

Summary of Public Comments on
"Response to Registration Regime for Persons conducting Low Latency Trading"

March 2, 2018
Tokyo Stock Exchange, Inc.
Osaka Exchange, Inc.

Tokyo Stock Exchange, Inc. and Osaka Exchange, Inc. (hereinafter "TSE/OSE") released an outline of specifications on "Response to Registration Regime for Persons conducting Low Latency Trading" on December 20, 2017 and sought public comments until January 19, 2018. TSE/OSE appreciate the cooperation of those who have offered their comments in reviewing this matter.

The comments and responses have been summarized below.

In addition, questions sent separately to TSE/OSE and answers to such questions have been summarized in the Appendix.

No.	Summary of Comments	TSE/OSE Responses
1	<p><i>Indication of Trading Strategy for Low Latency Trading</i></p> <p>- "Persons conducting Low Latency Trading shall promptly start indicating the trading strategy once they complete registration as a Person conducting Low Latency Trading, etc." To prepare and implement a work plan for system changes, we need a reasonable amount of time after a Type I Financial Instruments Business Operator is notified by the authority of completion of changes in its registration before it starts setting a flag to indicate a trading strategy to order message for Low Latency Trading.</p>	<p>- As pointed out, it will be difficult to change systems and to set a flag of a trading strategy immediately after the completion of registration. We assume trading participants will start setting flags of their trading strategies as soon as possible after ensuring stable system operations in weekend tests made available by TSE/OSE. This process should take about three weeks after completing the registration.</p> <p>- Those who start Low Latency Trading on and after April 1, 2018 need to set a flag when they begin Low Latency Trading after completing the registration.</p>

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		<ul style="list-style-type: none"> - The aforementioned steps are required for not only Type I Financial Instruments Business Operators but also Low Latency Traders, etc. who conduct Low Latency Trading.
2	<p><i>Indication of Trading Strategy for Low Latency Trading</i></p> <ul style="list-style-type: none"> - "The trading strategy for new orders related to Low Latency Trading shall be indicated from among: Market Making Strategy, Arbitrage Strategy, Directional Strategy, or Other Strategy." As the trading strategy is important and highly confidential for investors, we want you to consider allowing the use of investor defined short codes (only TSE/OSE would know the strategy type). 	<ul style="list-style-type: none"> - The revised rule requires investors to indicate the trading strategy in order to understand the general trend of orders for Low Latency Trading by Persons conducting Low Latency Trading and to improve market transparency. It is difficult for us to understand such trend if each investor defines and sets separate codes. Thus, we require investors to identify the trading strategy from among four types. - Our requirement is to indicate the trading strategy from among: Market Making Strategy, Arbitrage Strategy, Directional Strategy, or Other Strategy and not provide detailed information of the strategy. TSE/OSE do not publicize which order is tagged with which strategy by each company. - For these reasons, we require investors to indicate codes specified by TSE/OSE as proposed.
3	<p><i>Development of Order Management Systems</i></p> <ul style="list-style-type: none"> - We believe that all market participants that trade electronically have the potential to disrupt markets. For this reason, all electronic trading should be subject to pre-trade risk controls. These controls should be conducted as a market function in light of the nature of the product being traded, the type of trading being conducted, efficiency and cost. Accordingly, we 	<ul style="list-style-type: none"> - TSE/OSE require trading participants to conduct appropriate order management and position risk management in line with the financial resources, etc. of each customer. TSE/OSE do not impose a specific form of order management upon all trading participants regardless of their situation.

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	<p>would encourage TSE/OSE to be principles-based in their "guidelines on the desired forms of order management, etc. at trading participants" to accommodate new technologies and practices.</p>	<ul style="list-style-type: none"> - With that in mind, we are developing guidelines on order management, etc., which trading participants can refer to when carrying out order management and position risk management. - Trading systems of TSE/OSE (arrowhead and J-GATE) themselves offer some pre-trade risk control functions. We will continue raising the standard of order management for market participants.
4	<p><i>Development of Order Management Systems</i></p> <ul style="list-style-type: none"> - "Trading participants should conduct order management to prevent the placement of excessively large orders, regardless of whether they conduct brokerage of Low Latency Trading." Is order management limited to orders for DMA (including Low Latency Trading)? 	<ul style="list-style-type: none"> - Order management systems developed by trading participants cover not only orders for DMA but also all trading. However, appropriate order management varies depending on business conditions or customer attributes, etc. Thus, the system does not have to be uniform among trading participants.
5	<p><i>Submission of Relevant Information</i></p> <ul style="list-style-type: none"> - A copy of the Business Method Description must be submitted to TSE/OSE. The document describes business operations of the Low Latency Trader, trading strategies, business structures, and other information, which is highly confidential. Could you clarify who within Japan Exchange Group (JPX) will have access to such documents and how the information will be secured to limit and minimize any unauthorized access? 	<ul style="list-style-type: none"> - We will limit access to information submitted by Persons conducting Low Latency Trading to persons involved in operations related to Registration Regime for Persons conducting Low Latency Trading at TSE, OSE, and Japan Exchange Regulation (JPX-R). To appropriately manage such information, duty of confidentiality is also imposed pursuant to Article 87-8 of the Financial Instruments and Exchange Act: "It is prohibited for the officer (or, if the officer is a corporation, a person that performs those duties) or employee of a Financial Instruments Exchange, the board member, auditor, or employee of a self-regulatory organization, or a person that has held one of these positions, to divulge

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		or misappropriate any secret learned in the course of duty."
6	<p><i>Cooperation in Investigations and Other Necessary Measures Taken by TSE/OSE</i></p> <ul style="list-style-type: none"> - There is a section that states: "[T]rading participants need to notify Persons conducting Low Latency Trading that they must comply with [TSE/OSE] rules and also obtain their agreement to this requirement". What are you referring to in this section? 	<ul style="list-style-type: none"> - Not only Persons conducting Low Latency Trading but also all market participants have to comply with relevant trading rules when trading at TSE/OSE. The section quoted refers to provisions concerning Persons conducting Low Latency Trading in TSE/OSE rules. The actual TSE/OSE rules mentioned are due to be published and available for viewing soon.
7	<p><i>Miscellaneous</i></p> <ul style="list-style-type: none"> - In accordance with Registration Regime for Persons conducting Low Latency Trading, are there additional items or changes in statistical reports including Investment Trends by Investor Category? 	<ul style="list-style-type: none"> - Currently, there will be no additional items or changes in statistical reports including Investment Trends by Investor Category.

Comments No. 1 & 7 from Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.; No. 2, 3 & 5 from Futures Industry Association & Managed Funds Association; No. 4 from Mizuho Securities, Co., Ltd.; and, No. 6 from Goldman Sachs Japan Co., Ltd.

- In TSE/OSE's "Response to Registration Regime for Persons conducting Low Latency Trading", Item "2. Applications for Virtual Servers" for TSE and "2. Applications for Dedicated TAPs, etc." for OSE reads: "For a trading participant that becomes a Person conducting Low Latency Trading, its registration number shall be its current securities company, etc. identification code. For Low Latency Traders, registration numbers shall be newly assigned by the Securities Identification Code Committee." The term "Securities Identification Code Committee" shall be replaced with "Tokyo Stock Exchange, Inc. and OSE Exchange, Inc." All other terms and statements shall remain unchanged and be implemented as proposed.