

# PRESS RELEASE

日本取引所グループ プレスリリース



株式会社日本取引所グループ  
〒103-8224 東京都中央区日本橋兜町2番1号  
Tel: 03-3666-1361 (代表)

JAPAN EXCHANGE GROUP, INC.  
2-1, Nihombashi-Kabuto-cho, Chuo-ku,  
Tokyo 103-8224, Japan  
Tel: +81-3-3666-1361

URL: <https://www.jpx.co.jp/>

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Tokyo Stock Exchange, Inc.

## "ETFs, faster and cheaper": TSE Begins Development of ETF RFQ Trading Platform "CONNEQTOR" for Market Use

Tokyo Stock Exchange (TSE) introduced a Market Making Scheme for ETFs in 2018 with the aim of improving ETF liquidity, and has continued to make improvements to it since. In addition, to facilitate large-scale transactions that are difficult to execute in auction sessions, TSE began considering the provision of an RFQ (request-for-quote) function in October 2019.

TSE has decided to begin development of this service for use on the market now that the realization of the technology is in sight, having completed the design process with the kind cooperation of many of the institutional investors who will become users and confirmed their needs. The platform for using this RFQ function is named CONNEQTOR, which incorporates TSE's wish to make ETF trading more efficient by connecting institutional investors, securities companies, and market makers more closely.

### 1. Aim and Features of the RFQ Function

#### **ETFs, faster and cheaper**

ETFs are products that investors can use to trade not only Japanese stock indices, but also foreign stocks, bonds, and commodities. By providing an RFQ function, TSE aims to facilitate easy access to world-class liquidity and pricing for Japanese institutional investors so that ETFs can be traded "faster and cheaper" in Japan.

#### **Online trading**

As Covid-19 has increased the need for remote working where possible, we would like to ensure that institutional investors can continue to operate safely by offering tools to complete trading online.

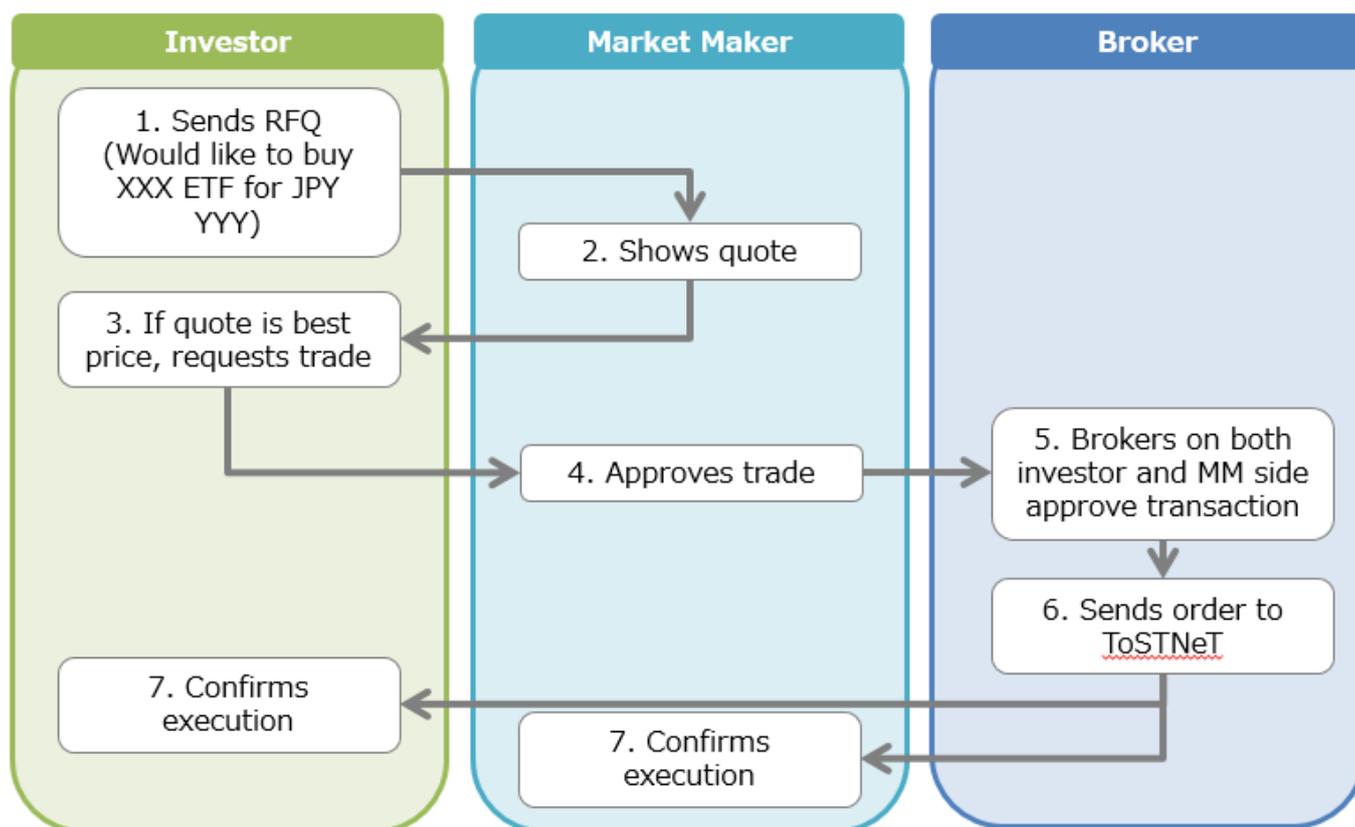
#### **No usage fees - available to anyone**

Both initial and monthly fees are free, so that even institutional investors who trade less often such as banks and regional financial institutions can use the platform. We charge a trading fee (commission) to securities companies only when a transaction is executed.

### 2. Outline of RFQ Function/Trade Flow

The RFQ function enables institutional investors who want to trade a particular ETF at a particular quantity, etc.

to send out a request for a quote to a large number of market makers. They can then trade at a price individually offered by a market maker. In CONNEQTOR, although the quotes are shown anonymously, the process is highly transparent, and investors are able to trade only at the best price offered. The trading flow using the RFQ function is as follows:



1. An investor submits a request to "buy XXX ETF for JPY YYY" on CONNEQTOR.<sup>1</sup>
2. Market makers show prices.<sup>2</sup>
3. The investor requests a trade if the quote shown is the best price (the best price will always be shown).
4. The market maker who offered the best price confirms and accepts the proposed trade.
5. The brokers designated in advance by the investor and the market maker approve the trade.
6. The authorized trade is cleared and settled via ToSTNeT as an on-exchange trade.
7. Investors can obtain logs for the trade flow, operations flow, and quotes shown.

### 3. Schedule and Inquiries

The schedule for implementation is as follows:

- Briefings for Trading Participants and System Providers (May 2020)<sup>3</sup>  
\*Document and connectivity specifications will be made available as soon as determined.
- Pilot test starts (around summer 2020)
- Service launch (planned for the end of 2020)

<sup>1</sup> The settlement date can be specified, and the request can be set for number of trades instead of price. The securities company for trade execution must also be specified in advance. Market makers are not shown whether the trade is short or long.

<sup>2</sup> Connectivity specifications for automatic price presentation are provided to market makers.

<sup>3</sup> These will be carried out online.

Dates and times of briefings will be announced via the Trading Participant Site (Target), but if you would like further details or future updates, please contact [ask-connector@jpx.co.jp](mailto:ask-connector@jpx.co.jp). TSE is currently accepting applications to log in and try a series of trades in a test environment<sup>4</sup>.

Please feel free to contact us, as we are accepting applications for demonstrations for institutional investors and securities companies that are considering using this service, as well as suggestions for improvements and added functionality. TSE will continue to improve our platforms and market to strive for a world where ETFs can be traded faster, cheaper and safer.

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<sup>4</sup> These will be carried out online.

(Reference: screenshot of CONNEQTOR interface)

- The interface screen is set to dark mode (black background), which is kind to the eyes for institutional investors monitoring for long periods.
- Example videos of how the platform is used can be found on the website (<https://conneqtor.tokyo>).
- The interface screen is still under development and may be revised without prior notice.



(Reference: Development Method)

In reviewing and developing RFQ functions, TSE uses a development method called Lean Agile. This method does not determine the specifications at the start of development, but develops them gradually while conducting repeated interviews with prospective users to confirm their needs. Currently, functions are being added, improved, and released at high speed and frequency by conducting everything from research on the business perspective to system development at the same location (lab). TSE plans to flexibly add and customize functions so that the platform can become better for users in the future. Even after the launch of the platform at the end of this year, TSE will continue to improve its functions using the same method over a relatively short period of time.<sup>5</sup>

Enquiries related to this press release  
Tokyo Stock Exchange, Inc. Equities Department  
+81-3-3666-0141 (switchboard)  
[ask-conneqtor@jpx.co.jp](mailto:ask-conneqtor@jpx.co.jp)

<sup>5</sup> Currently, development is being carried out while connecting through video conferences, not physically at the lab.