

Responses pertaining to Comprehensive Revision to Short Selling Regulations

May 17, 2013

Tokyo Stock Exchange, Inc.

On April 30, 2013, the Financial Services Agency (hereinafter "FSA") announced the "Proposal for the Order Partially Amending the Cabinet Order for the Enforcement of the Financial Instruments and Exchange Act," "Proposal for the Cabinet Office Ordinance Partially Amending the Cabinet Office Ordinance on Restrictions on Securities Transactions, etc. and the Cabinet Office Ordinance on Financial Instruments Business, etc." and "Proposal for Defining Securities Designated by the Commissioner of the Financial Services Agency pursuant to the Provisions of Article 26-2-2, Paragraph 1, etc. of the Cabinet Order for the Enforcement of the Financial Instruments and Exchange Act" (hereinafter "the Order and Ordinance Amendment Proposals") pertaining to comprehensive revisions to short selling regulations<sup>1</sup>. In accordance with these revisions, Tokyo Stock Exchange, Inc. (hereinafter "TSE") will handle trading in its market as indicated below.

Furthermore, please be aware that public comments are being sought for the Order and Ordinance Amendment Proposals, and, in the wake of such comments, the measures below may change.

(Abbreviations)

FIEA Enforcement Order:	Order for Enforcement of the Financial Instruments and Exchange Act (No. 321, 1965) *After the Order and Ordinance Amendment Proposals
Transaction Restriction Ordinance:	Cabinet Office Ordinance on Restrictions on Securities Transactions, etc. (No. 59, 2007) *After the Order and Ordinance Amendment Proposals
Business Regulations:	Business Regulations (TSE)
Bids and Offers Rules:	Rules Concerning Bids and Offers (TSE)
Price Limit Rules:	Rules Concerning Price Limits on Bids and Offers (TSE)

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<sup>1</sup> For specifics on the proposed amendments pertaining to the comprehensive revisions to short selling regulations, please refer to the FSA's website (<http://www.fsa.go.jp/news/24/syouken/20130430-6.html>). (available in Japanese)

Item	Details (TSE Measures)	Remarks (Related Laws/Rules)
1. Marking Requirements (1) Short Sale Flag	<ul style="list-style-type: none"> <li>Because no large revision will be conducted regarding the framework of the short selling marking requirements, investors and trading participants are required to attach flags classification when placing sell orders as long sales (Flag 0), short sales (Flag 5), or short sales exemption (Flag 7).</li> <li>Furthermore, according to the price restriction revisions below, trading hours will be divided into periods where price restrictions do not apply (before triggers) and periods where price restrictions apply (after triggers). Appropriate short sale flags are also required to be attached during periods where price restrictions do not apply (before triggers).</li> <li>For example, during periods where price restrictions do not apply (before triggers), sell orders which should be placed as short sales (Flag 5) cannot be placed as long sales (Flag 0) or short sales exemption (Flag 7).</li> </ul>	<ul style="list-style-type: none"> <li>Short sales (Flag 5) refer to "short sales which would qualify for price restrictions regardless of whether or not price restrictions are actually applied at the time of order placement." Short sales exemption (Flag 7) refer to "short sales which would not qualify for price restrictions regardless of whether or not price restrictions are actually applied at the time of order placement."</li> </ul> (Related Laws, Regulations, and Rules) <ul style="list-style-type: none"> <li>FIEA Enforcement Order, Article 26-3</li> <li>Transaction Restriction Ordinance, Articles 11 and 15</li> <li>Business Regulations, Rule 14, Paragraph 1, Item 2</li> <li>Bids and Offers Rules, Rule 8</li> </ul>
2. Price Restrictions (Price Test) (1) Trading System Measures	<ul style="list-style-type: none"> <li>Trading system (arrowhead) measures will be enacted in relation to price restriction revisions. Investors and trading participants place sell orders with the appropriate short sale flag attached. As such, the TSE trading system will process sell orders according to periods where price restrictions do not apply (before triggers) or</li> </ul>	

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(2) Reference Price for Trigger Activation	<p>periods where price restrictions apply (after triggers).</p> <ul style="list-style-type: none"> <li>The reference price for trigger activation shall be handled as the same price to the base price for daily price limits (hereinafter "base price") for such date.</li> </ul>	<ul style="list-style-type: none"> <li>TSE will change its rules with regard to this handling.</li> </ul> <p>(Related Laws, Regulations, and Rules)</p> <ul style="list-style-type: none"> <li>FIEA Enforcement Order, Article 26-4, Paragraph 1</li> <li>Transaction Restriction Ordinance, Article 12, Paragraph 5</li> <li>Price Limit Rules, Rule 4</li> </ul>
(3) Trigger Activation	<ul style="list-style-type: none"> <li>Trigger activation shall be conducted based on an execution at or below the trigger price, with price restrictions applied immediately following such execution.</li> <li>Here, the trigger price shall be calculated as "the base price of such date multiplied by (1-10%)" rounded down to the nearest tick.</li> </ul>	<ul style="list-style-type: none"> <li>The same method shall be applied to low price stocks. As such, price restrictions shall apply immediately following executions at prices JPY 1 or below for issues with base prices of JPY 10 or less; provided, however, that for issues with a base price corresponding to the lowest stock price, triggers will not be activated on such day.</li> </ul> <p>(Related Laws, Regulations, and Rules)</p> <ul style="list-style-type: none"> <li>FIEA Enforcement Order, Article 26-4, Paragraph 1</li> <li>Transaction Restriction Ordinance, Article</li> </ul>

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(4) Handling of Quote Prices for Trigger Activation	<ul style="list-style-type: none"> <li>Trigger activation shall be conducted based on execution prices. Triggers will not be activated in relation to quote prices (prices displayed as special quotes or sequential trade quotes).</li> </ul>	<p>12, Paragraph 6</p> <p>(Related Laws, Regulations, and Rules)</p> <ul style="list-style-type: none"> <li>FIEA Enforcement Order, Article 26-4, Paragraph 1</li> <li>Bids and Offers Rules, Rule 10 and 11</li> </ul>
(5) One Touch Method	<ul style="list-style-type: none"> <li>A "One Touch Method" shall be used, whereby price restrictions will be applied for the full day after the first execution at or below the trigger price.</li> <li>As such, even if the market recovers above the trigger price following activation, price restrictions shall not be lifted during trading hours on such day. In addition, for issues which TSE is a primary listing market, price restrictions shall not be lifted during trading hours on the following day.</li> </ul>	<p>(Related Laws, Regulations, and Rules)</p> <ul style="list-style-type: none"> <li>FIEA Enforcement Order, Article 26-4, Paragraph 1</li> <li>Transaction Restriction Ordinance, Article 12, Paragraph 7</li> </ul>
(6) Migration Method after Trigger Activation	<ul style="list-style-type: none"> <li>Following a trigger activation, price restrictions will be promptly applied and no trading halt will be enacted.</li> </ul>	<p>(Related Laws, Regulations, and Rules)</p> <ul style="list-style-type: none"> <li>FIEA Enforcement Order, Article 26-4, Paragraph 1</li> </ul>
(7) Price Restriction-Applied Period	<ul style="list-style-type: none"> <li>For issues which TSE is a primary listing market, the application period of price restrictions is until the end of trading on the day following the application of price restrictions. Also, if a trigger is activated again on such following day, price restrictions shall be applied until the end of trading on the next following day. (The same shall apply to days following these days.)</li> <li>For issues which TSE is not the primary listing market, the application of price restrictions in the TSE market on the following day will be determined according to the trigger activation conditions of such issue in its primary listing market on the</li> </ul>	<ul style="list-style-type: none"> <li>For issues which TSE is a primary listing market, in cases where triggers are activated and price restrictions applied, but triggers are not activated on the following day, trading will begin without price restrictions on the day following that.</li> </ul> <p>(Related Laws, Regulations, and Rules)</p>

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	<p>relevant day. If triggers are activated for such issue in its primary listing market on the relevant day, price restrictions shall be applied until the end of trading on the following day, even if triggers were not activated in the TSE market on the relevant day. Also, if triggers are not activated for such issue in its primary listing market on the relevant day, trading will begin in the TSE market on the following day without price restrictions applied, even if triggers were activated for such issue in the TSE market on the relevant day.</p>	<ul style="list-style-type: none"> <li>• FIEA Enforcement Order, Article 26-4, Paragraph 1</li> <li>• Transaction Restriction Ordinance, Article 12, Paragraph 7</li> </ul>
(8) Handling in cases of Price Restriction Application for Full Day	<ul style="list-style-type: none"> <li>• In cases where a trigger was activated on the previous day, and price restrictions continue being applied for a full day, short sale limit orders (Flag 5) at or below the base price for such day may not be placed prior to the determination of the opening price on such day.</li> </ul>	<ul style="list-style-type: none"> <li>• This is the same as the handling prior to opening price determination under current price restrictions.</li> </ul>
(9) Handling of Direct Initial Listing (IPO) Issues	<ul style="list-style-type: none"> <li>• For issues which are newly listed on the TSE market directly (IPO issues), because a base price is not set before determination of the opening price, triggers shall not be activated. Following determination of the opening price, trigger activation shall be conducted using such opening price as the base price for such day.</li> </ul>	<ul style="list-style-type: none"> <li>• For issues transferred from other markets or technical listings, trigger activation shall be conducted using the base price on the listing day.</li> <li>• For direct initial listing issues for which a base price is set on the listing day, like ETFs, trigger activation shall be conducted using such base price.</li> </ul> <p>(Related Laws, Regulations, and Rules)</p> <ul style="list-style-type: none"> <li>• Price Limit Rules, Rule 4</li> </ul>
(10) Handling of Short Sale	<ul style="list-style-type: none"> <li>• From the perspective of preventing price restriction violations, placement of short</li> </ul>	<ul style="list-style-type: none"> <li>• Placement of short sale market orders (Flag</li> </ul>

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Market Orders, etc.	<p>sale market orders (Flag 5) shall be prohibited even during periods where price restrictions do not apply (before triggers) (including funari orders).</p> <ul style="list-style-type: none"> <li>Additionally, from the same perspective, placement of short sale limit orders (Flag 5) at or below the trigger price is prohibited during periods where price restrictions do not apply (before triggers); provided, however, that during periods where price restrictions apply (after triggers), short sale limit orders (Flag 5) may be placed at or below the trigger price as long as complied with the price restrictions.</li> </ul>	<p>5) shall be prohibited during periods where price restrictions apply (after triggers) (including funari orders), as before.</p>
(11) Handling of Short Sale Limit Orders with At-the-close Conditions	<ul style="list-style-type: none"> <li>Checks are not conducted at the time of placement of short sale limit orders with at-the-close conditions (Flag 5). Checks are conducted immediately prior to the closing call auction.</li> </ul>	<ul style="list-style-type: none"> <li>This is the same as current handling of short sale limit orders with at-the-close conditions (Flag 5) under price restrictions.</li> </ul>
(12) Real Time Notification of Trigger Conditions	<ul style="list-style-type: none"> <li>In cases where triggers are activated, real time notification of such fact will be disseminated via the Market Information System (FLEX data feed).</li> </ul>	<ul style="list-style-type: none"> <li>For details regarding the connection specifications changes, please refer to "Disclosure of System Interface Specifications (Revised Version) Concerning Comprehensive Revision to Short Selling Regulations" released on May 17, 2013.</li> </ul>
3. Short Sales Position Reporting/Disclosure		
(1) Position Disclosure Method	<ul style="list-style-type: none"> <li>Currently, information on the short sales positions submitted by investors via trading participants as individual PDF files are disclosed daily on the TSE website in ZIP format. Coinciding with the enforcement of the comprehensive revision to short selling restrictions, collected position information will be disclosed daily on</li> </ul>	<ul style="list-style-type: none"> <li>Details of the new disclosure method will be released at a later date.</li> </ul> <p>(Related Laws, Regulations, and Rules)</p>

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(2) Position Reporting Method	<p>the TSE website as a single Excel file.</p> <ul style="list-style-type: none"> <li>Currently, investors prepare information on short sales positions based on the reference formats provided by TSE. Coinciding with the enforcement of the comprehensive revision to short selling restrictions, these reference formats will no longer be used, and instead a standardized format for position reporting (Excel based) will be used. Investors will be required to prepare position information in accordance with the new format.</li> <li>Additionally, the position information prepared based on the reference format is currently submitted in PDF format. However, the new standardized format must be submitted in Excel format, without conversion to PDF.</li> </ul>	<ul style="list-style-type: none"> <li>FIEA Enforcement Order, Article 26-5</li> <li>Transaction Restriction Ordinance, Article 15-2 to 15-4</li> <li>Details of the new reporting method will be released at a later date.</li> </ul> <p>(Related Laws, Regulations, and Rules)</p> <ul style="list-style-type: none"> <li>FIEA Enforcement Order, Article 26-5</li> <li>Transaction Restriction Ordinance, Article 15-2 to 15-4</li> </ul>

Note: No change in measures is planned for matters not mentioned above.

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