

(Reference Translation)

Response to Registration Regime for Persons conducting Low Latency Trading

December 20, 2017
Osaka Exchange, Inc.

I. Purpose

On May 17, 2017, the Diet passed the bill on the 2017 Amendment of the Financial Instruments and Exchange Act, which will provide a framework for a registration regime for Persons conducting Low Latency Trading. Following the amendment, the related Cabinet Office Ordinance ("Ordinance"), guidelines for Low Latency Traders, and other documents were issued on October 24, 2017 to provide further detail on how the new regime for Persons conducting Low Latency Trading will be implemented.

In response to this new framework, Osaka Exchange, Inc. ("OSE") plans to make the necessary revisions to its rules and frameworks as follows.

Please note that the following revisions are subject to change following the public comment process for the Ordinance and other related regulations.

(Legend)

FIEA : Financial Instruments and Exchange Act (Act No. 25 of April 13, 1948)

Guideline: Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. (Supplement) Guidelines for Low Latency Traders

II. Outline

Item	Description	Remarks
1. Indication of Trading Strategy		
(1) Indication of Trading Strategy for Low Latency Trading	<ul style="list-style-type: none">• OSE will add a new flag in its trading system (J-GATE) to allow OSE to identify the trading strategy involved for orders related to Low Latency Trading by Persons conducting Low Latency Trading. The trading strategy for such orders shall be indicated as described below.<ol style="list-style-type: none">(1) For the auction market, the trading strategy for orders related to Low Latency Trading shall be indicated from among: Market Making Strategy, Arbitrage Strategy, Directional Strategy, or Other Strategy.(2) For the J-NET Market, the trading strategy for orders related to Low	<ul style="list-style-type: none">• The definitions of the trading strategies are the same as those in the Guideline (III-3-1-1-(2)-1).• Persons conducting Low Latency

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	<p>Latency Trading shall be indicated as in (1) above.</p> <ul style="list-style-type: none">• When indicating the trading strategy, Persons conducting Low Latency Trading shall indicate a trading strategy(ies) corresponding to the type of trading strategy specified in the Business Method Description that were submitted to the authority when registering as a Person conducting Low Latency Trading, etc.• Persons conducting Low Latency Trading shall promptly start indicating the trading strategy once they complete registration, etc. as a Person conducting Low Latency Trading, etc.	<p>Trading do not need to indicate the trading strategy for orders that do not fall under Low Latency Trading.</p>
<p>2. Applications for Dedicated TAPs, etc. (1) Applications for Persons conducting Low Latency Trading and their Dedicated TAPs and User IDs</p>	<ul style="list-style-type: none">• In order for OSE to identify trading activity by Persons conducting Low Latency Trading by linking them with the Dedicated TAPs and User IDs (hereafter "Dedicated TAPs, etc.") that place orders related to Low Latency Trading, when applying for Dedicated TAPs, etc. for Persons conducting Low Latency Trading, trading participants shall indicate the trade name, business name, or name of such individual, and the corresponding registration number.• For a trading participant that becomes a Person conducting Low Latency Trading, its registration number shall be its current securities company, etc. identification code. For Low Latency Traders, registration numbers shall be newly assigned by the Securities Identification Code Committee.• Application shall be made by the trading participant on the application portal site (arrowface). The trading participant shall indicate the trade name, business name, or name of such individual, and the registration number of the Person conducting Low Latency Trading when applying for their Dedicated TAPs, etc. (new/amend).	

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	<ul style="list-style-type: none">Application shall also be required for existing Dedicated TAPs, etc. that conduct Low Latency Trading. The trading participant shall make such applications promptly after completing the registration of Persons conducting Low Latency Trading, etc.	
<p>3. Development of Order Management Systems, etc.</p> <p>(1) Development of Order Management Systems and Risk Management Systems by Trading Participants</p>	<ul style="list-style-type: none">In addition to existing restrictions prohibiting the placement of orders in excess of a specified volume or value and the requirement to develop an effective order management system, OSE will set rules to require trading participants (i) to conduct necessary order management to prevent order placement that is considered excessive based on the following aspects and (ii) to conduct necessary risk management concerning positions that would arise due to such order placement:<ul style="list-style-type: none">(a) Clients' financial strength, attributes, and invested products(b) Trading participant's financial strength(c) Method and size of trades	<ul style="list-style-type: none">Rule 4 (Restriction on Order Placement) of the Rules concerning Order Management Systems at Trading Participants and Rule 5-5 (Risk Management concerning Positions) of the Enforcement Rules for Trading Participant Regulations.OSE will revise its rules to clarify that trading participants should conduct order management to prevent the placement of excessively large orders and risk management for positions related to such placement, regardless of whether they conduct brokerage of Low Latency Trading. OSE will also publish guidelines on the desired forms of order management, etc. at trading participants.Based on the rule revisions, OSE will abolish the existing guideline "Requirements for Management of

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		Automated Order Placement Systems” (Established on June 17, 2016).
4. Submission of Relevant Information (1) Copy of Proof of Registered Person’s Trade Name, Business Name or Name (2) Contact Information of Representative or Agent in Japan, etc.	<ul style="list-style-type: none">• An entity that has completed its registration as a Person conducting Low Latency Trading shall submit a copy of proof of its registered trade name, business name, or name of such individual to OSE without delay. • If an entity that registered as a Low Latency Trader is a foreign company or an individual who is resident overseas, such Low Latency Trader shall submit the following person’s name, address, telephone number, and email address to OSE without delay after completing registration.<ul style="list-style-type: none">(1) For a foreign company, its representative or agent in Japan;(2) For an overseas resident, its agent in Japan.• If an entity that registered as a Low Latency Trader is a Japanese company or an individual who is resident in Japan, such Low Latency Trader shall submit the name, address, telephone number, and email address of the appropriate person for correspondence with OSE without delay after completing registration.	<ul style="list-style-type: none">• The copy of proof shall be submitted as a PDF attachment in an email to a shared address of Japan Exchange Group. Submission in the form of a physical document is not required.• OSE assumes that such proof will be provided in the form of the registration completion notice or such documents described in the Guideline (III -3-1-1-(4)) • The contact information shall be submitted to a shared address of Japan Exchange Group. Submission in the form of a physical document is not required.

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(3) Copy of Business Method Description, etc.	<ul style="list-style-type: none">• After a Financial Instruments Business Operator, Financial Institution, or Authorized Transaction-at-Exchange Operator changes its registration to a Person conducting Low Latency Trading, it shall promptly submit a copy of its Business Method Description, which were submitted to the authority, to OSE.• A person who completes registration as a Low Latency Trader shall promptly submit a copy of its Business Method Description and a copy of the document(s) that describes its staffing structure related to business operations and business execution system, which were submitted to the authority, to OSE.	<ul style="list-style-type: none">• The material shall be submitted as a PDF attachment in an email to a shared email address of Japan Exchange Group. Submission in the form of a physical document is not required.• When a trading participant modifies its Business Method Description, they are required to submit a copy of the revised document to OSE. Such submission will also serve to fulfill this requirement.• If there is a change in the Business Method Description and/or a document that describes the staffing structure related to business operations or business execution system, a copy of such revised document shall be promptly submitted to OSE.
5. Cooperation in Investigations and Other Necessary Measures Taken by OSE (1) Cooperation in Investigations, etc.	<ul style="list-style-type: none">• In order to ensure fair trading and investor protection in the OSE market, Persons conducting Low Latency Trading shall cooperate in investigations into compliance with laws and dispositions by government agencies regarding Persons conducting Law Latency Trading, and other necessary measures taken by OSE.	

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(2) Duty of Trading Participants	<ul style="list-style-type: none">In order to ensure fair trading and investor protection in the OSE market, if a trading participant accepts a brokerage order from a Person conducting Low Latency Trading for trading in the OSE market, they shall implement measures appropriate for Persons conducting Low Latency Trading to ensure such entities' cooperation in investigations into their compliance with laws and dispositions by government agencies, and other necessary measures taken by OSE regarding Persons conducting Law Latency Trading.	<ul style="list-style-type: none">For example, trading participants need to notify Persons conducting Low Latency Trading that they must comply with OSE rules, and also obtain their agreement to this requirement.
(3) Entrustment of Self-regulatory Operations	<ul style="list-style-type: none">In order to ensure fair trading and investor protection in the OSE market, OSE may entrust investigations into compliance with laws and dispositions by government agencies and other necessary measures regarding Persons conducting Law Latency Trading to Japan Exchange Regulation.	<ul style="list-style-type: none">The requirement for trading participants to conduct appropriate order management will remain unchanged after the launch of the registration regime.After OSE revises its rules, Japan Exchange Regulation shall make the necessary revisions to its rules.
6. Other	<ul style="list-style-type: none">Other necessary revisions will be made.	

III. Implementation Date (Tentative)

April 1, 2018

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