

Clearing and Settlement Regulations (as of July 16, 2019)

Tokyo Stock Exchange, Inc.

CHAPTER 1 **GENERAL PROVISIONS**

Rule 1. Purpose

1. These regulations shall, pursuant to the provisions of Rule 1-3, Paragraph 2 of the Business Regulations, prescribe the necessary matters for clearing and settlement pertaining to securities trading carried out in the Exchange market.
2. Amendments to these regulations shall be made by the decision of the Board of Directors, except for minor amendments.

Rule 2. Definition of Terms

Definition of terms (except stocks) with respect to securities trading that is used in these regulations shall, unless otherwise provided in these regulations, be as specified in the Business Regulations, the Special Regulations of Business Regulations and Brokerage Agreement Standards Concerning ToSTNeT Market (hereinafter referred to as the "ToSTNeT Special Regulations").

Rule 3. Designation of an Entity Providing Services of Financial Instruments Obligation Assumption Business

The Exchange designates Japan Securities Clearing Corporation (hereinafter referred to as "JSCC") as the clearing institution which the Exchange will carry out services including financial instruments obligation assumption business concerning securities trading effected in the Exchange market.

CHAPTER 2 **SETTLEMENT BY CLEARING PARTICIPANTS**

Rule 4. Settlement by Clearing Participants

Securities trading effected in the Exchange market shall be settled between the clearing participant (meaning an entity having clearing qualification (meaning a cash trading clearing qualification as prescribed in the business rules of JSCC; the same shall apply hereinafter); the same shall apply hereinafter) and JSCC as specified in the business rules of JSCC.

CHAPTER 3 **SETTLEMENT BETWEEN NON-CLEARING PARTICIPANTS AND CLEARING PARTICIPANTS**

Section 1. Settlement of Trading in Stocks, etc.

Rule 5. Delivery Cut-off Time

A non-clearing participant (see Note 1 below) shall deliver/pay to its designated clearing participant securities/money which it is to deliver/pay by a day and hour fixed by a designated clearing participant (see Note 2 below) before the settlement cut-off time specified by JSCC in respect of securities (see Note 3 below) trading based on entrustment of brokerage for clearing of securities, etc.

(Note 1) A non-clearing participant means a non-clearing participant prescribed in Rule 24-2, Paragraph 1 of the Trading Participant Regulations; the same shall apply hereinafter.

(Note 2) A designated clearing participant means an agency clearing participant designated by such non-clearing participant (meaning an entity possessing an agency clearing qualification pertaining to clearing qualification (meaning an agency clearing qualification prescribed in the Business Rules of JSCC; the same shall apply hereinafter.) pursuant to the provisions of Rule 24-4, Paragraph 1 of the Trading Participant Regulations; the same shall apply hereinafter.

(Note 3) The term "securities" does not include government bonds; the same shall apply hereinafter in this subsection.

Rule 5-2. Delivery in Use of DVP Settlement

1. In cases where DVP settlement as prescribed in the business rules of JASDEC DVP Clearing Corporation (hereinafter referred to as "JDCC") is used for securities trading based on entrustment of brokerage for clearing of securities, etc. under an agreement between a non-clearing participant and a designated clearing participant, the non-clearing participant shall deliver securities or pay funds to JDCC by the settlement cut-off time set forth by JDCC (with respect to delivery of securities, a day and hour designated by the designated clearing participant at the time of agreement before the settlement cut-off time as specified by JSCC).
2. In cases where a non-clearing participant has delivered securities or paid funds pursuant to the provisions prescribed in the preceding paragraph, delivery of said securities or payment of said funds shall be deemed to be the delivery of securities or delivery of money in the preceding rule.

Rule 6. Money and Securities to Be Paid/Received or Delivered/Received for Settlement

The amount of money to be paid to or received from and the quantity of securities to be delivered to or received from a non-clearing participant and a designated clearing participant for settlement of securities trading based on entrustment of brokerage for clearing of securities, etc. shall be as specified in each of the following items:

- (1) Settlement of regular transactions, when-issued transactions, transactions pertaining to off-auction distributions and ToSTNeT transactions to be settled on such day as prescribed in the provisions of Rule 8, Item (2) of the ToSTNeT Special Regulations (each of these kinds of transactions shall include transactions for correcting errors pertaining thereto):

The amount of difference between the total amount of sales proceeds and the total amount of purchase consideration and the difference between the number of securities sold and the number of securities purchased for each issue, by the same non-clearing participant with the same settlement day;

- (2) Settlement of cash transactions and ToSTNeT transactions to be settled on such day as prescribed in the provisions of Rule 8, Item (1) of the ToSTNeT Special Regulations (each of these kinds of transactions shall include those for correcting errors pertaining thereto):

The amount of difference between the total amount of sales proceeds and the total amount of purchase consideration and the difference between the number of securities sold and the number of securities purchased for each issue, by the same non-clearing participant with the same settlement day.

Rule 7. Deleted.

Rule 8. Securities to be Delivered

1. Equity contribution securities to be delivered for settlement of transactions by a trading participant which is a non-clearing participant who entrusted brokerage for clearing of securities, etc. to a designated clearing participant shall satisfy the conditions specified in either of the following items:
 - (1) Equity contribution securities in the trading unit; or
 - (2) In the case where the customer delivers equity contribution securities of units less than the trading unit, the sum of the units of such equity contribution securities is an integral multiple of the trading unit.
2. Notwithstanding the provisions of the preceding paragraph, in the case of settling transactions of equity contribution securities, a trading participant which is a non-clearing participant may deliver equity contribution securities in a non-integral multiple of the trading unit, provided that the designated clearing participant agrees to such an arrangement for settlement.
3. Securities to be delivered by a non-clearing participant that entrusted brokerage for clearing of securities, etc. to a designated clearing participant to settle JASDEC non-eligible convertible bonds shall be in the form of certificates with face value of the trading unit and in bearer form.

Rule 9. Treatment at the Time of Consolidation of Issues of Old Stocks and New Stocks

1. Regarding stocks (including preferred equity investment securities, investment trust beneficiary certificates and investment securities; the same shall apply hereinafter in this rule), where both old stocks and new stocks have already been listed or one of them has already been listed and the other of them is to be listed, and their rights and obligations are equal, and transactions are made by consolidating them, settlement which will arrive after the day of the transactions shall be treated equally.
2. Notwithstanding the preceding paragraph, old stocks may not be replaced for the settlement of the when-issued transactions.

Rules 10 and 11. Deleted.

Rule 12. Postponement of Securities Settlement

In the event that a non-clearing participant is unable to deliver securities with respect to securities trading based on entrustment of brokerage for clearing of securities, etc. by the delivery cut-off time prescribed in the provisions of Rule 5 due to unavoidable reasons, the non-clearing participant may, with the approval of the designated clearing participant, postpone such delivery of securities to the next day (if it falls on a non-business day, it shall be moved down in order; the same shall apply hereinafter) as specified by the Exchange.

Rule 13. Settlement Price for When-Issued Transactions

A settlement price of a when-issued transaction shall be a price determined by JSCC as a settlement price of a when-issued transaction.

Rule 14. Payment/Receipt of Amount of Difference between Contract Price and Settlement Price for When-Issued Transactions

When there is an amount of difference between a contract price and a settlement price on the day the trading contract was concluded with respect to when-issued transactions based on entrustment of brokerage for clearing of securities, etc., a non-clearing participant shall pay to or receive from the designated clearing participant the amount of money equivalent to the difference. In this case, a paying non-clearing participant shall pay to the designated clearing participant the amount of money equivalent to such difference by a day and hour fixed by the designated clearing participant before the settlement cut-off time specified by JSCC.

Rule 15. Payment/Receipt of Amount of Difference between Settlement Prices for When-Issued Transactions

When there is an amount of difference as a result of comparison between a settlement price on a day and a settlement price on the previous day (if it falls on a non-business day, it shall be moved up in order; the same shall apply hereinafter) with respect to when-issued transactions based on entrustment of brokerage for clearing of securities, etc., a non-clearing participant shall pay to or receive from the designated clearing participant the amount of money equivalent to such difference. In this case, a paying non-clearing participant shall pay to the designated clearing participant such amount of money by a day and hour fixed by the designated clearing participant before the settlement cut-off time specified by JSCC.

Rule 16. Settlement Price for When-Issued Transactions

The settlement price of a when-issued transaction shall be the settlement price on the final day of such when-issued transactions.

Rule 17. Trading Margin for When-Issued Transactions

1. A non-clearing participant shall, when when-issued transactions based on entrustment of brokerage for clearing of securities, etc. are effected, deposit with its designated clearing participant an amount of trading margin that is equivalent to or greater than the amount computed by the Exchange by a day and hour fixed by the designated

clearing participant before noon of the third day (excluding non-business days; the same shall apply hereinafter in the calculation of the number of days) counting from the day the trading contract was concluded; provided, however, that if a non-clearing participant has long or short positions offsetting the sale or purchase for the issue, the non-clearing participant shall be required to deposit only such amount of trading margin that is computed for the net balance between its total amounts of long positions and short positions.

2. Trading margins mentioned in the preceding paragraph may be deposited in securities in lieu of cash in accordance with other rules set forth by the Exchange.

Section 2. Settlement of Government Bonds Trading

Rule 18. Delivery Cut-off Time

A non-clearing participant shall, with respect to transactions in government bonds based on entrustment of brokerage for clearing of securities, etc. (excluding transactions in government bond futures, but including transactions for correcting errors, etc.; the same shall apply in the next rule), deliver government bonds it has sold or pay its purchase consideration to the designated clearing participant by a day and hour fixed by the designated clearing participant before the settlement cut-off time specified by JSCC.

Rule 19. Postponement of Settlement of Government Bonds

In the event that a non-clearing participant is unable to deliver government bonds with respect to transactions in government bonds based on entrustment of brokerage for clearing of securities, etc. by the delivery cut-off time prescribed in the provisions of the preceding rule, the non-clearing participant may, with the approval of the designated clearing participant, postpone such delivery of government bonds to the next day or thereafter in accordance with the provisions specified by the Exchange.

Section 3. Miscellaneous Rules

Rule 19-2. Special Provisions for Settlement Related to Trading of Securities Concerning Remote Trading Participants

1. In the event that a remote trading participant (meaning a remote trading participant prescribed in Rule 6, Paragraph 2 of the Trading Participant Regulations; the same shall apply hereinafter) has concluded an agreement in advance with its customer (limited to a customer belonging to the same corporate group (meaning the "corporate group" prescribed in Article 5, Paragraph 1, Item (2) of the Financial Instruments and Exchange Act) as the remote trading participant; the same shall apply in this and the following rules) and its designated clearing participant of said remote trading participant, said remote trading participant is able to make settlement related to trading of securities based on entrustment by said customer conducted between said customer and the designated clearing participant in accordance with the

- provisions of Rules 5, 6 through 12, and 18, and the preceding rule.
2. In the event that a customer has conducted settlement with a designated clearing participant pursuant to the provisions of the preceding paragraph, it shall be deemed that the settlement has been conducted between the remote trading participant and the designated clearing participant.

Rule 19-3. Understanding Status of Settlement Related to Customer of Remote Trading Participant

A remote trading participant that concluded the agreement as prescribed in Paragraph 1 of the preceding rule must establish an arrangement to understand the status of settlement between the customer and the designated clearing participant.

Rules 20 through 53. Deleted

Chapter 4 Deleted

CHAPTER 5

TREATMENT OF UNSETTLED CONTRACTS

Section 1. Acquisition of Clearing Qualification and Treatment of Unsettled Contracts in Cases of Change in Designated Clearing Participants

Rule 54. Treatment of Unsettled Contracts in Cases of Acquisition of Clearing Qualification

In cases where a trading participant who is a non-clearing participant newly acquires a clearing qualification, unsettled contracts of such trading participant based on entrustment of brokerage for clearing of securities, etc. shall be securities trading in the name of the trading participant on or after the acquisition of the clearing qualification.

Rule 55. Transfer of Unsettled Contracts in the Case of Change in Designated Clearing Participants

1. In cases where a designated clearing participant is changed pursuant to the provisions prescribed in Rule 24-4, Paragraph 2 of the Trading Participant Regulations, unsettled contracts of such non-clearing participant in securities trading based on entrustment of brokerage for clearing of securities, etc. shall be securities trading based on entrustment of brokerage for clearing of securities, etc. by the designated clearing participant on or after the change.
2. In cases where a clearing participant becomes a non-clearing participant, the provision of the preceding paragraph shall be applied mutatis mutandis to the designation of a designated clearing participant, which is made pursuant to the provisions prescribed in Rule 24-4, Paragraph 2 of the Trading Participant Regulations. In this case, "unsettled contracts of such non-clearing participant in securities trading based on entrustment of brokerage for clearing of securities, etc." shall read "unsettled contracts out of the transactions of an entity who becomes a non-clearing participant," and "the designated clearing participant after the change"

shall read "an entity who has been newly designated as a designated clearing participant."

**Section 2. Treatment of Unsettled Transactions in Cases of Halt in Securities
Trading or Suspension of Entrustment of Brokerage for
Clearing of Securities, etc.**

**Rule 56. Measures for Trading Participants Receiving Halt, etc. of Securities
Trading by Application for Waiver of Trading Qualification**

The Exchange may, when it suspends securities trading (excluding securities trading based on entrustment of brokerage for clearing of securities, etc.; the same shall apply hereinafter in this section) or entrustment of brokerage for clearing of securities, etc. pursuant to the provisions prescribed in Rule 26, Paragraph 1 of the Trading Participant Regulations, make another trading participant take over securities trading or transactions based on entrustment of brokerage for clearing of securities, etc. in the Exchange market with respect to the applicant for waiver of trading qualification, and unsettled contracts out of transactions concerning these, and sort out any other matters that the Exchange deems necessary.

**Rule 57. Settlement of Unsettled Securities Trading of an Entity Having Waived
Trading Qualification**

1. In cases where there is unsettled securities trading or securities trading based on entrustment of brokerage for clearing of securities, etc. in the Exchange market with respect to an entity who has waived trading qualification, the Exchange shall make the principal or a public transferee carry out their settlement; provided, however, that when the Exchange deems that it is not appropriate to make the principal or the transferee carry out the settlement, the Exchange may make another trading participant do so.
2. In the preceding paragraph, the Exchange may, when it deems it necessary, make another trading participant take over securities trading or trading based on entrustment of brokerage for clearing of securities, etc. in the Exchange market and unsettled contracts out of transactions concerning these and sort out any other matters that the Exchange deems necessary.
3. The Exchange may, when it deems it necessary, make another trading participant sort out matters as prescribed in the preceding paragraph. In this case, an entrustment agreement is deemed to have been entered into between that trading participant and the trading participant who has received an instruction of suspension of securities trading or entrustment of brokerage for clearing of securities, etc. as prescribed in the same paragraph.

**Rule 58. Regulatory Action against Trading Participant in Cases of Suspension,
etc. of Securities Trading due to Insolvency**

1. The Exchange may, when it has taken against a trading participant a measure of suspension of securities trading or entrustment of brokerage for clearing of securities, etc. in the Exchange market pursuant to the provisions prescribed in Rule 35,

Paragraph 3 or Paragraph 4 of the Trading Participant Regulations, or when it has taken against a trading participant a regulatory action of suspension of securities trading (limited to a regulatory action where suspension of obligation assumption pursuant to the provisions prescribed in Rule 29-5 or Rule 76-5 of the business rules of JSCC) pursuant to the provisions prescribed in Rule 39-2 of the same Regulations, make another trading participant take over securities trading in the Exchange market with respect to such trading participant, and unsettled contracts out of transactions concerning this, and sort out any other matters deemed necessary by the Exchange.

2. The provisions of Paragraph 3 of the preceding rule shall be applied mutatis mutandis to cases where the Exchange makes a trading participant sort out the matters pursuant to the provisions prescribed in the preceding paragraph.

Rule 59. Regulatory Action against Non-Clearing Participant in the Case of Revocation of Designated Clearing Participant's Clearing Qualification, etc.

1. The Exchange may, when it has taken a regulatory action of suspension of entrustment of brokerage for clearing of securities, etc. (limited to a regulatory action as a result of suspension of obligation assumption pursuant to the provisions prescribed in Rule 29-5 or 76-5 of the Business Rules of JSCC) in which a non-clearing participant commissions an agency clearing participant to clear the trading against a trading participant who is a non-clearing participant pursuant to the provisions prescribed in Rule 39-3 of the Trading Participant Regulations, make such non-clearing participant have another trading participant take over, and sort out other matters deemed necessary by the Exchange toward settlement of such non-clearing participant's unsettled transactions based on entrustment of brokerage for clearing of securities, etc. and other unsettled transactions relevant to these.
2. The provisions of Rule 57-3 shall be applied mutatis mutandis to cases of sorting out the matters pursuant to the provisions in the preceding paragraph.

Rule 60. Regulatory Action against Trading Participant That Has Become Subject to Suspension or Restriction of Securities Trading in the Exchange Market

In cases where the disposition, measure or regulatory action that the Exchange has taken against a trading participant pursuant to the Trading Participant Regulations is the halt or restriction of securities trading or entrustment of brokerage for clearing of securities, etc. in the Exchange market (excluding cases where the provisions of Rule 56, Rule 58 or the preceding rule is applicable), such trading participant may, with the approval of the Exchange and for the period of the suspension or restriction, have other trading participant(s) take over such trading participant's securities trading or transactions based on entrustment of brokerage for clearing of securities, etc. in the Exchange market and unsettled transactions relevant to these.

Rule 61. Deleted

**CHAPTER 6
MISCELLANEOUS PROVISIONS**

Rule 62. Emergency Measures in Cases of Natural Disasters, etc.

1. In the event that settlement of a non-clearing participant pertaining to securities trading effected in the Exchange market based on entrustment of brokerage for clearing of securities, etc. has been deemed impossible or extremely difficult due to a natural disaster, a violent change in the economic situation, shortage of deliverable securities, or for any other unavoidable reason, the Exchange may, by the decision of the Board of Directors, stipulate anew the terms and conditions of settlement of these securities.
2. In the event that the Exchange has stipulated the terms and conditions of settlement pursuant to the provisions of the preceding paragraph, a non-clearing participant shall comply therewith.
3. In such case as prescribed in Paragraph 1, the Exchange may, in cases of emergency, stipulate anew the terms and conditions of settlement without going through the decision of the Board of Directors.

Rule 63. Cancellation, etc. of Contracts on When-Issued Transactions

1. With respect to when-issued transactions based on entrustment of brokerage for clearing of securities, etc., when conditions of issuance of the underlying stock are changed, or when stocks thereof are not issued by the settlement date, or when the Exchange deems that stocks thereof will not be issued by such date, the Exchange may take actions to change securities eligible for settlement, or the settlement date, or cancel the contracts with regard to the settlement of the non-clearing participant pertaining to such when-issued transactions.
2. The preceding paragraph shall be applied mutatis mutandis to preferred equity investment securities and investment trust beneficiary certificates.

Rule 64. Decision of Necessary Matters with respect to Clearing and Settlement of Securities Trading

The Exchange may, in addition to the matters prescribed in the provisions of these regulations, adopt rules prescribing modus operandi, when deemed necessary by the Exchange for clearing and settlement of securities trading in the Exchange market.