

CONFLICTS OF INTEREST POLICY

March 31, 2020

Nomura Securities Co., Ltd.

Global Research Division,

Financial Engineering & Technology Research Center

Index Operations Dept.

Purpose

Nomura Securities Co., Ltd. (NSC) is a wholly owned subsidiary of Nomura Holdings, Inc. (NHI) and a core entity of Nomura Group (Nomura). Nomura primarily provides investment and financial service business including equity and fixed income trading, brokerage services, underwriting, offerings, private placement of securities, asset management, and research to retail and institutional clients through operations in Japan and all over the world. Nomura aims to enrich society with due regard to the integrity of the securities business. To this end, Nomura believes that all directors, officers, auditors, and employees (Nomura people) must, with the highest degree of ethics and integrity, act in the best interests of its clients.

As a part of its research services, NSC also provides various financial benchmarks, including the NOMURA-BPI family, bond performance indices representative of the Japanese fixed income market, and the Russell/Nomura Japan Equity Index series, an equity index family which is co-developed and jointly owned with the Frank Russell Company (currently, FTSE Russell). With regards to the NSC's indices, NSC acts as a licensor and administrator and the Index Operations Dept. (IOD), a constituent of NSC's Research Division, is responsible for practical activities relating to the index administration.

Since it is engaged in a range of financial services as outlined above, NSC, as an index provider, believes that it is crucial to identify, disclose, avoid or mitigate, and manage material conflicts of interest (CoI). NSC has policies and procedures to avoid arbitrariness and/or sole discretion in the index determination process and day-to-day operations. NSC ensures that CoI does not influence the indices determination by establishing the control framework over the CoI management. Additionally, IOD identifies and records existing or potential CoI in the CoI register that could impair the independence and objectivity of IOD's index determination or interfere with responsibilities to clients. The CoI register is regularly reviewed and updated where necessary.

Transparent and Objective Rule-based Methodology

The NSC's indices are determined and calculated based on transparent, logical, objective, measurable, and quantitative rules which are available to clients and in that appropriate oversight and approval processes are in place with regard to index constituent selections (reconstitutions and rebalancing) and index maintenance (reflections of corporate action, free-float weighting adjustments, etc.). These processes help to avoid arbitrariness and/or sole discretion in the index determination process at the earliest stage and hence mitigate risks related to Col in day-to-day operations.

Control Framework

NSC ensures that Col does not influence the indices determination by establishing the following control framework over the Col management.

Specifically, NSC:

- works under a "Conflicts of Interest Policy", which is designed to help prevent existing or potential Col from inappropriately influencing index determinations.
- complies with Nomura's "Code of Ethics" and "Code of Conduct", which all NSC employees are required to comply with. To enhance the awareness of compliance including "Code of Ethics" and "Code of Conduct", all NSC employees are required to take compliance training.
- has established a compliance hotline for the reporting of violations of the "Code of Ethics", as a whistle-blowing system. Matters reported via the hotline are escalated directly to the Head of Group Compliance, Representative Executive Officer or Senior Corporate Managing Director of NSC.
- sets forth the internal rules concerning personal investment by IOD's employees to prevent inappropriate conduct.
- stipulates in the compensation policies that compensations for employees engaged in the index administration are not linked to the values of NSC's Indices.
- has a robust index administration governance structure, with effective supervisory and authorization processes over index determination processes, including methodology changes and index cessations (Refer to the "Index Governance Framework").

- stipulates in the internal rules on information security that information should not be provided to those who are not permitted. and has established a firewall over information flow between IOD and other entities within Nomura Group as well as other departments, such as Investment Banking Division and Global Markets Division in accordance with the internal rules on information security.
- physically segregates IOD from other departments and restricts access to IOD room.
- restricts the staff who are engaged in the index development accessing the information related to the index determination.
- uses public information or information provided by third party vendors to calculate the NSC's indices and does not receive data directly from the front office but through the external vendor's system even if IOD uses in-house-produced information such as JS Price and Nomura Price.

Independence

With the aim of ensuring the effectiveness of the abovementioned control framework in the face of potential CoI, the index administration are conducted solely by IOD, which is fully independent from the Global Markets Division and the Investment Banking Division of NSC and other entities within Nomura Group. IOD is an exclusive constituent of NSC's Research Division and is physically located in a restricted-access area. With regards to the index administration, particularly the validity of index determinations and the methodologies used to make index determinations, IOD comes under the continuous oversight of the Index Governance Board (Refer to "Index Governance Framework").

Provision of services to other entities within Nomura Group

In terms of the provision of services, a license agreement is required for the use of index. As a policy, the standard agreement is used for all clients. This policy applies to all the legal entities including the entities within Nomura Group. They shall be subject to the same terms and conditions with Non-Nomura Group users.

Price for the index determination

NSC's equity indices (including the Russell/Nomura Japan Equity Index family) are calculated based on contract price in highly liquid exchange markets.

NSC's fixed income indices are calculated based on JS Price. JS Price generally covers the index constituents of NSC's fixed income indices, however, when it is not available, Nomura Price is an alternative source. NSC uses JS Price and Nomura Price for the calculation of NSC's fixed income indices, because NSC, as one of the major financial institutions in the yen bond market, is actively engaged in transactions with other financial institutions and its clients and has access to traded price and/or quotations which represent the secondary market.

JS Price represents Japanese bond fair values determined based on the price from NSC's Global Markets Division, and is established and managed by NSC and three third parties, Nikkei Inc., Nikkei Financial Technology Research Institute, Inc., and NRI. JS Price is validated under the methodology and process established by the four parties, provided to public users, and widely used as fair value of bonds. Nomura Price is provided by NSC dealers on the front office trading desk in the Global Markets Division as an end-of-day bond price.

JS Price and Nomura Price are determined and disseminated based on the following procedures to mitigate the risk of Col:

1. NSC dealers on the front office trading desk in the Global Markets Division post end-of-day bond price (the "Nomura Price") every business day. NSC dealers belong to a business unit that is separated from IOD.
2. The Nomura Price is checked internally by NSC's GM Operations Dept. and is reconfirmed by NSC dealers. The GM Operations Dept. is a discrete business unit from IOD.
3. In parallel with the second procedure given above, the Nomura Price is validated based on the price reported to the Japan Securities Dealers Association (JSDA) in accordance with the "System for Dissemination of Reference Statistical Prices (Yields) for OTC Bond Transactions" established by the JSDA.

4. JS Price is determined based on the Nomura Price and disseminated externally.

5. JS Price is double-checked under a supervisory process established by the four institutions—Nikkei Inc., Nikkei Financial Technology Research Institute, Inc., Nomura Research Institute, Ltd., and NSC.

Accordingly, the main reason why IOD has adopted JS Price and Nomura Price is that participation by the external parties in the price determination process shall support the mitigation of Col and enhance the transparency and objectivity of the Price. Further information on this subject is available in the “Index Calculation Policy” and rulebooks.

Separation and Independence of the function

In order to avoid Col, the development and administration of NSC’s indices are functionally separated and mutually independent. To ensure these nature, the role and power of IOD staff are defined and restricted within their function. Staff who are engaged in the development may not be involved in the index determination process and may not submit the application for the approval of index rules. Furthermore, the information and data on the index determination process are managed only by the staff who are authorized by Head of IOD.

Revision history

Revision date	Details
March 27, 2019	First edition
March 31, 2020	Partial revision of “Control Framework”
	Partial revision of “Independence” and addition of “Price for the index determination”
	Added “Provision of services to other entities within Nomura Group” and “Separation and Independence of the function”
	Changed the company name from “Financial Technology Research Institute Inc.,” to “Nikkei Financial Technology Research Institute, Inc.,”