

Summary of Public Comment Received in Response to "Revisions of Requirements for Acquisition of Trading Qualifications" and the Exchanges' Responses thereto

May 29, 2020
Tokyo Stock Exchange, Inc.
Osaka Exchange, Inc.

Tokyo Stock Exchange, Inc. (TSE) and Osaka Exchange, Inc. (OSE) (hereinafter collectively referred as "the Exchanges") published proposed rule revisions on March 31, 2020 in the consultation paper "Revisions of Requirements for Acquisition of Trading Qualifications", and widely sought comments until April 30, 2020. The Exchanges received one public comment in response to this consultation.

Below is an outline of the comment received and the Exchanges' response to it.

No.	Summary of Comment	The Exchanges' Response
1	<ul style="list-style-type: none"> Small-sized securities companies with weak earning power and management structure, including internal control, generally have relatively higher insolvency risks. If small-sized securities companies become trading participants, existing trading participants could face increased burden incurred by insolvency of small-sized securities companies. Do the Exchanges have measures to mitigate risk for existing trading participants in conjunction with easing of the requirements for acquisition of trading qualifications? 	<ul style="list-style-type: none"> The revision is related to the requirements for acquisition of trading qualifications and not associated with the revision of clearing participant framework which include requirements for clearing qualification acquisition set out separately by the clearing organization. Safety in clearing of transactions at the Exchanges will remain secured under the clearing participant framework. In addition, trading participants that do not have clearing qualifications including relatively small-sized securities companies, are required to entrust clearing of their trading to other agency clearing participants. We appreciate the understanding of our trading participants that the

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	<ul style="list-style-type: none"> • Given that a variety of securities companies become trading participants, administrative costs incurred by the Exchanges could increase. We are concerned that such administrative costs could be passed on to be borne by trading participants, included in settlement costs, and thereby harming the global competitiveness of the Japanese market due to relatively higher global settlement costs. • For acquisition of trading qualifications by foreign-incorporated financial institutions, etc., do the Exchanges have any plans to introduce different requirements for acquisition of trading qualifications from those for domestic financial institutions, etc.? Also, is it correct to assume that business record in foreign countries will be considered as one of the requirements? 	<p>burden on existing trading participants will not necessarily be increased by the revision.</p> <ul style="list-style-type: none"> • As mentioned above, safety in clearing of transactions at the Exchanges will remain secured under the clearing participants framework. In addition, the Exchanges will continue to require applicants to maintain a business record and expect profitable results even after revisions of the requirements for acquisition of trading qualifications. Furthermore, thorough examination of applicants' management structures and business execution systems will also remain unchanged. We appreciate the understanding of our trading participants for these revisions are measures for diversifying trading participants and stimulating the market, not compromising the integrity of the trading participant system. • For acquisition of trading qualification by foreign-incorporated financial institutions, etc., the same requirements for acquisition of trading qualifications as those for domestic financial institutions, etc. will be applied. Going forward, the Exchanges do not have any plans to introduce different requirements. • Business records, etc. in foreign countries shall be taken into account when determining whether they meet the requirements if the Exchanges deem that business records, etc. in foreign countries are regarded as equivalent to "business records of trading, etc. in listed

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	<ul style="list-style-type: none"> The admission fees will be reduced significantly. Are there are any measures, etc. to remedy a sense of unfairness with existing trading participants? 	<p>securities" in consideration of matters including relationships and similarity of domestic businesses, etc. of applicant companies for acquiring trading qualification</p> <ul style="list-style-type: none"> The current admission fee system was established at the time of demutualization of the Exchanges. With proprietary value of former memberships being converted into shareholders' rights, proprietary value of the trading rights was also acknowledged from the viewpoint of smoothly reaching demutualization, and thereby essentially making it possible to transfer the trading rights. (Please note that OSE has already abolished the rules on transfer of trading rights.) The Exchanges have decided to abolish the special allowance established at the time of demutualization and to reduce admission fees, taking into consideration matters that include about 20 years have already passed since the demutualization and listing of JPX stocks has already been realized, that trading rights have not been transferred over the past 10 years, that the admission fees for TSE and OSE respectively are considerably more expensive compared to other major overseas exchanges, and that the market and securities industry as a whole can expect to have a positive effect in the medium and long term by diversifying trading participants. We appreciate the understanding of our trading participants on this revision.

Comment No. 1 from Rakuten Securities

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