

Development of Membership Rules

September 29, 2022

Tokyo Commodity Exchange, Inc.

I. Purpose

With computerized trading becoming more sophisticated in recent years, the importance of risk management by Members, who act as market gatekeepers, is growing. Given this, Tokyo Commodity Exchange Inc. (TOCOM) will develop membership rules as follows in order to further improve the stability of market operations, among other things.

II. Outlines

Item	Description	Remarks
1. Development of membership rules pertaining to Members conducting direct transactions (1) Introduction of financial criteria for Broker Members	<ul style="list-style-type: none"> - TOCOM will develop membership rules for Members who conduct transactions connecting directly to the TOCOM trading system as Members (hereinafter referred to as "direct transactions"). - TOCOM will introduce the following as financial criteria pertaining to Broker Members who conduct direct transactions, according to their clearing qualifications: (i) financial criteria when commencing direct transactions, and (ii) financial criteria to be maintained. <ul style="list-style-type: none"> (i) Financial criteria when commencing direct transactions <ul style="list-style-type: none"> a. The amount of net assets shall be JPY 500 million or more b. The net assets regulation ratio shall be above 200% (ii) Financial criteria to be maintained <ul style="list-style-type: none"> a. The amount of net assets shall be JPY 300 million or more 	<ul style="list-style-type: none"> - For Broker Members who have already started conducting direct transactions at the time of implementing these revisions, only (ii) will be applied.

Item	Description	Remarks
<p>(2) Clarification of obligation to develop various management systems, etc.</p>	<p>b. The net assets regulation ratio shall be 140% or more</p> <ul style="list-style-type: none"> - In cases where the financial condition of a Broker Member who conducts direct transactions falls under the financial criteria to be maintained, TOCOM may take regulatory actions, including suspension of transactions on the TOCOM market by said Broker Member, until such time as the reason thereof ceases to exist. - A Member who conducts direct transactions shall develop management systems including the following: <ul style="list-style-type: none"> ➤ Trading supervision system to prevent unfair trading ➤ Order management system to prevent acceptance or placement of erroneous orders ➤ Risk management system for positions pertaining to transactions on the TOCOM market - In cases where a Member who has not yet conducted direct transactions begins to conduct direct transactions, this Member shall apply for commencing direct transactions to TOCOM and obtain its approval in advance so that TOCOM can confirm that the applicant has developed these management systems. 	<ul style="list-style-type: none"> - In deciding regulatory actions including suspension of transactions, the Broker Member will be given an opportunity to provide an explanation. - Currently, development of management systems is required under the "Trade Management Guideline." - For the trading supervision system, the required measures shall include conducting appropriate market surveillance, taking into consideration aspects such as any internal rules relating to trading supervision, accurate identification of, among other things, motives for and trends in customers' trading behavior, and forms of transaction traded by customers, etc. (TOCOM plans to newly prepare and notify to

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		<p>Members a guideline that they can refer to in developing their trading supervision system.)</p> <ul style="list-style-type: none"> <li data-bbox="1592 320 2018 635">– Notwithstanding the above, appropriate management systems are also required to be developed for proprietary trading, taking into account the forms of transaction and other aspects. <li data-bbox="1592 659 2018 1166">– For the order management system, the required measures shall include establishing internal rules relating to order management and thoroughly ensuring knowledge of these internally, as well as order placement restriction and system configuration that takes into consideration the financial resources of Members. <li data-bbox="1592 1190 2018 1358">– For the risk management system, Members are required to establish internal rules relating to position management and to

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<p>(3) Clarification of business execution system to be developed by Members who conduct direct transactions</p> <p>(4) Introduction of prior approval system pertaining to reorganization, etc. for Broker Members</p> <p>(5) Changes in timing of</p>	<ul style="list-style-type: none"> <li data-bbox="613 900 1532 1070">– A Member who conducts direct transactions shall establish an appropriate business execution system with regard to order acceptance, order execution, delivery settlement, method of loss risk management in the commodity market, and compliance with laws and regulations. <li data-bbox="613 1139 1554 1310">– In cases where a Broker Member engaging in direct transactions conducts a reorganization (including other similar activities, but excluding minor ones) such as a merger or transfer of business, it shall apply to TOCOM and obtain its approval in advance. <li data-bbox="613 1331 1509 1358">– In cases where a Broker Member who conducts direct transactions loses its 	<p>manage customers and others appropriately taking into consideration their financial resources and characteristics. In addition, Members which engage in low latency trading are required to adequately manage a data processing system pertaining to low latency trading, and are required to accept orders from customers and others who conduct low latency trading only after confirming that they also adequately manage a data processing system.</p>

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<p>returning Guarantee Funds at the time of loss of membership qualification</p> <p>(6) Additional items to be notified</p>	<p>membership qualification on the TOCOM market, TOCOM will publicly announce the return of the Guarantee Funds, and, as a general rule, said Broker Member may not request TOCOM to return the Guarantee Funds until six months have passed from the date of such an announcement.</p> <p>– In cases where a Member who conducts direct transactions falls under the following cases, it shall submit a notice to TOCOM.</p> <p>(i) Where the financial condition of the Member falls under the financial criteria to be maintained (limited to a Broker Member)</p> <p>(ii) Where the Member is likely to become insolvent</p> <p>(iii) Where the Member transfers business to another legal entity or takes over business as a result of a company split (this does not apply to Broker Members which have sent an application as specified in II. 1. (4))</p> <p>(iv) Where an inspection, regulatory dispositions or punishment has been carried out pursuant to laws and regulations in relation to transactions on the TOCOM market</p> <p>(v) Where, in relation to transactions on the TOCOM market, an improvement order has been received on the basis of an inspection pursuant to the laws and regulations or where reporting on business improvement has been made on the basis of an inspection or regulatory dispositions</p> <p>(vi) Where TOCOM becomes aware that an act in violation of laws and regulations or an act in violation of the Articles of Incorporation or any other regulations has been committed in relation to transactions on the TOCOM market</p> <p>(vii) Where the Member has established its internal rules as described in II. 1. (2), or has revised said rules</p>	

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(7) Introduction of regulatory actions in cases of likely insolvency	<p>(viii) Where the Member has become aware of a system failure pertaining to transactions on the TOCOM market</p> <ul style="list-style-type: none"> - In cases where a Non-Clearing Participant has received a request from an Agency Clearing Participant to terminate the Contract for Commissioning Clearance due to it falling under the termination conditions, said Non-Clearing Participant shall report the termination to TOCOM by the day prior to the date of termination. - In cases where a Member who conducts direct transactions is likely to become insolvent, TOCOM may take regulatory actions, including suspension of transactions on the TOCOM market by said Member, until such time as the reason thereof ceases to exist. 	<ul style="list-style-type: none"> - In deciding regulatory actions including suspension of transactions, the Member will be given an opportunity to provide an explanation.
(8) Introduction of application for lifting suspensions of transactions, etc.	<ul style="list-style-type: none"> - In cases where a Member has been subject to a suspension of transactions as prescribed in (1) and (7), said Member may apply to lift the suspension by submitting a notice to TOCOM, after it has remedied the cause of the regulatory action. 	<ul style="list-style-type: none"> - TOCOM will lift or reduce suspensions of transactions or suspensions of consignments of commodity clearing transactions if it deems it to be appropriate based on an examination.
(9) Clarification of restriction on order acceptance by Remote Broker Members	<ul style="list-style-type: none"> - It will be clarified that a Remote Broker Member may not accept consignment of transactions on the TOCOM market with the knowledge that the order is entrusted by the account of a person/entity residing in Japan. 	
(10) Appointment of Person Responsible for Compliance with Laws and Regulations at Remote Broker Members	<ul style="list-style-type: none"> - Remote Broker Members and Remote Trade Members who conduct direct transactions shall apply to TOCOM for appointment of one person, from among persons holding a position equivalent to or higher than director or executive officer, as a Person Responsible for Compliance with Laws and Regulations, and 	

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	obtain its approval.	
2. Development of membership rules pertaining to all Members (1) Clarification of provisions related to market surveillance (2) Introduction of deputy for day-to-day operations system (3) Clarification of the provision on just and equitable principles of trade	<ul style="list-style-type: none"> <li data-bbox="613 371 1518 544">– Provisions related to market surveillance will be clarified, which include requesting a Member to submit materials and other information to TOCOM when deemed necessary for examination of transactions on the TOCOM market, and issuing alerts based on the results of market surveillance. <li data-bbox="613 563 1518 735">– Regarding notifications and other day-to-day operations performed by a member representative, Members may have some of these performed by a deputy for day-to-day operations upon prior clarification of the scope of operations eligible. <li data-bbox="613 850 1518 927">– Acts that are in violation of just and equitable principles of trade will be clarified. 	<ul style="list-style-type: none"> <li data-bbox="1594 563 2020 831">– Members shall clarify in advance the scope of the business to be performed on behalf of the member representative and notify TOCOM of the person who will perform such operations. <li data-bbox="1594 850 2020 975">– Specifically, unfair trading activities straddling the TOCOM market and other markets.
3. Abolition of Associate Members system	<ul style="list-style-type: none"> <li data-bbox="613 995 1525 1118">– The Associate Members system, which was introduced to allow foreign commodity futures brokers and others membership as entities equivalent to Members, shall be abolished in light of its actual usage and other reasons. 	
4. Others	<ul style="list-style-type: none"> <li data-bbox="613 1139 1122 1166">– Other necessary revisions shall be made. 	

III. Implementation Date (Planned)

The implementation date for the above revisions will be determined based on the progress of preparation by Members, among other factors, with a target of January 2023.