

Margin/Loan Trading Regulations

(Updated July 1, 2009)

Tokyo Stock Exchange, Inc.

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Chapter 1 General Provisions

Rule 1. Purpose

1. These Regulations shall, pursuant to the provisions of Rule 1-3, Paragraph 3 of the Business Regulations, prescribe necessary matters concerning margin trading pertaining to transactions of securities in the market of the Exchange as well as trading where a trading participant (meaning a general trading participant prescribed in Rule 2, Paragraph 2 of the Trading Participant Regulations; the same shall apply hereinafter) receives a loan of money or securities from a securities finance company designated by the Exchange (hereinafter referred to as a “designated securities finance company”) by using the settlement institution of the Exchange for the purpose of settling securities transactions in the market of the Exchange (such trading shall be hereinafter referred to as “loan trading”).
2. Matters concerning the entrustment of margin trading pertaining to securities trading in the market of the Exchange shall be subject to the provisions of the Brokerage Agreement Standards.
3. Any amendment to these Regulations shall be subject to a resolution of the Board of Directors; provided, however, that this shall not apply to cases where the substance of the amendment is of minor significance.

Rule 2. Definitions

1. In these Regulations, the term “standardized margin trading” means margin trading carried out with the premium charge and rescheduling of return/repayment deadlines for borrowed securities/money being subject to these Regulations as well as the Brokerage Agreement Standards.
2. In these Regulations, the term “negotiable margin trading” means margin trading carried out with the premium charge and rescheduling of return/repayment deadlines for borrowed securities/money which are agreed with a customer.

Chapter 2 Margin Trading

Section 1 General Provisions

Rule 3. Prohibition of Margin Trading in Subscription Warrant Securities, etc.

A trading participant may not conduct margin trading of subscription warrant securities, stocks which have fallen under the delisting criteria, and other stocks that the Exchange deems inappropriate.

Rule 4. Prohibition of Margin Trading Pertaining to Off-Auction Distribution

A trading participant may not conduct margin trading pertaining to transactions of off-auction distribution.

Rule 5. Prohibition of Margin Trading for Officers and Employees

A trading participant may not conduct margin trading with its officers or employees.

Rule 5-2. Computation of Amount of Charges Pertaining to Loans for Margin Trading

When a trading participant shall compute the amount of charges with respect to a loan of securities or money concerning margin trading that should be collected from a customer, said participant must take into consideration outstanding balance of loaned securities/money that said participant loans its customers, and expenses such as costs required for procuring securities or money by loan trading, etc., costs required for administrative arrangements for a loan of securities or money, and other expenses. In

this case the trading participant must also be fair, and not give preferential treatment with regards to charges borne by any selling or purchasing customer.

Rule 6. Delivery of Notification Concerning Margin Trading

1. A trading participant shall deliver every month a notice concerning margin trading to a customer who has any unsettled account pertaining to margin trading; provided, however, that this shall not apply if the customer is a financial instruments firm that belongs to an authorized financial instruments firms association.
2. If the notice prescribed in the preceding paragraph is related to standardized margin trading, it shall include information on the name of the stock, whether it is a sale or purchase transaction, quantity, contract price, the date on which the transaction was effected, and the application deadline for final return/repayment of borrowed securities/money
3. If the notice prescribed in Paragraph 1 is related to negotiable margin trading, it shall include information on the amount of premium charges agreed with a customer in addition to information prescribed in the preceding paragraph.
4. A trading participant may provide information to be stated in the notice prescribed in Paragraph 1 to a customer by electromagnetic methods (see Note below) if the trading participant has, after furnishing the customer with information on the type and content of the electromagnetic method to be used, obtained consent thereto from the customer either in writing or through an electromagnetic method. In this case, the trading participant is deemed to have delivered such notice.

(Note) The term “electromagnetic method” means a method of using an information communications technology such as an electronic information processing system which is the same as the method prescribed in Article 56 of the Cabinet Office Ordinance on Financial Instruments Business, etc. (Cabinet Office Ordinance No. 52 of 2007). The same applies hereinafter. In this case, when Article 56 is read except Paragraph 1, Item 1, Sub-item (iv), Paragraph 2, Item 3, Sub-item (ii), and Item 4, the term “when the trading referenced in... was conducted last time” in Paragraph 2, Item 3 shall be deemed to be replaced with “when... is recorded”)

5. When a trading participant that has obtained consent pursuant to the preceding paragraph receives an instruction either in writing or through the electromagnetic method from the customer that he/she/it will not accept any provision of the

information by the electromagnetic method, the trading participant may not provide the customer with the matters to be stated in a notice by means of the electromagnetic method; provided, however, that this shall not apply in cases where the customer gives consent again pursuant to the preceding paragraph.

Section 2

Standardized Margin Trading

Rule 7. Prohibition of Standardized Margin Trading in Stocks Other than Standardized Margin Trading Issues

1. A trading participant may not conduct standardized margin trading in stocks, etc. other than issues eligible for standardized margin trading out of the following securities (hereinafter referred to as “standardized margin trading issue”):
 - (a) Stocks (including preferred equity investment securities (meaning a preferred equity investment security issued by a cooperative structured financial institution), foreign stock depositary receipts (meaning a depositary receipt representing the rights pertaining to a stock issued by a foreign company));
 - (b) Real estate investment trust securities (meaning an investment trust beneficiary certificates or investment securities whose purpose is to manage funds from investors principally as investment in real estate related assets);
 - (c) Indicator-linked investment trust beneficiary certificates (meaning beneficiary certificates of an investment trust which is managed in order to make the fluctuation ratio of the net asset amount per unit of the investment trust assets correspond to the fluctuation ratio of a specific indicator (meaning quotations in the financial instruments market or other indicators);
 - (d) Foreign investment trust beneficiary certificates;
 - (e) Foreign investment securities;
 - (f) Beneficiary certificates of a beneficiary certificate issuing trust; and
 - (g) Beneficiary certificates of a foreign beneficiary certificate issuing trust (meaning securities or certificates issued by a foreign corporation which have the characteristics of beneficiary certificates of a beneficiary certificate issuing trust).
2. Standardized margin trading issues shall be selected in accordance with the rules set forth by the Exchange.

Rule 8. Premium Charge for Standardized Margin Trading

Premium charges pertaining to standardized margin trading in issues for which money or securities may be borrowed through loan trading (hereinafter referred to as “loan trading issue”) shall be determined for each issue by the Exchange.

Rule 9. Treatment of Rights Pertaining to Standardized Margin Trading

Necessary matters on standardized margin trading with regard to the treatment of rights such as dividend claims and subscription rights due to stock splits shall be determined by the rules set forth by the Exchange.

**Chapter 3
Loan Trading**

Rule 10. Loan Trading Issues

1. Loan trading issues shall be selected by the Exchange from amongst standardized margin trading issues.
2. Loan trading issues shall be selected in accordance with the rules set forth by the Exchange.

Rule 11. Limitation of Loan Trading

A trading participant may not conduct loan trading for purposes other than those of settlement of regular transactions in the standardized margin trading and settlement of regular transactions of proprietary sale or purchase on margin.

Rule 12. Settlement, etc. of Loan Trading

The following matters shall be as prescribed by the Business Rules and Regulations of Japan Securities Clearing Corporation:

- (a) Borrowing and repayment/return of money/securities pertaining to loan trading (including loan trading pertaining to commissioning of clearing securities trading, etc. to an agency clearing participant); and
- (b) Submission and withdrawal of purchased securities as collateral pertaining to such borrowed money and sale proceeds pertaining to such borrowed securities.

**Chapter 4
Miscellaneous Rules**

Rule 13. Settlement Deadline for Proprietary Sale or Purchase on Margin

In the case where a trading participant has effected a regular transaction pertaining to a proprietary sale or purchase on margin, the trading participant must settle such margin sale or purchase by the third day (excluding non-business days) following the date corresponding to the transaction date in the sixth month following the month including the transaction date (if there is no corresponding date in the sixth month, the last day of such month shall be taken to be the corresponding date; if the corresponding date falls on a non-business day, it shall be moved backwards).

Rule 14. Application to Commissioning of Clearing Securities Trading, etc. to Agency Clearing Participant

These Regulations (except Rule 12) shall apply to commissioning of clearing securities trading, etc. to an agency clearing participant that pertains to trading of securities by deeming that a trading participant who entrusts commissioning of clearing securities trading, etc. to an agency clearing participant is a person who effects transactions of such securities. These Regulations (except Rule 12) shall also apply to commissioning of clearing securities trading, etc. to an agency clearing participant that pertains to loan trading by deeming that a trading participant that entrusts commissioning of clearing securities trading, etc. is a person who effects such loan trading.

Rule 15. Unsettled Accounts for Standardized Margin Trading in Other Markets

In the case where a standardized margin trading issue (limited to issues listed on any other domestic financial instruments exchange) is delisted from any other domestic financial instruments exchange for a reason(s) or in a form(s) separately prescribed by the Exchange, if it is mutually agreed between a trading participant and a customer that the customer's unsettled account for transactions of such delisted issue under other market standardized margin trading (see Note below) that pertains to the customer's trading of said issue in the financial instruments exchange market of other domestic financial instruments exchange from which such issue is delisted will be treated as an unsettled account under standardized margin trading in the Exchange and, furthermore, a day of commencing such treatment, said unsettled account pertaining to the other market standardized margin trading shall be deemed to be an unsettled account pertaining to standardized margin trading in the Exchange on and after said day. In such case, such day must be the day immediately preceding the day of said delisting (if this day falls on a non-business day, it shall be moved backwards) or thereafter.

(Note) The term "other market standardized margin trading" means margin trading pertaining to securities trading in a financial instruments exchange market established by other financial instruments exchange in Japan whose premium charges and rescheduling of return/repayment deadlines for borrowed securities/money shall be as prescribed by the rules of such other financial instruments exchange; the same shall apply hereinafter.

Rule 16. Decision on Necessary Matters Concerning Margin Trading and Loan Trading

In addition to matters prescribed in these Regulations, the Exchange may prescribe rules for additional necessary treatment concerning margin trading or loan trading on an as-needed basis.