

Regulations for Trading Supervision Systems at Trading Participants to Prevent Unfair Trading
(Updated to June 1, 2009)

Tokyo Stock Exchange, Inc.

Rule 1. Purpose

1. These Regulations shall prescribe necessary matters concerning trading supervision systems to be developed by trading participants, in accordance with the provisions of Rule 22-2 of the Trading Participant Regulations.
2. The purpose of the development of trading supervision systems as mentioned in the preceding paragraph is to prevent unfair trading by trading participants with regard to securities trading (limited to trading of stocks, convertible bonds, and exchangeable corporate bonds as specified in Rule 2, Paragraph 1 of the Business Regulations) on the Exchange markets, through the establishment of internal regulations and implementation of any other necessary measures by trading participants, thereby ensuring confidence in the Exchange and its trading participants and contributing to the public interest and the protection of investors.

Rule 2. Establishment of Internal Regulations

Trading participants shall establish internal regulations setting out provisions with regard to the trading supervision operations conducted by trading participants for the purpose of preventing unfair trading by their customers, as described in the following items.

- (1) Matters concerning the departments responsible for trading supervision, and their powers and responsibilities
- (2) Matters concerning the accurate identification of motives for and trends in customers' trading behavior
- (3) Matters concerning information to be taken into consideration in trading supervision
- (4) Matters concerning the identification of customers as targets for market surveillance
- (5) Matters concerning market surveillance on customers
- (6) Matters concerning measures to be taken on the basis of the results of market surveillance
- (7) Any other matters deemed necessary

Rule 3. The Accurate Identification of Motives for and Trends in Customers' Trading Behavior

Trading participants shall strive to accurately identify motives for and trends in customers' trading behavior, by means of appropriate monitoring (of financial instruments traded, transaction methods, transaction formats, inclination to invest, experience of investment, etc.).

Rule 4. Market Surveillance

Trading participants shall undertake market surveillance operations in accordance with the provisions of the following items.

- (1) With regard to the categories of issue and customer listed in the attached table "Identification of Customers as Targets for Market Surveillance", the identification of customers as targets for market surveillance shall be carried out in accordance with the identification criteria set forth separately by the TSE. Provided, however, where the use of these identification criteria would represent an excessive financial burden, or where it would be difficult to conduct market surveillance operations on the basis of these criteria for other reasons, except issues and customers enumerated in Item 5 in Appendix "Table for Identification of Customers To Be Subject To Market Surveillance," trading participants may be permitted to use other appropriate identification criteria, taking into consideration the customer management systems operated by the trading participant in question.
- (2) Notwithstanding the proviso of the preceding paragraph, in the case of non-face-to-face transactions (hereinafter taken to indicate transactions in which the customer uses the Internet to place an order and the order is acknowledged or processed mechanically), except in cases where the number of customers identified on the basis of the identification criteria specified separately by the TSE would be excessively high for the market surveillance systems and structures generally considered to be appropriate, and where it is deemed that the results obtained through market surveillance on the basis of modified identification criteria together with market surveillance on the basis of the requirements concerning analysis set forth separately by the TSE would be similar to those obtained through market surveillance of customers identified on the basis of the criteria prescribed in the main text of the preceding Item, trading participants shall not be permitted to modify the identification criteria.
- (3) Market surveillance of transactions carried out by customers identified on the basis of the provisions of the preceding two items, shall be carried out on the basis of such of the requirements concerning analysis set forth separately by the TSE and other requirements as may be necessary.
- (4) In cases where market surveillance carried out according to the provisions of the preceding item identifies transactions that may lead to unfair trading, the trading participant shall caution the customer who has carried out the said transactions and, if there is no subsequent improvement, shall take appropriate action such as suspending the acceptance of orders from the said customer.
- (5) In cases where a trading participant identifies transactions that may be insider trading as a result of carrying out market surveillance as specified in Item 3, the trading participant shall report the result and content enumerated in the following a. and b. to the Exchange without delay as prescribed by the Exchange.

- a. Results of market surveillance

- b. In cases where the trading participant has cautioned the customer or taken actions such as suspending acceptance of orders from said customer, the content of said caution or actions

Rule 5. Creation and keeping of Internal Records

Trading participants shall create internal records of the matters listed below and keep these records for a period of 5 years.

- (1) The reasons for changes of identification criteria in cases where the identification criteria for non-face-to-face transactions have been modified
- (2) The results of market surveillance operations prescribed in Item (3) of the preceding Rule (except in cases where it is clear that there has been no unfair trading) and the measures taken against customers

Rule 6. Reviews of Internal Regulations

Trading participants shall ensure the efficacy of the internal regulations described in Rule 2 by ensuring that directors, executives and employees are familiar with the regulations and by causing the departments responsible for trading supervision operations to review the regulations, in reflection of market and trading situations.

Rule 7. Management of Trading on Own Account

Trading participants shall establish appropriate trading supervision systems for trading on own account, taking account of forms of transactions, etc. carried out by the trading participant.

Appendix

Table for Identification of Customers to Be Subject to Market Surveillance

The identification of customers as targets for market surveillance shall be conducted for the categories of customer specified against each of the types of issue listed in the table below.

	Category of issues	Category of customers
1	Issues in the trading of which the trading participant has a high degree of involvement	Customers with a high degree of involvement in the trading of specific issues
2	Issues in which the trading participant has carried out transactions within a given time frame, including the end of a session	Customers who have carried out transactions in a specific issue within a given time frame, including the end of a session
3	Issues in which the trading participant has carried out buy and sell transactions at the same time and at the same price	Customers who have carried out buy and sell transactions in a specific issue at the same time and at the same price
4	Issues for which the trading participant has canceled orders or has reduced the price in a conspicuous manner	Customers who have canceled orders for or have reduced the price of specific issues in a conspicuous manner
5	Issues for which the trading participant has traded before material facts are publicized	Out of customers who have carried out transactions before material facts are publicized, those doubted of having engaged in insider trading in terms of trading activities, etc.
6	All issues in which the trading participant has carried out transactions	Customers in respect of whom the financial instruments exchange or the trading participant, etc. has received information regarding suspicion of unfair trading
7	All issues in which the trading participant has carried out transactions	Customers suspected of having engaged in other unfair trading

Notes:

1. For Items 1 to 4 in the table above, customers may be identified as targets for market surveillance with respect to all issues in which the trading participant has carried out transactions.
2. In the case of discretionary investment agreements as specified in Rule 2, Paragraph 8, Item 12 (b) of the Financial Instruments and Exchange Act or actions specified in Rule 123, Paragraph 1, Item 13, (a) to (e) of the "Cabinet Office Ordinance

Referential Translation

Concerning Financial Instruments Business, etc." (Cabinet Office Ordinance 52 of 2007), the customer in question may be excluded from the scope of identification for market surveillance.

3. Except for the above 5, where trading has taken place outside the trading sessions determined by the TSE or outside the TSE markets, the customer in question may be excluded from the scope of identification for market surveillance.

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