

Summary of Comments Submitted Regarding
"Revisions to Trading Rules to Improve the Convenience of the ToSTNeT Market, etc."

Jun. 2, 2020

Tokyo Stock Exchange, Inc.

Tokyo Stock Exchange, Inc. (TSE) released the outline of "Revisions to Trading Rules to Improve the Convenience of the ToSTNeT Market, etc." on February 20, 2020 and sought public comments until March 21, 2020. TSE appreciates the cooperation of those who gave their comments in reviewing this matter.

The comments and responses have been summarized below:

No.	Summary of Comments	TSE Response
1.	<ul style="list-style-type: none"> • Since it is difficult in the regular (auction) trading sessions to execute large-lot orders from customers that are prearranged for execution or to execute customer orders against securities company's proprietary orders at prices with a spread from the market price. The ToSTNeT system was introduced to enable a block trading (off-auction trading) facility. Since its launch, the system has been operating for more than 20 years with margin transactions possible . • Every day, many general investors have been using this system for approximately 20 years: cross trades executed at a closing price between customers, transactions in which prices were determined through negotiations by securities companies based on a closing price or a VWAP (volume weighted average price); proprietary transactions based on a closing price to meet needs for transactions at a closing price; and VWAP guarantee trading etc. that is now common. 	<ul style="list-style-type: none"> • In the meeting of the Working Group on Financial Markets under the Financial System Council, the Financial Services Agency has expressed concern about margin transactions made through dark pools in terms of investor protection and market fairness. In view of the intent of margin transactions that they will contribute to improvement of price formation mechanisms, TSE is reviewing the rules to clarify the types of transactions eligible for margin transactions (as referred to in 2.) (including transactions for repayment; the same shall apply hereinafter) and proprietary margin sale and purchase (including sale and purchase for settlement; the same shall apply hereinafter) in the ToSTNeT market. This review will

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	<ul style="list-style-type: none"> • We understand that proprietary margin sales and purchases are conducted for proprietary transactions to receive loans and borrow shares from securities finances companies and that such transactions do not fall under margin transactions specified under the Financial Instruments and Exchange Act. The ToSTNeT system has been widely used when we have no actual shares to match orders from customers for cash transactions, when we accept orders from customers for basket trading without securing proprietary positions during continuous auction trading, and when we deal with inquiries for transactions of individual stocks. The system is a vital tool for securities companies to provide liquidity with investors. • For these reasons, we think it is inappropriate to prohibit all margin transactions as well as proprietary margin sales and purchases in ToSTNeT. This revision would affect price formation in the market and the financial health of financial instruments business operators as well as greatly hinder the convenience of general investors who have been using the system for many years. Margin transactions and proprietary margin sales and purchases in the ToSTNeT have nothing to do with “dark pools” and has not disrupted price formation or management of margin transactions by TSE so far. Thus, the following types of transactions should be exempted from the prohibitions: <ul style="list-style-type: none"> • A proprietary margin sale and purchase (excluding a transaction through an internal trading system specified in Article 70-2, Paragraph 6 of the Cabinet Office Order on Financial Instruments Business, etc.,) to match a customer’s order at a price predetermined with the customer (including a closing price or a VWAP (in the case where a price is retroactively calculated according to 	<p>not uniformly restrict usage of all previous types of margin transactions.</p> <ul style="list-style-type: none"> • Out of the transactions you referred to, the following (excluding any transaction for which a bid or offer is placed through an internal trading system (if a customer is an agent, including a transaction of a customer of said agent)) will be deemed appropriate by TSE. <ul style="list-style-type: none"> ✓ A proprietary margin purchase and sale to match an order of a customer at a price (including a price calculated according to a fixed formula based on published data such as a VWAP; the same shall apply hereinafter) and quantity predetermined by the parties involved. ✓ A margin transaction in which an order from a customer is matched against an order made on a securities company's proprietary account at a price and quantity predetermined by the parties involved. ✓ A margin transaction conducted between customers at a price and quantity predetermined by the parties involved. ✓ A basket trade involving a margin transaction ✓ A margin transaction for error correction

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	<p>a fixed formula based on data objectively published by a third party); the same shall apply hereinafter)</p> <ul style="list-style-type: none"> • A margin transaction in which an order from a customer is matched against an order placed on a securities company's proprietary account at a predetermined price (excluding a transaction through an internal trading system specified in Article 70-2, Paragraph 6 of the Cabinet Office Order on Financial Instruments Business, etc.) • A margin transaction conducted by customers at an agreed price and quantity predetermined by both selling and buying sides (excluding a transaction through an internal trading system specified in Article 70-2, Paragraph 6 of the Cabinet Office Order on Financial Instruments Business, etc.) 	
2.	<ul style="list-style-type: none"> • Types of acceptable margin transactions in the ToSTNeT market that are deemed appropriate by TSE will be limited only to cross transactions which involve the same customer to rollover the date of a margin transaction as well as margin transactions made on a proprietary account of a trading participant. This range is too narrow. • Prohibition on margin transactions in the ToSTNeT market should be limited only to on orders through dark pools (order messages with a dark pool flag). • For instance, some transactions conducted by investors before dark pools started would no longer be possible. These transactions include cross trades in which an order from a customer for a margin transaction matched against an order made on a proprietary account at a VWAP; and basket trades involving margin transactions between institutional investors and financial instruments business operators. These revisions have gone beyond the scope of “1. Purpose” described in the outline of the 	

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	trading rule revisions as “to improve transparency of dark pool trading” and against the purpose of “to contribute to enhanced convenience for trading participants and investors”.	
3.	<ul style="list-style-type: none"> • Concerning “2. Clarification of types of transactions eligible for margin transactions”, please give us reasons for not limiting margin transactions through dark pools but prohibiting all margin transactions in the ToSTNeT market. • Is our understanding of the following correct? (1) A margin transaction will be prohibited even if a customer wishes to match the order against a proprietary account of a securities company (a trading participant) during hours of a block trading (off-auction ToSTNeT trading). (2) If an order from a customer for a margin transaction for some reason is not executed at a securities company (a trading participant) in the regular (auction) trading sessions, such an order will not be allowed to be executed in the ToSTNeT market even though the customer has agreed to it, but only a transaction for error correction will be allowed. 	
4.	<ul style="list-style-type: none"> • We understand that the purpose for “2. Clarification of types of transactions eligible for margin transactions” is to regulate margin transactions through dark pools. • Currently, there are several margin transactions that are not done through dark pools in the ToSTNeT market. We understand that such transactions this time will not be subject to the restriction. • If TSE prohibits all margin transactions in the ToSTNeT market excluding transactions that TSE deems appropriate, transactions irrelevant to dark pools may not be completely covered in “transactions that TSE deems appropriate”. Thus, we propose that TSE amend regulations by clearly stating that margin transactions 	

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	through dark pools are prohibited.	
5.	<ul style="list-style-type: none"> • Concerning 3. Flexibility in setting a settlement date, there is a description that for “margin transactions, even in the case where the settlement date is designated on a date between the fourth day and the sixth day counting from the date the trading contract is concluded, the customer shall submit the security deposit by the date and time designated by the trading participant before noon (JST) on the third day counting from the date the trading contract is concluded.” Does this refer to rollover cross transactions related to margin transactions indicated in the Remark column: “transactions deemed appropriate by TSE”? • For rollover cross transactions related to margin transactions, what circumstances does TSE assume in terms of “the case where the settlement date is designated on a date between the fourth day and the sixth day counting from the date the trading contract is concluded”? 	<ul style="list-style-type: none"> • Concerning “the case where the settlement date is designated on a date between the fourth day and the sixth day counting from the date the trading contract is concluded”, although rollover cross transactions will be available, TSE does not particularly assume said type of transactions.

Comments No.1 from Nomura Securities Co.,Ltd.; No. 2 from Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.; No. 3 & 5 from Rakuten Securities, Inc.; No. 4 from UBS Securities Japan Co.,Ltd.

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