

Measures to Enhance the Functions of the Japanese Securities Market in light of Recent Conditions

November 24, 2010
Tokyo Stock Exchange, Inc.

Tokyo Stock Exchange (TSE) has compiled the items that should be undertaken to enhance the functions of TSE as well as the Japanese securities market as a whole, in conjunction with the release of the outline of rule revisions in the “Partial Revision of Trading Hours”. The basic idea and contents of the corresponding measures are as follows.

I Basic Idea

Recently, the securities market continues to remain unstable due to factors such as the strong yen and uncertainty over the Japanese economy.

In order to reinvigorate today's Japanese securities market, together with progress on monetary policy aimed at overcoming deflation, attracting risk money to the securities market is considered essential through implementing the new growth strategy of the government. This would, in turn, lead to domestic and foreign investors regaining confidence in the Japanese economy.

Tokyo Stock Exchange, Inc. (TSE) has been engaged in initiatives to improve the convenience and reliability of the market, in order to not only better support the wealth-building of all people according to their varying life plans but also become a vibrant destination for international investment assets (risk money). In light of the current unstable market conditions, TSE aims to secure stability in the Japanese securities market at an early stage through public and private joint cooperation by striving to implement measures, which are thought to contribute to the enhancement of the functions of the Japanese securities market, as swiftly as possible in conjunction with increasing trading opportunities through a review of our trading hours.

While TSE does not expect all such measures to yield immediate results, the current situation is considered a prime opportunity to enhance the functions of the Japanese securities market for the future. TSE will work together with market-related parties for making the necessary improvements to the market environment.

II Outline of Measures

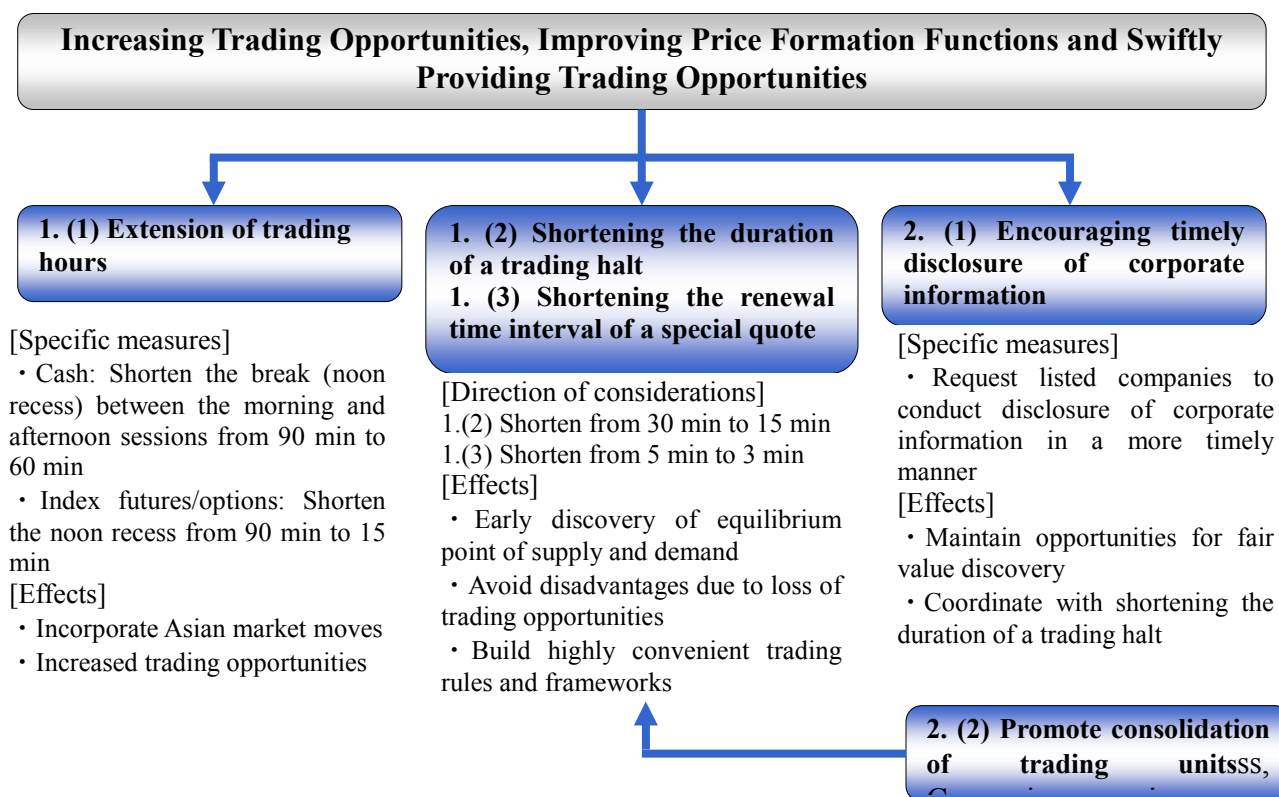
Items	Contents	Remarks
<p>1. Matters to review with regard to rules and operations, etc. to increase trading opportunities</p> <p>(1) Extension of trading hours</p>	<p>(Matters on which rules and frameworks should be revised swiftly in the future)</p> <ul style="list-style-type: none"> ▪ Increase trading opportunities by shortening the noon recess while considering factors such as the relationship with trading hours of other Asian markets and current market practices in the Japanese market. <p>a. Cash market</p> <p style="padding-left: 20px;">Extend the morning session by 30 minutes (Shorten the noon recess from the current 90 minutes to 60 minutes)</p> <ul style="list-style-type: none"> • Morning session: 9:00 am – 11:30 am • Afternoon session: 12:30 pm – 3:00 pm <p>b. Derivatives market</p> <ul style="list-style-type: none"> - Shorten the noon recess for trading of index futures and options such as TOPIX futures from the current 90 minutes to approximately 15 minutes (the end of the morning session will coincide with the cash market) <ul style="list-style-type: none"> • Morning session: 9:00 am – 11:30 am • Afternoon session: 11:45 am – 3:10 pm - Move down the closing time of the morning session for individual equity options by 30 minutes <ul style="list-style-type: none"> • Morning session: 9:00 am – 11:30 am • Afternoon session: 12:30 pm – 3:10 pm <p>c. Implementation date</p> <p style="padding-left: 20px;">This will be implemented in the first half of the fiscal year of 2011.</p>	<ul style="list-style-type: none"> ▪ For details, please refer to “Partial Revision of Trading Hours” (Outline of partial rule revisions). ▪ TSE will continue to examine ways to extend trading hours such as further shortening the noon recess or moving down the closing time of the afternoon session while paying sufficient attention to the needs, costs for adaptation, market practices, etc. of market users, so as to contribute to increasing convenience for market users. ▪ With regard to the extension of evening session trading hours for the derivatives market, TSE will continue to consider with a view to expansion while taking into account the trading situation of TOPIX futures contracts listed on the NYSE Liffe market, participation by retail investors, and system and staff-related costs. ▪ There will be no change to the noon recess and the evening session trading hours for JGB futures and options on JGB futures.

Items	Contents	Remarks
(2) Shortening the duration of a trading halt	<ul style="list-style-type: none"> In light of the rapid developments in data transmission infrastructure in recent years and investor needs, from the viewpoint of providing trading opportunities for issues, for which material information affecting investment decisions has been announced, at an early stage, the duration of a trading halt will be shortened to 15 minutes (from the current 30 minutes), thereby increasing convenience for investors. 	<ul style="list-style-type: none"> Japanese stocks are traded in other countries in the same time zone. Since our trading rules do not affect trading in other countries, there is a concern that liquidity will flow out to such other countries in the duration of the trading halt.
(3) Shortening the renewal interval of a special quote	<ul style="list-style-type: none"> In light of high-speed and stable trading after arrowhead launch, as well as more detailed trade supervision including management of erroneous orders by TSE, from the viewpoint of facilitating swifter and smoother trade execution, the renewal time interval of a special quote will be shortened to 3 minutes (from the current 5 minutes) while maintaining price-stabilizer functions, thereby increasing convenience for investors. 	<ul style="list-style-type: none"> TSE will widely inform various foreign exchanges of the effectiveness of its trading rules (mechanisms such as the daily price limit, the special quote, the sequential trade quote, etc.) as a countermeasure against events such as the Flash Crash which occurred in the US.
2. Promotion of current measures to increase market convenience	(Matters, etc. that require deeper understanding from listed companies and market participants with regard to current measures)	
(1) Encourage timely disclosure of corporate information	<ul style="list-style-type: none"> With the dramatic progress in swift information dissemination, and a strong demand for reducing the risk of holding material corporate information, the increased trading opportunities brought about by announced information is considered beneficial to both listed companies and investors. With this in mind, in conjunction with shortening the duration of a trading halt, since trading can be expected to resume swiftly after a trading halt caused by timely disclosure before the end of an auction trading session, in light of both the provision of trading opportunities to investors and fair price formation with timely and appropriate disclosure being more easily achievable, TSE will make an effort to remind listed companies of their obligation to perform timely disclosure during an auction trading session. 	<ul style="list-style-type: none"> Market participants have pointed out that the price formation function of the TSE market is declining. This is being observed in Japanese market moves being largely determined by movements in the European and US markets for the day, and increased trading volumes which coincide with the time when the Shanghai market opens for trading as well as the timing of the announcements of economic indicators of other countries.

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(2) Encourage unification of trading units	<ul style="list-style-type: none"> • In the “Action Plan for Consolidating Trading Units” announced on November 27, 2007 (all domestic stock exchanges), with regard to the transition period (second phase) for consolidating trading units to 100 shares or 1,000 shares, in light of the stable operations, cost, and business process of market practices after the dematerialization of share certificates, TSE will determine the date for completion of the second phase. • In accordance with the above plan, after swiftly conducting a field survey of the situation of market practices, costs, etc. after the dematerialization of share certificates, TSE will strive to further promote the consolidation of trading units, such as by strongly requesting listed companies to cooperate with such consolidation . 	<ul style="list-style-type: none"> • The TSE Business Regulations stipulate that the trading unit is the same as the number of shares in a Share Unit. The consolidation of trading units will be accompanied by revisions to the articles of incorporation of the listed companies, business procedures pertaining to stock splits, etc., and corresponding cost. • At the time of announcement of the Action Plan mentioned in the left column, the tentative transition period for consolidating the trading units into the two classifications of 100 shares and 1,000 shares was indicated as April 2012.
<p>3. Matters for deliberation with market-related parties to further enhance market functions</p> <p>(1) Restrictions, etc. during public offering of shares, etc.</p> <p>(2) Coordination of short-selling regulations with the global standard</p>	<p>(Matters for deliberations with market-related parties to review laws and regulations or rules of the self-regulatory body and improvement of the market environment)</p> <ul style="list-style-type: none"> • Due to the increase in short-selling around the time of a public offering of shares some have pointed out concerns that the stock price formation during the period up to the date on which the issue price is determined does not reflect actual supply and demand. • In light of such comments and the globalization of stock trading, TSE will continue to explore both enhanced surveillance of unfair trading and new regulations on short-selling. • Short-selling regulations in Japan including regular and temporary measures are recognized as being very strict even in comparison with those in major countries. Some have pointed out that this is one of the main factors inhibiting investment participation in Japan by major overseas investors. • Therefore, TSE will submit to the regulatory authorities a recommendation on a revision of the regulations centered around coordination with the disclosure regulations on short-selling positions in European countries and the US, thereby encouraging overseas investors to invest in Japan. 	<ul style="list-style-type: none"> • In the US, in connection with an offering of equity securities, it shall be unlawful for any person to sell short the security that is the subject of the offering and purchase the offered securities from an underwriter, broker or dealer participating in the offering if such short sale was effected during the restricted period. (SEC Rule 105) • With regard to price regulations, TSE will continue discussing the implementation of US-styled price regulations which are not always in effect but are only triggered when there is a sharp decline in the market.

Reference

Overall Schematic Diagram of Measures to Enhance Market



Overall Schematic Diagram of Measures to Enhance Market Functions II

