

## **Regulations Regarding Margin Transactions and Loans for Margin Transactions**

(as of July 16, 2019)

Tokyo Stock Exchange, Inc.

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### **Chapter 1 General Provisions**

#### **Rule 1. Purpose**

1. These regulations shall, pursuant to the provisions of Rule 1-3, Paragraph 3 of the Business Regulations, prescribe necessary matters concerning margin transactions pertaining to transactions of securities in the market of the Exchange as well as acts where a trading participant receives a loan of money or securities from a securities finance company designated by the Exchange (hereinafter referred to as a "designated securities finance company") by using the settlement institution of the Exchange for the purpose of settling securities transactions in the market of the Exchange (such acts shall be hereinafter referred to as "loans for margin transactions").
2. Matters concerning the entrustment of margin transactions pertaining to securities trading in the market of the Exchange shall be subject to the provisions of the Brokerage Agreement Standards.
3. Any amendment to these regulations shall be subject to a resolution of the Board of Directors; provided, however, that this shall not apply to cases where the substance of the amendment is of minor significance.

#### **Rule 2. Definitions**

1. In these regulations, the term "standardized margin transaction" means a margin transaction carried out with the premium charge and rescheduling of

return/repayment deadlines for borrowed securities/money being subject to these regulations as well as the Brokerage Agreement Standards.

2. In these regulations, the term "negotiable margin transaction" means a margin transaction carried out with the premium charge and rescheduling of return/repayment deadlines for borrowed securities/money which are agreed with a customer.

## **Chapter 2**

### **Margin Transaction**

#### **Section 1**

#### **General Provisions**

#### **Rule 3. Prohibition of Margin Transactions in Subscription Warrant Securities, etc.**

A trading participant may not conduct margin transactions of subscription warrant securities, equity contribution securities (meaning the securities referred to in Article 2, Paragraph 1, Item (6) of the Act; the same shall apply hereinafter), new investment unit subscription warrant securities, stocks which have fallen under the delisting criteria, and other stocks that the Exchange deems inappropriate.

#### **Rule 4. Prohibition of Margin Transactions Pertaining to Off-Auction Distribution**

A trading participant may not conduct margin transactions pertaining to transactions of off-auction distribution.

#### **Rule 5. Prohibition of Margin Transactions for Officers and Employees**

A trading participant may not conduct margin transactions with its officers or employees.

#### **Rule 5-2. Computation of Amount of Charges Pertaining to Loans for Margin Transactions**

When a trading participant shall compute the amount of charges with respect to a loan of securities or money concerning margin transactions that should be collected from a customer, said participant must take into consideration outstanding balance of loaned securities/money that said participant loans its customers, and expenses such as costs required for procuring securities or money by loans for margin transactions, etc., costs required for administrative arrangements for a loan of securities or money, and other

expenses. In this case the trading participant must also be fair, and not give preferential treatment with regards to charges borne by any selling or purchasing customer.

**Rule 6. Delivery of Notification Concerning Margin Transactions**

1. A trading participant shall deliver every month a notice concerning margin transactions to a customer who has any unsettled account pertaining to margin transactions; provided, however, that this shall not apply if the customer is a financial instruments business operator that belongs to an authorized financial instruments firms association or if the trading participant is not required to deliver the report on the outstanding balance of margin transactions to its customers pursuant to the provisions of Article 45 of the Act, or Article 111, Item (1) of the Cabinet Office Ordinance on Financial Instruments Business, etc. (Cabinet Office Ordinance No. 52 of 2007).
2. If the notice prescribed in the preceding paragraph is related to standardized margin transactions, it shall include information on the name of the stock, whether it is a sale or purchase transaction, quantity, contract price, the date on which the transaction was effected, and the application deadline for final return/repayment of borrowed securities/money; provided, however, that if the average amount of unit price of trading of the same issue on the same day may be included in the report on the outstanding balance of margin transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance on Financial Instruments Business, etc., such average amount may be described as an execution price in the notice.
3. If the notice prescribed in Paragraph 1 is related to negotiable margin transactions, it shall include information on the amount of premium charges agreed with a customer in addition to information referred to in the preceding paragraph.
4. A trading participant may provide information to be stated in the notice prescribed in Paragraph 1 to a customer by electromagnetic methods (see Note below) if the trading participant has, after furnishing the customer with information on the type and content of the electromagnetic method to be used, obtained consent thereto from the customer either in writing or through an electromagnetic method. In this case, the trading participant is deemed to have delivered such notice.

(Note) The term "electromagnetic method" means a method of using an information communications technology such as an electronic information processing system which is the same as the method prescribed in Article 56 of the Cabinet Office Ordinance on Financial Instruments Business, etc.. The same applies hereinafter. In this case, when Article 56 is read except

Paragraph 1, Item (1), Sub-item (iv), Paragraph 2, Item 3, Sub-item (ii), and Item (4), the term "when the trading referred to in... was conducted last time" in Paragraph 2, Item 3 shall be deemed to be replaced with "when... is recorded")

5. When a trading participant that has obtained consent pursuant to the preceding paragraph receives an instruction either in writing or through the electromagnetic method from the customer that he/she/it will not accept any provision of the information by the electromagnetic method, the trading participant may not provide the customer with the matters to be stated in a notice by means of the electromagnetic method; provided, however, that this shall not apply in cases where the customer gives consent again pursuant to the preceding paragraph.

## **Section 2**

### **Standardized Margin Transaction**

#### **Rule 7. Prohibition of Standardized Margin Transactions in Stocks Other than Standardized Margin Transaction Issues**

1. A trading participant may not conduct standardized margin transactions in stocks, etc. other than issues eligible for standardized margin transactions out of the referred to in Rule 2, Paragraph 1, Item (1) of the Business Regulations (excluding those for which margin transactions are prohibited pursuant to Rule 3) (hereinafter referred to as "standardized margin transaction issue").
2. Standardized margin transaction issues shall be selected in accordance with the rules set forth by the Exchange.

#### **Rule 8. Premium Charge for Standardized Margin Transaction**

Premium charges pertaining to standardized margin transactions in issues for which money or securities may be borrowed through loans for margin transactions (hereinafter referred to as "issue for loans for margin transactions") shall be determined for each issue by the Exchange.

#### **Rule 9. Treatment of Rights Pertaining to Standardized Margin Transaction**

Necessary matters on standardized margin transactions with regard to the treatment of rights such as dividend claims and subscription rights due to stock splits shall be determined by the rules set forth by the Exchange.

### **Chapter 3**

#### **Loans for Margin Transactions**

##### **Rule 10. Issues for Loans for Margin Transactions**

1. Issues for loans for margin transactions shall be selected by the Exchange from amongst standardized margin transaction issues.
2. Issues for loans for margin transactions shall be selected in accordance with the rules set forth by the Exchange.

##### **Rule 11. Limitation of Loans for Margin Transactions**

A trading participant may not conduct loans for margin transactions for purposes other than those of settlement of regular transactions in the standardized margin transactions and settlement of regular transactions of proprietary sale or purchase on margin.

##### **Rule 12. Settlement, etc. of Loans for Margin Transactions**

The following matters shall be as prescribed by the Business Rules and Regulations of Japan Securities Clearing Corporation:

- (a) Borrowing and repayment/return of money/securities pertaining to loans for margin transactions (including loans for margin transactions pertaining to commissioning of clearing securities trading, etc. to an agency clearing participant ); and
- (b) Submission and withdrawal of purchased securities as collateral pertaining to such borrowed money and sale proceeds pertaining to such borrowed securities.

### **Chapter 4**

#### **Miscellaneous Rules**

##### **Rule 13. Settlement Deadline for Proprietary Sale or Purchase on Margin**

In the case where a trading participant has effected a regular transaction pertaining to a proprietary sale or purchase on margin, the trading participant must settle such margin sale or purchase by the third day (excluding non-business days) counting from the date corresponding to the transaction date in the sixth month counting from the month including the transaction date (if there is no corresponding date in the sixth month, the last day of such month shall be taken to be the corresponding date; if the corresponding date falls on a non-business day, it shall be moved up).

##### **Rule 14. Application to Commissioning of Clearing Securities Trading, etc. to Agency Clearing Participant**

These regulations (except Rule 12) shall apply to commissioning of clearing securities trading, etc. to an agency clearing participant that pertains to trading of securities by deeming that a trading participant who entrusts commissioning of clearing securities trading, etc. to an agency clearing participant is a person who effects transactions of such securities. These regulations (except Rule 12) shall also apply to commissioning of clearing securities trading, etc. to an agency clearing participant that pertains to loans for margin transactions by deeming that a trading participant that entrusts commissioning of clearing securities trading, etc. is a person who effects such loans for margin transactions.

#### **Rule 15. Unsettled Accounts for Standardized Margin Transactions in Other Markets**

In the case where a standardized margin transaction issue (limited to issues listed on any other domestic financial instruments exchange) is delisted from any other domestic financial instruments exchange for a reason(s) or in forms separately prescribed by the Exchange, if it is mutually agreed between a trading participant and a customer that the customer's unsettled account for transactions of such delisted issue under other market standardized margin transactions (see Note below) that pertains to the customer's trading of said issue in the financial instruments exchange market of other domestic financial instruments exchange from which such issue is delisted will be treated as an unsettled account under standardized margin transactions in the Exchange and, furthermore, a day of commencing such treatment, said unsettled account pertaining to the other market standardized margin transactions shall be deemed to be an unsettled account pertaining to standardized margin transactions in the Exchange on and after said day. In such case, such day must be the day immediately preceding the day of said delisting (if this day falls on a non-business day, it shall be moved up) or thereafter.

(Note) The term "other market standardized margin transaction" means a margin transaction pertaining to securities trading in a financial instruments exchange market established by other financial instruments exchange in Japan whose premium charges and rescheduling of return/repayment deadlines for borrowed securities/money shall be as prescribed by the rules of such other financial instruments exchange; the same shall apply hereinafter.

#### **Rule 16. Decision on Necessary Matters Concerning Margin Transactions and Loans for Margin Transactions**

In addition to matters prescribed in these regulations, the Exchange may prescribe rules

(Provisional Reference Translation)

for additional necessary treatment concerning margin transactions or loans for margin transactions on an as- needed basis.

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