



(ST-1) Handling of ETF Market Making Incentive Scheme

July 2025
Tokyo Stock Exchange, Inc.
Ver. 4.4

Revision History

	Version	Revised Page(s)	Summary of Revisions
2018/2	1.0	-	
2018/4	1.1	P3	Added footnote about effective date of application
		P7, 28	Added footnote about incentive
		P8	Added note about Announcement
		P16	Clarified wording about payment
		P17	Added footnote that tier based on ADV during Jan. – Mar. 2018 is applied until Sep. 2018.
2018/6	1.2	P3	Added footnote about newly listed issue
		P7	Added footnote about payment destination
		P8	Added footnote about image file of logo
		P27	Added footnote about newly listed issue, consumption tax and revenue stamp.
		P28	Added note about total amount of incentive. Added footnote about AUM trigger and grouping condition.
2019/3	2.0	P12	Added footnote about exemption from continuous quote obligation “During black-out days, only in case of excessive increase of trading volume, exemption is examined.”
		P14	Added footnote about cancellation of sign up. “*If average of performance for given ETF in the last 6 months is less than 10%, in principle, sign up for that ETF is canceled. It takes 3months for such market maker to sign up again.”
		P22	Revised note about Acclimation Period - Acclimation period is extended to March 2020 - Number of ETFs for Quoting(1) is reduced to No less than 10 illiquid ETFs
		P23	Added slide about Mail RFQ Service
2019/3	2.0	P29	Revised Note about sponsored scheme - Lead time for application is reduced from 1month to 2weeks - Multiple conditions on an ETF becomes available
		P31, 32	Added slides about matching funds
2019/9	2.1	P31	Revised target ETFs. Deleted P31.

Revision History

	Version	Revised Page(s)	Summary of Revisions
2019/10	2.2	P31	Added note about quoting time period
2020/3	2.3	P22	Extend acclimation period.
		P31	Revised target ETFs in Ver.2.0 scheme.
2020/9	3.0	P10	Deleted Note about acclimation period Revised Note about if obligation not fulfilled - Market makers may be excluded from sign-up ETF or MM if obligation is not fulfilled for a certain period.
		P12	Revised Note about number of ETFs for quoting - The number of ETFs is changed from 3 patterns to “at least 5 ETFs” under this scheme
		P15	Revised Note about if obligation not fulfilled - If average performance is lower than 5% over the last 6 months, that ETF will be excluded from sign-up ETF. - If market makers fail to meet the minimum number of quoted ETFs for the last 12 months, the market maker qualification may be revoked.
		P21	Revised Note about number of provision of virtual servers.
		P23	Deleted this page because of end of acclimation period
		P29	Added Note about Lead time for Application - For newly listing ETF, it needs to be made at least 1 week before the listing date.
2021/3	3.1	P24	Added slide about Fast Market System.
		P32	Revised target ETFs in Ver.2.0 scheme.
2021/9	3.2	P32	Revised target ETFs in Ver.2.0 scheme.
2021/11	3.3	P23	Deleted the page about Email RFQ Service due to the termination of the service.
2022/4	3.4	P10	Corrected and supplemented errors in sign-up timing, etc.
		P30	Supplemental information on the description of the matching funds target.
		P31	New page established with the addition of matching funds coverage.

Revision History

	Version	Revised Page(s)	Summary of Revisions
2022/4	3.4	P10	Corrected and supplemented errors in sign-up timing, etc.
		P30	Supplemental information on the description of the matching funds target.
		P31	New page established with the addition of matching funds coverage.
2022/6	3.5	P30	Revised target ETFs in Ver.2.0 scheme.
2022/12	3.6	P29	Added that applications for sponsorship of newly listed ETFs must be submitted "... or the first business day of the first month after the listing date".
		P30	Regarding the priority conditions for sponsored ETFs, state that they are usually in the following order: quantity of executions, quoting time, and sign-up date.
		P31	Revised obligations in some ETFs in Ver.2.0 scheme.
2023/1	3.7	P10	Addition of inclusion of leveraged inverse ETFs in the scheme.
		P13, 14	Addition regarding Obligation to add leveraged inverse ETFs to the scheme.
		P16, 19, 21, 22	Added that leveraged inverse ETFs are not eligible for incentive offerings
		P25	Specifies that leveraged inverse ETFs are also exempt from short selling restrictions.
		P30	Added that leveraged inverse ETFs can be eligible for sponsored scheme.
2023/6	3.8	P9	Added that actively managed ETFs are also subject to the scheme.
		P13	Added a note on how to classify issue types for actively managed ETF obligations.
		P30	Added that actively managed ETFs can also be eligible for the sponsorship program.
		P32	Specifies that actively managed ETFs are added as eligible for matching funds
2023/8	3.9	P31	Revised target ETFs in Ver.2.0 scheme.
2023/9	4.0	P31, 33	Revised target ETFs in Ver.2.0 scheme.
2023/12	4.1	P31	Revised sponsored condition in Ver.2.0 scheme.
2023/12	4.2	P31	Revised sponsored condition in Ver.2.0 scheme.

Revision History

	Version	Revised Page(s)	Summary of Revisions
2024/3	4.3	P15	Change of Obligations for JPX Prime 150 Index to Type A.
		P19	Partial revision of incentive in proportion to trading value.
		P32-35	Revised sponsored condition in Ver.2.0 scheme.
2025/7	4.4	P35	Revised sponsored condition in Ver.2.0 scheme.

Positioning of this document

- ETF Market Making Incentive Scheme is defined in TSE Business Regulations, where it states that details of said scheme shall be prescribed separately.
- This document contains the details of the ETF Market Making Incentive Scheme.

Related Documents

Detailed Scheme and Operations	Application/Report Format	
	Market Maker to TSE	TSE to Market Maker
ST-1* Handling of ETF Market Making Incentive Scheme *This document (Details and how to apply)	MT-1 Application for designation as MM Application to be designated as market maker (MM)	TM-1 Notification of Designation Notice sent by TSE to an MM and/or Trading Participant to inform the recipient(s) of new MM status
ST-2 List of ETFs Parameters applied as quoting obligation and incentive	MT-2 Application of ETF & Virtual Server Application to specify which ETF & VS to market make	TM-2 Market Maker Report Report sent by TSE to MMs on daily performance of ETFs under the scheme
ST-3 FAQ Frequently asked questions and answers pertaining to this scheme	MT-3 Application for contact Form to indicate contact for market making	TM-3 Notification of Cancellation Notice sent by TSE to an MM and/or Trading Participant to inform the recipient(s) of cancellation of MM status
	MT-4 Application for canceling designation Application to cancel designation as MM	

* The application flow is described later.

* For a while, effective date of any applications from Market Makers/Asset Managers must be the beginning of the month, however, for newly listed issues, applications in the middle of the month will be accepted.

Positioning of this document (continued)

Related Documents

Application/Report Format	
Asset Manager to TSE	TSE to Asset Manager
AT-1 NDA Non-disclosure agreement between an asset manager (AM) and TSE for the AM requesting TSE to disclose performance reports of MM(s)	TA-1 Report by ETF Report sent by TSE to an AM on daily performance of MM(s) for managed ETFs
AT-2 Application to receive report Form for an AM to indicate ETFs and its contact for the AM requesting TSE to disclose performance reports	
AT-3 Sponsored usage contract Contract the AM concludes with TSE to use sponsored market making incentive scheme	
AT-4 Application for sponsored market making Form that the AM submits to TSE to specify parameters of sponsored market making incentive scheme usage	

* The application flow is described later.

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1. Details of ETF Market Making Incentive Scheme

Overview of this Scheme

- This scheme imposes a continuous quoting obligation and delivers a number of incentives.

Category	Item	Description
Target	All ETFs	<ul style="list-style-type: none"> • ETNs are not included in this scheme. * Leveraged/Inverse ETFs and actively managed ETFs are also eligible
Qualifications	Prop Desk of TSE Trading Participant Or Registered Low Latency Trader	<ul style="list-style-type: none"> • Prop Desk of TSE Member Firm (Type 1 Financial Instruments/Foreign Securities Broker) • Agency (Registered as Low Latency Trader) <p>Either can sign up as an ETF Market Maker. The firm must apply through a TSE trading participant to sign up as an agency market maker.</p> <ul style="list-style-type: none"> • Dedicated Virtual Server is needed.
Obligation (Continuous Quote Obligation)	(1) Number of ETFs for Continuous Quoting	<ul style="list-style-type: none"> • Must show quotes for at least the number of ETFs designated
	(2) Quoting Time	<ul style="list-style-type: none"> • At least 80% of the time during continuous auction. Exempt from obligation during trading halts or Special Quote periods.
	(3) Spread & Minimum Quantity	<ul style="list-style-type: none"> • Depends on type of ETF
Incentives	1. Proportional to Trading Value	<ul style="list-style-type: none"> • Price rate differs by liquidity (Average Trading Value).
	2. Waiver of Access Fee	<ul style="list-style-type: none"> • Access fee is partially waived for eligible issues.
	3. Waiver of Virtual Server Fee	<ul style="list-style-type: none"> • Server fee is partially waived when continuously quoting at least the number of ETFs designated.

* It is possible to sign up through multiple trading participants. However, it is not possible to do so for a single issue from multiple trading participants. This means that, for example, you would sign up for 20 unique ETFs from trading participant A and a different 10 from trading participant B. In that case, '3. Waiver of Virtual Server Fee' is paid to trading participant whose code is the lowest.

* Registration as a Low Latency Trader needs to be completed before applying.

* If Number of ETFs for continuous Quoting is not fulfilled, any incentives including sponsored ones are not provided.



Overview of this Scheme (Continued)

Category	Item	Description
Number of MMs	No Limit	<ul style="list-style-type: none"> No upper limit on the number of market makers
Measuring	By Virtual Server	<ul style="list-style-type: none"> Must register dedicated virtual server(s) per market maker to allow for measuring of the performance of each market maker
Other	Lead time for Application	<ul style="list-style-type: none"> It takes approx. one week from application to registration.
	Announcement	<ul style="list-style-type: none"> TSE will announce name of market maker via website, etc. upon sign up. TSE will not announce which market maker covers which ETF, but whether market maker is preset. By reporting, Asset managers may be able to be aware that which market maker is registered and performance of their own ETFs
	Reporting	<ul style="list-style-type: none"> TSE sends monthly reports on performance and incentives to trading participant and/or market maker. Asset managers may, after concluding NDA with TSE, also apply to receive monthly reports containing the list of registered market makers and performance.
	Feedback	<ul style="list-style-type: none"> The market maker provides feedback on how to improve the trading environment.
	If Obligation not Fulfilled	<ul style="list-style-type: none"> Market makers may be excluded from sign-up ETF or MM if obligation is not fulfilled for a certain period.



* Upon the market maker's request, TSE posts the company's logo and profile on the JPX official website. JPEG >220 pixel (horizontal) is desirable.

2. Continuous Quote Obligation

Obligation: Number of ETFs for Continuous Quoting and Quoting Time

1. Number of ETFs for Quoting

- MMs must show quotes in at least 5 ETFs, except for leveraged /Inverse type, in order to satisfy this obligation.

Course	Notes
At least 5 ETFs, Except for leveraged/inverse ETF	<ul style="list-style-type: none">• No restrictions on the type of ETFs, except for leveraged/inverse ETFs (highly liquid ETFs can be included)• There is no acclimation period

2. Quoting Time

- The MM must show quotes for no less than 80% of the time during continuous auction. The MM is exempt from this obligation during trading halts or Special Quote periods.

*Where there are compelling reasons, such as shutdown of underlying market, quoting obligation is exempted. During black-out days, only in case of excessive increase of trading volume, exemption is examined.

*Foreign index ETFs are categorized to Type C first. Upon request, individual ETFs may be categorized to Type D. For applied parameters, see "ST-2 List of ETFs".

* Although the obligation of quoting time is 80%, the system sets the obligation of quoting time as 100% in order to exclude it from incentive eligibility. So even if a MM's fulfillment rate of obligation exceeds 80%, the status will be indicated as "NG" on the performance report, but the actual obligation fulfillment status will be determined based on whether the performance exceeds 80%.

Obligation (Cont.): Spread and Minimum Quantity

3. Spread and Minimum Quantity

- Depending on the ETF type, the MM must display quotes for a sufficient quantity of ETFs within certain spread(s).
- There are stricter spread/quantity requirements for leading ETFs (i.e., tracking Nikkei 225 or TOPIX).

Type	Issue	Maximum Bid-Ask Spread (whichever is larger)	Minimum Quantity (one leg)
A	ETFs tracking Nikkei 225, TOPIX, JPX Nikkei 400 or JPX Prime 150 (excluding leveraged/inverse type)	20 bps OR 2 ticks	JPY 30 mil.
B	ETFs tracking other domestic stocks, REITs, Bond, Leveraged inverse ETFs tracking domestic stocks, REITs and bonds, and Actively managed ETFs comprised mainly of domestic stocks, REITs and bonds.	50 bps OR 3 ticks	JPY 10 mil.
C	Foreign index and commodity ETFs, Leveraged/inverse ETFs that do not fall under type B, and Actively managed ETFs composed mainly of foreign assets and commodities	50 bps OR 3 ticks	JPY 5 mil.
D	Individually designated ETFs	80 bps OR 4 ticks	JPY 5 mil.

Quote Display Sample

Offer Volume (Value)	Price	Bid Volume (Value)
	105	
200,000 (20.8 mil.)	104	
100,000 (10.3 mil.)	103	
	102	350,000 (35.7 mil)
	101	

- With a quote of JPY 30 mil, as more offer quotes pile up, JPY104 (the price to fulfill the obligation) becomes the Offer price.
- MMs can use multiple order/price levels within the spread to fulfill the obligation.

Spread is 2 ticks/194bps*

*Spread = (Offer price – Bid price) / Mid (Offer and Bid)

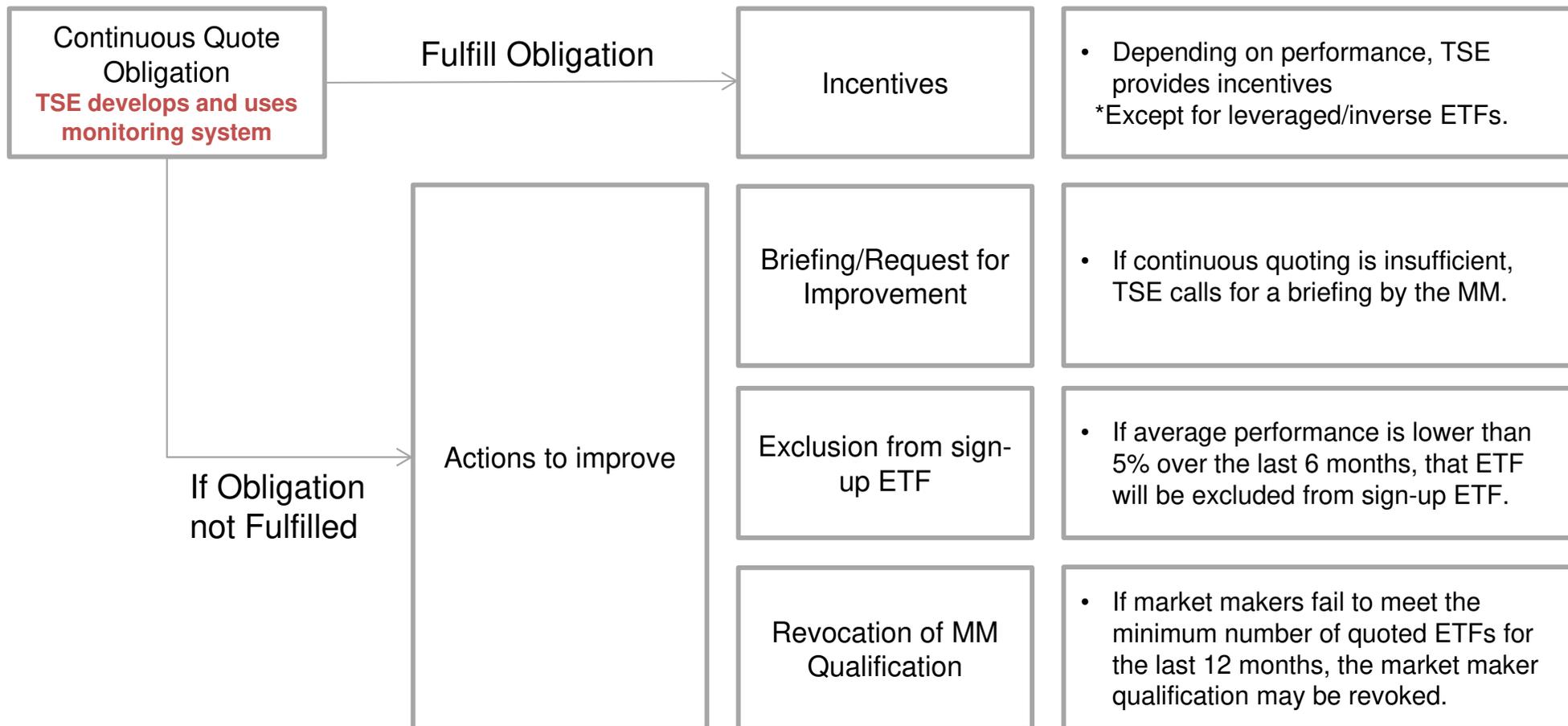
$$\text{Quote Display Time (\%)} = \frac{\text{Fulfilling Obligation Period (Micro seconds, Cumulative)}}{\text{Quoting available Period (Micro seconds, Cumulative)}}$$

*Quote Display is valid during continuous auction hours (excl. trading halts or Special Quote periods).

*All time measurements are based on arrowhead timestamps for each order. The fulfillment status is determined on a monthly basis.

Managing MM Qualification

- TSE will monitor each MM's activity by using a newly developed system that allows for measuring MM performance.
- If the MM does not fulfill its obligation, TSE contacts and requests a briefing from the MM, which can result in the exclusion from sign-up ETF and MM.



3. Incentives

Additional Incentives on ETFs for Diversified Investment

- Higher incentives are provided on ETFs tracking the indices listed below, which are considered essential for diversified investment.

	Japan	World	Developed	Emerging
Equity	—	<ul style="list-style-type: none"> - MSCI ACWI - FTSE Global All Cap 	<ul style="list-style-type: none"> - FTSE Developed - FTSE Developed All Cap - S&P 500 - CRSP U.S. Total Market - MSCI World - MSCI World IMI 	<ul style="list-style-type: none"> - MSCI Emerging Markets - FTSE Emerging - FTSE RAFI Emerging
	—	—	<ul style="list-style-type: none"> - MSCI Europe - FTSE Developed Europe All Cap - STOXX Europe 600 - MSCI Pacific 	<ul style="list-style-type: none"> - MSCI AC Asia Pacific
Bond	<ul style="list-style-type: none"> - NOMURA-BPI Total - DBI total - NOMURA-BPI JGB - Barclays Japan Government Float Adjusted Bond 	<ul style="list-style-type: none"> - FTSE World Government Bond - Barclays Capital Global Treasury 	<ul style="list-style-type: none"> - Bloomberg-Barclays Global Aggregate - Barclays U.S. Government Float Adjusted Bond - Barclays Euro Government Float Adjusted Bond 	<ul style="list-style-type: none"> - JP Morgan GBI EM Global Diversified - JP Morgan Emerging Market Bond Plus
REIT	<ul style="list-style-type: none"> - TSE REIT Index 	—	<ul style="list-style-type: none"> - S&P Developed REIT - S&P US REIT - S&P European REIT - FTSE NAREIT Equity REIT 	—



*In addition to the indices listed above, indices that exclude Japan, such as MSCI Kokusai Index, can also be included.

*Please refer to “ST-2 list of ETFs” for details

Incentive 1: Proportional to Trading Value

- When MMs fulfill this obligation, they are provided with incentives based on ETF trading value.
- Leveraged/inverse ETFs are always treated as Tier V and are not eligible for incentive grants.

Incentives for MMs by Tier

Tier	Average Trading Value in JPY (Continuous auction)	Incentive for Others	(Batch auction or MM's execution against an MM)	Remarks
I	Less than 100 mil. (Newly Listed)	0.5 bps	0.2 bps	Since trading volumes for less liquid / newly listed ETFs are low, relatively higher incentives are provided.
II	100 mil. or more, but less than 500 mil.	0.25 bps	0.2 bps	MMs can trade ETFs essentially free of charge on issues in this trading volume bracket.
III	500 mil. or more, but less than 1 bil.	0.15 bps	0.1 bps	The fee is higher for issues in this trading volume bracket, but some incentives are available.
IV	1 bil. or more, but less than 5 bil.	0.1 bps	0.1 bps	
V	5 bil. or more			There are no incentives for this trading volume bracket and leveraged/inverse ETFs.

*There are no financial incentives for Tier V issues, but these issues except for leveraged/inverse ETFs do count as issues included in the number of ETFs for quoting. Also, they are subject to other incentives excluding leveraged/inverse ETFs .

* In case registered Low Latency Trader conducts market making, incentive is provided to TSE trading participant as discount of trading fee.

Tier Review Cycle

- Tiers are reviewed every three months.
- Announcements are made after the three-month measuring period. New parameters are applied on the following month.

Sample Schedule

Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Measure			Announce	Apply New Parameter								Measure
			Measure			Announce	Apply New Parameter					
						Measure			Announce	Apply New Parameter		
Announce	Apply New Parameter								Measure			Announce

Incentive 2: Waiver of Access Fee

- Currently, TSE charges the access fee in proportion to the number of orders.
- Since MMs have to display continuous quotes at appropriate prices for many issues, incentives based solely on trading value are not sufficient, especially in the case of illiquid issues.

- ✓ By fulfilling obligation, MMs receive 0.1JPY/order up to 100,000 orders per ETF/day
- ✓ Applicable on all ETFs the MM signs up for, except for leverage/inverse ETFs

Product	Waiver
ETFs other than leveraged/inverse ETFs that have signed up as market maker	Yes
Other ETFs not signed up as market maker or leveraged/inverse ETFs	No
Underlyings (Stocks, REITs, etc.)	No

Incentive 3: Provision of Virtual Servers

- Since trading larger amounts of ETFs requires higher capacity, TSE can provide virtual servers free of charge to MMs who sign up for more issues.
- Note that leveraged/inverse ETFs are excluded for this incentive.

Number of ETFs for Quoting (Excluding leveraged/inverse ETFs)	Number of Free Virtual Servers Type A (200 msg/sec)
20 ETFs	2
30 ETFs	3
40 ETFs	4
60 ETFs	6
80 ETFs	8
100 ETFs	10
(For every 20 ETFs over 100)	(2)

*A virtual server is a necessary component for placing orders to TSE.

*Currently, it costs JPY 90,000/month to use a Type A virtual server (processing capacity of 200 messages per second).

4. Others

Fast Market System

- When volatility is high, the obligation will be mitigated for a certain period in light of market conditions.

Item	Descriptions	Remarks
Activation trigger	Comprehensive decisions based on requests from market makers, AMs and other market participants, as well as market conditions	<ul style="list-style-type: none"> As a general rule, "when Nikkei VI becomes 30 or more or when a majority of market makers request it" However, TSE comprehensively judges based on market conditions, requests from participants, etc.
Details of Mitigation	To be mitigated in 2 stages. ① Spread doubles as normal ② Spreads quadrupled as normal	<ul style="list-style-type: none"> Basically, the mitigation of ① is implemented, but if the high volatility state continues for a long period of time, the mitigation of ② is implemented at the comprehensive judgment. The mitigation of ② is assumed to be triggered when the Nikkei VI is extremely volatile, such as 50 or more.
Term	From the date of activation to the date of release	<ul style="list-style-type: none"> The Fast Market shall be triggered intraday. Declare activation during the day and mitigate obligations from the day of activation. Declare cancellation after the close of the day before cancellation.
Release trigger	Comprehensive decisions based on requests from market makers, AMs and other market participants, as well as market conditions	<ul style="list-style-type: none"> As a general rule, "when Nikkei VI falls below 30 for 5 days" However, TSE comprehensively judges based on market conditions and requests from participants, as in the case of the trigger.
Performance measurement	Measure on a monthly basis, as in normal times	<ul style="list-style-type: none"> Fast Market is triggered and released on a daily basis, but performance is measured on the basis of 80% of monthly performance, as in normal times.
Target ETFs	All ETFs	<ul style="list-style-type: none"> All ETFs covered by the market-making scheme are covered.
Scope	TSE's obligation and Version2.0.	<ul style="list-style-type: none"> Sponsored conditions are excluded.



Reference: Exemption from Short Selling Restriction

- The quotes displayed for the purpose of fulfilling the continuous quote obligation upon sign up as an ETF MM will be handled as indicated in the table below. (The same treatment applies to leveraged/inverse ETFs.)

Treatment of short selling conducted by ETF MMs

Applicable statutes on Short Selling Restrictions	Details	For short selling by MMs
Confirmation, etc. of a Guarantee of Borrowed Securities (Ban of Naked Short Sell) Article 26-2-2	Cannot carry out a short sell without first borrowing	Exempted → May conduct naked short sell *Must cover for settlement
Indication and Confirmation in Cases of Short Selling (Marking) Article 26-3	Trading Participant must indicate whether it is a short sell or not and similarly verify said fact with entrustor	Exempted → Can apply "0: Long Sell" classification to any sell orders
Prices in the Case of Short Selling (Up-tick Rule) Article 26-4	If the stock price drops by 10% or more, the uptick rule applies.	Exempted → No price test applied
Provision, etc. of Information on Short Selling (Reporting) Article 26-5	If short selling exceeds 0.20% of all listed shares, obligated to report said fact to the exchange; if exceeding 0.50%, the name of the short seller is disclosed.	Exempted → Excluded from outstanding short position

Reference: Exemption from Short Sell Restriction (continued)

Legal Remarks

* Exemptions from the short selling rules apply only to ETFs for which the MM has signed up.

* Order for Enforcement of the Financial Instruments and Exchange Act (Article 26-2-2 to Article 26-5) & Cabinet Office Ordinance on Restrictions on Securities Transactions, etc. (Article 9 to Article 15) apply to trading.

* Short selling conducted by an MM is regarded as the following trading indicated in Cabinet Office Ordinance on Restrictions on Securities Transactions, etc., Article 9-3 (xvii) (Effective from April 1, 2018):

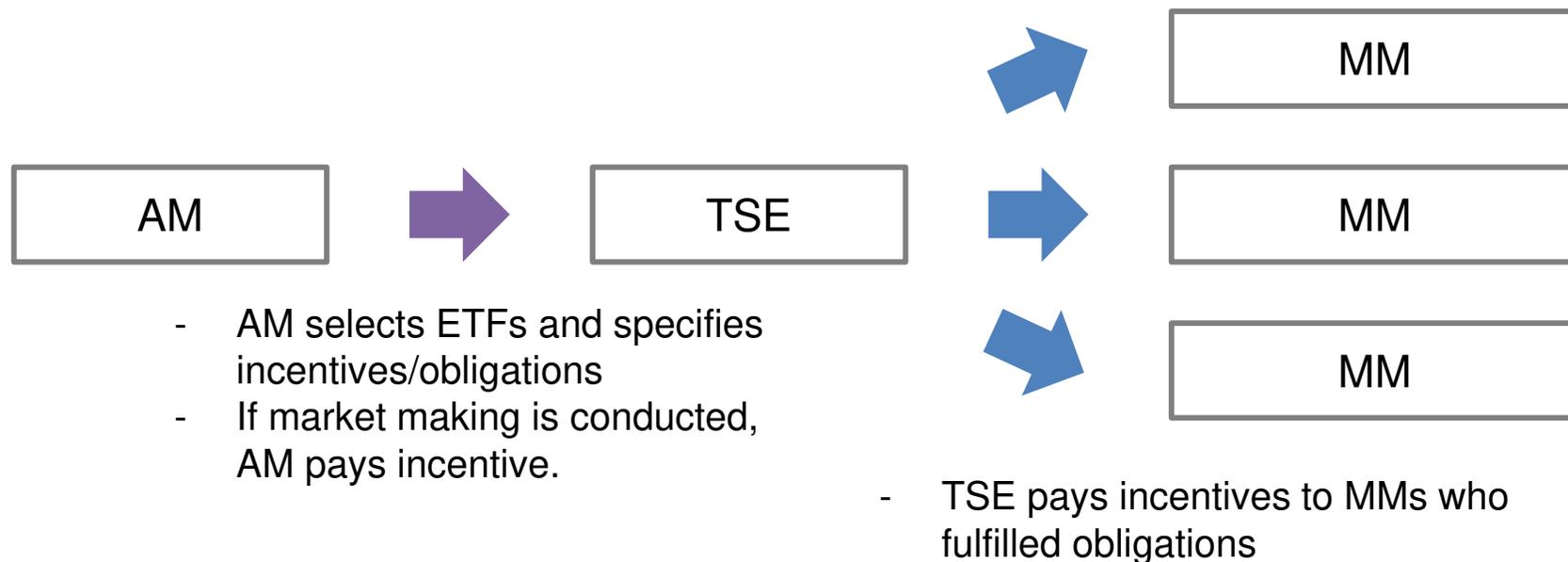
"among the transactions in which a Member, etc. of the Financial Instruments Exchange conducts Short Selling on his/her own account with regard to the Beneficiary Certificate of an Investment Trust, etc. or Investment Securities or **the transactions in which a Low Latency Trader who has been designated as an entity who places an order pertaining to the following trading concerning Investment Trust Beneficiary Certificates, etc. listed on the Financial Instruments Exchange, pursuant to the rules specified by the Financial Instruments Exchange** conducts Short Selling on his/her own account with regard to the Beneficiary Certificate of an Investment Trust, etc. by a means specified by the Financial Instruments Exchange, set forth in the following sub-items:"

5. Sponsored ETF Market Making Incentive Scheme

Overview

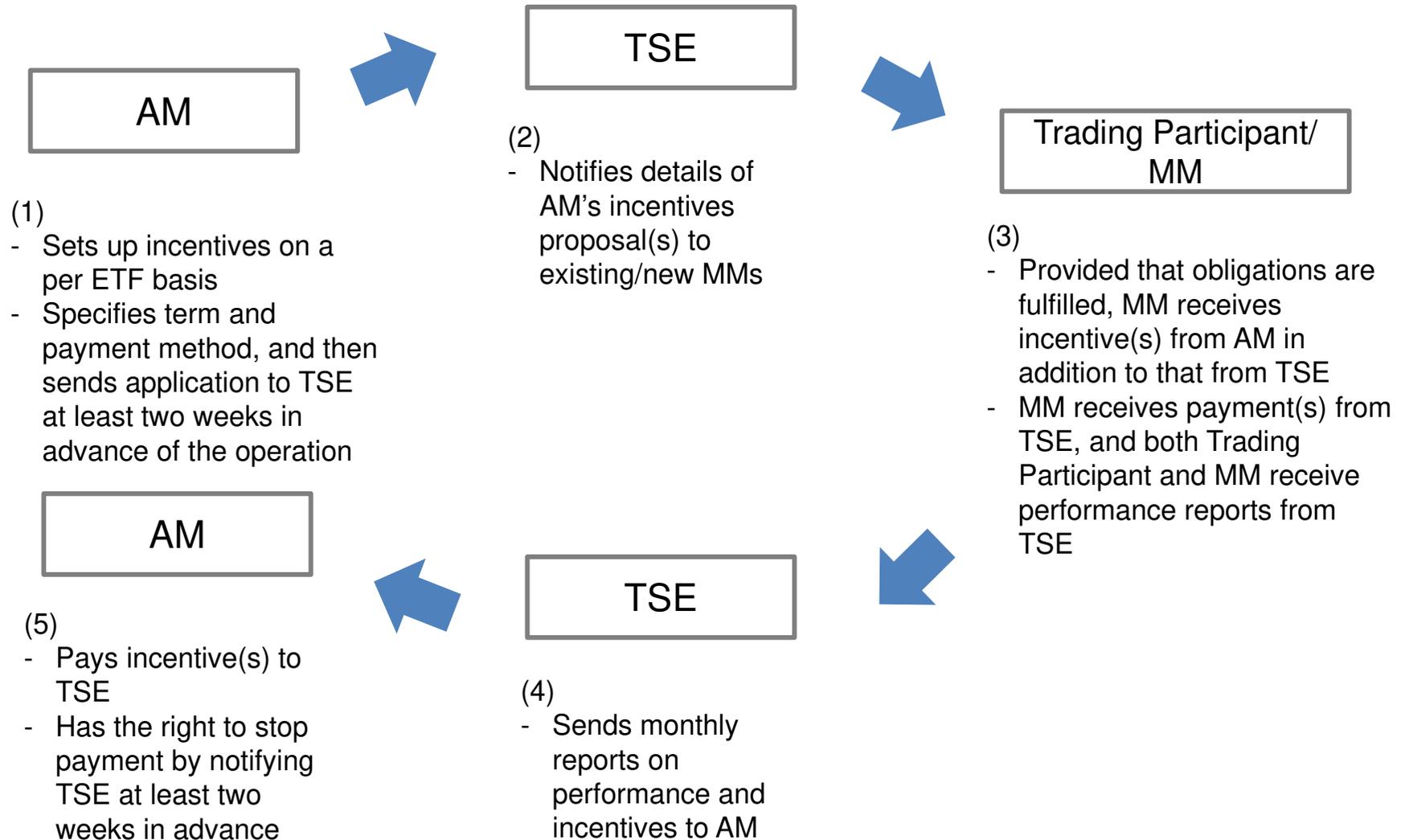
- The scheme involves having **AMs serve as sponsors for additional incentives.**
- In addition to the incentives provided by the exchange, with incentives also coming from AMs, MMs can be more inclined to sign up for seemingly less profitable issues, **raising quoting standards and further improving liquidity** for such ETFs.
- While the non-sponsored scheme by nature offers one-size-fits-all incentives across the board to ensure equal treatment of each ETF, the sponsored scheme has the potential to allow for more customized treatment, including delivering higher incentives for less profitable issues.
- **As a result, ETFs that originally lacked MMs have a greater chance of being brought to listing.**

Application Process



Diagram

Operational Flow of Sponsored ETF Market Making Incentive Scheme



* The actual application process is described later.

Details of Sponsored ETF Market Making Incentive Scheme

Category	Item	Description
Sign up	Sign up for ETF Market Making Incentive Scheme (No need for additional sign up)	<ul style="list-style-type: none"> - The Sponsored ETF Market Making Incentive Scheme (sponsored scheme) automatically applies to MMs at the time of sign for the ETFs applicable under the ETF Market Making Incentive Scheme (general scheme); provided, however, that MMs who have not fulfilled the number of ETFs for continuous quoting under the general scheme are not be eligible for incentives even if they fulfill the status of Quote Obligation in the sponsored scheme.
Reporting to Asset Manager	Name of Market Maker Performance of each Market Maker	<ul style="list-style-type: none"> - The name of the market maker(s), performance of each market maker and amount of payment with the sponsored scheme will be shared with the asset manager in monthly reports.
Reporting to Market Maker	Performance Incentives	<ul style="list-style-type: none"> - TSE sends a monthly report containing the fulfillment status of the Quote Obligation and incentives to trading participants/MM under the sponsored scheme. - The payment is added to the general scheme incentives.
Lead time for Application	At least two weeks (*At least 1 week for newly listing ETF)	<ul style="list-style-type: none"> - To ensure there is sufficient time to inform the public, an application needs to be made at least two weeks in advance including application for changes in specifics. - For newly listing ETF, it needs to be made at least 1 week before the listing date or the first business day of the first month after the listing date.
Publication	Publicize information via the website, etc.	<ul style="list-style-type: none"> - After the application of an AM has been accepted, detailed conditions will be made public via the website, etc.

* Multiple conditions can be set to an ETF

* Incentive is subject to consumption tax. Charge will be total of incentive and consumption tax.

* To conclude fundamental contract (AT-3), putting revenue stamp (4000 JPY) is needed.

Items Specified by AMs in the Sponsored ETF Market Making Incentive Scheme

Category	Item	Description
Target	Any ETFs	- The asset manager can choose as little as one ETF from those it is currently managing. *Leveraged/inverse ETFs and Actively managed ETFs can also be eligible.
Period	Three months to one year	- In consideration of the preparations taken by the market maker, a minimum of three months is required. - The asset manager must reapply in order to specify incentive(s) for a single issue for more than one year.
Obligation (Quote Obligation)	Maximum Spread (ticks/bps) Amount of quote (JPY) Quoting time period (%)	- For each item, asset managers can specify a Quote Obligation that differs from that in the general scheme.
	Grouping (Setting the Quote Obligation for multiple ETFs)	- Asset managers can specify the Quote Obligation eligible for incentives only when the Quote Obligation has been fulfilled for multiple ETFs. - Asset managers can only select a fixed amount for incentives when designating grouping conditions.
	AUM trigger	- Asset managers can specify a condition in which incentives will be paid to market makers who have fulfilled the Quote Obligation only when their AUMs exceed a certain amount.
Incentives	Total amount of payment – JPY100,000 to 1,000,000/month (per ETF)	- Asset managers specify total amount of monthly incentives for each ETF. - It includes incentive set as AUM Trigger.
	Payment method – Fixed compensation/Trading volume proportional	- Asset managers can select either payment method: a fixed amount (JPY XX per company) or trading volume proportional (market makers eligible for incentives).
	Maximum Number of Market Makers	- Asset managers can specify maximum number of market makers eligible for incentives.
	Priority conditions - In order of quoting time period/quantity of executions/sign-up date	- Asset managers specify priority according to the following three conditions to provide incentives: 1) quoting time period, 2) quantity of executions, or 3) sign-up date. - When the number of market makers who have fulfilled the Quotation Obligation exceeds the maximum number of market makers, asset managers can first assign priority, and then designate which are to be eligible for incentives.

Matching Funds (1) ETFMM scheme Ver.2.0 - Japanese Equity -

- Additional incentive/obligation will be set for certain period. Maximum number of ETFs will be set per index.
- Matching Funds = TSE will provide equivalent amount of incentive as a sponsor

Japanese Equity		Obligation (Qty./Spread)	Monthly Incentive (Total of TSE and AM)		Max no. of ETFs
Market	JPX Prime 150	JPY100 million/ 2ticks or 20bps	Top2 MMs	JPY 300,000 /month	1 ETF
Sector	TOPIX-17 FOODS	JPY30 million/ 3ticks or 25bps	Top1 MM	JPY 150,000 /month	1 ETF
	TOPIX-17 ENERGY RESOURCES	JPY30 million/ 3ticks or 25bps	Top1 MM	JPY 150,000 /month	1 ETF
	TOPIX-17 CONSTRUCTION & MATERIALS	JPY30 million/ 3ticks or 25bps	Top1 MM	JPY 150,000 /month	1 ETF
	TOPIX-17 RAW MATERIALS & CHEMICALS	JPY30 million/ 3ticks or 25bps	Top1 MM	JPY 150,000 /month	1 ETF
	TOPIX-17 PHARMACEUTICAL	JPY30 million/ 3ticks or 25bps	Top1 MM	JPY 150,000 /month	1 ETF
	TOPIX-17 AUTOMOBILES & TRANSPORTATION EQUIPMENT	JPY30 million/ 3ticks or 25bps	Top1 MM	JPY 150,000 /month	1 ETF
	TOPIX-17 STEEL & NONFERROUS	JPY30 million/ 3ticks or 25bps	Top1 MM	JPY 150,000 /month	1 ETF
	TOPIX-17 MACHINERY	JPY30 million/ 3ticks or 25bps	Top1 MM	JPY 150,000 /month	1 ETF
	TOPIX-17 ELECTRIC APPLIANCES & PRECISION INSTRUMENTS	JPY30 million/ 3ticks or 25bps	Top1 MM	JPY 150,000 /month	1 ETF
	TOPIX-17 IT & SERVICES, OTHERS	JPY30 million/ 3ticks or 25bps	Top1 MM	JPY 150,000 /month	1 ETF
	TOPIX-17 ELECTRIC POWER & GAS	JPY30 million/ 3ticks or 25bps	Top1 MM	JPY 150,000 /month	1 ETF
	TOPIX-17 TRANSPORTATION & LOGISTICS	JPY30 million/ 3ticks or 25bps	Top1 MM	JPY 150,000 /month	1 ETF
	TOPIX-17 COMMERCIAL & WHOLESALE TRADE	JPY30 million/ 3ticks or 25bps	Top1 MM	JPY 150,000 /month	1 ETF
	TOPIX-17 RETAIL TRADE	JPY30 million/ 3ticks or 25bps	Top1 MM	JPY 150,000 /month	1 ETF
	TOPIX-17 BANKS	JPY30 million/ 3ticks or 25bps	Top1 MM	JPY 150,000 /month	1 ETF
	TOPIX-17 FINANCIALS (EX BANKS)	JPY30 million/ 3ticks or 25bps	Top1 MM	JPY 150,000 /month	1 ETF
TOPIX-17 REAL ESTATE	JPY30 million/ 3ticks or 25bps	Top1 MM	JPY 150,000 /month	1 ETF	

Matching Funds (2) ETFMM scheme Ver.2.0 - Foreign Equity -

Foreign Equity		Obligation (Qty./Spread)	Monthly Incentive (Total of TSE and AM)		Max no. of ETFs
Single Country	S&P500	JPY100 million/ 2ticks or 20bps	Top2 MMs	JPY 200,000 /month	2 ETFs*
	NASDAQ100	JPY100 million/ 2ticks or 30bps	Top2 MMs	JPY 400,000 /month	2 ETFs*
	Dow Jones Industrial	JPY100 million/ 2ticks or 30bps	Top2 MMs	JPY 400,000 /month	2 ETFs*
	DAX	JPY100 million/ 2ticks or 30bps	Top2 MMs	JPY 200,000 /month	2 ETFs*
	FTSE100	JPY100 million/ 2ticks or 30bps	Top2 MMs	JPY 200,000 /month	2 ETFs*
Multiple countries	EURO STOXX 50	JPY100 million/ 2ticks or 30bps	Top2 MMs	JPY 200,000 /month	2 ETFs*
	MSCI Kokusai	JPY100 million/ 2ticks or 20bps	Top2 MMs	JPY 200,000 /month	2 ETFs*
	MSCI Emerging	JPY100 million/ 2ticks or 40bps	Top2 MMs	JPY 300,000 /month	2 ETFs*
	MSCI ACWI	JPY15 million/ 2ticks or 40bps	Top2 MMs	JPY 300,000 /month	2 ETFs*
Sector	S&P500 Communication Services	JPY30 million/ 3ticks or 30bps	Top1 MM	JPY 200,000 /month	1 ETF
	S&P500 Consumer Discretionary	JPY30 million/ 3ticks or 30bps	Top1 MM	JPY 200,000 /month	1 ETF
	S&P500 Consumer Staples	JPY30 million/ 3ticks or 30bps	Top1 MM	JPY 200,000 /month	1 ETF
	S&P500 Energy	JPY30 million/ 3ticks or 30bps	Top1 MM	JPY 200,000 /month	1 ETF
	S&P500 Financials	JPY30 million/ 3ticks or 30bps	Top1 MM	JPY 200,000 /month	1 ETF
	S&P500 Health Care	JPY30 million/ 3ticks or 30bps	Top1 MM	JPY 200,000 /month	1 ETF
	S&P500 Industrials	JPY30 million/ 3ticks or 30bps	Top1 MM	JPY 200,000 /month	1 ETF
	S&P500 Information Technology	JPY30 million/ 3ticks or 30bps	Top1 MM	JPY 200,000 /month	1 ETF
	S&P500 Materials	JPY30 million/ 3ticks or 30bps	Top1 MM	JPY 200,000 /month	1 ETF
	S&P500 Real Estate	JPY30 million/ 3ticks or 30bps	Top1 MM	JPY 200,000 /month	1 ETF
	S&P500 Utilities	JPY30 million/ 3ticks or 30bps	Top1 MM	JPY 200,000 /month	1 ETF

*One ETF each with/without currency hedging

Matching Funds (3) ETFMM scheme Ver.2.0 - Foreign Bond / REIT -

Foreign Bond		Obligation (Qty./Spread)	Monthly Incentive (Total of TSE and AM)		Max no. of ETFs
Single Country	US Treasury 5-10 years	JPY100 million/ 2ticks or 20bps	Top2 MMs	JPY 150,000 /month	2 ETFs*
	US Treasury 1-5 years	JPY100 million/ 2ticks or 15bps	Top2 MMs	JPY 200,000 /month	2 ETFs*
	US Treasury over 10 years	JPY100 million/ 2ticks or 25bps	Top2 MMs	JPY 200,000 /month	2 ETFs*
	German Government Bond 5-10 years	JPY100 million/ 2ticks or 25bps	Top2 MMs	JPY 200,000 /month	2 ETFs*
	France Government Bond 5-10 years	JPY100 million/ 2ticks or 40bps	Top2 MMs	JPY 200,000 /month	2 ETFs*
	UK Government Bond 5-10 years	JPY100 million/ 2ticks or 40bps	Top2 MMs	JPY 200,000 /month	2 ETFs*
	US municipal bond –Investment grade	JPY100 million/ 2ticks or 40bps	Top2 MMs	JPY 200,000 /month	2 ETFs*
Multiple countries	FTSE WGBI	JPY100 million/ 2ticks or 40bps	Top2 MMs	JPY 300,000 /month	2 ETFs*

REIT		Obligation (Qty./Spread)	Monthly Incentive (Total of TSE and AM)		Max no. of ETFs
Sector	TSE REIT Logistics Focus Index	JPY30 million/ 1tick or 25bps	Top2 MMs	JPY 150,000 /month	1 ETF
	TSE REIT Office Focus Index	JPY30 million/ 1tick or 25bps	Top2 MMs	JPY 150,000 /month	1 ETF
	TSE REIT Residential Focus Index	JPY30 million/ 1tick or 25bps	Top2 MMs	JPY 150,000 /month	1 ETF
	TSE REIT Hotel & Retail Focus Index	JPY30 million/ 1tick or 25bps	Top2 MMs	JPY 150,000 /month	1 ETF

*One ETF each with/without currency hedging

Matching Funds (3) ETFMM scheme Ver.2.0 - Active & Others-

Active	Obligation (Qty./Spread)	Monthly Incentive (Total of TSE and AM)		Max no. of ETFs
Actively managed ETFs targeting domestic public and corporate bonds (excluding only gov. bonds)	JPY100 million / (Spread is set by each ETF)	Top2 MMs	JPY 200,000 /month	2 ETFs
Actively managed ETFs for foreign equities	JPY50 million / (Spread is set by each ETF)	Top2 MMs	JPY 200,000 /month	2 ETFs
Actively managed ETFs for REIT	JPY50 million / (Spread is set by each ETF)	Top2 MMs	JPY 200,000 /month	2 ETFs

Others (for both indexed and active types)	Obligation (Qty./Spread)	Monthly Incentive (Total of TSE and AM)		Max no. of ETFs
Covered call ETFs for bonds	JPY50 million / (Spread is set by each ETF)	Top2 MMs	JPY 200,000 /month	2 ETFs
Actively managed ETFs for foreign equities	JPY50 million / (Spread is set by each ETF)	Top2 MMs	JPY 200,000 /month	2 ETFs
Actively managed ETFs for REIT	JPY50 million / (Spread is set by each ETF)	Top2 MMs	JPY 200,000 /month	2 ETFs

* In principle, each conditions shall be set for a period of 6 months and reviewed periodically.

* Obligation (spread) is a predetermined number of ticks or spread, whichever is wider.

* AMs and TSE will contribute same amount.

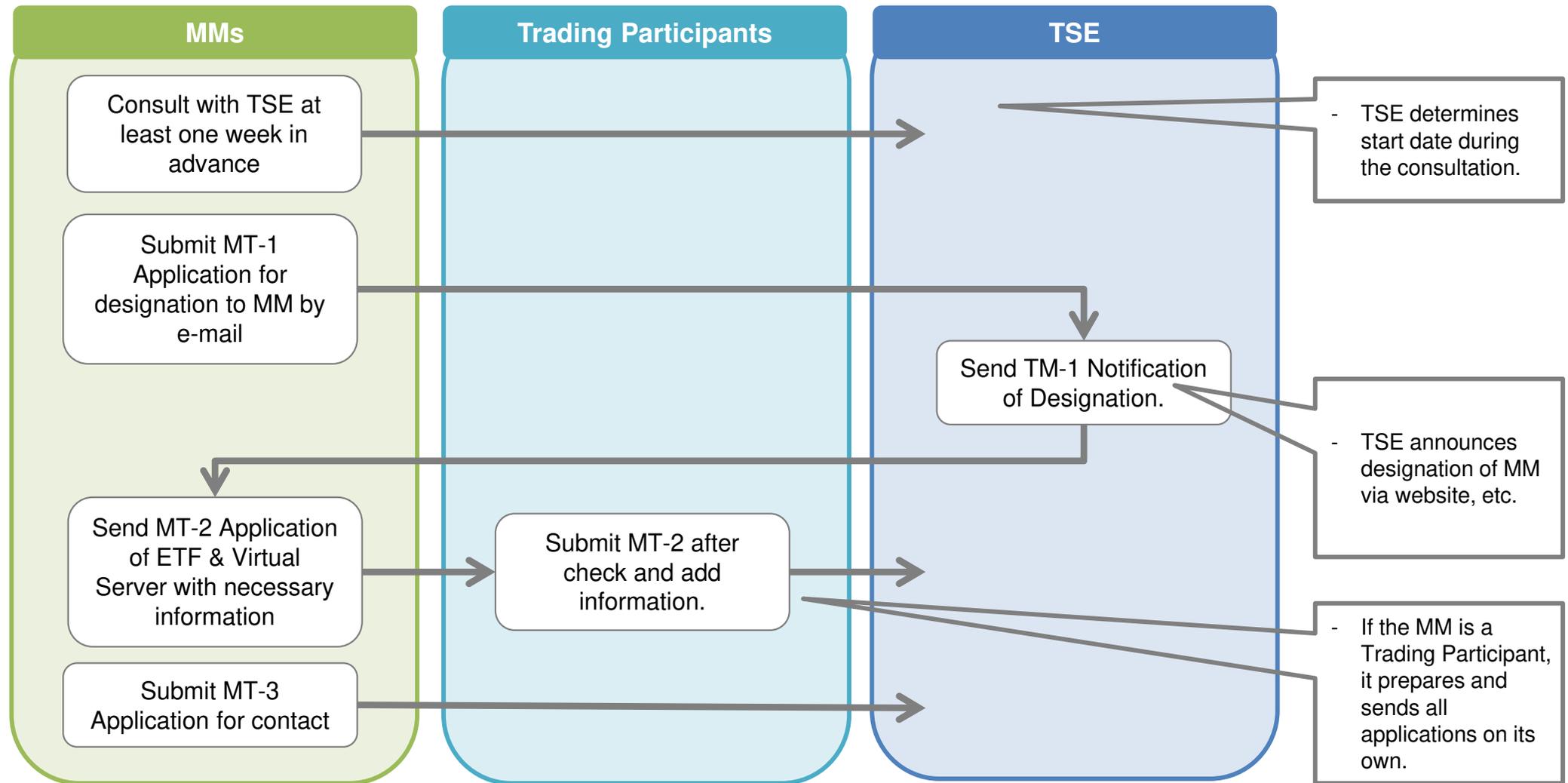
* Obligations for Quoting time shall be 80% for all categories.

* Unless otherwise noted, priority conditions shall be in order of trading volume, quoting time, and sign-up date.

So, if 3 or more MMs satisfy the Obligations, the ranking of MM is selected based on trading volume. If the trading volume is also the same, the MM with the longer quotation time is selected.

6. Application Flow

Application flow: Application and Designation by MMs



Application Flow: by AMs

- The AMs that receive reports must conclude A-1 and submit A-2; and, those who use the sponsored scheme, must also conclude A-3 and submit A-4 in addition to A-1 and A-2.

