

Summary of Public Comments on "Revisions to Trading Rules for Strengthening Functions of Cash Equity Market  
in Connection with Launch of Next Generation Trading System"

September 20, 2023  
Tokyo Stock Exchange, Inc

Tokyo Stock Exchange, Inc. (TSE) released the outline of "Revisions to Trading Rules for Strengthening Functions of Cash Equity Market in Connection with Launch of Next Generation Trading System" on May 11, 2023 and sought public comments until June 10, 2023. TSE appreciates the cooperation of those who gave their comments in reviewing this matter.

The following are a summary of the comments received and responses from TSE.

No.	Summary of Comments	TSE's Responses
1	<ul style="list-style-type: none"> <li>• When the special execution method is adopted, orders will be executed based on time priority. If there are multiple on close limit orders at the same price at the opening of the afternoon session, how will time priority be handled?</li> <li>• We would like to see more detailed, specific examples of executions based on time priority through the special execution method (e.g., a mix of an on close limit order, an on close market order, and a Funari order).</li> <li>• Under the new rules, the pre-closing session will be held for five minutes from 3:25 p.m. (JST). Can we understand "15 minutes before</li> </ul>	<ul style="list-style-type: none"> <li>• If there are multiple on close limit orders, they will be executed in the order they are placed.</li> <li>• When the special execution method is adopted, orders will be executed in the order they are placed, regardless of execution conditions.</li> <li>• The handling of the various guidelines published by Japan Exchange Regulation in connection with the introduction of</li> </ul>

No.	Summary of Comments	TSE's Responses
	<p>the market closes..." stated in the various guidelines of JPX and others to mean from 3:15 to 3:30?</p> <ul style="list-style-type: none"> <li>• We don't think the Closing Auction will be easily understood by retail investors. Do you have any plans to provide explanatory materials for them?</li> <li>• "Measures to prevent inappropriate transactions (modification of order prices and order cancellations that will affect expected matching prices) in the pre-closing session, such as providing examples of the main types of cancellations or other activity subject to monitoring by TSE and types that would be considered unproblematic, will be announced separately." Since the rule changes are expected to have an impact on business flow and systems, this guidance should be published at least one year prior to the start of the new rules.</li> <li>• We understand the purpose of introducing a Closing Auction at the end of the afternoon session in order to improve transparency of closing price formation.</li> <li>• We recognize that there is a need to explain to customers that they may not be able to trade even if they place a market order, because of the special execution method in which orders eligible for execution</li> </ul>	<p>the Closing Auction will be announced separately.</p> <ul style="list-style-type: none"> <li>• We will continue to disseminate information through our website and other means to ensure smooth implementation of the new rules.</li> <li>• We are currently considering measures to prevent inappropriate transactions based on discussions with market users and will strive to publish them as soon as possible, taking into consideration your comments.</li> <li>• We would like to ask trading participants to cooperate in informing investors of the purpose and details of these revisions to the trading rules.</li> </ul>

No.	Summary of Comments	TSE's Responses
	<p>allocation at the upper (lower) limit of the executable price range will be executed based on time priority regardless of order type.</p>	
2	<ul style="list-style-type: none"> <li>• We agree with your basic policy of "maximizing trading opportunities" and "enhancing user convenience" in these revisions.</li> <li>• On the other hand, where this will affect subsequent operations, apparently there were no discussions at the official working group or any other meetings about handling of operations such as communications between investment trust management companies/investment advisory companies and securities companies regarding allocation of trades executed at TSE and execution, such as pre-confirmations, as well as transmission of trade report data to Japan Securities Depository Center. These operations, in some cases, need to be processed almost manually, and it will be necessary to revise the established unofficial practices to allow them to be conducted without delay even after the trading hours are extended (specifically, the established cutoff times will need to be pushed back).</li> <li>• At the same time, it is necessary to establish a common format for the industry by using the procedures that are currently used by each company for this almost-manual processing. A common format will help shorten the time required for the operations.</li> </ul>	<ul style="list-style-type: none"> <li>• We understand that the various cutoff times and formats for operations between securities companies and institutional investors after the close of the afternoon session have been agreed upon by individual companies based on past practices and established conventions, and we think it would be difficult for us to intervene to establish such unofficial practices or create a common format.</li> <li>• We will continue to provide information to market related parties including securities companies and institutional investors to facilitate further consideration within each industry for smooth implementation of the rules.</li> <li>• We will also share your comments with the respective self-regulatory organizations.</li> </ul>

No.	Summary of Comments	TSE's Responses
	<ul style="list-style-type: none"> <li>We want TSE, investment trust management companies, investment advisory companies, and self-regulatory organizations to consider subsequent operations after the closing time as well as the above matters.</li> </ul>	
3	<ul style="list-style-type: none"> <li>○ General remarks <ul style="list-style-type: none"> <li>We understand that the purpose of these revisions to the trading rules is to respond to changes in the environment surrounding the market and diversifying investor needs, as well as further improving resilience, convenience for market users and international competitiveness, and expect that strengthening market functions will also contribute to the revitalization of the Japanese economy. Considering these objectives, we ask TSE to address the following points to revise the trading rules smoothly.</li> </ul> </li> <li>○ Revisions to Trading Rules for Strengthening Functions of Cash Equity Market in Connection with Launch of Next Generation Trading System <ul style="list-style-type: none"> <li>II Overview <ul style="list-style-type: none"> <li>1. Extension of trading hours (JST) <ul style="list-style-type: none"> <li>The extension of trading hours for the afternoon session by 30 minutes is expected to have an impact on the handling of</li> </ul> </li> </ul> </li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Thank you for your valuable comments. We will continue to carefully disseminate information and promote cooperation with market users to ensure smooth revisions to the trading rules.</li> </ul>

No.	Summary of Comments	TSE's Responses
	<p>subsequent operations for investment trusts.</p> <ul style="list-style-type: none"> <li>• We understand that TSE, together with relevant industry organizations and various types of vendors, has been considering measures to improve efficiency across the industry and other things to minimize the impact on subsequent operations, and sharing with market participants the progress through briefing sessions and other communications.</li> <li>• In order for market participants to be able to smoothly respond to the system upgrade and the revisions to the trading rules in November 2024, we would like TSE to continue discussions with related parties and share the progress with market participants.</li> <li>• When introducing new plans for market rules or making changes to existing measures, we would like TSE to continue to consider these in close communication with a wide range of market users, not just with specific industry organizations.</li> </ul>	
4	<p>Preface</p> <ul style="list-style-type: none"> <li>• The Investment Trusts Association, Japan (JITA) is a "certified financial instruments firms association" established in July 1957 for the purpose of protecting investors and promoting the sound development of investment trusts. As of May 31, 2023, JITA has 205 members, including investment trust and REIT managers, and 39</li> </ul>	<ul style="list-style-type: none"> <li>• We have received comments, mainly from domestic institutional investors, that they are currently unable to participate in trading at the close of the afternoon session due to strict restrictions based on the former supervisory guidelines and other rules.</li> </ul>

No.	Summary of Comments	TSE's Responses
	<p>supporting members such as securities companies and trust banks.</p> <ul style="list-style-type: none"> <li>In response to the request for public comments, one member company has submitted its comments to JITA as follows:</li> </ul> <p>Item</p> <ul style="list-style-type: none"> <li>Closing Auction</li> </ul> <p>Opinions and reasons</p> <ul style="list-style-type: none"> <li>We expect TSE to work with the Financial Services Agency, Japan Securities Dealers Association, and JITA to make transactions at the close of the afternoon session available for use.</li> <li>Even though TSE is revising trading rules to stimulate trading, participants still maintain the practice of avoiding transactions that could be viewed as intended to manipulate closing price, based on the former supervisory guidelines and other rules, which means even today, there are strict restrictions in place on transactions at the close of the afternoon session. As a result, there are almost no such transactions.</li> <li>Will there be any problem with, for example, transactions that disregard the Instructions for Transactions Conditional on Closing Quotations indicated in Article 8. of JITA's Rules on Management of</li> </ul>	<ul style="list-style-type: none"> <li>The introduction of the Closing Auction is intended to increase transparency in price formation at the close of the afternoon session, making it easier for all investors, including institutional investors, to participate in trading at the close of the afternoon session.</li> <li>We hope that the introduction of the Closing Auction will provide an opportunity for participants to review current operations, allowing a more diverse range of investors to participate in trading at the close of the afternoon session.</li> <li>For interpretation of the "Rules on Management of Investment Trusts, etc." after the introduction of the Closing Auction, please contact JITA.</li> </ul>

No.	Summary of Comments	TSE's Responses
	Investment Trusts, etc.?	
5	<ul style="list-style-type: none"> <li>• With the introduction of the Closing Auction, transparency in closing price formation is expected to increase and measures and frameworks to prevent inappropriate transactions are being discussed. These improvements are desirable also for investors.</li> <li>• We also expect that the incorporation of special execution will lead to smooth trading and closing price formation at the close of the afternoon session.</li> <li>• We would like TSE to release the results of their verification of changes in volatility of prices from the last Zaraba price to the price at the close of the afternoon session from before and after the introduction of the Closing Auction.</li> <li>• We hope that TSE continues to revise and enhance the trading rules in response to changes in the market environment, market participants, and investors.</li> </ul>	<ul style="list-style-type: none"> <li>• We hope that these revisions will increase transparency in closing price formation and allow more diverse investors to participate in trading at the close of the afternoon session.</li> <li>• The results of verification after the introduction of the Closing Auction will also be made public.</li> </ul>

Comments No. 1 from SMBC Nikko Securities Inc.; No. 2 from International Bankers Association of Japan; No. 3 from The Life Insurance Association of Japan; No. 4 from The Investment Trusts Association, Japan; No. 5 from Sumitomo Mitsui Trust Asset Management Co., Ltd.