

# Outline of Specifications for the Carbon Credit Market

June 9, 2023

Tokyo Stock Exchange, Inc.

## I. Purpose

In order to achieve its goal of carbon neutrality by 2050, in February 2023, the Japanese government announced the introduction of an "emissions trading system" as part of the carbon pricing system design in its "Basic Policy for the Realization of GX". Trial trading is scheduled to begin in FY2023 and full-scale operation in FY2026, so as part of this, there are expectations for a carbon credit market to be created in FY2023.

Based on the knowledge and market operation experience gained from the "Technical Demonstration Project for Carbon Credit Market" commissioned by the Ministry of Economy, Trade and Industry (METI) in FY2022, Tokyo Stock Exchange, Inc. (TSE) will establish a carbon credit market (hereinafter referred to as the "Market").

The Market will be separate from the financial instruments markets operated by TSE where stocks and other products are listed.

## II. Outline

Items marked as (\*) have changed from the demonstration project conducted in FY2022.

Item	Description	Remarks
1. Trading method, etc. (1) Items eligible for trading	<ul style="list-style-type: none"><li>Items eligible for trading will be J-Credits, which are a type of carbon credit (used here to mean carbon dioxide equivalent quotas and similar frameworks).</li><li>J-Credits include credits transferred from the previous Domestic Credit and Offset Credit (J-VER; Japan's verified emissions reduction) Schemes, regional J-Credits, and those not yet transferred from the J-VER, regional J-VER, and Domestic Credit schemes.</li></ul>	<ul style="list-style-type: none"><li>A J-Credit is an amount of greenhouse gas emission reduction or removal which is certified based on rules for global warming countermeasures in Japan, which are administered by METI, the Ministry of the Environment, and the Ministry of Agriculture, Forestry and Fisheries.</li></ul>
(2) Trading method	<ul style="list-style-type: none"><li>Trading will be conducted by auction.</li></ul>	

Item	Description	Remarks
(3) Trading days	<ul style="list-style-type: none"> <li>• Trading shall be conducted on days other than non-business days as prescribed by TSE, as well as non-regular non-business days and non-regular market closures deemed necessary by TSE.</li> <li>• Non-business days as prescribed by TSE shall be Sundays, national holidays (if a national holiday falls on a Sunday, the closest following day that is not a national holiday), days when the previous day and the following day are national holidays, Saturdays, the first three days of the New Year, and December 31.</li> <li>• TSE may specify a non-regular day of closure of the Market when operations of the trading system set up by TSE (hereinafter referred to as the "Carbon Credit Market System") or the J-Credit Registry System are suspended due to maintenance or other reasons.</li> </ul>	<ul style="list-style-type: none"> <li>• These are the same non-business days as those for the other financial instruments markets operated by TSE, such as for listed stocks.</li> <li>• Please see 3. (1) for details on the Carbon Credit Market System.</li> <li>• The J-Credit Registry System is a system for recording holdings, transfers, cancellations, and other information on J-Credits issued after certification of greenhouse gas emission reductions and removals based on the J-Credit rules. For more information, please visit <a href="https://j-creditregistry.go.jp/toppage.html">https://j-creditregistry.go.jp/toppage.html</a> (only in Japanese).</li> </ul>
<p>2. Carbon Credit Market Participants</p> <p>(1) Type of participant</p>	<ul style="list-style-type: none"> <li>• A new type of trading participant, the "Carbon Credit Market Participant," will be created to participate in the Market (these are hereinafter referred to as "Participants").</li> <li>• Participants shall endeavor to ensure fair price formation and stable settlement in the Market, thereby maintaining and improving the functioning</li> </ul>	<ul style="list-style-type: none"> <li>• General trading participants of TSE are also required to go through procedures such as application for registration.</li> <li>• Those who participated in the</li> </ul>



Item	Description	Remarks
<p>(b) Application for registration as a Participant</p>	<p>be a TSE trading participant and not being subject to the control or influence of any party lacking social credibility or any other party considered inappropriate in light of the objectives of TSE and its operation of the markets</p> <p>d. Not being insolvent</p> <p>e. Having established a bank account and a J-Credit Scheme Registry account (hereinafter referred to as a "J-Credit account") in the applicant's own name and being registered as a qualified invoice issuer</p> <p>f. Not having representatives, directors, or important employees that fall under any of the following items:</p> <p>(a) A person who does not have the appropriate recognition, judgement, or two-way communication abilities that are needed to carry out their business due to a mental disorder;</p> <p>(b) A person for whom a decision of commencement of bankruptcy proceedings has been made and who has not obtained restoration of rights, or a person who is treated in the same manner under foreign laws and regulations; or</p> <p>(c) A person who has been sentenced to a punishment at least as severe as imprisonment (including equivalent punishment under foreign laws and regulations), or fines under the provisions of the Commodity Derivatives Transaction Act or equivalent foreign laws and regulations (including equivalent punishment under foreign laws and regulations), where less than five years have passed since the date of completion or cancellation of said punishment.</p> <ul style="list-style-type: none"> <li>• Application for registration as a Participant shall be made by submitting to TSE the application form prescribed by TSE.</li> <li>• The application form must be accompanied by the documents listed below.</li> </ul>	<p><b><u>be engaged.</u></b></p> <p><b><u>- (*) Participants shall be limited to qualified invoice issuers in accordance with the introduction of the new qualified invoice system as the method for claiming input tax credits for consumption tax from October 1, 2023.</u></b></p> <ul style="list-style-type: none"> <li>• A J-Credit account shall be one in the name of the Participant where the usage authority indicated in the account information in the J-Credit Registry system is "account holder only."</li> <li>• The application form and instructions for submitting it will be posted on the JPX website.</li> </ul>

Item	Description	Remarks
(c) Designation of settlement accounts	<ul style="list-style-type: none"> <li>a. Outline of company</li> <li>b. Financial documents (balance sheet, income statement, etc.)</li> <li>c. Details of bank accounts and J-Credit accounts</li> <li>d. A written statement verifying that the applicant has a J-Credit account</li> <li>e. A written document verifying that the applicant is a qualified invoice issuer</li> <li>f. A list of contact persons</li> </ul> <ul style="list-style-type: none"> <li>• Those who wish to be registered as a Participant shall, upon application, designate a bank account and a J-Credit account in their own name to be used for settlement of transactions in the Market.</li> </ul>	<ul style="list-style-type: none"> <li>• In addition to the documents listed on the left, other documents may be requested as necessary.</li> <li>• The government, local governments, TSE-listed companies, and trading and clearing participants of JPX Group will be exempted from submitting items a. and b.</li> <li>• As a general rule, this should be a single bank account and a single J-Credit account. However, if TSE gives permission, multiple accounts may be designated.</li> </ul>
(d) Payment of registration fee and deposit of Participant security money	<ul style="list-style-type: none"> <li>• After TSE has confirmed that an applicant meets the requirements for registration and that the application form and accompanied documents are complete, the applicant shall pay the registration fee and (if deemed necessary by TSE) deposit the Participant security money by a date designated by TSE.</li> </ul>	<p><b><u>(*) TSE will stipulate registration fees and Participant security money.</u></b></p> <ul style="list-style-type: none"> <li>• For the time being, there is no registration fee and no participant security money is required.</li> </ul>
(e) Participant registration	<ul style="list-style-type: none"> <li>• TSE will register an applicant as a Participant when it has confirmed the completion of the actions in (d).</li> </ul>	<p><b><u>- (*) All names of Participants will be published on the JPX website.</u></b></p>
(f) System tests after registration	<ul style="list-style-type: none"> <li>• When a Participant has been registered, they shall conduct system tests such as a login confirmation by a date designated by TSE.</li> </ul>	
(3) Participant obligations		
(a) Notifications and reports by	<ul style="list-style-type: none"> <li>• A Participant shall notify TSE without delay of any change in its name, change of bank account, or similar changes.</li> </ul>	

Item	Description	Remarks
<p>Participants</p> <p>(b) Fees for market participation</p> <p>(4) Cancellation of registration</p> <p>(5) Monitoring and investigations by TSE</p> <p>(6) Sanctions against Participants, etc.</p> <p>(a) Sanctions against Participants</p>	<ul style="list-style-type: none"> <li>• If a Participant no longer meets the requirements specified in 2. (2) (a), violates the Carbon Credit Market Terms and Conditions, which stipulate items necessary for trading of carbon credits on TSE's market and processing connected to that trading, or falls into a situation similar to these, it shall report this fact to TSE immediately.</li> <li>• Fees for market participation shall be as follows: <ul style="list-style-type: none"> <li>a. Basic fee</li> <li>b. Transaction fee</li> <li>c. Settlement fee</li> </ul> </li> <li>• TSE will stipulate procedures by which a Participant can request the cancellation of its registration as a Participant.</li> <li>• TSE shall monitor the status of orders, trades, and settlements of Participants on the Market from the perspective of ensuring fair price formation and smooth settlements.</li> <li>• TSE may, if it deems it necessary in light of the aforementioned monitoring or operation of the Market, request a Participant to submit reports or documents that provide information on trading or settlement by said Participant in the Market or its operations or assets pertaining to carbon credits. Upon receiving such a request, the Participant shall submit reports or documents without delay in a manner prescribed by TSE.</li> <li>• If a Participant: <ul style="list-style-type: none"> <li>➤ No longer meets the requirements specified in 2. (2) (a),</li> <li>➤ Defaults on a settlement or has other difficulties as prescribed in 5., or</li> <li>➤ Violates the Terms and Conditions,</li> </ul> TSE may, after requesting an explanation from the Participant as necessary, </li> </ul>	<p>- <b><u>(*) TSE will stipulate fees for market participation.</u></b></p> <ul style="list-style-type: none"> <li>• For the time being, these fees will all be zero.</li> </ul>

Item	Description	Remarks
(b) Regulatory measures against Participants in settlement default  (c) Public announcement of sanctions	<p>cancel or suspend its registration, suspend its permission to trade, or request improvements (hereinafter collectively referred to as "sanctions").</p> <ul style="list-style-type: none"> <li>• TSE shall request that a Participant who has caused a settlement default or other issue that leads to cancellation of a trade reports on information such as the background of the issue, the cause and its analysis, and measures to prevent recurrence.</li> <li>• If TSE applies sanctions, it may publicly announce the name of the relevant Participant and related information.</li> </ul>	<p><b><u>- (*) TSE will stipulate measures for public announcements of sanctions.</u></b></p>
3. Auction trading (1) Trading method          (2) Settlement date    (3) Order type   (4) Categories of	<ul style="list-style-type: none"> <li>• Auction trading will be conducted on the Carbon Credit Market System.</li> <li>• A call auction is conducted once in the morning (11:30 a.m.) and once in the afternoon (3:00 p.m.). (All times in this document are in JST.)</li> <li>• The settlement date will be the sixth trading day (excluding non-business days, non-regular non-business days, and non-regular market closures as prescribed in 1. (3); the same shall apply to the calculation of numbers of days hereinafter) counting from the trading day on which the trade is executed.</li> <li>• Only orders at pre-specified prices (limit orders) will be accepted.</li> <li>• Considering the price formation and supply and demand situation around</li> </ul>	<ul style="list-style-type: none"> <li>• The Carbon Credit Market System is a system dedicated to carbon credit trading, which is separate from existing trading systems for stocks, derivatives, and other products. Users can log in, place orders, and perform other operations via the Internet.</li> <li>• A User ID to log in to the Carbon Credit Market System will be provided to each Participant.</li> <li>• Market orders, for which prices are not specified, will not be accepted.</li> </ul>

Item	Description	Remarks
<p>trading</p> <p>(5) Method of bids and offers</p> <p>(6) Execution method</p>	<p>carbon credits, TSE will set standardized trading categories for carbon credit trading on the Market based on the credits' characteristics and other conditions.</p> <ul style="list-style-type: none"> <li>• The categories shall be as stipulated in the Appendix.</li> <li>• A Participant shall make a bid or offer when it intends to conduct auction trading.</li> <li>• Participants shall make clear the following matters to TSE when making bids or offers: <ul style="list-style-type: none"> <li>a. Category of trading</li> <li>b. Whether the order is a sale or a purchase</li> <li>c. If a sale, the credit certification number of the carbon credits to be transferred if said sale is executed</li> <li>d. Order quantity</li> <li>e. Order price</li> </ul> </li> <li>• Auction trading in the Market is conducted by aggregating sell orders and buy orders for each trading category and executing trades between matching bids and offers in accordance with the precedence of bids and offers as follows (the Itayose method). <ul style="list-style-type: none"> <li>(a) A lower offer shall have precedence over higher offers, and a higher bid shall have precedence over lower bids;</li> <li>(b) Where two or more bids or offers are made at the same price, precedence shall be determined in the order of the time at which such bids or offers were made: i.e., an earlier bid or offer shall have precedence over later bids or offers.</li> </ul> </li> <li>• When either of the following converge at a particular price through</li> </ul>	<ul style="list-style-type: none"> <li>• For the time being, J-Credits shall not be traded using the "subcategories" as trading categories.</li> <li>• Making a bid or offer means indicating the details of an order, such as whether it is a sale or a purchase and its price, when placing said order in the TSE market.</li> <li>• The credit certification number for a J-Credit is assigned to each project at the time of certification.</li> <li>• The Zaraba method (continuous auction) will not be used.</li> <li>• When an order is amended, time</li> </ul>



Item	Description	Remarks
(7) Order acceptance time and validity period	<p>competition among offers, competition among bids, and competitive matching of bids and offers, this shall be the execution price, and trades shall be effected between corresponding bids and offers in accordance with the precedence of bids and offers.</p> <p>a) The total volume of all offers lower than the matching price and the total volume of all bids higher than the matching price</p> <p>b) For bids and offers at the matching price, the total volume of all bids or all offers.</p> <ul style="list-style-type: none"> <li>• Orders shall be accepted from 9:00 a.m. to 11:29 a.m. and from 12:30 p.m. to 14:59 p.m.</li> <li>• Placed orders shall be valid until otherwise cancelled.</li> <li>• Orders which exceed the price limits on bids and offers will be cancelled.</li> </ul>	<p>precedence will be based on the pre-amendment order for changes to volume (decreases) and on the post-amendment order for changes to price and changes to volume (increases).</p> <ul style="list-style-type: none"> <li>• Placed orders will be carried over to the next call auction (including the next trading day's auction) and will continue to be so unless they are cancelled.</li> </ul>
(8) Tick size and trading unit	<ul style="list-style-type: none"> <li>• Tick sizes and trading units will be established for carbon credit trading.</li> <li>• The tick size and trading unit of J-Credits shall be as follows: <ul style="list-style-type: none"> <li>➤ Tick size: JPY 1</li> <li>➤ Trading unit: 1 t-CO2</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• A trading unit is the smallest unit that can be traded with a single bid or offer.</li> </ul>
(9) Base prices and price limits on bids and offers	<ul style="list-style-type: none"> <li>• Price limits on bids and offers will be established for carbon credit trading.</li> <li>• The price limits on bids and offers for J-Credits shall be 90% above or below the base price (any fraction less than JPY 1 shall be rounded down).</li> </ul> <p>• The base price for J-Credits shall be as follows:</p> <p>a. The first call auction on a trading day</p> <p>(a) For trading categories for which trades were executed on the previous</p>	<p><b><u>- (*) From the perspective of preventing erroneous order placement while not hindering fair price formation, the price limits on bids and offers will be reduced from 100%, as they were at the end of the demonstration project, to 90%.</u></b></p>

Item	Description	Remarks
	<p>trading day, the final execution price of the previous trading day</p> <p>(b) For trading categories for which trades were not executed on the previous trading day, the base price of the previous trading day</p> <p>(c) Where the price specified in (a) or (b) is deemed inappropriate by TSE, the price deemed appropriate by TSE</p> <p>b. The second and subsequent call auctions on a trading day</p> <p>(a) For trading categories for which trades were executed at the most recent auction on the same trading day, the execution price at that auction</p> <p>(b) For trading categories for which trades were not executed at the most recent auction on the same trading day, the base price at that auction</p> <p>(c) Where the price specified in (a) or (b) is deemed inappropriate by TSE, the price deemed appropriate by TSE</p>	
(10) Notification	<ul style="list-style-type: none"> <li>• When a trade is executed, TSE will notify the selling and buying Participants of the details.</li> </ul>	
(11) Temporary suspension and regulatory measures	<ul style="list-style-type: none"> <li>• If a system failure occurs in the Carbon Credit Market System or the Credit Registry, or when operations are suspended due to system maintenance or other reasons, TSE may temporarily suspend all or part of trading, or, when it deems necessary for reasons other than the above, temporarily suspend all or part of trading or conduct extraordinary trading.</li> <li>• If TSE deems it necessary to ensure stability in the operations of the Market, TSE may take the following measures and any other regulatory measures regarding trading or settlement that it deems appropriate: <ul style="list-style-type: none"> <li>➤ Restrictions on the total selling quantity or total buying quantity</li> <li>➤ Restrictions on the quantity or value per order</li> <li>➤ Restrictions on the number of orders able to be placed by one Participant or by all Participants</li> <li>➤ Restrictions on the transfer of carbon credits</li> </ul> </li> </ul>	

Item	Description	Remarks
(12) Publication of trading information	<ul style="list-style-type: none"> <li>➤ Moving of settlement date or settlement cut-off time either forward or back</li> <li>• When a trade is executed, the execution price will be published in the manners described in a. and b. below, as specified by TSE. <ul style="list-style-type: none"> <li>a. Publication on the JPX website <p>Execution prices and trading volume of trades executed during the two call auctions on each trading day will be posted by trading category on the JPX website.</p> </li> <li>b. Publication through the Carbon Credit Market System <p>Participants can check the status of orders by trading category, as well as all execution prices and trading volumes for each call auction.</p> </li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• This will be at around 16:00 p.m. on each trading day.</li> </ul> <p><b><u>- (*) There will be no provisions for non-Participant "Viewers," who were able to view information such as execution prices during the demonstration, and "Designated Participants," who provided price information for calculating reference prices.</u></b></p>
4. Settlement (1) Settlement units, etc.	<ul style="list-style-type: none"> <li>• For settlement of trades executed on the Market, the following shall be conducted in a manner prescribed by TSE separately for each execution determined through the method specified in 3. (6) (hereinafter referred to as a "settlement unit"): <ul style="list-style-type: none"> <li>(a) transfer of carbon credits that are in the same trading category as specified in 3. (4) and have a quantity equivalent to that of the relevant executed trade;</li> <li>(b) delivery/receipt of the amount of money equivalent to the trading value of said executed trade (that is, the amount equivalent to the total of trading value and related consumption tax (including local consumption tax; the same shall apply hereinafter. This amount is calculated using the execution price</li> </ul> </li> </ul>	<p><b><u>- (*) The counterparty of settlement shall not be shown.</u></b></p>

Item	Description	Remarks
<p>(2) Funds for Delivery and Receipt</p> <p>(a) Funds for Delivery</p>	<p>multiplied by the executed quantity as a tax calculation base; any amount less than JPY 1 shall be rounded down)).</p> <ul style="list-style-type: none"> <li>• TSE will, for each settlement unit, notify the Participants who were involved in the relevant executed trade of the quantity of carbon credits, the credit certification number, and the trading value through the Carbon Credit Market System.</li> <li>• If, on viewing this notification, a selling Participant becomes aware of an error in the credit certification number it has designated in 3. (5) c. or cannot transfer the volume of credits that were executed, it must promptly report this to TSE along with the information in a. or b. below. <ul style="list-style-type: none"> <li>a. If said Participant holds separate carbon credits of at least the same volume as the relevant executed trade and relating to a different credit certification number in the same trading category, and wishes to settle said trade with these credits, this fact and the credit certification number of the new credits</li> <li>b. If said Participant does not hold separate carbon credits of at least the same volume as the relevant executed trade and relating to a different credit certification number in the same trading category, or does hold these but does not wish to settle said trade with them, that they will not be able to transfer all or some of the Credits for Delivery.</li> </ul> </li> <li>• If a selling Participant reports the information in a. above, the relevant executed trade shall be settled using the carbon credits related to the new credit certification number.</li> <li>• "Funds for Delivery" refers to the total amount equivalent to the trading volume of carbon credits bought on a single day by each Participant (or</li> </ul>	<ul style="list-style-type: none"> <li>• Participants may view this notification via the Carbon Credit Market System from 8:00 a.m. on the day after that on which the trades were executed.</li> <li>• This report shall be made by 1:00 p.m. on the third day after that of the execution (two days before the settlement date).</li> <li>• Please submit the report form prescribed by TSE.</li> </ul>

Item	Description	Remarks
(b) Funds for Receipt	<p>settlement account if a Participant has multiple settlement accounts).</p> <ul style="list-style-type: none"> <li>"Funds for Receipt" refers to the total amount equivalent to the trading volume of carbon credits sold on a single day by each Participant.</li> </ul>	<ul style="list-style-type: none"> <li>Participants will be able to view their own Funds for Delivery and Receipt via the Carbon Credit Market System at 8:00 a.m. on the trading day following the trading day on which the trades were executed.</li> <li>Funds for Delivery and Funds for Receipt will not be offset.</li> </ul>
(3) Credits for Delivery and Receipt		
(a) Credits for Delivery	<ul style="list-style-type: none"> <li>Of the carbon credits executed in a single day, "Credits for Delivery" refers to the total amount relating to each selling Participant and credit certification number specified in 3. (5) c.</li> </ul>	
(b) Credits for Receipt	<ul style="list-style-type: none"> <li>Of the carbon credits executed in a single day, "Credits for Receipt" refers to the total amount relating to each buying Participant and credit certification number.</li> </ul>	<ul style="list-style-type: none"> <li>If the same Participant sells and purchases J-Credits which have the same certification number, there will be no netting with respect to Credits for Delivery and Receipt.</li> </ul>
(4) Pre-transfer of carbon credits from selling Participant to TSE	<ul style="list-style-type: none"> <li>A selling Participant shall transfer Credits for Delivery to TSE by means of a transfer to a J-Credit account in the name of TSE in the Credit Registry System by 11:00 a.m. of the trading day preceding the settlement date.</li> <li>TSE shall hold the transferred carbon credits on behalf of the selling Participant until the buying Participant pays Funds for Delivery.</li> </ul>	
(5) Payment of Funds for Delivery by buying Participant	<ul style="list-style-type: none"> <li>A buying Participant shall pay Funds for Delivery to TSE on the settlement date, and no later than 11:00 a.m., by depositing them into a bank account in the name of TSE at a financial institution designated by TSE.</li> </ul>	<ul style="list-style-type: none"> <li>If the money is received in the account designated by TSE prior to the settlement date, TSE will return it to the</li> </ul>

Item	Description	Remarks
(6) Hold and transfer of carbon credits from TSE	<ul style="list-style-type: none"> <li>TSE shall receive Funds for Delivery in this way on behalf of the selling Participant. Once TSE has received Funds for Delivery, the selling Participant shall be deemed to have received the funds from the buying Participant and shall no longer be able to claim payment from the buying Participant.</li> <li>From the point that TSE receives Funds for Delivery as described in (5) (only when the full amount has been transferred), carbon credits linked to the settlement units covered by said Funds for Delivery which are held by TSE on behalf of a selling Participant as indicated in (3) shall then be deemed to be held on behalf of the Participant who bought said settlement units. With this, the selling Participant shall be deemed to have transferred the carbon credits linked to said settlement units to the buying Participant.</li> </ul>	<p>buying Participant.</p> <ul style="list-style-type: none"> <li>The designated financial institution shall be MUFG Bank, Nihonbashi-Chuo Branch.</li> </ul>
(7) Payment of Funds for Receipt from TSE to selling Participant	<ul style="list-style-type: none"> <li>Starting at 11:00 a.m. on the settlement date, for settlement of executed trades for which TSE has confirmed payment of Funds for Delivery as indicated in (5), TSE shall pay the Funds for Receipt to the selling Participant on the same day into a bank account designated in advance by the selling Participant.</li> </ul>	
(8) Transfer of carbon credits from TSE to buying Participant	<ul style="list-style-type: none"> <li>After confirming payment of Funds for Delivery as indicated in (5), starting at 11:00 a.m. on the settlement date, TSE shall transfer the Credits for Receipt transferred in (4) to the buying Participant on the same day by transferring them to a J-Credit account designated by the buying Participant in advance.</li> </ul>	
(9) Provision of qualified invoices	<ul style="list-style-type: none"> <li>Preparation, delivery, and receipt of qualified invoices in connection with settlement of trades executed on the Market will be performed by TSE with the application of special provisions for intermediary delivery.</li> <li>On behalf of selling Participants, TSE shall provide buying Participants with a qualified invoice in electromagnetic form, including TSE's company name and registration number, for each settlement unit promptly after the settlement date.</li> </ul>	<p><b><u>- (*) In response to the introduction of the new invoicing system in October 2023, TSE will provide qualified invoices and related documents based on the special provisions for intermediary delivery.</u></b></p>

Item	Description	Remarks
	<ul style="list-style-type: none"> <li>TSE shall provide selling Participants with an electromagnetic record of the settlement statement from the above qualified invoice, omitting the buying Participant information, promptly after the settlement date.</li> </ul>	<ul style="list-style-type: none"> <li>"Qualified invoice" refers to that as defined in Article 57-4, Item 1 of the Consumption Tax Law.</li> <li>"Special provisions for intermediary delivery" refers to the system under which a person acting as an intermediary or agent delivers a qualified invoice on behalf of a seller (Article 70-12 of the Enforcement Order of the Consumption Tax Law (Cabinet Order No. 360 of 1988))<sup>2</sup>.</li> <li>"Registration number" refers to that as defined in Article 57-2, Item 4 of the Consumption Tax Law.</li> <li>TSE will provide qualified invoices and related documents to trading participants in a manner designated by TSE.</li> </ul>
5. Treatment of settlement defaults and probable defaults	<ul style="list-style-type: none"> <li>If a Participant does not settle a trade execution or discovers that it cannot conduct a settlement as in (1) through (4) below, the execution will be cancelled, no further procedures pertaining to settlement will be conducted, and settlements that have taken place will be reversed.</li> </ul>	<ul style="list-style-type: none"> <li>In settlement of carbon credits, when an executed trade is cancelled, any credits or funds transferred to TSE to execute said trade shall be returned to the relevant Participants. Any other costs or damage incurred by the Participant in connection with</li> </ul>

<sup>2</sup> This refers to the Consumption Tax Law Enforcement Order after revisions implemented by the Cabinet Order No. 135, 2018.

Item	Description	Remarks
<p>(1) Difficulty in transferring carbon credits prior to the settlement date</p> <p>(2) Default on transfer of carbon credits</p>	<ul style="list-style-type: none"> <li>• When TSE receives a report as stipulated in 4. (1) b. that transfer of carbon credits will not be possible because of an error in a credit certification number designated in 3. (5) c. or difficulty with transferring the volume of credits that were executed, it will cancel the trade execution pertaining to the relevant Credits for Delivery.</li> <li>• If TSE determines not to perform subsequent procedures, it shall notify the buying Participant who is the counterparty to the settlement by 4:00 p.m. three trading days after that of the execution (two trading days before the settlement date).</li> <li>• If, by 11:00 a.m. on the trading day preceding the settlement date, the Credits for Delivery have not been transferred in full to TSE by the selling Participant, execution of said trade will be canceled and no further procedures will be performed.</li> <li>• If, by 11:00 a.m. on the trading day preceding the settlement date, the Credits for Delivery have been only partially transferred to TSE by the selling Participant, settlements pertaining to the credit certification number of the credits that were only partially transferred will be carried out in ascending order from the one with the fewest carbon credits (or by lottery if the numbers are equal), the execution of settlement units not covered by the amount of credits received by TSE will be cancelled, and no further procedures will be performed.</li> </ul>	<p>such a cancellation shall be borne by the Participant.</p> <ul style="list-style-type: none"> <li>• Funds for Delivery and Funds for Receipt that have been corrected due to subsequent procedures not being performed can also be viewed via the Carbon Credit Market System.</li> <li>• If a selling Participant transfers carbon credits for only part of a settlement unit, TSE will return the transferred carbon credits to the selling Participant after cancelling execution of the trade.</li> </ul>



Item	Description	Remarks
(3) Default on payment	<ul style="list-style-type: none"> <li>• If all or part of Funds for Delivery are not paid by a buying Participant by the payment cutoff time on the settlement date, TSE will cancel execution of all trades pertaining to said Funds for Delivery and will not perform subsequent procedures.</li> <li>• Carbon credits pertaining to said cancellation that have been transferred to TSE on the trading day prior to the settlement date as indicated in 4. (4) shall be returned to the selling Participant.</li> </ul>	<ul style="list-style-type: none"> <li>• If a buying Participant who has not paid all or part of Funds for Delivery by the due date is the seller of other carbon credits, executions of trades pertaining to settlement units of said Participant which are sales of carbon credits will not be cancelled, and procedures will be performed as usual.</li> <li>• If a buying Participant has partially paid Funds for Delivery, TSE will return money equivalent to the amount paid to the buying Participant after cancelling execution of the trade.</li> </ul>
(4) Sanctions, etc.	<ul style="list-style-type: none"> <li>• In cases of sanctions against a Participant where TSE deems it difficult to settle trades that were executed before the sanctions took effect, TSE shall cancel execution of trades to which said Participant is a party.</li> <li>• Carbon credits pertaining to said cancellation which were already transferred to TSE before the settlement date as in 4. (4) will be returned to the selling Participant.</li> </ul>	
6. Other	<ul style="list-style-type: none"> <li>• TSE will separately establish provisions for the sale of credits held by the government.</li> </ul>	

### III. Implementation Date (Scheduled)

Trading on the Market will begin in October 2023. Registration for participants will begin around July 2023.

Appendix: Table of Trading Categories

First layer	Second layer	Third layer	Outline
Scheme	Main Category	Subcategory	
J-Credit	Energy saving	(Not specified)	A category consisting of J-Credits that have a seven-digit certification number beginning with 1 and that are certified using only the energy saving methodologies specified in the J-Credit Scheme, where only the amount of saved energy (kl) is a positive number in the monitoring report*.
	Renewable energy (electricity)	(Not specified)	A category consisting of J-Credits that have a seven-digit certification number beginning with 1 and that are certified using only the renewable energy methodologies specified in the J-Credit Scheme, where only the amount of renewable energy (electricity) (MWh) is a positive number in the monitoring report.
	Renewable energy (heat)	(Not specified)	A category consisting of J-Credits that have a seven-digit certification number beginning with 1 and that are certified using only the renewable energy methodologies specified in the J-Credit Scheme, where only the amount of renewable energy (heat) (GJ) is a positive number.
	Renewable energy (mixed electricity and heat)	(Not specified)	A category consisting of J-Credits that have a seven-digit certification number beginning with 1 and that are certified using only the renewable energy methodologies specified in the J-Credit Scheme, where both the amount of renewable energy (electricity) (MWh) and that of renewable energy (heat) (GJ) are positive numbers.
	Forest sink	(Not specified)	A category consisting of J-Credits that have a seven-digit certification number beginning with 1 and are certified using only the forest sink methodologies specified in the J-Credit Scheme.
	Other	(Not specified)	A category consisting of J-Credits that have a seven-digit certification number beginning with 1 and do not fit into any of the above categories.
Transferred from Domestic Credit Scheme	Domestic credits	(Not specified)	A category consisting of J-Credits that have a seven-digit certification number beginning with 2.
Transferred from J-VER	J-VER (forest sink)	(Not specified)	A category consisting of J-Credits that have a seven-digit certification number beginning with 3 and are certified using only the forest sink methodologies specified in

Scheme			the J-VER Scheme.
	J-VER (other)	(Not specified)	A category consisting of J-Credits that have a seven-digit certification number beginning with 3 and do not fit into any of the above categories.
Regional J-Credits, J-VERs (not yet transferred), regional J-VERs (not yet transferred), domestic credits (not yet transferred)	Regional J-Credits	(Not specified)	A category consisting of J-Credits that have a seven-digit certification number beginning with 4.
	J-VER (not yet transferred) forest sink	(Not specified)	A category consisting of J-Credits that have a seven-digit certification number beginning with zero (0) and are certified using only the forest sink methodologies specified in the J-VER Scheme.
	J-VERs (not yet transferred) other	(Not specified)	A category consisting of J-Credits that have a seven-digit certification number beginning with zero (0) and do not fit into any of the above categories.
	Regional J-VERs (not yet transferred)	(Not specified)	A category consisting of J-Credits that have a seven-digit certification number beginning with 9.
	Domestic credits (not yet transferred)	(Not specified)	A category consisting of J-Credits that have a seven-digit certification number beginning with 8.

\*A "monitoring report" is created for each credit in the J-Credit Scheme.