

Summary of Public Comments on "Proposed Revision to Contingency Plan with Regard to Trading in the TSE Market"

April 21, 2021

Tokyo Stock Exchange, Inc.

Tokyo Stock Exchange, Inc. (TSE) released the outline of Proposed Revision to "Contingency Plan with Regard to Trading in the TSE Market" on March 5, 2021 and sought public comments until April 4, 2021. TSE appreciates the cooperation of those who gave their comments in reviewing this matter.

The following are a summary of the comments received and responses from TSE.

No.	Summary of Comments	TSE's Response
1	<p>(1) For the following items subject to revision, the proposed revision indicates that "TSE will make sufficient considerations to ensure fair price formation after trading resumes". What is this "fair" based on? What can we assume will be considered?</p> <p>[Items in question in the Contingency Plan]</p> <ul style="list-style-type: none"> - I. In the event of a failure in TSE trading systems, 2. Order Placement Systems - V. In the event of a system failure on the side of trading participants, 1. Stocks and the like - VI. In the event of an earthquake, wind/flood damage, terrorist act, failure in social infrastructure including power/telecommunications networks, etc., 2. When trading participants are unable to participate in trading in stocks and 	<p>(1) The contingency plan indicates the standards for the diversity of investors and number of orders related to resuming trading. We consider that appropriate and fair price formation will be ensured if trading satisfies these standards. As such, we will carefully examine whether to resume trading based on the standards and policies set out in the contingency plan.</p>

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	<p>convertible bonds, etc., ① Stocks and the like</p> <p>(2) We ask TSE to make a pre-resumption announcement about which trading participants we can trade with after trading resumes. Investment management companies need to swiftly understand such information in order to ensure best execution.</p> <p>(3) We assume that one of the standards for trading resumptions, "generally above 50% of overall trading value", refers to the share based on the past results under normal conditions. Investment management companies have an issue with whether they have a business relationship with a trading participant who can participate when trading resumes. As such, they may need to have business relationships with such a trading participant under normal conditions to ensure best execution at the time of a resumption. From this perspective, we would like TSE to continually disclose the ranking of the top trading participants by trading value, which is the calculation basis for said resumption standard.</p>	<p>(2) The response of each trading participant will vary because a system failure will impact differently due to differences in systems and operational flows, and also depend on the attributes of its investors or their forms of trading. Therefore, we think it will not be appropriate to announce such information uniformly. However, we will continue to consider the expected form of information provision as we conduct system failure response drills, etc. to increase market resilience.</p> <p>(3) The trading values of each trading participant can be found in publications such as disclosure booklets. We will continue to consider the expected form of information provision as we conduct system failure response drills, etc. to increase market resilience.</p>

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	<p>(4) We assume some trading participants will be flooded with orders when trading resumes. How will you ensure their capacity? Especially if there is index rebalancing, we can expect an enormous amount of trading. In this respect, is there any problem with the capacity of trust banks that handle large index funds?</p> <p>(5) Will TSE restrict some trading methods after a trading resumption? (For instance, will VWAP and basket trading be available?) What trading methods will, at the minimum, be available after a resumption?</p> <p>(6) Even if trading after a trading resumption is only conducted for a short time, we hope that you will ensure that trades can be executed at an appropriate closing prices because this will reduce the impact on indices or base prices for investment trusts calculated based on closing prices. As such, we would like TSE to reconsider the method for the closing auction, even if separately from this revision.</p> <p>While it will not necessarily always happen when trading resumes after a trading halt due to a system failure, when trading only</p>	<p>(4) This capacity should be ensured by the trading participants and trust banks themselves.</p> <p>(5) At present, TSE does not expect to restrict any trading method. If a failure occurs after the start of trading and trading is resumed by rebooting arrowhead, there will be some restrictions on the handling of market information after the resumption (page 12 of Report from the Council for Recurrence Prevention Measures). As such, depending on the state of the failure, there may be trading methods that some trading participants are unable to provide.</p> <p>(6) We appreciate your valuable comment.</p>

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	<p>resumes for a short time, there may be a high concentration of trades at closing prices. As such, if TSE assumes that it may resume trading for just 15 minutes, there must be the need to review the method for the closing auction. As such, apart from the revision to the contingency plan, we would like TSE to separately review the method for the closing auction.</p> <p>(7) Affiliates of foreign investment management companies place orders on Japanese stocks from Hong Kong or Singapore, so we would like TSE to provide the same information in English and Japanese at the same time.</p>	<p>(7) We will strive to provide information simultaneously in Japanese and English to the extent possible.</p>
2	<p>(1) Please indicate the handling of the case where orders can be placed only via the Co-Location area when all the Access Points on arrownet are down. If the market may re-open in such a situation, how will the trading values and investor attributes be considered?</p> <p>(2) In the case where all the functions of your exchange are switched to</p>	<p>(1) Even in the case where orders can be placed only via the Co-Location area, as stipulated in the contingency plan, TSE will consider aspects such as the share of past trading value of trading participants and the state of the disaster or system failure when deciding on trading halts and resumptions. In such a case, retail investors' participation in the market is expected to be difficult. When considering the state of the system failure, we will take into account the possibility of retail investors' participation in the market, and if such standards are not satisfied, we will not resume trading.</p> <p>(2) After the construction of the arrowhead backup data center in</p>

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	<p>the Kansai region due to a terrorist attack or natural disaster, if securities firms can connect to an Access Point in the Tokyo metropolitan area, is it correct to understand that, by connecting to the same virtual servers at the time of trading resumption, securities firms can resume trading even after the functions are switched to the Kansai region?</p> <p>(3) You should understand that the past trading value of trading participants that can resume trading will not necessarily be proportionate to their expected trading value on the day of the system failure. Depending on the length of the trading hours after trading resumes or the availability of the Co-Location area, some investors may not participate in the market even if trading is resumed.</p> <p>(4) A situation similar to a moral hazard could occur where some trading participants might assert that trading should not be resumed on the basis of ensuring fairness because they cannot participate in trading as a result of not investing in their business continuity plans (i.e., establishment of an alternative data center, backup connections, etc.). In order to prevent such a situation, we would like TSE to consider measures such as establishing standards regarding resilience that all trading participants should adhere to.</p>	<p>the Kansai region (hereinafter the "Kansai DC") has been completed, if a securities firm that trades via the Kansai DC can connect to the Kansai DC via an Access Point in the Tokyo metropolitan area, then they will be able to trade stocks via the same virtual servers as in a normal situation where they connect to an Access Point in the Tokyo metropolitan area.</p> <p>(3) We appreciate your valuable comment. In the case where the Co-Location service is not available, TSE will consider the past trading value via the Co-Location service when checking the share of trading value before deciding on a trading halt or resumption. (Please refer to "Rationale/Remarks" of VI of the proposed revision to the "Contingency Plan with Regard to Trading in the TSE Market".)</p> <p>(4) Measures at each trading participant related to the construction of backup structures, etc. are deemed to depend on their operational structures and system configurations, etc. As such, we consider it difficult for TSE to set a uniform standard. However, with respect to the development of the necessary rules and information disclosure, we will improve them as we conduct system failure response drills, etc. to improve market resilience.</p>

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	<p>If it is difficult to establish a clear standard, we request TSE to consider requiring trading participants to disclose their resilience plans. In order to let investors choose securities firms with an understanding of their resilience plans, we think that securities firms should widely disclose such plans to investors, for example, on their websites or at sales counters.</p>	

Comments No. 1 from BlackRock Japan Co., Ltd. and No. 2 from BofA Securities Japan Co., Ltd.