

Summary of Public Comments on “Revisions to Trading Rules to Further Enhance the Functionality of the Cash Equity Market” and Responses from TSE

August 6, 2026

Tokyo Stock Exchange, Inc.

Tokyo Stock Exchange, Inc. (TSE) published an outline of Revisions to Trading Rules to Further Enhance the Functionality of the Cash Equity Market on May 22, 2026 and sought public comments on it until June 21, 2026. We would like to thank everyone who submitted comments on this matter.

The following is a summary of the comments received and TSE’s responses.

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1	- We support the published “Revisions to Trading Rules to Further Enhance the Functionality of the Cash Equity Market” as set out below. - Improving the Closing Auction Session (Introduction of Random Closing) - We believe that the introduction of random closing in the closing auction session is meaningful to enhance the fairness and reliability of closing prices. In particular, we consider it appropriate and well aligned with market needs that new orders will continue to be accepted up to the time of the Itayose, while the proposed	Thank you for your valuable comment. To ensure the smooth implementation of the new rules, we will continue to provide careful and clear information and promote coordination with market stakeholders.

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	improvements to the rules will provide for the dissemination of the IEP and IEV. These improvements will contribute to enhancing the reliability of Japan's securities market. 2. Further Optimization of Tick Sizes • With regard to the revision of tick sizes, we also believe that the method of establishing the applicable tick size table based on a liquidity indicator (STR) measured over a certain period will contribute to improving market efficiency and reducing execution costs by determining tick sizes that are aligned with actual liquidity. • In implementing the new rules, it is important for JPX and others to undertake awareness-raising activities so that random closing becomes widely understood in Japan, particularly among retail investors. In addition, we ask that the effects of these revisions be duly assessed after implementation and that further improvements be made as necessary.	
2	• I have a question regarding the optimization of tick sizes: are there plans to change the tick sizes on the Nagoya, Fukuoka, and Sapporo exchanges as well, based on STR?	• For details on operations at the Nagoya Stock Exchange, Fukuoka Stock Exchange, and Sapporo Securities Exchange,

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		please refer to the consultation materials ¹ published on July 29, 2026 (available only in Japanese).
3	Random Close: What's the background that last 30 seconds will have this mechanism as other markets have longer period? Tick size: It will likely increase trading volume but it could also increase trading cost/data & message traffic as volatility will increase, anything TSE is looking at about such impact it may create by this change?	• We understand that the random closing period used in closing auctions at overseas exchanges varies from approximately 30 seconds to around 2 minutes. • In the Working Group on Trading Rules (hereinafter referred to as the "WG"), some concerns were raised that the introduction of random closing could reduce the convenience of arbitrage orders placed immediately before the afternoon close Itayose. • Although no impact on arbitrage transactions has been identified at overseas exchanges that have already introduced random closing, we have taken such concerns into account and have therefore set the period at 30 seconds in order to keep it as short as possible. • The optimization of tick sizes is intended to achieve two objectives: (i) for issues with small tick sizes relative to liquidity,

¹ Nagoya Stock Exchange: https://www.nse.or.jp/rule/files/PUB260729-1_1.pdf

Fukuoka Stock Exchange: https://www.fse.or.jp/files/rul_pub/s20260729.pdf

Sapporo Securities Exchange: <https://www.sse.or.jp/wp-content/uploads/2026/07/public20260729.pdf>

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		increasing them to reduce volatility and the risk of revealing trading intentions (signaling) at the time of order execution; and (ii) for issues with large tick sizes relative to liquidity, decreasing them to reduce investors' execution costs. • For issues subject to a reduction in tick sizes, the number of orders and message traffic may increase. However, based on estimates with reference to past rule changes, among other things, we have confirmed that such an increase in the number of orders would not be an issue for TSE's systems, taking into account the capacity enhancement scheduled for November 2026. • We will continue to monitor order trends, execution costs, and system capacity after the implementation of the new rules.
4	1. Improving the Closing Auction Session (Introduction of Random Closing) (1) With respect to the introduction of random closing, for the reasons outlined below, we think there is still insufficient explanation of (i) why such a change is necessary when no malicious gaming behavior that would impair the transparency of closing price formation has been identified to date, and (ii) comparative consideration with alternatives such as an NCP	• The closing auction session introduced in November 2024 adopted a simple mechanism in the interest of clarity. In the outline of "Revisions to Trading Rules for Strengthening Functions of Cash Equity Market in Connection with Launch of Next Generation Trading System," published on May 11, 2023, TSE also stated that, based on verification of the effects after implementation, it would consider introducing additional frameworks to prevent inappropriate transactions.

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	(non-cancel period) and up-to-date empirical analysis in light of recent changes in market structure. Given the costs associated with these revisions of the rules and their impact on market participants, we request that these revisions be considered with greater caution. (2) The report of TSE's Working Group on Trading Rules states that no malicious gaming behavior that could undermine the transparency of closing price formation has been identified, yet nonetheless proposes the introduction of random closing to further enhance transparency and reliability. However, although the current closing auction session has been in place only for a short time, the fact that no conduct undermining the transparency of closing price formation has been identified should be taken as evidence that the current rules are functioning properly. The existing institutional framework, including the market manipulation regulations under the Financial Instruments and Exchange Act and TSE's trade surveillance systems, may already provide sufficient deterrence. Under such circumstances, it has not been clearly explained as	• In sight of this, TSE established the WG, comprising a broad range of market participants including domestic and overseas institutional investors and securities companies, to discuss improvements to the closing auction session in light of a post-implementation review and feedback from market stakeholders. In the WG, while no malicious order modifications, cancellations, or similar conduct immediately before the afternoon close Itayose that could undermine the transparency of closing price formation (i.e., gaming behavior) have been identified, some members expressed the view that additional measures were necessary from a preventive perspective. • In addition, many comments were received, particularly from domestic and overseas institutional investors, that further improvements are needed to enhance the transparency and reliability of closing price formation, which was the purpose of introducing the closing auction session. In particular, it was pointed out that order entry is currently concentrated in the pre-closing period immediately before the afternoon close Itayose, and that the resulting sharp fluctuations in quoted prices just before the afternoon closing Itayose make closing

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	to why new constraints should be imposed solely on the basis of potential risks rather than in response to an identified problem. TSE should always exercise caution before introducing new constraints on investors' freedom to trade that would burden market participants. In addition, the closing auction session was introduced only in 2024, and brokers, market makers, institutional investors, and others incurred costs for related system and operational changes at that time. The introduction of random closing would require additional system changes and revisions to execution methods, imposing not a small burden that may ultimately be passed on to investors. (3) Moreover, even if some action is warranted, TSE should carefully consider whether random closing is the appropriate approach. The aforementioned report (page 5) states that random closing is expected to achieve earlier closing price formation and reduce volatility, whereas the effects of an NCP are said to be limited. However, if the objective is to curb gaming activities immediately before the close, an NCP should also be able to serve that purpose, and we would therefore ask for a more specific explanation of why random closing is considered superior.	price formation less predictable. • In light of these concerns, the WG identified the further enhancement of the transparency and reliability of closing price formation as an issue to be addressed, and carefully considered the advantages and disadvantages of introducing measures such as random closing and non-cancel periods (NCPs), which have also been adopted at overseas exchanges, while taking into account the burdens that their introduction would place on market stakeholders. • As set out in the Report from the Working Group on Trading Rules, we comprehensively considered prior research on overseas exchanges that have already introduced these measures, trading trends on TSE from the introduction of the closing auction session to the present and our analysis thereof, as well as the results of interviews with a diverse range of domestic and overseas market stakeholders (including those in the U.S.). Based on these considerations, we concluded that it would be appropriate to introduce random closing, which is expected to achieve earlier closing price formation and reduce volatility.

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	A disadvantage of random closing is that it makes the timing of closing price formation uncertain, reducing predictability for market participants, whether institutional or retail, and increasing order placement risk. Indeed, in the U.S. market, an NCP has been adopted because the official closing price is used to calculate margin requirements and the net asset value (NAV) of investment trusts, and closing at a fixed time is considered essential to accurate and fair tracking. Since the official closing price serves as the base price for the market as a whole, a clear and predictable closing time is itself of significant value. Any suspicion of arbitrariness on the part of the market operator should be avoided. This point should also be carefully considered in Japan. The same report (page 5) explains the effects of random closing by reference to prior research in overseas markets. However, that research does not appear to establish that random closing is superior to an NCP in light of these points. Furthermore, given that the supporting research is based on trading data from 1996 to 2017 (page 13 of the report's reference materials), we do not believe it provides a sufficient basis for these revisions, particularly in light of recent rapid changes in market structure. Since the COVID-19 pandemic,	- Specifically, while an NCP may be somewhat effective in deterring gaming behavior, it would have only a limited effect in bringing forward order placement in the pre-closing period, including for new orders, which is one of the objectives of the current revisions. Some WG participants also expressed concern that, because order price and quantity could no longer be changed and orders could no longer be canceled, order placement might instead be delayed further. - There were also concerns that, if an NCP were introduced, even orders that need to be canceled for unavoidable reasons, such as erroneous orders, could no longer be canceled, posing significant risks for a wide range of investors, including retail investors. - In comparing the advantages and disadvantages of introducing an NCP and random closing, overseas institutional investors (asset managers) and foreign trading participants participating in the WG shared the results of interviews with local personnel who actually trade in overseas markets where these measures have already been introduced. In addition, TSE conducted its own interviews with a broad range of domestic and overseas

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	algorithmic trading and the use of dark pools have increased, and the trading behavior of both institutional and retail investors has changed significantly. Relying solely on historical data without adequately reflecting these changes risks misjudging the effects of the rules in the current Japanese market. (4) For these reasons, and given the potential disadvantages, including the costs borne by market participants and the loss of predictability, we request that TSE first continue to assess the operation of the current closing auction session and that any review of the rules be undertaken only after further analysis based on the latest market data and discussions with a broad range of market participants. 2. Further Optimization of Tick Sizes (1) With respect to these revisions, as set out below, it is hard to say that sufficient explanation has been provided regarding the following points: (i) the rationale for adopting STR as the primary indicator; (ii) the basis for the 1.5–5.0 STR range; (iii) the rationale for the exceptional treatment of ETFs, ETNs, and similar	market stakeholders. However, no particular concerns were raised about increased order placement risk resulting from the introduction of random closing or any impact on margin and NAV calculations. • In addition, under the random closing to be introduced, the time at which trades are executed in the closing auction session will be determined randomly by the system within the random closing period, regardless of the individual issue or market conditions. Accordingly, the mechanism leaves no room for TSE to exercise discretion. • In the U.S. market, rather than a pure NCP under which order modifications and cancellations are simply prohibited after a certain time, a combination of measures is used toward the close, including cut-off times for Market on Close/Limit on Close orders, restrictions on order modifications and cancellations, and the acceptance only of orders that would reduce imbalances. We understand that this reflects features specific to the U.S. market, including the NYSE's Designated Market Maker system. Similarly, the Japanese market should adopt rules that reflect its own characteristics.

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	products with a trading unit of one unit; and (iv) how the benefits of these revisions compare with the costs to be borne by market participants. If TSE proceeds with these revisions, we request that it does so cautiously, with the policy of business operations centered on market participants in mind and only after fully assessing their necessity and effectiveness through empirical analysis based on current market conditions and dialogue with a broad range of market participants. (2) TSE's Report from the Working Group on Trading Rules proposes replacing the current tick size table based on index classifications with tick size tables based on STR (Spread to Tick Ratio), using STR as an issue-specific liquidity indicator to set appropriate tick sizes in line with liquidity. However, STR measures the relationship between spreads and tick sizes and does not directly reflect other important factors relevant to market liquidity and the likelihood of execution, such as the number of trades, trading volume, order-book depth, and market maker behavior. For example, the same STR may be associated with significant differences in order-book depth and the likelihood of execution. In that sense, TSE should be careful	• TSE recognizes that improving the convenience and transparency of trading at the afternoon close Itayose, the importance of which has grown in recent years with the rise of passive investment and other developments, is an important issue in the TSE market, given the range of investors that participate. • To ensure smooth implementation, TSE will continue to communicate with market stakeholders and strengthen its outreach to a wide range of investors, including retail investors. • The further optimization of tick sizes reflects the outcome of discussions in the WG, which includes a diverse range of market stakeholders, including domestic and overseas institutional investors, and securities companies. It introduces a framework for setting appropriate tick sizes based on each issue's liquidity and other characteristics and is expected to further improve convenience for market participants. It is also consistent with the recommendations set out in the Second Interim Summary of the Working Group on Capital Market Regulation, published on December 21, 2022.

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	of relying on STR alone as the primary indicator for assessing liquidity and the likelihood of execution. In addition, in light of the regulator's view on tick sizes referred to in item (6) below, tick sizes should be considered from the perspective of enhancing the functioning of the market system overall, meaning that rule design should also take into account the role that arbitrage transactions by market participants between TSE and PTSs play in enhancing liquidity across the market as a whole. (3) Furthermore, the report does not clearly explain the basis for identifying 1.5 to 5.0 as the appropriate STR range. Presumably, this is based on footnote 7 on page 7 of "How Changes in Tick Sizes Affect Investors' Execution Costs" (JPX Working Paper Vol. 40), which states: "Referring to Huang et al. (2017), STR of 1.5 or less is considered to be an excessive tick size and STR of 1.5 or more but less than 5.0 is an appropriate range, and the same idea is used in this paper." However, the Huang et al. (2017) paper cited in that footnote, entitled "How to Predict the Consequence of a Tick Value Change? Evidence from the Tokyo Stock Exchange Pilot Program," states that its purpose is to test	• First, as stated in the Report from the Working Group on Trading Rules, the adoption of Spread to Tick Ratio (STR) as the liquidity indicator reflects both TSE's past practice of referencing STR when optimizing tick sizes and the widely expressed view that adjustments to applicable tick size tables should be based on STR measurements, in light of the indicator's appropriateness and stability. • Internationally as well, STR is used as a liquidity indicator in the tick size regime under MiFID II in Europe. In the U.S., a revision is planned to the current framework meaning that, in principle, tick sizes will be determined based on each issue's time-weighted average quoted spread over a certain period. In this sense, we believe that determining tick sizes based on spreads is a generally accepted approach. • It has also been noted overseas that excessively fine tick sizes can have adverse effects, given that trading venues have previously used tick sizes as a competitive tool. In Japan, PTSs use finer tick sizes than exchanges, but it is argued that tick sizes should also be unified across venues, as stakeholders noted in their responses to the consultation on the previous

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	the effectiveness of the method proposed in Dayri and Rosenbaum (2015) for predicting the effects of tick size changes, using the tick size changes implemented by TSE in 2014. Accordingly, the paper does not seek to identify the appropriate tick sizes for TSE using STR. A fuller explanation is therefore needed as to why that paper supports the view that the 1.5–5.0 range is appropriate for the Japanese market. It should also be noted that the Huang et al. (2017) paper relies on data from roughly 12 years ago, while market structure has changed substantially since then. Since the COVID-19 pandemic, algorithmic trading and the use of dark pools have increased, and institutional investors have increasingly executed orders without displaying orders in the order book. In these circumstances, there is a limit to how much you can assess overall market liquidity on the basis of spreads alone. If a rule change with significant market impact, such as a revision to tick size tables, is to be made, it should be supported by analysis	optimization of tick sizes, to enhance the functioning of the market system as a whole and reduce unnecessary complexity. • Next, with respect to the appropriate STR range, the WG carefully considered the issue and proposed a range of 1.5 to 5.0 based on the approach under MiFID II in Europe, taking into account not only recent research² by market players, including overseas exchanges, but also analysis of actual trading data in the TSE market. Through the WG's discussions and other engagement, broad agreement was obtained from a wide range of market stakeholders, and we therefore believe that the proposed range has a reasonable basis. (Some of the materials used in the WG have been added to the "Reference Materials" of the WG report.³) • As stated in the Report from the Working Group on Trading Rules, with respect to ETFs, ETNs, and leveraged products,

² Nasdaq, Inc., "Research on What Ticks Make Spreads Trade Best" (March 2, 2023), <https://www.nasdaq.com/articles/the-tick-spreads-that-help-stocks-trade-best>

³ "Public Release of the Report From the Working Group on Trading Rules," <https://www.jpx.co.jp/english/corporate/news/news-releases/1030/20260422-01.html>

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	based on the latest data, as well as by a current, careful, and comprehensive review and analysis involving independent researchers and market participants. (4) For ETFs, ETNs and similar products with a trading unit of one unit, the report also proposes that a dedicated tick size table based on price levels be applied without measuring STR. If STR is to be central to the revision of tick sizes, a fuller explanation is needed as to why it is not used for ETFs, ETNs, and similar products, and why a table based on price levels is more appropriate for those products given their liquidity. (5) In addition, annually reviewing the tick size table would impose continuing burdens on market participants, including securities firms and vendors, in the form of system modifications and operational changes (and ultimately on investors). This burden is likely to be particularly heavy for small and mid-sized brokers, which may find it difficult to invest sufficiently in smart order routing (SOR) and best execution arrangements. Moreover, there is no assurance that order book conditions observed during a particular measurement period will remain the same in	setting all tick sizes based on STR would result in an excessive increase in the number of tick size tables. To avoid unnecessary complexity, and taking into account the characteristics of these products, TSE has decided to apply Table O to issues with a trading unit of one unit and Table A to all other issues, regardless of price level. • In addition, the applicable tick size tables will be reviewed once a year, which is the same frequency as under the current system based on index classifications. This is not excessive in light of the review frequency in the United States (twice a year under the proposed amendments to Reg NMS Rule 612) and Europe (once a year). We therefore consider it an appropriate frequency, as it takes account of the burden on market stakeholders while allowing tick sizes to reflect recent trading conditions. • Even when reviews are conducted, TSE will ensure that market stakeholders have sufficient time to prepare. To that end, issues subject to a table change in the periodic review will be announced about two months before the effective date. In addition to being provided through the daily FLEX issue

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	the following year. (6) Sufficient explanation does not appear to have been provided as to whether the expected investor benefits of annual changes to the tick size table would outweigh the practical burdens and system costs borne by brokers, vendors, other exchange participants, and ultimately end investors. In this regard, section 2 on appropriate tick sizes in the second interim summary of the Working Group on Capital Market Regulations, dated December 21, 2022 (page 3), also states that tick sizes at exchanges and PTSs should be set appropriately, from the perspective of enhancing the functioning of the market system as a whole and taking into account the circumstances of trading participants and liquidity, so as to ensure fair price formation and likelihood of execution. Accordingly, we hope that TSE will present not only the expected positive effects of these revisions, but also how those effects compare with the implementation costs and operational burdens borne by market participants, and will fully assess its cost-effectiveness.	information, information on the tick size table applicable to each issue will also be published on the JPX website. • The optimization of tick sizes is intended to set appropriate tick sizes based on the liquidity of each issue, and as a result, tick sizes will increase for some issues and decrease for others. • For issues whose tick sizes increase, reductions are expected in execution-time volatility and in the risk of revealing trading intentions (signaling). For issues whose tick sizes decrease, lower execution costs for investors are expected. Although these benefits are difficult to quantify, the revision was considered comprehensively based on actual trading data in the TSE market, analysis of past revisions, views from a broad range of domestic and overseas market stakeholders, and the operation of overseas frameworks, while taking into account the balance between the expected benefits of the revision and the burden on market stakeholders. • After these revisions are implemented, TSE will continue to analyze trading data and review the rules so that they better serve market stakeholders.

Submitted by: 1 = Kyokuto Securities Co., Ltd.; 2 = individual; 3 = JPMorgan Securities Japan Co., Ltd.; and 4 = Japannext Co., Ltd.