

Specialist Working Group for Recurrence Prevention Measures  
Summary of 3rd Meeting

1. Date and Time: December 4, 2020      16:00 - 17:30
2. Venue: Meeting room at Tokyo Stock Exchange and online
3. Agenda:
  - (1) Clarification of Standards, etc. for Trading Resumption under Contingency Plan
  - (2) Development of Rules Regarding Handling of Orders and Procedures for Resuming Trading in the Event of a System Failure, etc.
  - (3) Policy on Responses, etc. to Inconsistency after the Start of Trading
  - (4) Responses in the Event of a FLEX Failure
4. Summary of discussion:
  - (1) General discussion
    - Substantial time for investigation into or maintenance of the system may be required for implementing the measures. This should be considered when determining the implementation schedule.
    - A hasty resumption may result in a secondary accident on subsequent days. To prevent this, it would be desirable to make the actual operational procedures simple.
    - Although measures have to work in actual operations, there are many requests from various quarters to provide investors with opportunities to trade as far as possible. It is important to secure sufficient time for trading, and we hope TSE will find ways to prevent the suspension of a full of trading day as far as possible.
  - (2) Comments on specific issues  
(On trading resumption standards)
    - Even though securities companies are able to participate in trading, institutional investors or HFTs may not necessarily be able to do so. As such, the share of trading participants that are able to participate and the share of investors who actually participate in the market might be completely different. In order to ensure sound price formation, the standard should consider the probable rate of investor participation.
    - Trading is set to resume if the share of trading value of trading participants who are able to participate in trading reaches 50%. However, the market structure is

completely different from that a decade ago. With the current co-location ratio at approx. 45%, considering the standard of 30% of trading value by retail investors, trading would be able to resume if HFTs and some securities companies are able to participate. Even though the share of institutional investors may not be as large, because their participation makes a huge contribution to fair price formation, their share should be taken into consideration.

- If information vendors are unable to respond even when trading resumes, companies who obtain market information from such vendors will be disadvantaged. As such, TSE should consider not only trading value but also the ability to obtain market information.

(On order acceptance time and trading hours after recovery)

- A 15-minute order acceptance period is too short, so we ask to secure at least about 30 minutes. For the trading hours, since there may be too many wholesale orders, of which many are VWAP target, to handle within a short period of time. As such, we will actually need about 30 minutes or so for trading hours.
- The target time between the decision on resumption and starting order acceptance should be set based on the amount of time required for system preparations.
- Based on what I see from monitoring the market every day, trading for the first 30 minutes from market open is volatile. As such, about 30 minutes is needed to sufficiently absorb the early liquidity in the market. Five minutes is too short.
- I am concerned whether appropriate price formation can happen if the trading hours span only five minutes. I would also like TSE to consider that asset management companies need to check whether the securities companies that they trade through are able to respond to the resumption. If the trading hours are extended, the closing time should not be too late because we calculate the base prices for investment trusts after the market closes.
- Changing the market close to a much later time deserves some consideration because it will significantly affect subsequent processes.
- As an asset management company, we are concerned about the timing of the resumption announcement or whether we can calculate the base prices in time, which will cause problems for fund distributors (securities companies, etc.).
- If trading resumes only for the closing auction, I request that TSE ensures fair

price formation without strong price swings. I am concerned about a case like the time when the price soared at the market close with the rebalancing of the Nikkei 225. I would like to discuss the extension of trading hours in terms of how we should handle the issue of the closing price as it relates to mark-to-market price for securities.

(On resumption procedures)

- Many Japanese institutional investors have a policy of not being involved in closing price formation, so many customers do not participate in the closing auction of the afternoon session. Our company came up with an idea for the market to resume with an opening auction, trade in a regular continuous auction session (Zabara), and close with stocks at their last Zaraba prices instead of matching in the closing auction. We think that it would be more appropriate than just having a closing session.
- In terms of providing opportunities for retail and other investors to encash their shares, if trading via ToSTNeT is available, securities companies can provide liquidity by matching trades internally.

(On the procedure for gathering opinions)

- I would appreciate it if TSE could make a call to the registered phone number to inform when the notice for gathering opinions will be registered in Target.
- I assume that securities companies will check with system vendors and IT personnel of their customers to see whether they can respond before replying to TSE. For companies that use multiple systems, they may have difficulties in choosing from four responses, so it would be helpful if there is description of cases that fall under the responses.

(On responses in a natural disaster, etc.)

- Asia is a region that has many typhoons, and countries generally close their markets in the event of a typhoon. Maybe TSE could consider not opening the market, since typhoons are generally predictable and public transportation will be affected.

(On response measures for not starting order acceptance)

- For the third and fourth priorities indicated on page 15 of the material, order execution processing should also be suspended.
- As suspension of order execution processing is the top priority, I would like TSE to include "Disconnect virtual servers and suspend order execution processing" in the second priority response indicated on page 15. If the Order Status is

"Accepting Orders", our systems will automatically send messages. As such, the processing will be simpler for securities companies if virtual servers are disconnected.

- If Order Status is "Accepting Orders", our systems will automatically place orders. In order to distinguish whether it is a system failure when placed orders are returned as acceptance errors during a trading suspension, I would like TSE to create a new category of errors for which orders need to be resent.

(On inconsistency after the start of trading)

- I have no objection to TSE's basic approach that trades for which execution notices have been returned to the trading participants shall be considered executed trades. However, we should clarify the reference point for the status if processing stops in the middle of the series of processes in the TSE system between order execution, creation of execution notices, sending of the notices, and the notices reaching the trading participants.
- When there will be a delay in the sending of execution notices, there will be less confusion if we discuss beforehand how much of a delay is considered acceptable.
- If there is a delay in the sending of execution notices, customers may cancel their orders before receiving the execution notice.
- In order to make the measures practically feasible, it is important to not only amend the rules but also consider various cases in as much detail as possible, and then incorporate and respond to reflect what was considered. You propose that executions may be cancelled only when there is no data in TSE, however, if the customer has already received the notice, it may be difficult to cancel the execution. As such, this also needs to be discussed.

(On responses concerning reboot in the event of a FLEX failure)

- Our company has a parameter that uses trading volume. Some of the data indicated under "other information" on page 25 look important while others seem less so. As such, we request that TSE provide accurate data for important items.

(The TSE Equity Department is responsible for the wording of the meeting summary.

This English translation is for reference purposes only.)