Guidelines Concerning Syndicate Cover Transactions

June 20, 2008
Tokyo Stock Exchange Regulation

In securities offerings or secondary offerings ("offerings, etc."), the principal underwriting securities company and other financial instruments firms ("principal underwriting securities company, etc.") can engage in the secondary offering of shares in addition to the scheduled subscription allotment at the same terms used for the offering. For the resulting short position, a scheme has been established to cover it by syndicate cover transactions (purchases the principal underwriting securities company, etc. make to reduce their short position following a subscription period) or green-shoe options (purchase options that are provided by the principal underwriting agreement and allow the principal underwriting securities company, etc. to acquire the same shares as those in the offering).

These guidelines are established to indicate the key points trading participants should consider, and the types of trading behavior that Tokyo Stock Exchange Regulation ("TSE Regulation") especially monitors concerning syndicate cover transactions.

Note that these guidelines are not intended to indicate formal interpretation of laws and regulations, etc.

1. Points to be noted when engaging in syndicate cover transactions

In general, it is thought that principal underwriting securities company, etc. of security offering, etc. have an inherent incentive to avoid share price declines immediately after an offering in order to prevent negative impacts on investors who purchased those securities and protect their own reputations. It should be well aware that this raises concerns that purchases undertaken by the principal underwriting securities company, etc. soon after the subscription period may be intended to maintain or raise the share price.

At the same time, as regards syndicate cover transactions, it cannot be denied that there is the converse possibility that the principal underwriting securities company, etc. could attempt to generate gains by undertaking sales intended to lower a share price so that the same shares can be repurchased at the lower price.

Given these circumstances, TSE Regulation would like trading participants engaging in syndicate cover transactions to be cognizant of factors like prices and order volumes, so as not to run afoul of the regulations concerning market manipulation, transaction stabilization, etc. Particular attention should be paid to the following types of activity.

○ Engaging in syndicate cover transactions that drive the market price above the green-shoe

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option exercise price or in other purchases that are not economically rational and are highly suspicious, despite the ability to exercise green-shoe option rights to acquire shares of the additional offering.

○ Amid a downward market price trend and the expectation that shares could be repurchased at an even lower price, repeated purchasing at prices and share volumes that would tend to support the last execution price levels.

○ Engaging in syndicate cover transactions after selling on the firm's own account at a price below the last execution price level for the purpose of repurchasing shares at even lower prices.

2. Types of trading behavior that may come under scrutiny of TSE Regulation

In investigating whether there is any violation of the regulations concerning market manipulation, transaction stabilization, etc. with regard to syndicate cover transactions, TSE Regulation especially monitors the following types of trading behavior.

When performing its investigations, TSE Regulation will basically focus on whether syndicate cover transactions include any of the activities given below, but it will also investigate other transactions engaged in by the trading participants undertaking syndicate cover transactions depending on the situation.

Note that not all acts are necessarily considered legal simply because they do not fall under the following types of trading behavior.

Trading behavior	Points under scrutiny	Remark
Buy-up	Whether a company repeatedly and continuously purchases shares at a price exceeding the last execution price or quote price.	
Purchase for price maintenance purposes	Whether a company purchases shares repeatedly and continuously in a manner to maintain the levels of the last execution price.	In other words, whether the company is conducting stock price pegging. For example, if a company purchases shares repeatedly and continuously in limit order at or near the last execution price even if it can purchase them at a lower price, such behavior is considered to fall under this category.

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Purchase at a price above the option exercise price	Whether a company purchases shares at a price exceeding the green-shoe option exercise price.	When the underwriting fee is decided separately, it is deducted to determine the exercise price.
Bear raid	Whether a company makes purchase after repeatedly and continuously selling shares at a price below the last execution price or quote price.	
Price fluctuation near the close of a session	Whether a company purchases shares during a period within 15 minutes before the close of the afternoon trading session (or the morning trading session in the case of a half-day holiday) and said purchase resulted in a price that is higher or lower by 3% or more than the last execution price.	
Purchase volume	Whether one day's purchase volume exceeds the average daily trading volume over the preceding four weeks by more than 25%. With regard to issues with low liquidity and for initial listings, the trading volume, as well as factors like the number of shares necessary for the syndicate cover transaction and trading volume on the purchase day shall be considered.	

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