

Summary of Public Comments on "Development of Rules Concerning Trading Participants' Entrustment of Order Placement with Other Trading Participants"

December 20, 2023

Tokyo Stock Exchange, Inc.

Tokyo Stock Exchange, Inc. (TSE) released the outline of "Development of Rules Concerning Trading Participants' Entrustment of Order Placement with Other Trading Participants" on October 26, 2023, and sought public comments until November 25, 2023. TSE appreciates the cooperation of those who gave their comments in reviewing this matter.

The following is a summary of the comments received and responses from TSE:

No.	Summary of Comments	TSE's Responses
1	<ul style="list-style-type: none"> <li>• In the Notes of II 1. (1), a temporary measure due to reasons such as a failure of its system is described as an example of "Continuously."</li> <li>• We understand this refers to cases in which approval from TSE is not required if a trading participant has already entered into an agreement for brokerage of securities with another trading participant as a temporary measure due to reasons such as a failure of its system. Please clarify the idea behind this.</li> </ul>	<ul style="list-style-type: none"> <li>• The purpose for stating "a trading participant only temporarily entrusts order placement of all of its orders to another trading participant for reasons such as a failure of its system, or development or maintenance of its system" as an example of "Continuously" is to clarify that approval from TSE is not required when a trading participant only temporarily entrusts order placement to another trading participant for reasons such as a failure of its system of its own order placement system.</li> </ul>
2	<ul style="list-style-type: none"> <li>• In II 1. (1), it is stated that a trading participant which entrusts order placement shall designate the entrusted trading participant, and in II 1. (2), it is stated that a trading participant that has obtained approval as described in (1) may add or change an entrusted trading participant.</li> </ul>	<ul style="list-style-type: none"> <li>• In the development of these rules trading participants will not be prevented from designating one or more trading participants to entrust order placement. As such, adding another trading participant will be</li> </ul>

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	<ul style="list-style-type: none"> <li>• The need for TSE approval for the first entrusted trading participant will be determined based on whether "the trading participant is expected to trade on the TSE market by entrusting order placement of more than 50% of its trading value to another trading participant" (as stated in Notes of II 1. (1); hereinafter "50% criterion.") If you apply this strictly, the second, entrusted trading participant will meet this criterion only when an order placement of exactly 50% of the total trading value is entrusted. However, the fact that it says "add", seems to indicate that this is not the case.</li> <li>• It is worth noting that since this development of rules will allow trading participants to entrust orders to other trading participants, it should have a significant effect as a BCP measure.</li> <li>• Therefore, in light of this, in order to ensure fairness and transparency of the second, entrusted trading participant, it would be desirable to clearly indicate the approval criteria including the form of trading instead of the "50% criterion". Please explain specifically the idea behind this.</li> </ul>	<p>possible, and in this case too, the need for TSE approval will be determined based on the length of time during which a trading member is entrusting order placement to another trading participant, the trading value of said trading participant on the TSE market, the form of trading of the trading participant, and other factors.</p>
3	<ul style="list-style-type: none"> <li>• In the Notes of II 1. (1), the interpretation of "Primarily" is described, and it is stated that the need for TSE approval will be determined by the "50% criterion," and the form of trading and other factors. We would like to know your view on the design of the rules when said requirements are not fulfilled.</li> <li>• For example, if said requirements are initially met but either or both of the requirements are no longer satisfied at a later date, do you expect that the rules will be strictly applied, so, for example, the trading participant will no longer be able to operate under these rules, and it will be required to notify TSE of</li> </ul>	<ul style="list-style-type: none"> <li>• TSE checks order placement activities of trading participants as needed. We expect that if a trading participant with TSE approval intends to cancel entrustment of order placement to another trading participant, it will apply for the cancellation.</li> </ul>

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	<p>discontinuation? Or, will these rules be loosely applied, so that once a trading participant has obtained approval, the trading participant can continue under these rules unless the trading participant cancels the approval? Or are these rules designed to be applied in some other way?</p>	
4	<ul style="list-style-type: none"> <li>• In the Notes of II 1. (1), it states, “if a trading participant only entrusts specific order placements with another trading participant”. What kind of specific cases do you expect?</li> <li>• Will this include order placement in ToSTNeT?</li> </ul>	<ul style="list-style-type: none"> <li>• For example, we expect there may be cases in which a trading participant entrusts only order placement related to low latency trading or related to trading on ToSTNeT.</li> </ul>
5	<ul style="list-style-type: none"> <li>• In II.2., it is stated that a trading participant with approval as described in 1. (1) is also required to have a trading supervision system and order management system as is the case with trading participants in general. And in the Notes in that section, it is stated that a trading participant that entrusts order placement is required to have a system in place in cooperation with its entrusted trading participant.</li> <li>• We think that setting up a virtual server exclusively for a trading participant which entrusts order placement would be useful for TSE to monitor trading, but it will not be useful for the entrusted trading participant directly. As an entrusted trading participant is unable to obtain personal information of customers of a trading participant which entrusts order placement, we think that some kind of guidelines in terms of market surveillance and trade monitoring are necessary to develop a coordinated system. What is your view on this matter?</li> </ul>	<ul style="list-style-type: none"> <li>• An entrusted trading participant will manage orders or other business of a trading participant which entrusts order placement in the same way as other customers. As such, we do not expect to develop any new guidelines or rules.</li> </ul>

Comment Nos. 1 to 5 are from DSB Co., Ltd.