

Council for Recurrence Prevention Measures
Summary of 2nd Meeting

1. Date and time: December 21, 2020 10:00 – 11:05

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

3. Agenda

- a) Clarification of standards for trading resumptions under the Contingency Plan
- b) Development of rules and procedures, etc. for handling of orders and resuming trading in the event of a system failure
- c) Plan for upcoming system failure drills
- d) Information provision policy in the event of a system failure

4. Summary of discussion

(1) General comments

- Market participants are all agreed that day-long trading suspensions need to be avoided wherever possible, so TSE needs to strengthen the system's overall resilience to widen the chances of resuming trading on the same day.
- Failures will need completely different responses depending on if they happen before the start of trading, at the opening auction, during zaraba (continuous auction), during the lunch break, or at any other time. TSE needs to examine use cases more comprehensively.

(2) Comments on specific issues

(On order acceptance time/trading hours after resumption of trading)

- A 15-minute trading period is too short – if you take into account capacity and fair price formation, my understanding is that around 30 minutes would be necessary, so I think this warrants more discussion. I would like TSE to explain with what reasoning they consider 15 minutes to be suitable.
- As we will need to prepare for a resumption, TSE should ensure enough time between the announcement of the resumption and the actual start of trading. They should make sure that accepting orders does not have an effect on the next day or beyond.

(On extension of trading hours)

- Extending trading hours on a permanent basis is not part of this topic and should

be removed from the Council's agenda.

- My understanding is that an extension would require a fundamental overhaul of work processes and systems. A one-off extension in particular would require a huge amount of work on the systems, so if the intention is to provide trading opportunities, a permanent extension would be more desirable than, for example, a 30-minute extension in the case of a system failure.
- Since a one-off extension would cause a wide range of problems including for settlement and investment trusts, it is best that we leave it out of our discussions at this Council and the Working Group. A permanent extension needs to be discussed in a different setting.
- I think that a one-off extension would be dangerous. In any irregular situation, a one-off special response can lead to secondary problems, so a permanent extension should be considered.
- Given that investment trusts need so much processing following market close, I think this needs to be discussed very carefully as it would have such a wide-ranging impact on trust banks, fund distributors and others.

(On the Contingency Plan)

- I would like TSE to move forward with fair price formation at the forefront.
- In a market with short trading hours, a low participation rate and low liquidity, I think price movements will be different from normal, so in that case are the same price limits suitable? We need to discuss whether the normal price limits would be suitable in a case where 70% of retail investors cannot participate.
- To ensure equal treatment of retail investors it would be desirable to set a standard relating to them. Saying this, if the standard is calculated by share, retail investors' share is largely made up of a few trading participants with a large share, meaning that it would promote the dominance of a small number of companies. To ensure equal treatment, there need to be fair conditions, such as a standard calculated by number of companies as well as share.
- For standards for resumption, it is likely that since a trading period of 15-30 minutes would mean high volatility, considering the quality of trades, it is possible that high-frequency traders would not participate, causing an illiquid market. I would like for TSE to consider investors' situations with that possibility in mind.
- I think that the number of companies that can participate is an important factor, so it should be considered.
- Last prices are an important benchmark as they become the basis for base prices, so TSE needs to make sure that prices formed are fair and appropriate.

(On the opinion gathering process)

- The overall situation with regards to the results of opinion gathering should be published on the website in real time. Information provision should be planned in this way as I think it could ease customers' worries by making it easier to predict whether trading will be resumed.
- Page 9 of the documents gives information vendors as one of the targets for opinion gathering, but I would like clarification on what kind of information they would be asked for.

(On information provision in the case of a system failure)

- If there is a trading resumption, I am concerned about when definitive information will actually be provided. As investment trusts require a lot of processing after market close, and there is a need to contact them quickly about whether the fund distributor can cancel a contract on the same day, information needs to be provided as early as possible.
- For information provision, TSE should send out the first message if possible within 10 to 15 minutes of the system failure being detected. Even if the situation is unclear with the cause still not known, there should at least be fast disclosure that some issue is occurring.

(On handling of entrusted orders)

- The plan is for entrusted orders to be resent as a rule, but is this a global standard?

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