

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

March 25, 2021
Osaka Exchange, Inc.

Osaka Exchange, Inc. (OSE) published "Handling of Orders Entrusted by Customers in the Case of Order Cancellation by OSE " on January 27, 2021 and solicited public comments until February 26, 2021. OSE 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 OSE's responses thereto.

Number	Summary of Comments	OSE's Responses to the Comments
1	<ul style="list-style-type: none"> • (1) Can OSE 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 	<ul style="list-style-type: none"> • (1) The change reason code which is set in the order invalidation notice, where OSE has cancelled bids/offers due to a system failure, etc., is different from that where a trading participant has cancelled bids/offers normally. We will clearly indicate this in the connectivity manual, 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 orders or bids/offers at trading participants, and vice versa. As such, even if OSE has halted trading or cancelled bids/offers, there will be, in principle, no effect on orders entrusted by customers to trading participants, and

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	<p>of 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., OSE will handle orders entrusted by customers to trading participants as effective?</p>	<p>such orders will be deemed to be still effective.</p>
2	<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 OSE 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, OSE 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, Tokyo Stock Exchange, Inc. has compiled approaches to such orders in a report(s) from the Council for Recurrence Prevention Measures, and publicized such approaches.
3	<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 	<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) If and when OSE will conduct the drills, we will draw up and publish the plan in with consideration for the situation

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	<p>latest? Since our IT systems may not be ready for the drills as scheduled, we request OSE to provide sufficient time for IT system preparations.</p> <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 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 	<p>of trading participants.</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 to either resend an original order and then cancel it, or not resend the original order at all.

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	<p>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. 	<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.
4	<ul style="list-style-type: none"> • (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 placement system of the securities company (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. 	<ul style="list-style-type: none"> • (1) Either method would be acceptable.

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	<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.) • (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? *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 	<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. • (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. • (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.

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	order would decrease due to partial execution. Accordingly, we do not consider it possible to disregard "the fact of having placed an order".	

Comment No. 1 is from JP Morgan Securities Japan Co., Ltd.; No. 2 from Societe Generale Securities Japan Limited; No. 3 from Monex, Inc.; No. 4 from Mizuho Securities Co., Ltd.

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