

## **Rules concerning Just and Equitable Principles of Trade** (as of December 1, 2014)

Tokyo Stock Exchange, Inc.

### **Rule 1. Purpose**

These rules shall provide acts prescribed by the Exchange pursuant to Rule 42 of the Trading Participant Regulations.

### **Rule 2. Definitions of the terms**

1. The term "derivatives instruments" means futures referred to in Article 2, Paragraph 21, Item 2 of the Financial Instruments and Exchange Act (hereinafter the "Act") pertaining to indices (limited to those comprehensively representing price levels of numerous securities listed on a financial instruments exchange(s) in Japan; the same shall apply hereinafter) (including similar instruments traded in a foreign financial instruments market(s); hereinafter referred to as "index futures"), options referred to in Article 2, Paragraph 21, Item 3 of the Act pertaining to indices (including similar options traded in a foreign financial instruments market(s); hereinafter referred to as "index options"), OTC derivatives pertaining to indices, or securities/certificates whose amount of dividend, interest, distribution money, redemption money, etc. is calculated in accordance with numerical values of indices or prices of index futures trading in a predetermined method (including securities or certificates having a similar feature that are issued by a foreign country or a foreign corporation).
2. The term "index-linked investment trust beneficiary certificates, etc." means investment trust beneficiary certificates (meaning beneficiary certificates of investment trusts), foreign investment trust beneficiary certificates (meaning beneficiary certificates of foreign investment trusts; the same shall apply hereinafter in this paragraph), investment securities, foreign investment securities, beneficiary certificates of a beneficiary certificate issuing trust (out of beneficiary certificates of a beneficiary certificate issuing trust, those whose trust assets are securities which have characteristics of corporate bonds out of securities or certificates issued overseas by a foreign juridical person, foreign investment trust beneficiary certificates, foreign investment securities, or beneficiary certificates of a foreign beneficiary certificate issuing trust (meaning securities or certificates issued by a foreign juridical person which have characteristics of beneficiary certificates of a beneficiary certificate issuing trust)), or beneficiary certificates of a foreign beneficiary certificate issuing trust which are aimed at tracking a specific indicator.
3. The term "subsidiary/parent companies of a trading participant" means foreign corporations which are subsidiaries (meaning subsidiaries prescribed in Article 2, Item 3 of the Companies Act (Act No.86 of 2005) and other companies whose 50% or more of the voting rights (excluding voting rights of shares which cannot be exercised for all matters that can be resolved in a general shareholders meeting, but including voting rights of shares deemed to hold voting rights pursuant to the provisions prescribed in Article 879, Paragraph 3 of the Companies Act; the same shall apply hereinafter) of the total shareholders of such other company is held by a trading participant; the same shall apply hereinafter) or parent companies (meaning parent companies prescribed in Article 2, Item 4 of the Companies Act and other company which has 50% or more of the voting rights of

the total shareholders of a trading participant; the same shall apply hereinafter) of trading participants that carry out business similar to financial instruments business in a foreign country. In these cases, other company whose parent company is a subsidiary of a trading participant and another company which is a parent company of a subsidiary of a trading participant shall be deemed to be a subsidiary, and other company which is a parent company of a parent company of a trading participant and other company whose parent company is a parent company of a trading participant shall be deemed to be a parent company of such trading participant.

4. The term "cash market" means a financial instruments exchange market which a financial instruments exchange in Japan operates for securities trading.
5. The term "derivative products market" means a financial instruments exchange market or a foreign financial instruments market operated for derivatives trading.
6. The term "securities options, etc." means securities options (meaning trading referred to in Article 2, Paragraph 21, Item 3 of the Act pertaining to trading in listed securities (including similar trading carried out in a foreign financial instruments market, etc.), securities options which are the object of OTC options trading, and trading similar to such securities options; the same shall apply hereinafter in this rule and Rule 3), a right to be able to effect a transaction in which an amount of money calculated in accordance with prices of a listed security in a predetermined method is paid and/or received, or a right pertaining to a security or certificate whose amount of dividend, interest, distribution money, or redemption money, etc. is calculated in accordance with prices of a listed security in a predetermined method.
7. The term "arbitrage" means, transactions using a relation between levels of a contracted numerical value pertaining to index futures trading and levels of an index, in which a sale or a purchase, or a final settlement of an index futures trading is conducted, and in which at the same time a sale or a purchase is made in multiple securities of different issues in an amount of the contract value (limited to securities selected so that the fluctuation of the total amount of prices of such securities will be approximated to the fluctuation of an index for index futures trading) (including transactions using index options transaction which correspond thereto).

### **Rule 3. Acts of Trading Participants**

Acts specified by the Exchange as prescribed in Rule 42 of the Trading Participant Regulations shall be those referred to in each of the following items:

- (1) Acts concerning trading, etc. straddling two markets;
- (2) Acts concerning arbitrage;
- (3) Acts concerning takeover bids;
- (4) Acts concerning stabilization transactions; and
- (5) Any other acts that impair the protection of investors or harm fair trading.

### **Rule 4. Acts concerning Trading, etc. Straddling Two Markets**

1. Acts concerning transactions, etc. straddling two markets as prescribed in Item 1 of the preceding rule shall mean those referred to in the following items that the trading participant carries out in relation to transactions on a proprietary account or an account of such trading participant's subsidiary or parent company or affiliated company conducting financial instruments business (limited to transactions for which investment decisions are

substantially entrusted to such trading participant; the same shall apply hereinafter):

- (1) A trading participant holding one of the two price-linked products executes fictitious trades in the other product for the purpose of gaining profits by making other persons misunderstand the state of trading in such product;
  - (2) A trading participant holding one of the two price-linked products conducts wash trades in the other product in prior conspiracy with other person(s) for the purpose of gaining profits by making third parties misunderstand the state of trading in such product;
  - (3) A trading participant holding one of the two price-linked products makes the price fluctuate by trading in the other product for the purpose of enticing other persons' transactions and then gaining profits;
  - (4) A trading participant holding one of the two price-linked products disseminates rumors about the other product for the purpose of enticing other persons' trades and then gaining profits;
  - (5) A trading participant holding a derivative product intentionally causes an index or a price of index futures trading to fluctuate or prevents an index or a price of index futures trading from rising or falling by means of conducting trading in the cash market or index futures trading in the derivatives market for the purpose of making the final settlement or exercise of rights, etc. of such derivative product favorable for itself, or a trading participant who holds an unsettled contract pertaining to a sale of a derivative product does the same for the purpose of preventing rights from being exercised;
  - (6) A trading participant who holds securities options, etc. conducts trading in a listed security which is the object of such securities options, etc., thereby intentionally causing a price of such listed security to fluctuate or preventing a price of such listed security from rising or falling, for the purpose of making exercise of rights or the calculation of margin favorable for itself or a trading participant who holds an unsettled contract pertaining to a sale of securities options, etc. does the same for the purpose of preventing rights from being exercised, etc.; or
  - (7) A trading participant who knows that an order entrusted by a customer which is likely to have a material impact on the market of either of the two price-linked products conducts trading in the other product ahead of placement of such order for the purpose of gaining profits using this information.
2. Two price-linked products as prescribed in the preceding paragraph shall be those referred to in each of the following items:
- (1) A derivative product and a listed security;
  - (2) Index-linked ETF beneficiary certificates and a listed stock;
  - (3) A derivative product and index-linked ETF beneficiary certificates; or
  - (4) Security options and a listed security which is the object of such security options.

#### **Rule 5. Acts concerning Arbitrage**

1. Acts concerning arbitrage as prescribed in Rule 3, Item 2 shall be acts referred to in each of the following items that a trading participant carries out:
  - (1) Where Tokyo Stock Price Index (hereinafter referred to as "TOPIX") (meaning the market capitalization weighted stock price index computed by the Exchange whose component stocks are the First Section Market stocks out of the listed stocks on the

Exchange (limited to stocks issued by domestic corporations (excluding subscription warrant securities, stocks without voting rights (meaning stocks without voting rights prescribed in Rule 2, Item 87 of the Securities Listing Regulations), stocks with fewer voting rights (meaning those referred to in Rule 205, Item 9-2, Sub-item b. of said Regulations), and preferred stocks, etc. (meaning preferred stocks, etc. prescribed in Rule 2, Item 90 of said Regulations) )); the same shall apply hereinafter) falls lower than the closing level of the preceding day of TOPIX beyond the range of fluctuations specified in the following paragraph, a trading participant carries out a sale (excluding a sale based on brokerage for clearing securities, etc.) pertaining to arbitrage in stocks for a proprietary account or an account of its subsidiary or parent company or an affiliated company which carries out financial instruments business during a period from the time when TOPIX has fallen beyond such range of fluctuations to the time when the difference between TOPIX and the closing level of TOPIX on the preceding day becomes within the range of fluctuations specified in Paragraph 3 (in cases where the difference does not become within such range of fluctuations by the time of the closing of the afternoon trading session, this shall become so by the time of the closing of the afternoon trading session); or

- (2) Where TOPIX rises higher than the closing price of TOPIX on the preceding day beyond the range of fluctuations specified in the following paragraph, a trading participant carries out a purchase (excluding a purchase based on brokerage for clearing of securities, etc.) pertaining to arbitrage in stocks in the proprietary account or an account of its subsidiary or parent company or an affiliated company which conducts financial instruments business during a period from the time when TOPIX has risen beyond such range of fluctuations to the time when the difference between TOPIX having risen beyond such range of fluctuations and the closing price of TOPIX of the preceding day becomes within the range of fluctuations specified in Paragraph 3.
2. The ranges of fluctuations where a sale or a purchase pertaining to arbitrage is restricted pursuant to the provisions of each item of the preceding paragraph shall be as follows in accordance with the levels of the numerical values of the closing price of TOPIX on the preceding day:

Numerical values of the closing prices of TOPIX on the preceding day	Range of Fluctuations
Less than 2,000 points	100 points
2,000 points or more, but less than 3,000 points	150 points
3,000 points or more, but less than 4,000 points	200 points
4,000 points or more	250 points

3. The ranges of fluctuations where restrictions on a sale or a purchase pertaining to arbitrage are lifted pursuant to the provisions of each item of Paragraph 1 shall be as follows in accordance with the levels of the numerical values of the closing prices of TOPIX on the preceding day:

Numerical values of the closing prices of Tokyo Stock Price Index on the previous day	Range of Fluctuations
Less than 2,000 points	70 points
2,000 points or more, but less than 3,000 points	100 points
3,000 points or more, but less than 4,000 points	130 points
4,000 points or more	160 points

4. Notwithstanding the provisions of the preceding two paragraphs, the Exchange may change the ranges of fluctuations specified in each of such paragraphs if the Exchange deems it necessary in consideration of the stock market conditions, etc.

#### **Rule 6. Acts concerning Takeover Bids**

Acts related to takeover bids as prescribed in Rule 3, Item 3 shall mean those referred to in each of the following items that a trading participant carries out:

- (1) Acts referred to in the following sub-items that a trading participant carries out in cases where a trading participant becomes a person who carries out administrative works referred to in each item of Paragraph 4 of Article 8 or each item of Paragraph 4 of Article 14-3-3 of the Enforcement Ordinance of the Financial Instruments and Exchange Act (Cabinet Order No.321 of 1965; hereinafter referred to as the "Enforcement Ordinance") for a takeover bidder concerning a takeover bid, or a person who carries out purchases, etc. (meaning purchases, etc. as prescribed in Article 27-2 of the Act; the same shall apply hereinafter) of stocks, etc. (meaning stocks, etc. as prescribed in Article 27-2 of the Act; the same shall apply hereinafter) by the takeover bid for and on behalf of the takeover bidder (hereinafter referred to as a "person related to the takeover bidder"):
  - a. A trading participant leaks or steals to use special information which was obtained ex officio concerning such takeover bid after deciding to become a person related to the takeover bidder;
  - b. After a trading participant has decided to become a person related to the takeover bidder, the trading participant carries out purchases, etc. (including purchase, etc. based on a discretionary trading agreement) of stocks, etc. issued by an issuer of stock, etc. pertaining to such takeover bid on the proprietary account on the Exchange market before a day on which public announcement is made on such takeover bid, for the purpose of carrying out sales, etc. (meaning sales, etc. as prescribed in Article 27-2 of the Act) to the takeover bidder, etc. (meaning a takeover bidder, etc. as prescribed in Article 27-3 of the Act; the same shall apply hereinafter);
- (2) A trading participant becomes a person related to a takeover bidder concerning the takeover bid, knowing that a person intends to obtain unjust profits by carrying out sales of stock, etc. that it owns at a favorable prices using a takeover bid; or
- (3) A trading participant conducts acceptance of buy orders for a stock (excluding acceptance of brokerage for clearing of securities, etc.) on an account of a person who accumulates shares of the stock by purchases concerning a takeover bid, uses a position as a person owning a large number of shares of such stock, and aims to carry out sales to parties related to the issuer of such stock at favorable prices against their will or to take similar actions.

### **Rule 7. Acts concerning Stabilization Transactions**

Acts concerning stabilization transactions prescribed in Rule 3, Item (4) shall mean acts referred to in each of the following items that a trading participant carries out:

- (1) With respect to a listed stock (see Note 1), listed preferred equity contribution security or listed investment security (see Note 2) (hereinafter collectively referred to as "listed stock, etc."), or a listed investment trust beneficiary certificate (meaning a beneficiary certificate of an investment trust; the same shall apply hereinafter) issued by an issuer of a security (see Note 3 below) pertaining to an offering (limited to those made to at least fifty (50) persons; the same shall apply hereinafter.) or secondary distribution (excluding an offering or secondary distribution pertaining to granting of those deemed as stock options such as issuance of subscription warrants to officers or employees), the following acts (excluding acceptance of a purchase of a security consummated due to exercise of rights in trading referred to in Article 2, Paragraph 21, Item 3 of the Act pertaining to securities trading) that a trading participant conducts regarding a purchase which is conditioned to be executed within the period during which the market participant may conduct stabilization transactions (meaning stabilization transactions as prescribed in Article 20, Paragraph 1 of the Enforcement Ordinance; the same shall apply hereinafter) (meaning any of the stabilization transaction periods prescribed in Article 22, Paragraphs 2 to 4 of the Enforcement Ordinance; hereinafter referred to as "stabilization transaction period"):

(Note 1) This means, in the case of an offering or secondary distribution of a market value subscription warrant security (as defined in Note 3 below), a listed stock or listed market value subscription warrant security, and, in the case of an offering or secondary distribution of a market value corporate bond with subscription warrant (as defined in Note 3 below), a listed stock or listed market value corporate bond with subscription warrant.

(Note 2) This means, in the case of an offering or secondary distribution of a market value new investment unit subscription warrant security (as defined in Note 3 below), a listed investment security or listed market value new investment unit subscription warrant security (as defined in Note 3 below)

(Note 3) This security excludes (i) a subscription warrant security other than a subscription warrant security representing a subscription warrant by which a stock is issued or transferred at the market price or a certain price close to the market price (hereinafter referred to as a "market value subscription warrant security"), (ii) a corporate bond other than a corporate bond with such subscription warrant (hereinafter referred to as a "market value corporate bond with subscription warrant"), (iii) a preferred equity contribution security other than a preferred equity contribution security (meaning a preferred equity contribution security issued by a cooperative structured financial institution; the same shall apply hereinafter) issued at the market price or a certain price close to the market price, and (iv) a new investment unit subscription warrant security other than a new investment unit subscription warrant security representing a subscription warrant by which an investment security is issued or transferred at the market price or a certain price close to

the market price (hereinafter referred to as a "market value new investment unit subscription warrant security ")

- a. An act of accepting brokerage (excluding acceptance of brokerage for clearing of securities, etc.) of purchases from an issuer, while knowing that such issuer is an issuer of a security pertaining to stabilization transactions;  
In this case, the purchases from such issuer shall be limited to (i) purchases of listed stocks, etc. in the case that securities pertaining to stabilization transactions are listed stocks, etc., as well as (ii) purchases of listed investment trust beneficiary certificates in the case that securities pertaining to stabilization transactions are listed investment trust beneficiary certificates
- b. An act of accepting brokerage of purchases from an entity, while knowing that it is an entity who may entrust stabilization transactions  
In this case, the term "entity who may entrust stabilization transactions" shall mean entities referred to in each item of Paragraph 3 of Article 20 of the Enforcement Ordinance, but exclude entities prescribed in the following c. and trading participants. Moreover, the term "accepting brokerage of purchases from an entity" shall exclude the following acceptance:
  - (i) Acceptance of brokerage for clearing of securities, etc.; and
  - (ii) Acceptance of brokerage of stabilization transactions (excluding, in cases other than the case prescribed in d. below, stabilization transactions based on a discretionary trading agreement).
- c. An act of accepting brokerage of a purchase from an entity, while knowing that it is a foreign corporation which conducts business similar to financial instruments business in a foreign country in which the trading participant has entered into an underwriting agreement with an issuer of a security pertaining to stabilization transactions. In this case, the definitions of the terms above are as follows:
  - (i) The term "security pertaining to stabilization transactions" shall be limited to such security pertaining to offering or secondary offering which is made in regions other than Japan; and
  - (ii) The term "accepting brokerage of purchases" shall exclude the following acceptance:
    - (a) Acceptance of brokerage of stabilization transactions (excluding, in cases other than the case prescribed in d. below, stabilization transactions based on a discretionary trading agreement); and
    - (b) Acceptance of brokerage of purchases referred to in each item of Rule 67 of the Business Regulations.
- d. An act of purchasing on a proprietary account, and purchasing based on a discretionary trading agreement and entrusting such purchases in cases of that an issuer of a security pertaining to stabilization transactions has notified that the trading participant is a person referred to in Article 20, Paragraph 3, Item 5 of the Enforcement Ordinance. In this case, the definitions of the terms above are as follows:
  - (i) The term "security pertaining to stabilization transactions" shall be limited to such security pertaining to offering or secondary offering which is made in regions other than Japan;

- (ii) The term "purchasing on a proprietary account" shall exclude stabilization transactions and purchases referred to in each item of Rule 67 of the Business Regulations;
  - (iii) The term "purchasing based on a discretionary trading agreement" shall exclude stabilization transactions and purchases referred to in each item of Rule 67 of Business Regulations; and
  - (iv) The term "entrusting such purchases" shall exclude entrustment of brokerage for clearing of securities, etc., but include the entrustment of brokerage for clearing of securities, etc. pertaining to the following purchases:
    - (a) Purchases on a proprietary account, excluding stabilization transactions; and
    - (b) Purchases based on a discretionary trading agreement, excluding stabilization transactions.
- (2) Acts referred to in the following sub-items which are committed during a period from the time of the first stabilization transaction being carried out to the end of the stabilization transaction period, while a trading participant knows that stabilization transactions are carried out for a security pertaining to such stabilization transaction without indicating to that effect.

In this case, such acts shall exclude accepting brokerage of purchases of a security which are to be consummated by exercise of rights related to trades referred to in Article 2, Paragraph 21, Item 3 of the Act pertaining to securities trading.

- a. Acceptance of entrustment of purchases or sales (excluding the following purchases and sales) pertaining to stocks, preferred equity contribution securities, market value subscription warrant securities, investment securities, market value new investment unit subscription warrant security, or market value corporate bonds with subscription warrants (and investment trust beneficiary certificates in cases where securities pertaining to stabilization transactions are investment trust beneficiary certificates), or brokerage for clearing of securities, etc. pertaining to such sales:
  - (i) Acceptance of entrustment of purchases from financial instruments business operators or authorized transaction-at-exchange operators;
  - (ii) Sales to financial instruments business operators or authorized transaction-at-exchange operators; and
  - (iii) Sales based on brokerage for clearing of securities, etc.
- b. Acceptance of brokerage of the following transactions (excluding acceptance from financial instruments business operators or authorized transaction-at-exchange operators) pertaining to transactions referred to in Article 2, Paragraph 21, Item 3 of the Act regarding trades of securities issued by an issuer of said securities
  - (i) A transaction that makes a trading participant a party in a position to acquire securities options that can consummate purchases of such securities; and
  - (ii) A transaction that makes a trading participant a party in a position to grant securities options that can consummate sales of such securities.



(Provisional Reference Translation)

(Note)

The definitions of the terms pertaining to index futures trading, security options trading, and index options trading shall be as prescribed in the Business Regulations of Osaka Exchange, Inc.