Specialist Working Group for Recurrence Prevention Measures
Summary of 5th Meeting

1. Date and time: January 15, 2021, 4:00 p.m. - 5:18 p.m.

2. Venue: Meeting room at Tokyo Stock Exchange and online

3. Agenda
    (a) Schedule for applying revised rules, etc.
    (b) Development of rules regarding the handling of orders and procedures for resuming trading in the event of a system failure, etc.
    (c) Clarification of standards, etc. for the resumption of trading under the Contingency Plan

4. Agenda Summary:
(Applying revised rules, etc.)
·   Although the revised rules are to take effect in April 2021, it is likely that it will be difficult to resume the system when it is rebooted until the system support and testing is complete.

(Issues to be considered after the start of auction trading)
*The secretariat explained that the main focus of the discussion in the event of a failure after the start of auction trading is to organize and share in advance the framework of the main practical rules and procedures for resumption, rather than to divide each case into detailed categories.
·   If we stipulate in advance that the execution notice is always valid, it may not be possible to resume the system when it needs to cancel executed orders due to application failure.
·   If a system failure occurs after the start of the auction and an uptick order is received for a stock that hit the trigger for short selling restriction at the time of the failure, can this order be resent even after the trading resumes since the base price is reverted to the base price of that morning which results in the order being a downtick. For example, for a stock with a price that was 15% down and an order was received from a customer at a 1% uptick (meaning it is a 14% downtick from the base price of that morning) before the system failure, and after the trading resumes using the base price from that morning, it would be considered a 14% downtick instead of 1% uptick. In this case, would they be able to resend this

order?

- There are concerns about the regulations of short selling. The principle is that customers' brokerage orders must be resubmitted. However, there are cases where an order may be initially accepted but then rejected when the order is resubmitted. Therefore, is it necessary for brokerage firms to take action, such as confirming the resubmitted orders with customers?
- It is essential to resolve inconsistencies upon the resumption of trading. If the execution notification is always correct, but it still needs to match with the list of executions, it would be realistic for the exchange to discuss the inconsistencies with the brokerage firm, as SGX does, and consider taking action, such as having the exchange act as the counterparty to the execution.
- At what point is the execution notice considered to be sent after being sent out? If it is a virtual server, there would probably be no gap between what is received by the brokerage firm and the execution notice held by the exchange.
- Many brokerage firms may not be able to resume orders from retail participants unless the data in point (6) on page 14 of the document is provided not only to the brokerage firms but also to the system vendor.
- There are concerns about whether the clearing data in (5) on page 14 can be used in the event of a failure, as we do not hold this data in a state linked to customer information. We would like TSE to confirm whether it is available.
- The case where the data in (6) on page 14 of the document is used is time-consuming and it might be difficult to resume the trading if it is done manually, so the operation would need to be automated.

(On rebooting the system)
- Rebooting the system should be a last resort, and we are concerned about TSE making a hasty decision at an early stage before the cause has been determined.
- We understand that the 90 minutes between rebooting and resumption of trading is short and might be difficult to deal with.

(Handling of sequence numbers after reboot)
- The rounding up of sequence numbers in proposal 2 would be flexible and desirable.
- Since we almost never use sequence numbers in our internal systems since the virtual server, we would like TSE to confirm with the system vendor how they are handled in the package system for market connection.
- It could be read that there is a possibility of duplication of order acceptance number before and after the rebooting, but since the order acceptance number is

one of the items in the prescribed data format to be submitted for trade inquiries from JPX-R and in order slips, it would be desirable to have as little duplication as possible, just like the execution notice number. In order to avoid duplication, is it necessary to adjust the order acceptance number on the virtual server on the participant's side? If so, then please provide guidelines for the connection specifications.

(Standards for trading resumption under the Contingency Plan)

- It is appreciated that TSE specified the number of companies with respect to the criteria for resumption of trading. This is helpful since many retail investors hold accounts with only one company.
- It was understood that 15 minutes of order acceptance and auction time is the minimum requirement, and it is not always necessary to resume the market if this time could be secured.

(Regarding system capacity when trading resumes)

- According to the arrowhead connection specifications., there is a limit on the number of messages that can be sent by the virtual server when it is rebooted, depending on the time of day. We are concerned about how this will be controlled and whether all orders can be placed in a limited amount of time in case of an emergency. We understand that the details of the flow restrictions will be determined in the future.

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