

## Tokyo Commodity Exchange Audit Plan for FY2024

March 25, 2024

Self-regulatory Department  
Tokyo Commodity Exchange, Inc.

### I. Basic Policy

To maintain market fairness and reliability, TOCOM will audit Members based on its basic policy as follows, to examine their compliance with laws, regulations, and exchange rules (hereinafter collectively referred to as "laws and regulations"), as well as their business operations and financial positions.

#### 1. Conducting audits with expertise of the exchange

The TOCOM Self-regulatory Department, which is in charge of audits, accurately understands the environment and issues surrounding the market, such as trends in international regulations, and cooperates with market operations departments, IT departments, and the clearing house (Japan Securities Clearing Corporation) as a self-regulatory department with close proximity to the market to conduct highly specialized audits to ensure the fairness and reliability of exchange markets.

#### 2. Monitoring Member's operations and financial situation

Working in close collaboration with regulatory authorities, TOCOM will gather and analyze information on Members (i.e., on-exchange trading activity, all types of statements and reports submitted by Members, disclosed information, past audit results, and information on clearing, etc.). TOCOM will also communicate regularly with the persons in charge of audits and the like, in order to learn about the actual status of issues and internal management systems of each Member that cannot be understood solely from various filings and reports submitted by such Members<sup>1</sup>.

#### 3. Strengthening audits based on a risk-based approach

TOCOM will strengthen audits based on a risk-based approach as follows through risk assessment of Members based on audit and monitoring results. In order to supervise Members effectively and efficiently, it will also aim for overall

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<sup>1</sup> In addition to face-to-face contact, web-based meeting tools, email, and telephone will be used.

optimization of audits and monitoring.

(1) Selecting Members for audit based on risk

Based on the risk assessment results, TOCOM will prioritize audits of Members that are deemed to be at high risk.

If TOCOM considers it is necessary to make more in-depth enquiries without delay, it will flexibly conduct audits which focus on a specific issue, regardless of the number of days since the last audit or other considerations.

(2) Conducting flexible audits based on the severity of risk

Based on the results of the risk assessment and the business conditions and individual situations of the Member to be audited, TOCOM will select the items and themes to focus on during the audit. The number of audit days and number of audit officials will be determined flexibly according to the severity of the risk.

4. Strengthening internal management systems of Members

When TOCOM carries out audits, if the checks reveal any violation of laws and regulations or activities that are inappropriate for sound market operations, TOCOM will not only correct and follow up on those situations but also encourage the Member to take measures to strengthen its internal management system for matters deemed to have a potential risk in the future, by discussing issues with Members, including their management team, for example.

## II. **FY2024 Initiatives**

1. Developments Related to Operations of Members

(1) Status of Violations in the Market, etc.

During the FY2023 audits, one request was made regarding a case in which deficiencies had been found in the order management system.

In addition, as revisions to the rules and regulations pertaining to the development of internal management systems of Members, in January 2023, for the purpose of further improving the stability of market operations, etc., we established the "Detailed Rules on Trading Supervision Systems at Members to Prevent Unfair Trading" and the "Detailed Rules on Order

Management Systems at Members." These, among other measures, serve to clarify the obligation of Members that conduct direct trading to develop such systems. In addition, in November 2023, the margin calculation method was changed for the purpose of improving functionality and the like.

## (2) IT usage

Recently, with Members' operations becoming heavily dependent on the systems, cyber-attacks have been increasing in number and are taking on more sophisticated forms.

In the commodity futures trading industry as well, there have been recent cases of unauthorized access to systems by malicious third parties that have caused leakage of customer information<sup>2</sup>. Under these circumstances, the Ministry of Economy, Trade and Industry (METI) formulated and released its most recent "Cybersecurity Management Guidelines Ver. 3.0"<sup>3</sup> in March 2023.

## 2. Focus of Audits

Based on the above developments related to operations, the following items (1) through (4) have been identified as priority audit targets in FY2024.

### (1) Trading supervision systems to prevent unfair trading

With respect to proprietary and customer trades, TOCOM will conduct audits to determine whether Members have developed adequate trading supervision systems. This includes, for the different forms of trading, whether Members identify transactions that are likely to constitute unfair trading, conduct trading surveillance based on the results of such identification, take

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<sup>2</sup> Similar situations have been observed in the financial instruments trading industry, where several cases have recently been confirmed in which customers have been infected with ransomware through unauthorized access by third parties. This has resulted in the suspension of some services to customers, unauthorized withdrawals of customer funds, and other customer damage. In light of these circumstances, the Japan Securities Dealers Association (JS DA) has formulated and published guidelines for the prevention of unauthorized access in Internet trading (established in March 2021 and revised in July of the same year) ([https://www.jsda.or.jp/anshin/inv\\_alerts/alearts04/index.html](https://www.jsda.or.jp/anshin/inv_alerts/alearts04/index.html)) (only available in Japanese). With the increasing threat of cyber-attacks, it is important for Members not only to properly identify and assess system risks in order to ensure stable system operations and information security management, but also to improve matters by referring to the guidelines and making use of other initiatives in the financial instruments trading industry.

<sup>3</sup> METI "Cybersecurity Management Guidelines Ver. 3.0"(as of March 24, 2023) ([https://www.meti.go.jp/policy/netsecurity/downloadfiles/CSM\\_Guideline\\_v3.0\\_en.pdf](https://www.meti.go.jp/policy/netsecurity/downloadfiles/CSM_Guideline_v3.0_en.pdf))

appropriate measures against inappropriate transactions, respond in good faith to inquiries on unfair trading from TOCOM (including information on originating foreign investors), and conduct internal auditing of trading supervision operations.

(2) System risk management systems

TOCOM will check whether the development and operation of Members' computer systems for receiving, placing, and settling transactions are appropriately managed. If any systems-related operations are outsourced, TOCOM audits whether Members check the status of such outsourced operations. If new technologies such as cloud services are used, it will also conduct audits such as whether risks inherent in said services are properly understood and risk-reduction measures are implemented according to data to be handled, as well as the importance of business operations to be applied.

We will also verify whether Members are identifying remaining risks by comprehensively checking all systems and assessing the degree of vulnerability of and threats to critical systems based on current countermeasures. In addition, we will also verify whether Members are taking sufficient countermeasures against identified risks.

Regarding system malfunctions, TOCOM will check whether there are effective measures in place to ensure stable system operations (such as development of procedures in response to disruptions of Members' own systems as well as exchange systems, etc., or development of alternative routes for major business operations) as well as, for example, whether causes of malfunctions are identified, and prevention measures are appropriately formulated by addressing said causes.

In terms of cyberattacks, it will also check whether Members take effective measures to protect customers (such as appropriate management of IDs and passwords, identification of potential intrusion routes, and monitoring and restrictions on changes and additional cash withdrawal accounts) or those taking into account the increased cyberattacks with more sophisticated forms (such as risk assessment, creation of response procedures, and implementation of training.)

(3) Order Management Systems

TOCOM will audit whether Members implement appropriate management

systems to prevent erroneous order placement, including responses to abnormal circumstances such as an order placement system with appropriate limits for order placement based on trading conditions, including for trading through automated order placement which uses an electronic information processing system.

(4) Clearing Margin Management Systems

TOCOM will audit whether Members have sufficient clearing margin management systems; for instance, whether they specify the amount of margin required, whether they properly deposit margin received from customers with the clearing organization, or whether they have appropriate management systems for when customers' margin deposits become or are likely to become inadequate.

3. Information sharing with regulatory authorities

To contribute to the overall enhancement of Member oversight, TOCOM will continue boosting efforts by exchanging information, closely collaborating, and sharing views on problems with regulatory authorities.

4. Other matters

Please refer to the Appendix for outlines of other audits. TOCOM will also work on supporting Member-driven improvement of internal management systems as necessary.

## Appendix

### 1. Scope of audits

Audits of Members, mainly those who send orders directly to TOCOM, shall, as a general rule, be conducted based on this Audit Plan within the following scope.

#### (1) Types of audits

There are three types of audits:

- General audits of Members for which audits are deemed highly necessary based on on-going analysis of Member's business operations and financial situation;
- Follow-up audits conducted as needed to check for improvements within approximately one year after an audit; and
- Special audits that focus on specific issues based on a range of information.

#### (2) Audits in collaboration with other self-regulatory organizations

Audits for TOCOM Members with OSE trading qualifications will be carried out simultaneously with inspections by Japan Exchange Regulation (JPX-R)<sup>4</sup>. Information submitted by Members will be shared with JPX-R as needed to conduct effective audits, which includes a reduction of the burden of audits for Members, as well as to manage Members for the entire JPX group to ensure the reliability of the capital market.

#### (3) Notice of audits, etc.

Where an audit is to be carried out, notice will be given to the representative of the Member. As a general rule, the Member will be notified of the start date and method, etc. of the audit approximately four weeks in advance and the names, etc. of the audit staff will be provided approximately two weeks prior to the start date.

In an audit, TOCOM will request, in advance, personnel responsible for audits at the Member subject to the audit to prepare various materials required for the audit<sup>5</sup>.

#### (4) Audit method

Audits are classified into on-site audits, in which TOCOM staff visit the

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<sup>4</sup> Audits are carried out jointly with JSDA and other financial instruments exchanges.

<sup>5</sup> The formats for materials to be prepared in advance are available from Target. Note that, depending on the features of the Member's business and other factors, we may ask the Member to prepare materials in advance in addition to the default format.

headquarters and other offices of Members, and document-based audits, which are based on submitted documents.

During an on-site audit, TOCOM will examine various documents including books and records. At the same time, TOCOM will analyze the actual operations of Members from multiple perspectives through conversations with their officers and employees and audit issues in question, etc. in relation to their business operations.

(5) Duration of audit and number of audit staff

The duration of an audit and the number of audit staff members will be determined in accordance with the degree of risk and related factors, based on the size and actual conditions of each Member as well as the risk each Member holds, and the like.

(6) Explanation of audit results, etc.

After an audit is completed, TOCOM will give the representative or other appropriate person of the Member a verbal explanation of the audit results and the assessment status of internal management systems, etc. TOCOM will also send notification of the audit results to the representative of the Member.

(7) Action taken based on audit results

In order to protect public interest and investors, if the results of an audit reveal an infringement of laws and regulations, TOCOM will impose sanctions<sup>6</sup> on or issue a recommendation to do so; or otherwise, issue cautionary notice to or take other actions as indicated in the chart below against Members<sup>7</sup>.

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<sup>6</sup> Please refer to "Points of Consideration when Deciding on Sanctions" (March 30, 2021).

<sup>7</sup> The decision on the type of disciplinary action, etc. will be based on a comprehensive evaluation of various aspects, including whether or not there has been willful misconduct or gross negligence on the part of the officers or employees of the Member, the severity of the infringement, and the status of internal management systems.

Infringement of laws, regulations, or exchange rules		Deficiency of internal controls, etc.
Sanction	Revocation of trading qualification	Recommendation
	Suspension or restriction of transactions, etc.	
	Imposition of financial penalty	
	Public censure	
Cautionary notice	Caution by the executive officer in charge	Request
	Caution by Director of Self-Regulation	
	Caution by the auditor	

(8) Opinion sharing and appeals following audit

Every effort is made to align the audit staff's and the Member's understanding of conditions by exchanging opinions, etc. following the audit.

In the event of differing opinions, the Member may submit an appeal to TOCOM<sup>8</sup>.

(9) Improvements made by Members on deficiencies

Audit staff continuously monitor progress on improvements on problems identified by audits and take steps to ensure Members make improvements. They also provide consultation and other forms of support for improvement as needed. If anything is unclear or if there are any concerns about day-to-day business operations other than matters identified by audits, please contact TOCOM.

(10) Feedback Survey

TOCOM gathers a wide variety of opinions regarding its audit activities. It conducts surveys with audit-related personnel mainly via email following the release of audit results in order to improve audit operations.

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<sup>8</sup> When TOCOM receives an appeal, after considering the content of the appeal, it will hold conversations as needed and make an impartial judgment.

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