

**Rules Concerning Trading Supervision Systems at Trading Participants
to Prevent Unfair Trading**
(as of April 4, 2022)

Tokyo Stock Exchange, Inc.

Rule 1. Purpose

1. These rules shall prescribe the necessary matters concerning trading supervision systems that trading participants shall establish in accordance with the provisions of Rule 22-2 of the Trading Participant Regulations.
2. The purpose of the establishment of trading supervision systems as referred to in the preceding paragraph is to prevent unfair trading by trading participants with regard to securities trading (limited to trading of stocks, convertible bonds, and exchangeable corporate bonds as specified in Rule 2, Paragraph 1 of the Business Regulations) on the Exchange market, through the establishment of internal rules and implementation of any other necessary measures by trading participants, thereby ensuring trust in the Exchange and trading participants while contributing to the public interest and the investor protection.

Rule 2. Establishment of Internal Rules

Trading participants shall establish internal rules that define the matters referred to in each of the following items with regard to the trading supervision that trading participants conduct for the purpose of preventing unfair trading by their customers.

- (1) Matters concerning the departments responsible for trading supervision, and their powers and responsibilities
- (2) Matters concerning accurate identification of motives for and trends in customers' trading behavior
- (3) Matters concerning information to be taken into consideration in trading supervision
- (4) Matters concerning identification of customers as targets for market surveillance
- (5) Matters concerning market surveillance of customers
- (6) Matters concerning measures to be taken on the basis of the results of market surveillance
- (7) Any other matters deemed necessary

Rule 3. Accurate Identification of Motives for and Trends in Customers' Trading Behavior

Trading participants shall strive to accurately identify motives for and trends in customers' trading behavior by means of appropriate monitoring (of financial products traded, trading methods, forms of trading, investment motives, investment experience, etc.).

Rule 4. Market Surveillance

Trading participants shall conduct market surveillance in accordance with the provisions of each of the following items.

- (1) Trading participants shall identify customers as targets for market surveillance with regard to the categories of issues and customers referred to in the Appendix "Table

for Identification of Customers as Targets for Market Surveillance" in accordance with the identification criteria set forth separately by the Exchange; provided, however, that, except for issues and customers referred to in item 5 of the Appendix "Table for Identification of Customers as Targets for Market Surveillance," in cases falling under any of the following a. through c., the trading participant in question may be permitted to modify the identification criteria to be those deemed appropriate.

- a. In cases where it deems to be difficult to conduct market surveillance of a face-to-face transaction (meaning a transaction other than the transaction in which the customer uses the Internet, etc. to place an order and the order is acknowledged or processed mechanically) in accordance with identification criteria specified separately by the Exchange, including cases where the use of said identification criteria would represent an excessive financial burden.
- b. In cases where the number of customers identified in accordance with the identification criteria specified separately by the Exchange would be excessively large for market surveillance systems and structures generally considered to be appropriate, and it is deemed that the results obtained through, among other things, conducting market surveillance in accordance with matters concerning analysis set forth separately by the Exchange together with said other appropriate identification criteria would be similar to the results of market surveillance of customers identified in accordance with the provisions of the main clause of this item.
- c. In cases where it is deemed that an appropriate result of market surveillance would be obtained by ensuring a certain level of effectiveness concerning the trading supervision systems through establishing the trading supervision systems specified separately by the Exchange.

(2) Market surveillance of transactions carried out by customers identified in accordance with the preceding item shall be carried out on, out of matters such as those concerning analysis set forth separately by the Exchange, matters deemed necessary; provided, however that, in cases falling under c. of the same item, market surveillance may be carried out on matters concerning analysis deemed appropriate.

2. In cases where a trading participant identifies a transaction that is likely to lead to unfair trading as a result of the market surveillance specified in the preceding paragraph, the trading participant shall caution the customer who has carried out said transaction and, if there is no subsequent improvement, take appropriate measures against said customer, such as suspending the acceptance of orders from said customer.
3. In cases where a trading participant identifies a transaction that is likely to fall under insider trading as a result of the market surveillance specified in paragraph 1, the trading participant shall report the matters referred to in each of the following items to the Exchange without delay as specified by the Exchange.
 - (1) Results of the market surveillance
 - (2) In cases where pursuant to the provisions of the preceding paragraph, a trading participant has cautioned the customer or taken measures against the customer,

such as suspending the acceptance of orders from said customer, the details of said caution or measures

Rule 5. Creation and Preservation, etc. of Internal Records

1. Trading participants shall create internal records of the matters referred to below and keep these records for a period of five (5) years.
 - (1) The reasons for modification of identification criteria (limited to cases where the identification criteria have been modified as the modification falls under Paragraph 1, Item 1, b. of the preceding rule.)
 - (2) Materials confirming the establishment state of trading supervision systems (limited to cases where the identification criteria or matters concerning analysis have been modified as the modification falls under Paragraph 1, Item 1, c. of the preceding rule.)
 - (3) The results of the market surveillance prescribed in Paragraph 1 of the preceding rule (except for cases where it is clear that trading of customers does not fall under unfair trading) and the measures taken against customers pursuant to provisions of Paragraph 2 of the same rule.
2. With respect to customer orders placed via the Internet, other than the matters referred to in the preceding paragraph, trading participants shall obtain and keep information specified by the Exchange as necessary for ensuring the effectiveness of market surveillance in a manner set forth by the Exchange.

Rule 6. Review, etc. of Internal Rules

Trading participants shall ensure the efficacy of the internal rules referred to in Rule 2 by ensuring a thorough understanding and awareness of said rules among officers and employees and by means such as causing the departments responsible for trading supervision to review said rules in accordance with the actual situations of the market and trading activities.

Rule 7. Supervision of Proprietary Trading

Trading participants shall establish appropriate trading supervision systems for proprietary trading, taking into account of the forms of trading, etc. they carry out.

Appendix

Table for Identification of Customers as Targets for Market Surveillance

The customers to be identified as targets for market surveillance shall be that corresponding to each category of issue referred to in the table below.

	Issue	Customer
1	Issues in which the trading participant has a high degree of involvement in trading	Customers with high degrees of involvement in trading of any specific issue
2	Issues in which the trading participant carried out transactions within a given time frame that includes the end of a session	Customers who carried out transactions in any specific issue within a given time frame that includes the end of a session
3	Issues in which the trading participant carried out buy and sell transactions at the same time and at the same price	Customers who carried out buy and sell transactions in any specific issue at the same time and at the same price
4	Issues in which the trading participant made a significant cancellation of orders or change of orders to inferior prices	Customers who made a significant cancellation of orders or change of orders to inferior prices for any specific issue
5	Issues in which the trading participant traded before material facts, etc. were announced	Out of customers who traded before material facts, etc. were announced, those suspected of having engaged in insider trading in consideration of trading activities, etc.
6	All issues in which the trading participant carried out transactions	Customers on whom financial instruments exchanges or trading participants, etc. provide information regarding suspicions of unfair trading
7	All issues in which the trading participant carried out transactions	Customers suspected of having engaged in other unfair trading

Notes:

1. For items 1 through 4 in the above table, customers may be identified as targets for market surveillance with respect to all issues in which the trading participant has carried out transactions.
2. "Material facts, etc." prescribed in item 5 in the above table mean material facts prescribed in Article 166, Paragraph 1 of the Act and the fact concerning tender offer, etc. prescribed in Article 167, Paragraph 3 of the Act.
3. In the case of discretionary investment contracts as specified in Rule 2, Paragraph 8, Item (12), Sub-item (b) of the Act or actions referred to in Rule 123, Paragraph 1, Item (13), Sub-items (a) through (e) of the "Cabinet Office Ordinance on Financial Instruments Business, etc." (Cabinet Office Ordinance No. 52 of 2007), the customer

in question may be excluded from the scope of identification as targets for market surveillance.

4. Except for item 5, with respect to transactions not conducted in the trading sessions as specified by the Exchange and transactions outside the Exchange markets, the customer in question may be excluded from the identification as targets for market surveillance.