

Revisions to Trading Rules in Connection with Launch of Next J-GATE

As of June 24, 2015

Osaka Exchange, Inc.

I. Purpose

OSE is developing next J-GATE for launch in the middle of 2016 to provide supporting infrastructure for the "Expansion of the Derivatives Market," one of the core strategies of the JPX medium-term management plan.

Compared to current J-GATE, next J-GATE will have enhanced processing capacity and reliability, be able to accommodate products that are not available in current J-GATE, and have expanded functionality, such as those for risk management, capitalizing on new technology to the maximum extent possible.

OSE will revise the trading rules as follows, to be effective at the launch of next J-GATE, with the aim of enhancing reliability and convenience for market users, including investors and trading participants, to increase liquidity, making the most of the enhanced processing capacity and functionality of the new trading system.

II. Outline

Items	Contents	Remarks
1. Extension of trading hours  (1) Change to start time of regular session of day session for index futures	<ul style="list-style-type: none"><li>• The start time of the regular session of the day session for index futures, excluding Nikkei 225 VI Futures (meaning futures whose underlying index is the Nikkei Stock Average Volatility Index; the same shall apply hereinafter), shall be changed to 8:45 a.m.</li><li>• In tandem with this change, the time of the opening auction of the day session shall be changed to 8:45 a.m.</li></ul>	<ul style="list-style-type: none"><li>• Currently, the opening auction is conducted at 9:00 a.m. and the regular session starts at 9:00 a.m.</li><li>• Same as current, orders for the opening auction can be accepted from 8:00 a.m.</li></ul>

Items	Contents	Remarks
(2) Expansion of night session	<ul style="list-style-type: none"> <li>• The night session shall be introduced for Nikkei 225 VI Futures.</li> <li>• The closing time of the regular session of the night session shall be changed to 5:25 a.m. and the closing auction of the night session shall be conducted at 5:30 a.m.</li> <li>• However, for Nikkei 225 VI Futures, the closing time of the regular session in the night session shall be 6:55 p.m. and the closing auction of the night session shall be conducted at 7:00 p.m.</li> </ul>	<ul style="list-style-type: none"> <li>• Corresponding revisions will be made to J-NET trading rules.</li> <li>• Currently, the closing auction of the night session is conducted at 3:00 a.m.</li> </ul>
2. Revision of trading method		
(1) Introduction of Non-Cancel Period	<ul style="list-style-type: none"> <li>• A new one-minute period during which new orders can be placed and existing orders cannot be amended or cancelled (hereinafter referred to as “Non-Cancel Period”) shall be introduced before the opening auction of the day and night sessions and the closing auction of the night session for products designated by OSE.</li> <li>• However, trading participants can still cancel erroneous orders during the Non-Cancel Period if these orders satisfy criteria specified by OSE.</li> </ul>	<ul style="list-style-type: none"> <li>• Order amendment and cancellation shall be blocked by next J-GATE.</li> <li>• For the time being, the products designated by OSE shall be Nikkei 225 Futures (including Nikkei 225 mini) and TOPIX Futures (excluding mini TOPIX).</li> <li>• The method for cancelling erroneous orders will be notified separately.</li> </ul>
(2) Change to rules to determine contract price by Itayose Method	<ul style="list-style-type: none"> <li>• If the total quantity of buy (sell) market orders exceeds the total quantity of sell (buy) orders, transactions will be effected at the price that is one tick above (below) the highest (lowest) limit order price. However, if such price corresponds to a zero difference, execution shall be effected at the next higher price tick.</li> </ul>	<ul style="list-style-type: none"> <li>• Even if the price that satisfies the conditions at left is outside the price limit on bids/offers, execution shall be effected at such price.</li> </ul>

Items	Contents	Remarks
(3) Change to Market to Limit Order	<ul style="list-style-type: none"><li>The conditions for order expiration shall be changed for Market to Limit Order (meaning a limit order that is placed without a specific price for execution at the best price). In concrete terms, if next J-GATE accepts a Market to Limit Order and there is no limit order on the opposite side, such order will be cancelled.</li></ul>	<ul style="list-style-type: none"><li>Other partial revisions shall be made. Refer to Appendix 1 for comparison with the current rules.</li><li>Refer to Appendix 2 for comparison with the current rules.</li></ul>
(4) Change to reference price of immediately executable price range	<ul style="list-style-type: none"><li>For all products, the reference price of the immediately executable price range (hereinafter referred to as "DCB Reference Price") shall be the middle price of the last best bid and offer (including the last contract price).</li></ul>	<ul style="list-style-type: none"><li>Currently, the last contract price is applied as the DCB Reference Price for some products.</li></ul>
(5) Revision to price limits on bids and offers pertaining to index options	<ul style="list-style-type: none"><li>Price limits on bids and offers pertaining to index options shall be set by underlying index based on the reference price for each issue.</li></ul>	<ul style="list-style-type: none"><li>Currently, the same price limits on bids and offers are applied to all issues for each underlying index.</li><li>Refer to Appendix 3 for the revised price limits on bids and offers.</li></ul>
3. Revision to method of setting issues related to options trading		

Items	Contents	Remarks
(1) Increase in number of contract months of TOPIX Options	<ul style="list-style-type: none"> <li>• The number of contract months of TOPIX Options shall be increased to 19 (max. 5 years) as follows.               <ul style="list-style-type: none"> <li>➤ June and December: Nearest 10 contract months</li> <li>➤ March and September : Nearest 3 contract months</li> <li>➤ Others : Nearest 6 contract months</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Currently, 8 contract months are available for trading for up to 15 months.</li> <li>• Same as Nikkei 225 Options.</li> </ul>
(2) Revision to strike price intervals for security options	<ul style="list-style-type: none"> <li>• The intervals for strike prices of security options in the price range from JPY 10,000 to less than JPY 30,000 shall be changed to JPY 500.</li> </ul>	<ul style="list-style-type: none"> <li>• Currently, strike prices from JPY 10,000 to less than JPY 30,000 are set at JPY 1,000 intervals.</li> </ul>
(3) Setting strike prices based on application	<ul style="list-style-type: none"> <li>• With respect to options trading excluding security options, in addition to adding strike prices based on the closing price of the underlying assets on the previous business day, strike prices may be set based on application from trading participants.</li> <li>• The application-based strike prices must satisfy criteria specified separately by OSE. Such criteria shall include a condition that the strike prices must be set in accordance with the current strike price intervals.</li> <li>• When such application is made, new strike prices shall, as a general rule, be set on the following business day.</li> </ul>	<ul style="list-style-type: none"> <li>• The application method will be set forth separately.</li> <li>• Contract months for which application-based strike prices can be set shall be limited to those that can be traded on the next business day.</li> </ul>
(4) Extension of period to add strike prices related to options	<ul style="list-style-type: none"> <li>• Strike prices shall be, as a general rule, added on the next business day.</li> <li>• As is the case with Options on JGB Futures and Nikkei 225 Options, for security options and TOPIX Options, strike prices can be added until the last trading day based on the closing price of the underlying security and TOPIX on the previous business day.</li> </ul>	<ul style="list-style-type: none"> <li>• Currently, as a general rule, strike prices are not added in the last trading week for security options and TOPIX Options.</li> </ul>

Items	Contents	Remarks						
<p>4. Strengthening management systems and frameworks pertaining to erroneous orders</p> <p>(1) Mandatory use of hard-limit function provided by OSE</p> <p>(2) Mandatory establishment of systems and frameworks for management of automatic order placement system malfunctions</p> <p>5. Revision to J-NET trading rules</p> <p>(1) Change to tick size</p> <p>(2) Changes to tradable price range</p>	<ul style="list-style-type: none"> <li>• OSE shall provide a function that makes next J-GATE reject orders that exceed the quantity or value set forth in advance by each trading participant (i.e., hard-limit).</li> <li>• OSE shall require trading participants to use the hard-limit function.</li> <li>• OSE shall require trading participants to manage excessive amount of orders and positions that may occur due to malfunction of automatic order placement systems.</li> <li>• The tick size for J-NET trading shall be changed to JPY 0.0001 or 0.0001 points for all products excluding security options.</li> <li>• Fractions of the trading value or contract value shall be rounded down.</li> <li>• Tradable price range in J-NET trading shall be changed as follows.</li> </ul> <table border="1" data-bbox="600 1257 1570 1362"> <thead> <tr> <th></th> <th>After change</th> <th>Current</th> </tr> </thead> <tbody> <tr> <td>Security</td> <td>Reference price for the price limits on</td> <td>Theoretical price <math>\pm</math> Closing</td> </tr> </tbody> </table>		After change	Current	Security	Reference price for the price limits on	Theoretical price $\pm$ Closing	<ul style="list-style-type: none"> <li>• This shall not apply to J-NET trading.</li> <li>• OSE will define automatic order placement systems and issue guidelines on the method and points for order management.</li> <li>• Currently, the smallest tick size in J-NET trading is JPY 0.005 or 0.01 points.</li> <li>• Tradable price range for Options on JGB Futures shall remain unchanged.</li> </ul>
	After change	Current						
Security	Reference price for the price limits on	Theoretical price $\pm$ Closing						

Items	Contents			Remarks
	Options	bids and offers of the day ± (Fluctuation range of the price of the underlying security of the day + Closing price of the underlying security on previous trading day × 8%)	price of the underlying security on the previous trading day × 8%	
	Index Options	Same as above. (However, ➤ The reference price of the price limits on bids and offers shall be reassessed every trading day. ➤ As a substitute for the price of the underlying index, the theoretical price (Futures price – Theoretical basis) shall be used. ➤ The multiplying factor for the price of the underlying index shall be 11% (in place of 8%) for contract months excluding the nearest 3 contract months and the weekly contracts.)	Same as above. (However, the closing price of the underlying index is reassessed every trading day)	
(3) Change to the max. number of component issues in combo	<ul style="list-style-type: none"> <li>The maximum number of component issues in combo trading shall be changed from 10</li> </ul>			<ul style="list-style-type: none"> <li>Currently, the maximum number of issues is 10.</li> </ul>

Items	Contents	Remarks				
<p>trading</p> <p>6. Others</p> <p>(1) Change to handling of implied function</p> <p>(2) Introduction of GTC/GTD orders for strategy trading</p> <p>(3) Partial change to method for calculating final settlement price for Nikkei 225 VI Futures</p>	<p>to 6. (Combo trading means J-NET trading where transactions in multiple issues are simultaneously effected.)</p> <ul style="list-style-type: none"> <li>Implied function (which generates a bid and offer for the issue involved in the strategy trade from a bid or offer based on a certain strategy) shall be introduced for TOPIX Options.</li> <li>The timestamps of implied orders at the same price in auction trading shall be changed as follows.</li> </ul> <table border="1" data-bbox="598 647 1570 906"> <thead> <tr> <th data-bbox="598 647 1081 703">After change</th> <th data-bbox="1081 647 1570 703">Current</th> </tr> </thead> <tbody> <tr> <td data-bbox="598 703 1081 906">The time when the implied order is generated. (If the price of the order is changed later, the timestamp is updated accordingly.)</td> <td data-bbox="1081 703 1570 906">The time when the order for strategy trading is placed.</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>For strategy trading (limited to futures calendar spread), GTC/GTD orders shall be introduced.</li> <li>The final settlement price for Nikkei 225 VI Futures shall be changed to a special value that is calculated using the opening price of each issue within 10 minutes from the start time of the day session.</li> </ul>	After change	Current	The time when the implied order is generated. (If the price of the order is changed later, the timestamp is updated accordingly.)	The time when the order for strategy trading is placed.	<ul style="list-style-type: none"> <li>Current, implied function is only available for Options on JGB Futures.</li> <li>Refer to Appendix 4 for comparison with the current rules.</li> <li>Currently, GTC/GTD orders are available for strategy trading of JGB Futures.</li> <li>Currently, the average of Nikkei 225 VI values calculated at 15-second intervals during the 10-minute period from the start time of the day session based on the Nikkei 225 VI calculation</li> </ul>
After change	Current					
The time when the implied order is generated. (If the price of the order is changed later, the timestamp is updated accordingly.)	The time when the order for strategy trading is placed.					

(Reference Translation)

Items	Contents	Remarks
(4) Others	• Other necessary revisions shall be made.	methodology.

III. Implementation Date (Scheduled)

These revisions will be implemented on the launch date of next J-GATE (scheduled for the middle of 2016).

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