

Points of Consideration when Deciding Disciplinary Actions

TSE and OSE (collectively "exchange(s)") take disciplinary action against their trading participants which have violated applicable laws and regulations or exchange rules (collectively "laws and regulations, etc."). Disciplinary actions are determined by Tokyo Stock Exchange Regulation ("TSE Regulation"), a self-regulatory organization established under the Financial Instruments and Exchange Act, entrusted by the exchanges to conduct self-regulatory operations.

The purpose of disciplinary actions is to ensure the protection of investors and the public interest. The exchanges consider enhancing the overall quality of its trading participants important toward achieving this purpose by making efforts to prevent similar violations by a trading participant which had been disciplined and to raise the awareness of violations among other trading participants.

With these aims in mind, TSE Regulation analyzed past cases of disciplinary actions to compile the following list of points that are considered when deciding whether to take disciplinary action and, if so, the content of the penalties to be imposed. These points of consideration can serve as a set of guidelines on disciplinary actions against trading participants. By using these guidelines to improve the transparency and predictability of disciplinary actions, TSE Regulation hopes to ensure the appropriateness of exchange disciplinary actions and contribute to securing increased fairness and confidence in exchange markets.

The matters listed below do not necessarily apply to the broad range of cases that may be subject to disciplinary actions. It must be noted that the matters that apply may vary on a case-by-case basis and that the following are points that are generally considered when deciding disciplinary actions. Other matters will be taken into account where necessary.

When TSE Regulation is entrusted to conduct the self-regulatory operations of multiple exchanges, in light of the transparency and predictability of disciplinary actions, TSE Regulation decides on the course of action for an errant trading participant that is involved in their markets by taking into account similar cases at the individual exchanges. Even when doing so, we continue to provide independent judgment on individual cases in our

commitment toward securing increased fairness and confidence in exchange markets.

1. Degree of Intent and Negligence of Individuals Involved in the Violation

In addition to deciding whether a violation was committed intentionally or caused by carelessness or negligence, TSE Regulation considers the degree of such intent, carelessness, or negligence.

2. Range of Individuals Involved in the Violation

TSE Regulation considers the number and positions of the individuals who are involved in the violation and the expanse of involvement in order to decide whether the violation was committed by individuals or the organization. Even if a small number of individuals were actually involved in the violation, TSE Regulation will conclude that the violation was committed organizationally if management personnel were found to have permitted or overlooked the violation or managerial staff were found to be involved.

3. Background of the Violation

TSE Regulation considers whether individuals who were involved committed the violation for the purpose of obtaining economic or other benefits, or whether it was due to a lack of awareness or understanding of regulations. In the latter case, TSE Regulation also takes into account whether the individuals sought advice, as necessary, from a lawyer, CPA, or other professionals.

4. Whether the Trading Participant had Previously been Disciplined for a Similar Case

TSE Regulation will, in principle, impose a harsher disciplinary action if the trading participant had previously been disciplined by the same exchange for a similar case ("repeat offense"). If the trading participant had been disciplined for a similar case by other self-regulatory organizations or administrative authorities (collectively "other regulatory bodies"), TSE Regulation will take into account the trading participant's response to such disciplinary action. If TSE Regulation comes to the conclusion that the trading participant's response was inadequate, the current violation may be considered a repeat offense.

5. Whether the Trading Participant had been Cautioned and Whether Other Trading Participants, etc., had been Disciplined for a Similar Case

If the trading participant had received a cautionary notice, etc., from TSE Regulation or other regulatory bodies for a similar case, TSE Regulation will consider the trading participant's response to the cautionary notice. If TSE Regulation comes to the conclusion that the trading participant's current violation is a result of an inadequate response to the cautionary notice,

the current violation may be considered a repeat offense. If the trading participant submitted an improvement report, etc. to TSE Regulation or the exchange, TSE Regulation will examine the status of improvement. In addition, if other trading participants, etc., had been disciplined by TSE Regulation or other regulatory bodies for a similar case, the violation may be handled in the manner described above.

6. Impact of Violation on the Exchange Market

TSE Regulation takes into account whether the violation had an impact on prices or volumes of securities traded in the exchange market, or investment decisions of other trading participants or investors in general. If TSE Regulation finds that the violation did have such impact, the extent of the impact will be considered.

7. Whether the Violation Undermines Confidence in the Exchanges or Other Trading Participants

A harsher penalty will be imposed if TSE Regulation concludes that the violation raises doubts over the quality associated with being a trading participant and undermines the confidence in the exchanges or other trading participants.

8. Relation to Violations of Laws and Regulations, etc.

When a trading participant violates the laws and regulations, etc., TSE Regulation will, in principle, impose a harsher punishment for a violation that falls under a criminal offence than one subject to an administrative disposition. Also, when a trading participant violates exchange rules, TSE Regulation will impose a harsher penalty for a violation that significantly impairs the relationship of mutual trust between the exchange and the trading participant.

9. Treatment of Multiple Violations

If a number of violations are found, TSE Regulation will impose a penalty for each violation. However, if the violations are related and should essentially be dealt with as a single case, TSE Regulation will consider it as one violation when deciding the content of the disciplinary action.

10. Duration, Frequency, and Scale of the Violation, and its Impact on Customers

TSE Regulation will impose a harsher disciplinary action if it comes to the conclusion that the violation was committed over an extended period of time, more than once, or on a large scale. TSE Regulation also considers the extent of losses or lost earnings that were incurred by the customer. In such cases, TSE Regulation also takes into account the investment knowledge and experience of the customer.

11. Internal Management System of the Trading Participant

TSE Regulation considers whether a trading participant subject to a disciplinary action had developed an appropriate internal management system and conducted sufficient supervisory management to prevent the violation. In such a case, TSE Regulation identifies the individuals involved in the violation as far as possible and scrutinizes the actual circumstances and the system of checks by their managers and the compliance division, etc. Furthermore, TSE Regulation also takes into consideration the attitudes of management personnel toward the violation as well as preventive instructions, locus of responsibilities, and in-house training, etc.

12. Corrective Response by the Trading Participant

TSE Regulation considers whether the individuals involved in the violation took the initiative to report it to their managers or the compliance division, or whether the trading participant identified the violation and then took necessary and adequate measures before it was discovered by the exchange, TSE Regulation, or other regulatory bodies.

13. Acknowledgment of Responsibility by Individuals and the Trading Participant

TSE Regulation considers whether the individuals involved in the violation, their managers, the person chiefly responsible for internal management, or management personnel sufficiently recognize their responsibility in the violation.

14. Economic Benefit gained from the Violation

When a violation results in economic or other profits, TSE Regulation decides the content of a disciplinary action (the amount of a fine, etc.) so as to ensure that the trading participant does not end up with such profits.

15. Effectiveness of Recurrence Prevention

TSE Regulation will disqualify a trading participant if TSE Regulation comes to the conclusion that there is no way for the trading participant to construct an internal system that is adequate to prevent recurrence. If TSE Regulation determines that it will take time for the trading participant to construct such a system and that the existing inadequacies in the system could have significant adverse effects in the exchange market, TSE Regulation will impose a suspension or restriction of securities trading, etc. until a satisfactory internal system is established.

16. Disciplinary Actions by Other Regulatory Bodies

If any other regulatory agency has taken or will take disciplinary action or other regulatory measures corresponding to a disciplinary action against a violation, TSE Regulation will take

into account the content of such actions in considering the course of action.

17. Cooperation of Exchanges in Investigations by TSE Regulation

Trading participants need to cooperate with investigations into a violation by the exchange and/or TSE Regulation. Thus, if TSE Regulation comes to a conclusion that the trading participant had hindered investigations, concealed information, provided false documents, or impeded investigations in any way, and has been deemed to not sufficiently and reasonably cooperate in the investigations, such circumstances will also be considered when deciding the content of the disciplinary action.

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