

## Revisions to Trading Rules to Improve the Convenience of the ToSTNeT Market, etc.

February 20, 2020  
Tokyo Stock Exchange, Inc.

### I. Purpose

Tokyo Stock Exchange, Inc. (TSE) offers a block trading facility (off-auction ToSTNeT market) to accommodate diverse needs for executions, such as trading large lots or baskets of stocks, that are difficult to execute smoothly in the regular (auction) trading sessions. In recent years, there has been an increasing number of orders matched in dark pools that are routed to the ToSTNeT market for execution. In June 2019, the Working Group on Financial Markets under the Financial System Council published measures for increasing the transparency of dark pool transactions, such as understanding the actual situation of use of dark pools. In addition, the recent diversification of trade execution methods among investors has created trading needs that cannot be satisfied within the existing trading rules.

As such, TSE will revise the trading rules for the ToSTNeT market in order to contribute to increased dark pool transparency and enhanced convenience for trading participants and investors in the ToSTNet market. These revisions are based on the results of discussions at meetings of the above Working Group and recent changes in the trading environment.

Specifically, TSE will introduce a flag to identify orders matched in dark pools that are routed to the ToSTNeT market. At the same time, for the ToSTNeT market, TSE will prohibit margin transactions except for cases it deems appropriate. Moreover, for single stock trading and basket trading in the ToSTNeT market, TSE will allow investors to designate the settlement date on any date during the period from the third day to the sixth business day counting from the date on which the trading contract is concluded. This would enable investors to trade flexibly in the exchange market based on their needs, etc. Considering the recent situation of transactions based on VWAP (volume weighted average price), TSE will also allow VWAP transactions between entrusting investors for single stock trading.

### II. Outline

Items	Details	Remarks
1. Introduction of a dark pool flag	<ul style="list-style-type: none"><li>When making a bid or offer for single stock trading or basket trading in the ToSTNeT market, if such bid or offer is routed from a dark pool (internal trading system), the trading participant shall clearly indicate to such effect to TSE.</li></ul>	<ul style="list-style-type: none"><li>The term “internal trading system” shall follow the definition of the Cabinet Office Ordinance to be amended in accordance with the publication of the draft amendments to the Cabinet Office Order on Financial Instruments Business dated February 20, 2020 (by the Financial Services Agency (FSA)).<sup>i</sup></li></ul>
2. Clarification of types of transactions eligible for margin transactions	<ul style="list-style-type: none"><li>TSE shall prohibit all margin transactions in the ToSTNeT market, except for those deemed appropriate by TSE.</li><li>Transactions deemed appropriate by TSE shall be those defined below (excluding any transaction for which a bid or offer is placed via an internal trading system).</li></ul>	<ul style="list-style-type: none"><li>In the meetings of the Working Group on Financial Markets under the Financial System Council, the FSA has expressed concern about margin transactions via dark pools in terms of investor protection and market fairness.</li></ul>

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Items	Details	Remarks
	<ul style="list-style-type: none"> <li>- A transaction for which a trading participant makes a bid that will match with a simultaneous offer from the same customer.</li> <li>- A proprietary margin sale or purchase by a trading participant (limited to cases where the counterparties have set the price and quantity conditions in advance)</li> </ul>	<ul style="list-style-type: none"> <li>• This refers to roll-over cross transactions related to margin transactions and transactions by a trading participant for its proprietary account involving loans for margin transactions.</li> </ul>
3. Flexibility in setting of settlement date	<ul style="list-style-type: none"> <li>• For the settlement date of single stock trading and basket trading in the ToSTNeT market, the revised rules will allow the settlement date to be designated between the fourth business day and the sixth business day counting from the day the trading contract is concluded, in addition to the current settlement day, which is the third business day counting from the day the trading contract is concluded (excluding non-business days; the same shall apply hereinafter in the calculation of the number of days).</li> <li>• When a trading participant makes a bid or offer pertaining to a ToSTNeT transaction, it shall clarify the settlement date to TSE, and when a customer entrusts a ToSTNeT transaction, it shall clarify the settlement date to the trading participant.</li> <li>• The customer shall deliver to the trading participant the securities or money for the transaction by 9:00 a.m. of the settlement date designated when entrusting the order.</li> <li>• The above will apply to all products eligible for single stock trading and basket trading (excluding convertible bonds).</li> <li>• For ToSTNeT transactions, for which the settlement date is designated on a date between the fourth day and the sixth</li> </ul>	<ul style="list-style-type: none"> <li>• Transactions settled on the day the trading contract is concluded will continue to be traded as normal.</li> <li>• For trading in equity contribution securities conducted on a date specified as ex-dividend or ex-rights, the settlement date can be designated up to the sixth day counting from the date the trading contract is concluded.</li> </ul>

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	<p>day counting from the day the trading contract is concluded, are eligible for loans for margin transactions.</p> <ul style="list-style-type: none"> <li>• For margin transactions, even in the case where the settlement date is designated on a date between the fourth day and the sixth day counting from the date the trading contract is concluded, the customer shall submit the security deposit by the date and time designated by the trading participant before noon (JST) on the third day counting from the date the trading contract is concluded.</li> <li>• In connection with allowing the designation of the settlement date on a date between the fourth day and the sixth day counting from the date the trading contract is concluded, the period or date, etc. specified below will also change. <ul style="list-style-type: none"> <li>➤ The ex-dividend date, etc., the date on which trading starts for shares after a reverse stock split, and the date of changing acquisition value, etc.</li> <li>➤ The return/repayment deadline of securities or money borrowed for margin transactions</li> <li>➤ The settlement deadline for a proprietary margin sale or purchase and the return/repayment deadline of securities or money borrowed for margin transactions</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• In cases where additional security deposit is required, a customer shall submit additional security deposit pertaining to margin transactions by the date and time designated by the trading participant before noon (JST) on the third day counting from the date on which an implicit loss is incurred.</li> </ul>
4. Introduction of VWAP transactions between entrusting investors	<ul style="list-style-type: none"> <li>• TSE will introduce single stock trading VWAP transactions in which a bid entrusted by one customer and an offer entrusted by another (or the same) customer are matched.</li> <li>• The transaction price can be chosen from among the four</li> </ul>	<ul style="list-style-type: none"> <li>• The current rule accepts only transactions in which a bid or offer entrusted by a customer is matched against an offer or bid made on the trading participant's proprietary account.</li> <li>• The VWAP price for the transaction may be rounded off to</li> </ul>

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	<p>VWAPs: previous day VWAP, morning session VWAP, afternoon session VWAP, and all day VWAP.</p> <ul style="list-style-type: none"> <li>• These VWAP transactions are limited to cross transactions within the same trading participant.</li> <li>• Trading hours <ul style="list-style-type: none"> <li>➢ 8:20 a.m. - 9:00 a.m.: Previous day VWAP</li> <li>➢ 11:30 a.m. - 0:30 p.m.: Morning session VWAP</li> <li>➢ 3:00 p.m. - 5:30 p.m.: Afternoon session/All day VWAP</li> </ul> </li> </ul>	<p>any decimal place.</p>

### III. Implementation Date (scheduled)

These revisions are scheduled to be implemented in August 2020. The date will be determined based on the state of preparations at TSE, trading participants, and relevant organizations. With respect to "1. Introduction of a dark pool flag" and "2. Clarification of types of transactions eligible for margin transactions", please note that the schedule or details may change depending on future amendments to laws and regulations, etc.

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<sup>i</sup> [https://www.fsa.go.jp/news/r1/shouken/20200220\\_1/20200220\\_2.html](https://www.fsa.go.jp/news/r1/shouken/20200220_1/20200220_2.html)