

Development of Remote Trading Participant System

January 29, 2009
Tokyo Stock Exchange, Inc.

I. Purpose

Currently the Tokyo Stock Exchange (TSE) limits its trading participants to financial instruments firms and registered financial institutions. However, against the backdrop of the increase in trading by overseas investors in recent years, etc., needs of overseas investors for direct participation in the TSE market are increasing.

Diversification of the investor base is believed to contribute to further increasing liquidity and improving functions of the TSE market. Based on this recognition, the TSE will develop a remote trading participant system, thereby enabling overseas firms having no branches, etc. in Japan to directly participate in the TSE market as a trading participant.

II. System Outline

Items	Contents	Notes
<p>1. Obtaining Trading Qualifications (1) Obtainment of Trading Qualifications by Exchange-Trading Authorized Firms</p>	<p>- The TSE will enable foreign securities firms authorized under Article 60, Paragraph 1 of the Financial Instruments and Exchange Law (hereinafter referred to as the “exchange trading authorized firms”) to obtain trading qualifications for the TSE market.</p>	<p>- Trading qualifications are classified into the following four types. The exchange-trading authorized firm may obtain any of them.</p> <ul style="list-style-type: none"> i) General Trading Qualification ii) Government Bond Futures, Etc. Trading Qualification iii) Index Futures, Etc. Trading Qualification iv) Individual Options Trading Qualification

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Items	Contents	Notes
<p>(2) Examination on the Exchange Trading Authorized Firm's Obtaining Trading Qualifications</p> <p>a. Examination Criteria</p> <p>b. Examination Fees</p>	<ul style="list-style-type: none"> - In the event the TSE receives an application for TSE trading qualifications from an exchange-trading authorized firm, the TSE conducts an examination based on the criteria equivalent to the current examination criteria. If the TSE determines the applicant is qualified, the TSE will approve the give of trading qualifications by the applicant. - In approving the obtainment, the TSE requires that the approved applicant concludes a clearing entrustment agreement with an agency clearing participant of the Japan Securities Clearing Corporation (JSCC). - If an exchange-trading authorized firm has made an application for trading qualifications, it shall pay the qualification examination fees of JPY 1 million to the TSE by the day designated by the TSE. 	<ul style="list-style-type: none"> - In the examination, as a general rule, the TSE will apply current criteria for financial instruments firms mutatis mutandis. - The examination fees for a financial instruments trading firm or registered financial institution is JPY 1 million.
<p>(3) Procedures for Obtaining Trading Qualifications</p>	<ul style="list-style-type: none"> - If the exchange-trading authorized firm receives approval from the TSE for obtaining trading qualifications, such firm must take the following procedures by the preceding the TSE designated date of obtaining trading qualifications (If such day falls under a holiday, it shall be moved earlier in order.). <ul style="list-style-type: none"> (1) Payment of the admission fees (2) Entering into a trading participant agreement with the TSE 	<ul style="list-style-type: none"> - In cases where the exchange-trading authorized firm does not take the procedures specified in the left column, the TSE deems such firm has withdrawn the application. - Admission fees <ul style="list-style-type: none"> i) JPY 10 million for the General

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	<p>(3) Entering into a clearing consignment agreement, according to the type of the trading qualification</p> <p>(4) Deposit of the trading participant security money</p> <p>(5) Other procedures for obtaining the trading qualification as specified by the TSE.</p>	<p>Trading Participant</p> <p>ii) JPY 3 million for the Government Bond Futures, Etc. Trading Participant</p> <p>iii) JPY 1 million for the Index Futures, Etc. Trading Participant</p> <p>iv) JPY 1 million for the Individual Options Trading Participant</p>
<p>(4) Notice and Publicizing</p>	<p>- If the TSE gives a trading qualification to the exchange-trading authorized firm, the TSE will notify other trading participants of such fact, and publicize it on the TSE website, etc.</p>	<p>- The TSE will make no public announcement.</p>
<p>2. Duties, etc. of Remote Trading Participants</p>		
<p>(1) Compliance with Laws, Regulations, Rules, etc.</p>	<p>- In the event that the TSE has granted an exchange-trading authorized firm with trading qualifications to conduct securities trading, etc. in the TSE market (Such firm is hereinafter referred to as the “remote trading participant.”), the remote trading participant must comply with laws and regulations, the TSE’s rules, etc, that apply to exchange-trading authorized firms.</p>	
<p>(2) Executing the Trading Participant Agreement</p>	<p>- The remote trading participant must enter into the trading participant agreement with the TSE.</p>	
<p>(3) Appointment of a Representative and</p>		

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<p>a Responsible Person</p> <p>a. Trading Participant Representative</p> <p>b. Person Responsible for Compliance</p> <p>c. Person Responsible for trading in securities, etc.</p> <p>d. Person Responsible for Trade Supervision</p>	<ul style="list-style-type: none"> - The remote trading participant must appoint a trading participant representative. - The remote trading participant must select a person responsible for compliance in Japan. (This person will be totally responsible for compliance operations.) - The remote trading participant must select a person responsible for trading in securities, etc. - The remote trading participant must appoint a person responsible for trade supervision whom the TSE can contact any time during the trading hours. 	<ul style="list-style-type: none"> - The trading participant representative may be the person responsible for compliance. - Responsible persons are classified into the following four types according to market: <ul style="list-style-type: none"> i) person responsible for trading in securities ii) person responsible for trading in government bond futures, etc. iii) person responsible for trading in index futures, etc. iv) person responsible for trading in individual options - The person responsible for trade supervision is limited to a person who is a resident in the main order-sending place and can check the status, etc. of orders.
<p>(4) Payment of Trading</p>	<ul style="list-style-type: none"> - The remote trading participant must pay the TSE trading participation fees as specified by the TSE 	<ul style="list-style-type: none"> - The fee rates, etc. are the same as those for domestic trading participants.

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<p>Participation Fees</p> <p>(5) Participant Bonds</p> <p>(6) Deposit of the Trading Participant Security Money</p> <p>(7) Items to Be Approved, Filed, Reported, Etc.</p> <p>(8) Handling of Customer Orders</p> <p>(9) Designation of Designated Clearing Participant</p> <p>3. Waiver of Trading Qualifications</p> <p>(1) Application for</p>	<ul style="list-style-type: none"> - The remote trading participant is required to deposit the participant bonds with the TSE. - The remote trading participant must deposit the TSE with the trading participant security money defined by the TSE. - With respect to items separately defined by the TSE , the remote trading participant must obtain approval from, file with, or report to the TSE in manners specified by the TSE. - The remote trading participant is prohibited from executing customer orders from residents within Japan on the TSE market. - If the remote trading participant executes customer orders (excluding orders from residents within Japan) on the TSE market, it must establish an appropriate system for fulfilling fiduciary duties as required by laws and regulations. <p>In order to trade on the TSE market, the remote trading participant must designate an agency clearing participant (designated clearing participant) to entrust agency-based clearing of securities, etc. beforehand.</p> <ul style="list-style-type: none"> - A remote trading participant who seeks to waive its trading 	<ul style="list-style-type: none"> - The participant bonds should be deposited in cash. - The required amount of the security money will be calculated in the same manner as that for domestic trading participants, and should be deposited in cash. - The TSE requires that remote trading participants establish systems that prevent unfair trading like insider-trading and market manipulation.

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<p>Waiving Trading Qualifications</p> <p>(2) Approval of Waiving Trading Qualifications</p> <p>(3) Notification</p> <p>(4) Fees for Waiving Trading Qualifications</p> <p>(5) Transfer and Acquisition of Trading Participation Rights</p>	<p>qualifications shall apply to do so through the TSE.</p> <p>- The TSE shall designate the specific date to approve the waiver of trading qualifications by the remote trading participant.</p> <p>- In the event of approving the waiver of trading qualifications, the TSE notifies each trading participant of such fact and publicizes it on the TSE website.</p> <p>- No remote trading participant is required to pay fees to waive its trading qualifications</p> <p>- <u>A remote trading participant cannot transfer or acquire trading participation rights.</u></p>	<p>- The TSE will make no public announcement.</p> <p>- The current fees are JPY 1 million.</p> <p>- <u>If the TSE deems that an applicant applying for trading qualifications (limited to exchange-trading authorized firms) is not substantially different from a remote trading participant that waives its trading qualifications, there is no need to pay admission fees.</u></p>
<p>5. Inspections, etc. of Remote Trading Participants</p> <p>(1) Inspections on Compliance with Laws, Regulations, Rules, Etc.</p>	<p>- The TSE surveys securities trading, etc. by remote trading participants in order to inspect compliance with laws, regulations, rules, etc. by such participants. Based on the surveillance results, the TSE shall be able to take necessary measures against such participant.</p>	

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<p>(4) Disciplinary Actions and Measures</p> <p>a. Disciplinary Actions</p> <p>b. Measures</p> <p>c. Regulatory Actions</p> <p>5. System Connections</p>	<p>- The TSE inspects the remote participant’s business operations, asset status, compliance with laws, regulations, and rules, etc. Based on the inspection results, the TSE shall be able to take necessary measures against such participant.</p> <p>- The TSE shall be able to undertake disciplinary actions against a trading participant in any of the following cases; when the trading participant</p> <ul style="list-style-type: none"> (1) violates laws, regulations, and rules, (2) illegally acquires any of trading qualifications, or (3) rejects inspections by the TSE, etc. <p>- The TSE shall be able to take measures against remote trading participants when their relations with the subsidiary or parent company, etc. are deemed to be inappropriate in light of the market operations by the TSE.</p> <p>- The TSE shall be able to undertake regulatory actions against remote trading participants when they receive administrative actions such as suspension of any or all of Exchange Transaction Business or revocation of license of Exchange Transaction Business.</p> <p>- As a general rule, remote trading participants shall connect to the TSE systems via the TSE’s domestic access point.</p>	<p>- Regulatory Actions include suspension or restriction of trading, and revocation of trading qualification.</p> <p>- Connection through Information Service Vender is available.</p>

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6. Other	- Rules for other information related to remote trading participants shall be equivalent to the rules for domestic trading participants.	

III. Implementation Schedule

This system is scheduled to be implemented in February 2009.

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