

Feature Articles

This month's focus: **Evaluating TOPIX Reform: Is It Enough?**

Current Status of TOPIX Reforms and Related Future Plans

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The TOPIX (Tokyo Stock Price Index) is one of the most popular stock price indexes for the equity market in Japan. Over the years, JPX Market Innovation and Research (JPXI) has regularly made adjustments to the TOPIX to meet the evolving needs of investors and listed companies. Now, JPXI is again undertaking a major reform of the index. Namely, components valued at less than JPY 10 billion in tradable share market capitalization will be designated as "phased weighting reduction constituents," and will be ultimately excluded from the index at the end of January 2025. In this report, we explain the ongoing TOPIX reforms and the expected process of undertaking future reforms.

Tokyo Stock Price Index (TOPIX) as a Market Benchmark: Desiring Diversification of Stock Indexes according to Investment Purposes

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The role of stock indexes was first to represent stock price movements in the market as a whole. Later on, the role of market representation based on investment theory was added. The gap between investment theory and the actual market poses a major constraint on the latter role. At the same time, it becomes necessary to choose different companies to make up stock indexes depending on the purpose of asset management. It is unreasonable to entrust all these roles to the TOPIX.

Small-Cap Stocks Excluded from TOPIX

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As a result of the TOPIX review, 439 companies with a market capitalization of less than 10 billion yen will be completely excluded from the index at the end of January 2025. However, even with the exclusion of these 439 companies, the characteristics and performance of the TOPIX as an index will remain largely unchanged, and the nature of the index continues to be debated. The TSE's market segmentation reorganization and the change in the TOPIX companies are the first steps. At this point, they are not strong enough to revitalize the Japanese stock market, and further reforms will be important in the future.

Article

Critical Issue of Benchmark Index for Passive Funds

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The "Doubling-Asset Income Plan" revealed by the government in November 2022 aims to double the size of NISA holdings from the current 28 trillion to 56 trillion (JPY) in five years. While financial products are being developed along with this plan, the pillar of long-term asset building is likely to be passive funds. For passive funds, the selection of the underlying index to be tracked is significant, and the TOPIX, the leading index for Japanese equities, has recently been reformed. This report examines the TOPIX reform and offers some suggestions on desirable or suitable indices for fund benchmarking, as well as encourages the provision of financial education to link this reform to the government's goal of becoming a "developed nation with advanced asset management."