

## Council for Recurrence Prevention Measures

### Summary of 3rd Meeting

1. Date and time: March 25, 2021 13:30 – 14:28
2. Venue: Meeting room at Tokyo Stock Exchange and online
3. Agenda
  - a) Report from the Council for Recurrence Prevention Measures
4. Summary of discussion
  - (1) General comments
    - As we have discussed procedures and rules for the prompt and smooth resumption of trading from many angles, there will be no confusion as there was with last October's system failure.
    - We would like TSE to continue to study how overseas exchanges operate and whether there is a better policy for TSE to deal with system failures.
    - Although the general rules have been decided, we will have to deal with the systems of each brokerage firm in the future. Details regarding this can be determined later.
    - The current system takes two and a half hours to reboot, which is one of the factors limiting available trading hours in the event of an incident. With the next system, we would like you to consider simplifying the architecture so that the system can be rebooted in a shorter amount of time, thereby reducing risk.
    - As far as the system goes, nothing is perfect and the unexpected can happen. The important thing is to make decisions in a flexible manner, rather than sticking to (the slogan of) “Never Stop.”
    - It is comforting to know that procedures have been clarified in the event of future incidents, based on the assumption that system incidents will occur. We hope that the procedures and rules developed at this time will be established through training, etc. Also, we expect that securities companies and the exchange will have better communication and those procedures and rules will be improved in the course of these new operations.

- It would be good to clarify which (governing) body will make the decision to suspend and resume trading.
- Unexpected events will inevitably occur, so it will be left to the exchange to determine this.
- The completion of the report is an important step forward. We believe that it is important to enhance the effectiveness of the rules and procedures we have developed by conducting training from April onward and reviewing them as necessary to ensure that they work.

## (2) Comments on specific issues

(On trading hours after resumption of trading)

- Regarding cases where the trading period is 15 minutes, there are several opinions within my company. We would like TSE to consider investors' opinions on whether correct price formation will be achieved and whether sufficient trading capacity can be secured.
- We are still concerned about whether appropriate and fair liquidity and price formation can be ensured if trading time is limited to 15 minutes. The 15-minute time frame should not be taken as fixed, and we want TSE to make agile decisions based on the situation.
- As an institutional investor, a 15-minute trading period is not the best, but we believe it can be adequately accommodated.

(On rules and procedures for trading resumptions)

- Trading was resumed as a clean start. When we fail to fulfill our obligation to reorder, we believe that we need to settle with the customer at a reasonable price later. In that case, we would like the exchange to flexibly support us.
- When a system failure happens after the start of trading hours, procedures on resumption of trading will be complicated. We believe there are various cases to be discussed, and we would appreciate continued discussion.

(On system failure drills, etc.)

- We request that the connection specifications, which will be revised in April, be enhanced. As it is important to have scenarios for system failure drills,

please continue to consider enhancing the specifications.

- The connection specifications are important, and it would be important to repeat the drills based on them. Since we have a large number of orders from retail investors, we would like you to implement stress testing.
- It is good that the rules for resuming trading were clarified, but there are some opinions that it is difficult to conduct system failure drills at my company. We expect support from the exchange.
- When rules and procedures are developed, drills are conducted frequently at beginning. But operations may become a mere shell of what they are due to personnel changes in the future. So, training should be continued over the long term.

(On the process of hearing opinions)

- As an institutional investor, it is desirable to have multiple order placement to be secured in consideration of best execution, and we would like to avoid not being able to secure them or not being able to foresee them, so we would like you to consider whether there is any way to disclose if securities firms can resume operations.

(On information dissemination in the event of a system failure)

- Enhancement of the provision of information in English deserves recognition.
- If communication between the exchange and information vendors doesn't go smoothly, it would be difficult to resume trading. So, we request close communication between them.
- As a company that sets up and closes mutual funds, we would like to be informed as soon as possible of policies on handling post-failure matters, etc., because the back-end process is long.
- As securities firms will need to respond to investors, we request you continue to provide detailed explanations.
- We have received strong requests from mutual fund distributors to quickly determine how to handle the failure, and we will work closely with the exchange to address this issue.

(On the schedule going forward)

- Regarding rebooting of Exchange trading system in TSE System Response Plan (Ref. P.17), we are concerned because it does not specifically state when this procedure will take place. We believe that it would be desirable to start after the training.
- Development resources are strained because OSE just launched J-GATE 3.0. Since we do not know whether we will be able to develop the system according to the schedule on page 17 of the document, we would like you to consider not just securities firms who are members of this council and working group but also those who are not participating.

(The TSE Equity Department is responsible for the wording of the meeting summary. This English translation is for reference purposes only.)