

Revisions to Listing Rules for Indicator-Tracking Securities Incorporated ETFs

June 22, 2026

Tokyo Stock Exchange, Inc.

I. Purpose

ETFs investing in OTC derivatives or equity-linked notes (ELNs) are actively traded in overseas markets. However, after global debate over the risks associated with such ETFs intensified in 2011, Tokyo Stock Exchange, Inc. (TSE) decided to suspend approval for new listings until global discussions on regulations for OTC derivatives were concluded. Since then, there have been no new listings of ETFs utilizing OTC derivatives or ELNs.

Since the suspension of new listings for such ETFs, regulations on OTC derivatives and ELNs have been strengthened through the introduction of investment restrictions to avoid concentration of credit risk and margin requirements for non-centrally cleared derivatives. In light of these developments, TSE will revise the listing rules for indicator-tracking securities incorporated ETFs and permit new listings of ETFs investing in OTC derivatives or ELNs.

Through these revisions, new listings of ETFs that utilize OTC derivatives or ELNs will be possible while mitigating their inherent risks. With new listings of ETFs designed to enable more diverse investment strategies and ETFs offering access to new products, TSE aims to enhance the international competitiveness of the TSE ETF market and provide investors with a broader range of high-quality products.

II. Outline

Item	Description	Notes
1. Definitions	<ul style="list-style-type: none"> - The definition of an indicator-tracking securities incorporated ETF shall be updated as follows to include ETFs that invest in securities issued to track a specific indicator, or rights pertaining to a contract concluded with a specific entity to track a specific indicator, through beneficiary certificates of investment trusts and investment corporations. - An ETF that incorporates into its investment trust assets, etc. securities issued to track a specific indicator; rights pertaining to a contract concluded with a specific entity to track a specific indicator; or beneficiary certificates of investment trusts and investment corporations that include such securities or rights. 	<ul style="list-style-type: none"> - “Investment trusts and investment corporations” in this document collectively refers to investment trusts, foreign investment trusts, investment corporations, and foreign investment corporations. - “Beneficiary certificates” in this document collectively refers to beneficiary certificates, investment securities, and foreign investment securities and includes securities trust beneficiary certificates, as prescribed in Article 2-3, Item (3) of the Enforcement Order of the Financial Instruments and Exchange Act (hereinafter

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		referred to as “the Order”), for which these are the entrusted securities as well as securities referred to in Article 2, Paragraph 1, Item 17 of said Act (hereinafter referred to as “the Act”) that have the characteristics of beneficiary certificates of beneficiary certificate-issuing trusts as prescribed in Item 14 of the same paragraph.
<p>2. Criteria for Listing Examination</p> <p>(1) Prompt Reallocation of Incorporated Securities and Incorporated Claims to Other Assets</p>	<ul style="list-style-type: none"> - In cases where a domestic indicator-tracking ETF, domestic actively managed ETF, foreign ETF, or foreign ETF trust beneficiary certificate applying for initial listing falls under the definition of an indicator-tracking securities incorporated ETF, the following new requirements will be added in addition to the existing requirements.* - The management company has appropriately developed a management system, etc. that enables the prompt reallocation of incorporated securities and incorporated claims to other assets. - In cases where an issue applying for initial listing invests in incorporated securities or incorporated claims through beneficiary certificates of investment trusts and investment corporations, the management company shall be required to confirm that the management company of the investment trusts or investment corporations held has established the above-mentioned management system, etc. <p>*The existing requirements are that assets are expected to be managed continuously after listing, and that the management company has appropriately developed a management system, etc. regarding the credit</p>	<ul style="list-style-type: none"> - “Counterparty” in this document collectively refers to the issuer of incorporated securities or the party to the contract pertaining to incorporated claims (in the case where a guarantor exists for said incorporated securities or incorporated claims, said guarantor). - “Incorporated securities” in this document refers to securities which are issued for the purpose of tracking a specific indicator and are incorporated into investment trust assets, etc. - “Incorporated claims” in this document refers to rights pertaining to a contract concluded with a specific entity for the purpose of tracking a specific indicator and are incorporated into investment trust assets, etc. (limited to rights pertaining to over-the-counter derivatives transactions prescribed in Article 2, Paragraph 22 of the Act, rights pertaining to transactions related to commodities investment, etc., and monetary claims referred to in Article 3, Item (7) of the Order).

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(2) Development of a	<p>standing of the counterparty.</p> <p>- In cases where a domestic indicator-tracking ETF, domestic actively</p>	<p>- An explanation shall be required regarding the management system, etc. for prompt reallocation of the incorporated securities and incorporated claims held to other assets, such as investments in securities issued by another issuer that meets the selection criteria established by the management company or rights under a contract with another counterparty that meets said criteria, in order to minimize deviation from the indicator tracked by the incorporated securities or incorporated claims in such cases as where it has become clear that the financial situation, etc. of the counterparty has severely deteriorated. In cases where an issue applying for initial listing invests in incorporated securities or incorporated claims through beneficiary certificates of investment trusts and investment corporations, an explanation shall be required regarding how the management system, etc. of the management company of said investment trusts and investment corporations has been confirmed.</p> <p>- The explanation regarding the management system, etc. to promptly reallocate the incorporated securities and incorporated claims to other assets shall be required in the report regarding the management system, etc. of the indicator-tracking securities incorporated ETF.</p> <p>- The explanation regarding the framework for the</p>

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<p>Framework for the Appropriate Management of Margin in Non-centrally Cleared OTC Derivative Transactions</p>	<p>managed ETF, foreign ETF, or foreign ETF trust beneficiary certificate applying for initial listing falls under the definition of an indicator-tracking securities incorporated ETF and rights pertaining to non-centrally cleared OTC derivative transactions are incorporated into its investment trust assets, etc., in addition to meeting the requirements under item (1), the management company shall be required to develop a framework for the appropriate management of margin in non-centrally cleared OTC derivative transactions based on Article 123, Paragraph 1, Items 21-10 and 21-11, and other related provisions of the Cabinet Office Order on Financial Instruments Business, etc.</p> <p>- In cases where an issue applying for initial listing invests in incorporated securities through beneficiary certificates of investment trusts and investment corporations, the management company shall be required to confirm that the management company of the investment trusts or investment corporations held has established the above-mentioned framework.</p>	<p>appropriate management of margin in non-centrally cleared over-the-counter derivative transactions shall be required in the report regarding the management system, etc. of the indicator-tracking securities incorporated ETF. In cases where an issue applying for initial listing invests in incorporated securities through beneficiary certificates of investment trusts and investment corporations, an explanation shall be required regarding how the framework of the management company of said investment trusts and investment corporations has been confirmed.</p> <p>- Examination will be carried out regarding the amount predetermined by the involved parties for which deposit or return of variation margin (as defined under Article 123, Paragraph 1, Item 21-10 and other related provisions of the Cabinet Office Order on Financial Instruments Business, etc.) is not required, from the perspective of whether said amount is appropriately determined in light of factors such as the net asset value of the issue applying for initial listing and the trading status of the underlying asset.</p> <p>- A framework for the appropriate management of initial margin in non-centrally cleared OTC derivative transactions shall not be required for transactions that fall under any item on Article 123, Paragraph 13 of the Cabinet Office Order on Financial Instruments Business, etc.</p>

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(3) Provision of Portfolio Information	<ul style="list-style-type: none"> - In cases where a domestic indicator-tracking ETF, foreign ETF, or foreign ETF trust beneficiary certificate applying for initial listing falls under the definition of an indicator-tracking securities incorporated ETF, TSE will require detailed information as specified by TSE about the ETF's assets (hereinafter referred to as "portfolio information") to be expected to be provided to investors on an ongoing basis before the opening of each trading day. 	<ul style="list-style-type: none"> - TSE will require the ETF's management company to submit a written commitment along with its initial listing application which states that it will provide portfolio information on an ongoing basis. - See 3. (2) below for details regarding the provision of portfolio information.
(4) Investment Restrictions	<ul style="list-style-type: none"> - In cases where a domestic indicator-tracking ETF, domestic actively managed ETF, foreign ETF, or foreign ETF trust beneficiary certificate applying for initial listing invests in incorporated securities (including cases where such investment is made through beneficiary certificates of investment trusts and investment corporations held), TSE shall require that the aggregate beneficial investment ratio in such incorporated securities be no more than 20% of the total NAV of the trust assets. - In cases where a foreign ETF or foreign ETF trust beneficiary certificate applying for initial listing falls under the definition of an indicator-tracking securities incorporated ETF, TSE shall require investment restrictions equivalent to those satisfying the requirements of Article 17-2 of the Rules on the Management of Investment Trusts, etc. established by the Investment Management Association of Japan to be in place. 	<ul style="list-style-type: none"> - TSE will require the ETF's management company to submit a written commitment along with its initial listing application which states that the aggregate beneficial investment ratio in incorporated securities will be no more than 20% of the total NAV of the trust assets.
3. Disclosure of Information		
(1) Timely Disclosure	<ul style="list-style-type: none"> - The following criteria for timely disclosure shall be established for listed indicator-tracking ETFs that are listed indicator-tracking securities 	<ul style="list-style-type: none"> - The criteria for timely disclosure to be established are equivalent to those for domestic actively managed

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(2) Provision of Information	<p>incorporated ETFs.</p> <ul style="list-style-type: none"> - When there is a change to the method of providing portfolio information - When provision of portfolio information to investors is suspended - When there is a possibility that portfolio information may not be continuously provided to investors <p>- In cases where a listed indicator-tracking securities incorporated ETF invests in incorporated securities (including cases where such investment is made through beneficiary certificates of investment trusts and investment corporations held), the following timely disclosure criterion shall be established:</p> <ul style="list-style-type: none"> - When the aggregate beneficial investment ratio in such incorporated securities exceeds 20% of the total NAV of the trust assets for five consecutive business days. <p>- Listed indicator-tracking ETFs that are listed indicator-tracking securities incorporated ETFs shall be required to provide investors with finalized portfolio information before the start of each daily trading session via a method that allows public access.</p>	<p>ETFs.</p> <ul style="list-style-type: none"> - These criteria shall be applied in such cases as where the outsourcing contract with the information distribution vendor is expected to be terminated, or where distribution of portfolio information has been suspended and is not expected to resume on the following day. <p>- The portfolio information required to be provided is equivalent to that required for domestic actively managed ETFs.</p> <ul style="list-style-type: none"> - Information regarding the ETF as referred to in the following a. through d.: <ul style="list-style-type: none"> a. Securities code; b. Name; c. The amount of cash held; and d. The number of beneficiary right units. - Information regarding each asset held by the ETF as referred to in the following a. through c.:

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		<ul style="list-style-type: none"> a. Name, securities code, or other information that enables identification of securities, rights pertaining to derivative transactions, or rights and currency pertaining to transactions related to commodities investment, etc.; b. Quantity or value of each asset identified in accordance with the preceding a.; and c. Unit price of each asset identified in accordance with a.
4. Code of Conduct	<ul style="list-style-type: none"> - In addition to the current requirement to endeavor to appropriately develop management systems, etc. concerning the credit standing of the counterparty of the ETF, TSE shall require management companies of indicator-tracking securities incorporated ETFs (meaning the foreign investment corporation and the management company in cases of foreign ETFs falling under foreign investment securities and foreign ETF trust beneficiary certificates whose entrusted securities are said foreign ETFs) to endeavor to do the following. <ul style="list-style-type: none"> - Develop and maintain a management system, etc. that enables the prompt reallocation of incorporated securities and incorporated claims to other assets. - Develop and maintain a framework for the appropriate management of margin in non-centrally cleared OTC derivative transactions based on Article 123, Paragraph 1, Items 21-10 and 21-11, and other provisions of the Cabinet Office Order on Financial Instruments Business, etc.; provided, however, that the same shall not apply to cases where the ETF does not incorporate rights pertaining to non-centrally cleared OTC 	

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	<p>derivative transactions into its investment trust assets.</p>	
<p>5. Delisting Criteria</p>	<ul style="list-style-type: none"> - The following delisting criteria shall be established for indicator-tracking securities incorporated ETFs. <ul style="list-style-type: none"> - Where the management company (or the management company of the investment trusts or investment corporations incorporated in the investment trust assets) ceases to maintain a management system, etc. that enables the prompt reallocation of incorporated securities and incorporated claims to other assets or a framework for the appropriate management of margin in non-centrally cleared OTC derivative transactions; provided, however, that the same shall not apply to cases where: <ul style="list-style-type: none"> - The ETF's existing management duties are transferred to a different management company, and the new management company will develop a management system, etc. that enables the prompt reallocation of incorporated securities and incorporated claims to other assets and a framework for the appropriate management of margin in non-centrally cleared OTC derivative transactions (excluding cases where the ETF does not incorporate rights pertaining to non-centrally cleared OTC derivative transactions into its investment trust assets); or - Beneficiary certificates of said investment trusts and investment corporations will be promptly reallocated to other assets. - The following delisting criteria shall be established for indicator-tracking ETFs that are indicator-tracking securities incorporated ETFs. <ul style="list-style-type: none"> - Where the portfolio information has continuously not been provided to investors for a period of one month; provided, however, that this will 	<ul style="list-style-type: none"> - If an indicator-tracking securities incorporated ETF becomes likely to be delisted in line with the criteria on the left, TSE may designate it as a "Security Under Supervision," and if delisting is decided, a "Security to be Delisted." - This is the same as the delisting criteria for domestic actively managed ETFs.

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	<p>not apply in cases where TSE deems said provision difficult for reasons not attributable to the management company, such as an act of providence.</p> <ul style="list-style-type: none"> - The following delisting criteria shall be established for foreign ETFs and foreign ETF trust beneficiary certificates that are indicator-tracking securities incorporated ETFs. <ul style="list-style-type: none"> - Where investment restrictions equivalent to those satisfying the requirements of Article 17-2 of the Rules on the Management of Investment Trusts, etc. established by the Investment Management Association of Japan are removed. - In cases where a listed indicator-tracking securities incorporated ETF invests in incorporated securities (including cases where such investment is made through beneficiary certificates of investment trusts and investment corporations held), the following delisting criterion shall be established: <ul style="list-style-type: none"> - Where the aggregate beneficial investment ratio in such incorporated securities exceeds 20% of the total NAV of the trust assets and has not fallen to 20% or below within one month from the date on which the threshold was exceeded. 	
6. Other	<ul style="list-style-type: none"> - Other necessary revisions shall be made. 	

III. Implementation Schedule (Planned)

- Implementation is scheduled for September 2026.
- II. 2. shall apply to ETFs that apply for initial listing on or after the implementation date.

Disclaimer: This English translation is for reference purposes only and not a legally definitive translation of the original Japanese text. In the event a difference arises regarding the meaning herein, the original Japanese version will prevail as the official authoritative version.