

## Introduction of Market Maker Scheme for the Carbon Credit Market

April 26, 2024

Tokyo Stock Exchange, Inc.

### I. Purpose

Tokyo Stock Exchange, Inc. (TSE) will introduce a market maker scheme (hereinafter referred to as the "Scheme") for the Carbon Credit Market (hereinafter referred to as the "Market") based on the results of Trial Market Maker Scheme of the Market which was implemented in response to the "Carbon Credit Market Trading Stimulation Project," conducted by the Ministry of Economy, Trade and Industry (METI) in FY 2023. In order to improve the liquidity of carbon credits through the provision of quotes by market makers, TSE will specify the necessary matters regarding the Scheme.

### II. Outline

| Item              | Details  | Remarks |
|-------------------|--|---------|
| 1. Definitions    |  |         |
| (1) Market Making | <ul style="list-style-type: none"><li>- "Market making," as specified by TSE, means the continuous quoting of bids and offers by a market maker.</li><li>- TSE will implement the Scheme with the following points in mind:<ul style="list-style-type: none"><li>(1) Contribution to fair price formation of carbon credits through market transactions</li><li>(2) Smooth circulation of carbon credits on the TSE market</li></ul></li></ul>                   |         |
| (2) Market Maker  | <ul style="list-style-type: none"><li>- A "market maker" means a carbon credit market participant that has been designated by TSE to conduct market making in the Market.</li><li>- In addition to complying with the provisions of Article 2 of the "Terms and Conditions for Participation in The Carbon Credit Market", market makers will endeavor to ensure that the price formation of carbon credits on the Market more closely reflects actual</li></ul> |         |

| Item   | Details  | Remarks |               |          |               |          |                                |  |
|--|--|---------|---------------|----------|---------------|----------|--------------------------------|--|
| <p>(3)Eligible Categories</p> <p>2. Market Maker Designation etc.</p> <p>(1) Market Maker Designation</p> <p>(2) Market Maker Application</p> <p>(3) Market Maker Application Requirements</p> | <p>conditions while ensuring the smooth circulation of carbon credits on the Market.</p> <p>- The following trading categories will be eligible for the Scheme.</p> <table border="1" data-bbox="629 384 1442 536"> <thead> <tr> <th>Scheme</th> <th>Main Category</th> </tr> </thead> <tbody> <tr> <td>J-Credit</td> <td>Energy saving</td> </tr> <tr> <td>J-Credit</td> <td>Renewable energy (electricity)</td> </tr> </tbody> </table> <p>- TSE will decide whether to designate a carbon credit market participant as a market maker for carbon credits after reviewing its application for the designation.</p> <p>- In principle, the period of designation as a market maker (hereinafter referred to as the "designation period") will be from April 1 to the following March 31.</p> <p>- TSE will specify an application period and accept applications for market makers in the Market.</p> <p>- Before designation, TSE will check the applicants' application forms etc. to see whether they meet the following requirements.</p> <p>(i) The applicant is a carbon credit market participant.</p> <p>(ii) The applicant has experience trading J-Credits.</p> | Scheme  | Main Category | J-Credit | Energy saving | J-Credit | Renewable energy (electricity) | <p>- For FY2024, a market maker's designation period will begin on its designation date, which will be after the Scheme's implementation date, and will last until March 21, 2025.</p> <p>- The application period for FY2024 shall begin on the Scheme's implementation date and end on May 29, 2024.</p> |
| Scheme   | Main Category  |         |               |          |               |          |                                |  |
| J-Credit   | Energy saving  |         |               |          |               |          |                                |  |
| J-Credit   | Renewable energy (electricity)   |         |               |          |               |          |                                |  |

| Item  | Details   | Remarks  |
|---|---|--|
| <p>(4) Application for the Market Maker Designation</p> | <ul style="list-style-type: none"> <li>➤ The applicant has experience executing trades in the eligible trading categories for the Scheme.</li> </ul> <p>(iii) The applicant has a system in place to circulate J-Credits on the Market.</p> <ul style="list-style-type: none"> <li>➤ This means that the applicant possesses the qualifications to trade on a financial instruments exchange market operated by a financial instruments exchange under the Financial Instruments and Exchange Act or on a commodity market operated by a commodity exchange under the Commodity Derivatives Transaction Act.</li> </ul> <p>- Any carbon credit market participant who wishes to be designated as a market maker will submit the prescribed "Application Form for the Market Maker Designation" to TSE.</p> <p>- After submitting its application for the market maker designation, the carbon credit market participant will cooperate in providing any necessary information that TSE has requested.</p> | <p>-Specifically, this means the financial instruments exchange markets operated by TSE or Osaka Exchange, Inc., or the commodity market operated by Tokyo Commodity Exchange, Inc.</p> <p>- An applicant who is applying for the trading qualifications indicated on the left shall be designated as a market maker on the date it obtains said trading qualifications only if it obtains said trading qualifications within the prescribed period.</p> <p>- Applicants will select all of the trading categories specified in 1. (3) that are eligible for market making under the Scheme.</p> |

| Item   | Details   | Remarks   |
|--|---|---|
| (5) Market Maker Designation   | - TSE will designate a carbon credit market participant as a market maker after receiving the carbon credit market participant's application and reviewing its contents. If the carbon credit market participant was designated as a market maker for the Market in the past (including the trial of the Scheme conducted in FY2023), TSE will make the designation based on the carbon credit market participant's experience in quoting and executing trades as a market maker. | - TSE will designate when to make the market maker designation.   |
| (6) Suspension/Cancellation of the Market Maker Designation and Other Measures | <p>- TSE will cancel the designation of any market maker who submits an application to cancel its market maker designation for the eligible trading categories.</p> <p>- In any of the following cases, TSE may suspend or cancel a market maker's designation or take other measures it deems necessary:</p>   | <p>- Any market maker who wishes to cancel its market maker designation will, in principle, submit the prescribed "Application Form to Cancel the Market Maker Designation" to TSE at least one month prior to the date it wishes to cancel the designation.</p> <p>-TSE will check with the market maker in advance before taking any such measures.</p> <p>-TSE will suspend a market</p> |

| Item  | Details  | Remarks  |
|---|--|--|
| <p>3. The Role of Market Makers</p> <p>(1) Market Making Requirements</p> | <p>(i) After taking the market maker's provision of quotes and other factors into consideration, TSE deems that the market maker is not adequately fulfilling its role</p> <p>(ii) Any other cases in which TSE considers the market maker's designation to be inappropriate</p> <p>- Market makers will endeavor to make markets for the eligible trading categories that they selected in their "Application Form for the Market Maker Designation" in accordance with the requirements specified by TSE.</p> <p>- TSE specifies the following matters as market making requirements:</p> <ul style="list-style-type: none"> <li>a. Times for providing quotes</li> <li>b. Eligible trading category</li> <li>c. Maximum spread for bids and offers</li> <li>d. Minimum quantity for offers</li> <li>e. Minimum quantity for bids</li> </ul> | <p>maker's designation at the point during the designation period when it has found that the market maker's average performance rate, which is specified in II. of the Appendix, no longer meets the performance criterion.</p> <p>- See I. of the Appendix for the market making requirements and II. of the Appendix for the calculation method of the performance rate for market making.</p> |

| Item  | Details  | Remarks   |
|---|--|---|
| <p>(2) Easing and Exemption of Market Making Requirements</p> <p>4. Market Maker Awards</p> | <p>f. Performance criterion</p> <p>g. Other matters which TSE deems necessary in light of the trading conditions of the eligible trading categories</p> <p>- A market maker may temporarily suspend market making due to such factors as the market environment, trading conditions, or system failures.</p> <p>- TSE may ease or exempt market making requirements in any of the following cases from a. through c.:</p> <p>a. Trading is suspended in an eligible trading category</p> <p>b. Multiple market makers in the same eligible trading category report that they are unable to provide quotes, and TSE deems their reports reasonable</p> <p>c. Any other cases deemed necessary by TSE</p> <p>- TSE will present awards to market makers based on their achievements in market making after the end of the designation period specified in 2 (1).</p> | <p>- A report from one market maker is also acceptable when there is only one market maker in the eligible trading category.</p> <p>- Awards for FY2024 will be given as described in III. of the Appendix.</p> |

### III. Implementation Date (Planned)

The Scheme is scheduled to be implemented in May 2024.

**I. Market Making Requirements for Market Makers**

| Item                        |                                    | J-Credit  |                                |
|-----------------------------|------------------------------------|---|--------------------------------|
| Eligible trading categories |                                    | Energy saving   | Renewable energy (electricity) |
| Requirements                | Times for providing quotes         | Every business day from 1:00 p.m. to 3:00 p.m. (JST)* |                                |
|                             | Maximum spread for bids and offers | JPY 200   |                                |
|                             | Minimum quantity for offers        | 500 tons  | 1,000 tons                     |
|                             | Minimum quantity for bids          | 500 tons  | 1,000 tons                     |
|                             | Performance criterion              | 50%   |                                |

\*If an order is cancelled before the end of the order acceptance time, it shall be excluded from the calculation of the performance rate.

**II. Calculation Method of the Performance Rate for Market Making**

TSE calculates an average performance rate for the designation period. The average performance rate is calculated from the daily performance rates for trading conducted in the eligible trading category during the times for providing quotes.

Average performance rate for the designation period (Performance rates and their average shall be indicated as percentages and rounded to the nearest whole number.)  
 = Sum of the daily performance rates for the designation period\* / Number of days of the Afternoon Session (Session 2) for the designation period

\*Daily performance rate = Amount of time that the market maker fulfilled the market making requirements (see I.) / Amount of time that the market maker provided quotes

**III. Criteria for the Market Maker Awards**

To be considered for the Market Maker Award for an eligible trading category, a market maker must have an average performance rate of

65% or more in the eligible trading category from the date specified by TSE, which will be either on or after the Scheme's implementation date, to February 28, 2025. TSE will also consider such factors as the market maker's contributions to the improvement of market liquidity.