

## Appendix: FAQs on "Response to Registration Regime for Persons conducting Low Latency Trading"

March 2, 2018

Tokyo Stock Exchange, Inc.

Osaka Exchange, Inc.

\* These FAQs are prepared to facilitate understanding of matters for which many inquiries are received. Some answers are prepared with simplicity as a priority. For more details, please also see the related laws and rules.

### Table of Contents

#### 1. Indication of Trading Strategy

Q1-1: Indication of Trading Strategy for Orders that Do Not Fall Under Low Latency Trading

Q1-2: Correction to Trading Strategy

Q1-3: Grace Period for Indication of Trading Strategy

Q1-4: Difference between Indicated Trading Strategy and Execution Results

#### 2. Application for Virtual Servers (TAP, etc.)

Q2-1: Application Period

#### 3. Others

Q3-1: Contact Information for TSE/OSE

Q3-2: How to Contact TSE/OSE

Q3-3: How to Submit Business Method Description, etc.

Q3-4: Obtaining Consent to Cooperate with Examination by TSE/OSE and Other Necessary Matters

## 1. Indication of Trading Strategy

### Q1-1: Indication of Trading Strategy for Orders that Do Not Fall Under Low Latency Trading

An investor who has registered as a Person conducting Low Latency Trading and conducts Low Latency Trading through several other trading participants is not engaged in Low Latency Trading through our company (a trading participant). In this case, given that it would be difficult to ask the investor to set different configurations for orders to be placed through us, should we also indicate a trading strategy for orders that do not fall under Low Latency Trading?

As indicated in the "Response to Registration Regime for Persons conducting Low Latency Trading", Persons conducting Low Latency Trading are required to indicate "whether or not their trading falls under Low Latency Trading and, if it does, to indicate the trading strategy" (hereinafter referred to as "flagging"). A Person conducting Low Latency Trading who conducts trading through several trading participants is required to conduct flagging in accordance with the actual situation, regardless of through which trading participant(s) said Person is engaged in Low Latency Trading.

Trading participants are requested to not indicate a trading strategy for Low Latency Trading when they are clearly aware that orders from a Person conducting Low Latency Trading do not fall under Low Latency Trading. Meanwhile, in many cases, since it is considered difficult for trading participants to check the correctness of flagging for each order on a real-time basis, trading participants will not be required to check the correctness of flagging at the time of order acceptance. However, in cases where an end investor notifies a trading participant of an error in flagging after a transaction or where a trading participant becomes aware of an error in flagging in some way, the trading participant is required to notify TSE/OSE immediately to correct the error.

### Q1-2: Correction of Trading Strategy

A Person conducting Low Latency Trading notifies us that such Person failed to indicate a proper trading strategy for orders in past transactions. How can we correct it?

Trading Participants are required to make a correction through Target in the same way as a correction to proprietary/customer distinction, etc.

Please notify TSE/OSE in advance if you are likely to make a particularly large number of corrections.

### Q1-3: Grace Period for Indication of Trading Strategy

The law stipulates a six-month grace period for those engaged in Low Latency Trading at the time of enactment of the law. Will such grace period apply when those who have completed registration as a Person conducting Law Latency Trading start indicating a trading strategy?

If registration as a Person conducting Law Latency Trading has been completed, it is necessary for such

Person to start indicating a trading strategy as soon as possible, even before the end of the grace period. After the registration is complete, such Person is expected to conduct weekend tests and start indicating a trading strategy approximately within three weeks.

Q1-4: Difference between Indicated Trading Strategy and Execution Results

What trading strategy should be indicated if a Person conducting Low Latency Trading who has indicated Market Making Strategy for orders ends up placing Take orders in the course of implementing the strategy?

If such Take orders are placed as part of implementing a Market Making Strategy and it can be inferred from the transaction history that such orders fall under such Market Making Strategy, there is no problem with indicating Market Making Strategy for such Take orders.

## 2. Application for Virtual Servers (TAP, etc.)

### Q2-1: Application Period

Assuming that registration with the regulatory authority has been completed, when should a Trading Participant who accepts orders from a Person conducting Low Latency Trading apply for Virtual Servers (TAP, etc.)?

TSE/OSE provides a five-digit registration number to each Person conducting Low Latency Trading. After receiving said number, the Person conducting Low Latency Trading should pass the number to the trading participant through which orders will be placed, and then the trading participant can apply for Virtual Servers through arrowface.

If a trading participant is to engage in Low Latency Trading, the trading participant should use the existing securities code and no new registration number will be provided.

### 3. Others

#### Q3-1: Contact Information for TSE/OSE

After registration with the regulatory authority has been completed, a Person conducting Low Latency Trading is required to inform TSE/OSE by submitting a copy of a document certifying such Person's registration and to provide the contact information of such Person's representative or agent. To where should these items be sent?

There is a common contact point for TSE/OSE, and initial contact should be made by e-mail to: [reg\\_llt@jpx.co.jp](mailto:reg_llt@jpx.co.jp)

#### Q3-2: How to Contact TSE/OSE

Does a Person conducting Low Latency Trading who submits/receives necessary documents to/from TSE/OSE need to carry out these procedures through a representative or agent?

Basically, communications with TSE/OSE are expected to be made through a representative or agent. However, if proper communications can be made with TSE/OSE, communications can be made through staff of a Person conducting Low Latency Trading or staff of the trading participant through which such Person conducts Low Latency Trading. Even in such cases, however, the contact information of the representative or agent must be submitted to TSE/OSE.

#### Q3-3: How to Submit Business Method Description, etc.

A Person conducting Low Latency Trading is required to submit a copy of the Business Method Description, etc. to TSE/OSE. If there are concerns over information security, would it be allowed to submit physical documents in person to TSE/OSE rather than via electronic means?

In principle, we expect all documents to be submitted via e-mail. However, TSE/OSE may accept physical media upon request. Please contact us at the e-mail address shown in Q3-1 above.

**Q3-4: Obtaining Consent to Cooperate with Examination by TSE/OSE and Other Necessary Matters**

A trading participant is required to inform a Person conducting Low Latency Trading that such Person must abide by the rules and regulations of TSE, OSE, and Japan Exchange Regulation and obtain consent to that. Should these matters be clearly stipulated in an agreement, etc. with a Person conducting Low Latency Trading?

The formats are expected to be such as, but not limited to, the ones indicated below. However, other formats may be accepted if they are deemed appropriate pursuant to the provisions of Rule 21-2 of TSE's Trading Participant Regulation and Rule 19-2 of OSE's Trading Participant Regulations.

- An agreement or other similar documents, etc. between a Person conducting Low Latency Trading and the trading participant through which Low Latency Trading is conducted; or
  - An agreement or other similar documents, etc. between a Person conducting Low Latency Trading and a foreign affiliate company of the trading participant through which Low Latency Trading is conducted.
- (This applies to a case where a foreign affiliate company of the trading participant through which Low Latency Trading is conducted enters into an agreement across international jurisdictions with the Person conducting Low Latency Trading, etc., which is supposed to be sufficient.)

Oral consent is considered to not be sufficient, because it is difficult to corroborate details at a later date.