

## Optimization of Increments of Bids and Offers in Stages

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Tokyo Stock Exchange, Inc.

### I. Purpose

From the perspective of further increasing the convenience of the Japanese securities market, Tokyo Stock Exchange (hereafter referred to as "TSE") recognizes that there is a growing need for reducing the increments of bids and offers (hereafter referred to as "tick sizes") in auction trading pertaining to stocks (hereafter referred to as the "cash market trading").

Through implementing narrower tick sizes, TSE expects to bring investors the benefits of price improvements due to lower spread costs, which would likely be seen mainly for issues of high liquidity.

However, there are concerns that a market-wide revision to the tick sizes for all issues would cause the price discovery function to deteriorate for issues that are not sufficiently liquid, and that a sudden change would greatly impact market participants in terms of trading techniques, systems, and other aspects.

In light of such opinions, TSE plans to optimize, in stages, the tick sizes for cash market trading based on the liquidity and price of each issue.

Specifically, the revision will be implemented in three stages. First, in Phase I, the tick sizes at more than 3,000 yen will be revised for high-liquidity issues. This will be followed by Phase II where new sub-yen tick sizes will be introduced at 5,000 yen or less for such issues.

After these two phases, TSE will consider the effect of the revised tick sizes on trading conditions, etc., determine the scope of issues for which tick sizes should be revised, and implement a comprehensive optimization of tick sizes in Phase III.

### II. Outline

Items	Contents	Remarks
1. Phase I	<ul style="list-style-type: none"><li>- In Phase I, the application of new tick sizes will be limited to high-liquidity issues.</li></ul>	
(1) Phase I Issues	<ul style="list-style-type: none"><li>- New tick sizes will only be applied to TOPIX100 constituents.</li><li>- Current tick sizes will continue to be applied to other issues.</li></ul>	<ul style="list-style-type: none"><li>- The tick sizes applied to TOPIX100 constituents will differ from that applied to other issues.</li><li>- A review of the makeup of Phase I issues will be conducted at the time of reviewing the constituency of TOPIX100.</li><li>- As a result of said review of Phase I issues, in the case where an issue's base price, used to determine its daily price limits, contains fractional figures in terms of its tick size, measures such as rounding will be taken.</li></ul>

(Reference Translation)

Items	Contents	Remarks
(2) Tick Size Revision  (3) Implementation Date (Scheduled)	<ul style="list-style-type: none"><li>- The tick sizes applied to Phase I issues will be based on the current tick size structure with revised tick sizes implemented at more than 3,000 yen.</li><li>- The tick sizes at 3,000 yen or less will remain unchanged.</li></ul> <ul style="list-style-type: none"><li>- These revisions will be implemented in January 2014.</li></ul>	<ul style="list-style-type: none"><li>- For details on tick sizes, please refer to the attachment.</li></ul>
2. Phase II  (1) Phase II Issues  (2) Tick Size Revision  (3) Implementation Date (Scheduled)	<ul style="list-style-type: none"><li>- In Phase II, part of the tick size structure implemented in Phase I will be revised.</li></ul> <ul style="list-style-type: none"><li>- As in Phase I, new tick sizes will only be applied to TOPIX100 constituents.</li><li>- Current tick sizes will continue to be applied to other issues.</li></ul> <ul style="list-style-type: none"><li>- The tick sizes at 5,000 yen or less will be revised.</li></ul> <ul style="list-style-type: none"><li>- This revision introduces sub-yen tick sizes.</li></ul> <ul style="list-style-type: none"><li>- These revisions will be implemented in July 2014.</li></ul>	<ul style="list-style-type: none"><li>- The tick sizes of TOPIX100 constituents will differ from of other issues.</li><li>- Reviews of the makeup of issues will be the same as that for Phase I.</li></ul> <ul style="list-style-type: none"><li>- For details on tick sizes, please refer to the attachment.</li><li>- The tick sizes at 5,000 yen or less but more than 3,000 yen will be revised again from those implemented in Phase I.</li><li>- This revision will not be applied to stocks whose minimum trading value (i.e., tick size x trading unit) may result in amounts less than 1 yen.</li><li>- The minimum stock price will be set to 1 yen. Limit orders of less than 1 yen will not be accepted.</li></ul>
3. Phase III  (1) Implementation Date (Scheduled)	<ul style="list-style-type: none"><li>- TSE will implement a comprehensive optimization of tick sizes in light of the effect of Phase I and Phase II on trading conditions, execution costs, and other aspects.</li></ul> <ul style="list-style-type: none"><li>- These revisions will be implemented in mid-2015.</li></ul>	<ul style="list-style-type: none"><li>- An outline of Phase III will be announced prior to implementation.</li></ul>

(Reference Translation)

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- Increments of Bids and Offers (Tick Sizes) in Phase I and Phase II

Price				Tick Size		
				Other Issues	TOPIX100 Constituents	
					Phase I	Phase II
	Up to	1,000 yen	1 yen	1 yen	<b><u>0.1 yen</u></b>	
More than	1,000 yen	" 3,000 yen	1 yen	1 yen	<b><u>0.5 yen</u></b>	
"	3,000 yen	" 5,000 yen	5 yen	<b><u>1 yen</u></b>	<b><u>0.5 yen</u></b>	
"	5,000 yen	" 10,000 yen	10 yen	<b><u>1 yen</u></b>	1 yen	
"	10,000 yen	" 30,000 yen	10 yen	<b><u>5 yen</u></b>	5 yen	
"	30,000 yen	" 50,000 yen	50 yen	<b><u>5 yen</u></b>	5 yen	
"	50,000 yen	" 100,000 yen	100 yen	<b><u>10 yen</u></b>	10 yen	
"	100,000 yen	" 300,000 yen	100 yen	<b><u>50 yen</u></b>	50 yen	
"	300,000 yen	" 500,000 yen	500 yen	<b><u>50 yen</u></b>	50 yen	
"	500,000 yen	" 1,000,000 yen	1,000 yen	<b><u>100 yen</u></b>	100 yen	
"	1,000,000 yen	" 3,000,000 yen	1,000 yen	<b><u>500 yen</u></b>	500 yen	
"	3,000,000 yen	" 5,000,000 yen	5,000 yen	<b><u>500 yen</u></b>	500 yen	
"	5,000,000 yen	" 10,000,000 yen	10,000 yen	<b><u>1,000 yen</u></b>	1,000 yen	
"	10,000,000 yen	" 30,000,000 yen	10,000 yen	<b><u>5,000 yen</u></b>	5,000 yen	
"	30,000,000 yen	" 50,000,000 yen	50,000 yen	<b><u>5,000 yen</u></b>	5,000 yen	
"	50,000,000 yen		100,000 yen	<b><u>10,000 yen</u></b>	10,000 yen	