

Results of Public Comments in Response to "Handling of Orders Entrusted by
Customers in the Case of Order Cancellation by TSE"

March 25, 2021
Tokyo Stock Exchange, Inc.

Tokyo Stock Exchange, Inc. (TSE) published "Handling of Orders Entrusted by Customers in the Case of Order Cancellation by TSE" on January 27, 2021 and solicited public comments until February 26, 2021. TSE deeply appreciates the cooperation of those who have submitted their comments to deliberate on this issue.

The following is a summary of the comments received and TSE's responses thereto.

No.	Summary of Comments	TSE's Responses
1	<ul style="list-style-type: none">(1) Our understanding is that, although fiduciary obligation of a securities firm remains, in principle, even after bids/offers have been cancelled by the exchange, if there are special agreements made in advance or a customer's instructions, the securities firm can follow said agreements or instructions. Since many members of our association are involved in transactions with institutional investors and their investment methods vary, it is assumed that, depending on the attributes or investment policies of the investors, there will be various agreements made in advance or individual	<ul style="list-style-type: none">(1) There will be no particular problem even if a single securities firm takes different actions for each customer.

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	<p>instructions (e.g., cancel bids/offers at the time of a system failure) or individual arrangements to clarify whether or not there is any investor instruction. Is there any problem if a single securities firm takes different actions for different customers?</p> <ul style="list-style-type: none"> • (2) With respect to agreements made in advance, other than "if provisions on the necessity to resend orders, etc. are included in the terms and conditions of the contract", is it possible to confirm by email? • (3) If the exchange trading system has to be rebooted due to a system failure, for stocks at their daily upper/lower limit price, how would allocations, etc. be handled? Is it correct to understand that allocation, etc. notices will be sent at the time of the closing auction of the afternoon session as per normal? • (4) Customers who place orders with members of our association include those resident overseas (e.g., customers residing in locations that are in the late night while it is morning in Tokyo (so that they place "leave orders"), and those who place orders by phone or email during Asian business hours). If there is no agreement in advance with such customer, since the securities firm 	<ul style="list-style-type: none"> • (2) Your understanding is correct. • (3) The closing auction at the limit price is conducted at the end of the afternoon session. With respect to stocks at their daily upper/lower limit price in trading after the reboot, the allocation will be conducted at the closing auction of the afternoon session as per normal. (Allocation at the daily limit price will not be conducted before the reboot.) • (4) If the securities firm is to have discretion in determining whether or not it will be able to execute orders entrusted by its customer(s) in an emergency situation, it will be desirable for the securities firm and its customer(s) to make an arrangement(s) in advance so that the securities firm has discretion in determining whether or not it can execute

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	<p>is, in principle, to continue to place entrusted orders, would it be acceptable for the securities firm to exercise its discretion in executing orders (or cancelling executions or orders by setting upper limits on the quantity of orders):</p> <p>(i) Liquidity is low,</p> <p>(ii) Bid and offer prices have largely changed from those before the system failure (whether the securities firm should continue with market orders even in such circumstances, or it should place the quantity of orders that it was originally entrusted with during the trading hours after trading resumption in light of the impact on market prices);</p> <p>(iii) The securities firm cannot confirm the acceptance of original DMA orders because customers using DMA have switched to oral or email communications to place orders due to the inability to receive messages from TSE. We would like TSE to clarify what options the executing securities firm has.</p> <ul style="list-style-type: none"> • (5) According to the processes for off-auction distribution or acquiring own shares at the previous day's closing price, orders will be executed based on those received by the morning of the execution day. Will TSE amend the rules related to such 	<p>orders.</p> <ul style="list-style-type: none"> • (5) As indicated in the comment, we will amend the rules related to off-auction distributions and off-auction own share repurchase trading via ToSTNeT.

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2	<p>transactions? In the case where TSE is to cancel bids and offers, there is a possibility that systems that handle such orders cannot operate, so the rules related to said transactions should also be revised.</p> <ul style="list-style-type: none"> • (1) Can TSE send different notices for bids/offers subject to cancellation due to the trading halt due to the system failure, etc. and those subject to normal cancellation? • (2) At some overseas exchanges, it seems that there are cases of arrangements so that if the exchange cancels bids/offers due to a system failure, etc., the exchange also invalidates the orders entrusted by customers to trading participants, and the customers have to send new orders. We guess that the reason for handling orders entrusted by customers to trading participants as effective in principle is because of applying the same handling specified in Rule 8 of TSE's Brokerage Agreement Standards, which stipulates the case of a trading resumption after a normal trading halt. However, can you explain why, in the case of a trading halt due to a system failure, etc., TSE will handle orders entrusted by customers to trading participants as effective? 	<ul style="list-style-type: none"> • (1) Where TSE has cancelled bids/offers due to a system failure, etc., they can be classified based on the reason code of the invalidation notice messages. We will clearly indicate this in the connection specifications, etc. in the future. • (2) Different legal relationships apply to orders entrusted by customers to trading participants and bids/offers placed by trading participants to the exchange, and the cancellation of orders or bids/offers at the exchange does not mean the cancellation of bids/offers at trading participants or orders, and vice versa. As such, even if TSE has halted trading or cancelled bids/offers, there will be, in principle, no effect on orders entrusted by customers to trading participants, and such orders will be deemed to be still effective.

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3	<ul style="list-style-type: none"> With respect to the "Necessity of Resending Entrusted Orders", it is beneficial to the market as a whole to clarify the unified principles among trading participants. Meanwhile, for DMA orders, orders for low latency trading, and such orders for which it will clearly be unfavorable if the trading participant were to resend orders, even without an "arrangement ... made in advance between the trading participant and its customer or ... an instruction by the customer", we would like TSE to establish guidelines or such documentation so that trading participants are not required to resend orders. 	<ul style="list-style-type: none"> As there are various customers who place orders by various methods, TSE deems it inappropriate to apply uniform rules to all trading participants. However, with respect to DMA and such orders for which resending is not desirable, TSE will compile approaches to such orders in a report(s) from the Council for Recurrence Prevention Measures, and publicize such approaches.
4	<ul style="list-style-type: none"> (1) If we cannot participate in trading or cannot resend orders at the time of trading resumption, can we understand that we may only resume accepting new orders after having invalidated all customer orders? (2) Are we obliged to participate in the drills? Is there a date/time when we must participate in the drills at the latest? Since our IT systems may not be ready for the drills as scheduled, we request TSE to provide sufficient time for IT system preparations. 	<ul style="list-style-type: none"> (1) If a trading participant is to invalidate all orders entrusted by customers, it is required to make such arrangements in advance with its customers to that effect. (2) While it is up to each trading participant to decide whether to participate in the drills, we plan to check the preparation status separately. In addition, we will swiftly publish the revised connection specifications and other related documents, and information on drills in order to provide trading participants with ample preparation time. Since

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	<ul style="list-style-type: none"> • (3) It could be difficult for trading participants to respond if the order acceptance period before the resumption is only approximately 15 minutes. Can you set a cut-off time for the announcement of the resumption so that it is given sufficiently ahead of time, and also establish a rule so that trading will not resume if you are unable to decide whether to go ahead with the resumption by the cut-off time? • (4) Regarding the linkage between the original orders and the resent orders, should we manage the orders to be invalidated by the exchange by linking them with all orders including corrections and cancellations received from customers before the order invalidation by the exchange? • (5) If trading participants receive cancellation orders from customers during the period between no-order-acceptance period 	<p>participation in drills will depend on each participant's preparation status and TSE plans to continuously make improvements, including to operational aspects, TSE will continue to conduct drills even after making the current modifications to exchange systems, without any particular end date for such drills.</p> <ul style="list-style-type: none"> • (3) Since we can expect the causes of failures and their impacts to vary, we do not consider it appropriate to specify a uniform cut-off time for deciding on trading resumption. We think trading participants will be provided a certain amount of time (in addition to the order acceptance period) since we will notify them of the schedule for resumption during the procedure for gathering opinions about resumption. • (4) If an original order entrusted by a customer is not invalidated, a trading participant will correct or cancel the same customer order. Therefore, it is deemed that orders should be managed by trading participants in a manner so that they can check internally the linkages between orders. • (5) During the order acceptance period after resumption, we think that it would be acceptable for the trading participant

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5	<p>at the exchange until the completion of the trading participants' invalidation process, should trading participants resend both the original orders and the cancellation orders? Or should we assume that trading participants do not resend orders once they receive their cancellation instructions?</p> <ul style="list-style-type: none"> • (6) We would like to request that unsent messages should always mean the orders will be invalidated since the speed of the recovery will be affected if many conditions are imposed to determine which orders, for which messages remain unsent at the time of invalidation, are subject to invalidation. • (1) Since the definition of "resend order" is not clear from the viewpoint of system, we would like to confirm, of the two possible system response methods below, that the second method may also be acceptable in terms of quick system response and accurate trading record. <ul style="list-style-type: none"> (i) "Resend order" by reprocessing the sending of the "data of the processed order" (= the data itself) that is in the order 	<p>to either resend an original order and then cancel it, or not resend the original order at all.</p> <ul style="list-style-type: none"> • (6) The impact of a failure could vary and it is possible that an order for which the message could not be sent is not subject to invalidation. In the case where the exchange cannot send invalidation result notices, and we will publish the conditions for orders subject to invalidation, such as the "time", etc. in order acceptance notice messages, via Target and the JPX website, etc., and do not expect to set complicated conditions. • (1) Either method would be acceptable.

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	<p>placement system of the securities company</p> <p>(ii) Recreate data with the same details and same conditions as those of the "data of the processed order" that is in the order placement system of the securities company and place the recreated data.</p> <ul style="list-style-type: none"> • (2) Regarding the order acceptance time when resending orders after checking with customers whether to resend orders, we would like to confirm that order acceptance time may be the time when we have checked with customers whether to resend orders (meaning the time when we have confirmed the customer's intent to resend orders) and not the time when we had accepted the original orders. • (3) We think it should be clarified until when a customer's instruction should be accepted. (At least it should be clarified that, in the case where a trading participant receives a customer's instruction not to resend an order after the order is executed, the trading participant does not have to accept said instruction.) 	<ul style="list-style-type: none"> • (2) If the trading participant has an arrangements with the customer so that original orders received from the customer are invalidated and then new customer orders are to be received, it can be considered that the order acceptance times would be the times when the trading participant has checked with the customer whether to resend the orders. On the other hand, if original orders from the customer are not invalidated, it can be considered that the order acceptance times would be the times when the trading participant has accepted the original orders. • (3) It can be considered that the trading participant does not have to accept the customer's instruction after execution because the order entrusted by a customer has been already executed.

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	<ul style="list-style-type: none"> • (4) With respect to the order placement record, even if bids/offers are cancelled by the exchange, the fact that a trading participant had placed an order does not change. In this regard, may the trading participant maintain records of order tickets and electronic order tickets in such a manner that is possible in the trading participant system? <p>*When, thinking about partial execution, etc., we expect to face a situation, among others, in which the original order is placed, and at the time of resumption, the quantity of the order would decrease due to partial execution. Accordingly, we do not consider it possible to disregard "the fact of having placed an order".</p>	<ul style="list-style-type: none"> • (4) As suggested in the comment, even if bids and offers are cancelled by the exchange, it should not be considered to mean that a trading participant had not received an order from a customer. In this regard, Japan Securities Dealers Association is currently reviewing the handling of order tickets when bids and offers are cancelled by the exchange.
6	<ul style="list-style-type: none"> • (1) In the case where the exchange cannot notify a trading participant of which bids/offers have been cancelled, including the case where the system failure occurred near the close of the afternoon session, it is expected that a trading participant cannot resend orders to the exchange nor notify a customer of the order cancellation (based on the agreement with the customer). Please tell us what trading participants should do in such a case. 	<ul style="list-style-type: none"> • (1) In the case where TSE cancels bids/offers and cannot send invalidation result notice messages, TSE will expect to publish "conditions on orders subject to invalidation" and other related information via Target and the JPX website, etc. If such information is published, a trading participant will need to take necessary actions, including invalidating orders in its own systems. In this regard, we request that trading participants resend orders to TSE and notify customers of order cancellation only after TSE announces such recovery

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	<ul style="list-style-type: none"> • (2) The proposed revised rules do not address executed orders. In the case where a system failure occurs during trading hours, it is expected that the exchange will first send an execution notice and later cancel the execution. Under such circumstances, can we understand that the trading participant is not required to resend orders? <p>Also, in the case where the exchange cancels an executed order after a trading participant had notified the customer of the order execution, the customer could make a claim against the trading participant regarding the order related to the notice. Please clarify who bears responsibility in such a case.</p>	<p>procedures as mentioned above.</p> <ul style="list-style-type: none"> • (2) If an order has already been executed normally, it means the order entrusted by a customer has been executed, and it is not considered necessary to resend the order. In addition, if a customer incurs a loss due to the cancellation of executed orders by the exchange because of an exchange system failure, generally speaking, it is considered that the trading participant does not immediately become responsible to the customer because it is considered to be caused by reasons not attributable to the trading participant.

Comment No. 1 is from International Bankers Association of Japan; No. 2 from JP Morgan Securities Japan Co., Ltd.; No. 3 from Societe Generale Securities Japan Limited; No. 4 from Monex, Inc.; No. 5 from Mizuho Securities Co., Ltd.; and No. 6 from Morgan Stanley MUFG Securities Co., Ltd.