

## Development of Rules Concerning Trading Participants' Entrustment of Order Placement with Other Trading Participants

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Tokyo Stock Exchange, Inc.

### I. Purpose

In recent years, trading participants have been required to provide a variety of services to meet the needs of their customers, and business styles themselves have been changing. Tokyo Stock Exchange, Inc. (TSE) believes that flexible and appropriate response to such situations will not only make the market more accessible to a wider variety of investors as well as contribute to market depth and price formation, but also help expand the investor base and encourage a shift from “savings to investment”.

Under these circumstances, there is a need among trading participants to trade on the TSE market by outsourcing order execution as a new option for order placement, which is placing orders via other trading participants (entrusting order placement) instead of directly placing orders on TSE.

Therefore, TSE will clarify that such order placement is possible under the rules, and that in such a case, the trading participant will be obligated to properly handle their orders including management without leaving it to the outsourced trading participant, and develop necessary rules to accommodate diverse business styles among trading participants, while maintaining market fairness, transparency, and other things. The details are as follows:

### II. Outline

Item	Details	Remarks
1. Procedures, etc. for trading participants to trade on the TSE market by entrusting order placement (1) Approval procedures	<ul style="list-style-type: none"><li>TSE will clarify if a trading participant may trade on the TSE market without placing orders directly with TSE by continuously and primarily entrusting order placement to another trading participant.</li><li>In this case, a trading participant which entrusts order placement shall obtain prior approval from TSE. It shall also designate the entrusted trading participant.</li></ul>	<ul style="list-style-type: none"><li>“Continuously” is used here because approval from TSE shall not be required if, for example, 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 when it obtains a trading qualification for a short period of time (approximately six months or less).</li><li>“Primarily” refers to cases where a 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. The form of trading of the trading</li></ul>

Item	Details	Remarks
(2) Procedures and steps after approval	<ul style="list-style-type: none"> <li>• TSE will clarify if although a trading participant which has obtained the aforementioned approval is not a party to a transaction on the TSE market, it has responsibilities and obligations as a trading participant.</li> <li>• A trading participant which has obtained the aforementioned approval intends to conduct all of its trading by entrusting order placement to another trading participant will be able to trade without obtaining clearing qualification (which refers to securities clearing qualification as stipulated in the Business Rules of Japan Securities Clearing Corporation (JSCC)) and designating a designated clearing participant.</li> <li>• A trading participant that has obtained approval as described in (1) shall enter into an agreement for entrustment of order placement with another trading participant, and shall notify TSE of the details of the agreement.</li> <li>• In addition to notifying TSE in advance when a trading participant that has obtained approval as described in (1) adds or changes an entrusted trading participant, it shall follow the necessary procedures and other steps.</li> </ul>	<p>participant that entrusts such order placement and other factors will also be considered. Approval from TSE shall not be required if, for example, a trading participant only entrusts specific order placements with another trading participant.</p> <ul style="list-style-type: none"> <li>• TSE will clarify that a trading participant which entrusts order placement and the entrusted trading participant shall be required to fulfill various responsibilities and obligations as trading participants according to each role (e.g., accepting orders from customers and placing orders on TSE). (For instance, a trading participant which entrusts order placement shall be a responsible party for a case of erroneous order placement, or shall pay TSE trading fees including cancellation fees for trading related to such entrustment.)  Note: For systems for trading supervision, particularly order management, please refer to 2.</li> <li>• Since an entrusted trading participant will be a party to a transaction on the TSE market, said entrusted trading participant will be responsible for settlement with JSCC.</li> </ul>

Item	Details	Remarks
2. Systems for trading supervision, order management system, etc.	<ul style="list-style-type: none"> <li>• 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.</li> <li>• A trading participant that has been entrusted with order placement from a trading participant that has obtained approval as described in 1. (1) shall implement methods as prescribed by TSE so that orders accepted through the entrustment can be identified.</li> </ul>	<ul style="list-style-type: none"> <li>• A trading participant that entrusts order placement is required to have a system in place in cooperation with its entrusted trading participant.</li> <li>• Specifically, a virtual server where entrusted orders are placed on the TSE market may be used exclusively for an entrusted trading participant, and a code may be assigned to the server.</li> <li>• This will allow TSE to directly check trading activities of trading participants that entrust order placement and to conduct the same trade monitoring and market surveillance as it does for trading participants in general.</li> </ul>
3. Other	<ul style="list-style-type: none"> <li>• Other necessary revisions will be made.</li> </ul>	

III. Implementation Date (planned)

These revisions will be implemented in the fourth quarter of FY2023.