

(Reference Translation)

Development of Listing Rules and Frameworks to Increase Confidence in and Further Invigorate the ETP market, etc. in light of Global Trends

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Tokyo Stock Exchange, Inc.

I. Purpose

ETPs (Exchange Traded Products)<sup>1</sup> have been diversified on a global basis and rapidly expanding their market scale as a highly convenient means to simply invest in a variety of asset classes. In recent years, many overseas exchanges have listed ETPs which track a variety of new indicators such as leveraged/inverse indicators, other than traditional ones, and such leveraged/inverse ETPs are being actively traded in the markets overseas. To maintain and enhance the global competitiveness of the Japanese financial and capital market, Tokyo Stock Exchange, Inc. (TSE) considers it necessary to maintain global consistency and create a better environment that provides investors with attractive financial instruments. As such, TSE will develop the following rules and frameworks for listing ETPs which track leveraged/inverse indicators after taking steps to protect investors.

On the other hand, active discussions have recently been held overseas on creation methods of some ETFs and the credit risks arising from such creation methods. In light of this trend, TSE will require management companies to continue to maintain a management system related to credit standing, etc. of ETFs which are deemed to contain credit risks. TSE will also take measures to promote the sound growth of and further increase confidence in the ETF market, such as developing a framework of continued disclosure and the delisting criteria for such ETFs. In addition, Japan Securities Depository Center, Inc. will be able to handle reverse splits or splits of beneficiary rights of ETFs. With this in mind, TSE will take necessary measures to increase confidence in and further invigorate the ETP market.

II. Outline

Item	Contents	Remarks
1. Development of listing rules and systems of	• TSE will develop the following listing rules and systems of ETPs which track a leveraged/inverse indicator (hereinafter, "new indicator"). Such new	• "Inverse" shall include amplifying the fluctuations of an existing indicator that are then inverted.

<sup>1</sup> ETPs refer to ETFs (Exchange Traded Funds) (including ETCs) and ETNs (Exchange Traded Notes).

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<p>ETPs which track leveraged/inverse indicators</p> <p>(1) Requirements for indicator eligibility of new indicators, etc.</p>	<p>indicator is created by amplifying or inverting the fluctuations of an existing indicator through such methods as multiplying a certain rate by the fluctuations of said indicator.</p> <ul style="list-style-type: none"><li>• Aside from the requirements for an existing indicator, those for indicator eligibility for a new indicator shall be as follows:<ul style="list-style-type: none"><li>- The computation method of the indicator is objective and, in addition, does not lack in fairness.</li><li>- The indicator and its computation method are published.</li></ul></li></ul>	<ul style="list-style-type: none"><li>• A new indicator (e.g. TOPIX Leverage (2x) Index) is calculated based on an existing indicator (e.g. TOPIX). However, the new indicator is created by multiplying the fluctuations of the underlying indicator by a certain rate, and TSE does not necessarily require such new indicator to track the underlying indicator itself.</li><li>• In the process of listing examinations, TSE will judge on a case-by-case basis that a new indicator is not expected to frequently exceed the daily price limits in calculations based on the past performance of a new indicator or its underlying indicator. (TSE examines the above based on submitted documents from listing applicants.)</li><li>• There shall be no changes in requirements for indicator eligibility of ETPs, etc. which track other indicators than a leveraged/inverse indicator.</li><li>• Requirements for a new indicator are set in reference to Rule 1104, Paragraph 1, Item 2, Sub-item d of the current Securities Listing Regulations. Since such new indicators are calculated by multiplying the fluctuations of the underlying indicator by a certain rate, they do not fall under an "indicator pertaining to prices". As such, Rule</li></ul>

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(2) Improvements to the disclosure and warning systems	<ul style="list-style-type: none"> <li>- In cases where derivatives or commodity derivatives trading is conducted to make the fluctuation rate of net assets value per unit of investment trust assets correspond to that of a new indicator, such transactions shall be expected to be carried out smoothly.</li> <li>- The underlying indicator shall fall under the following requirements:               <ul style="list-style-type: none"> <li>- It shall fall under Rule 1104, Paragraph 1, Item 2, Sub-items d (a) through (e) of the current Securities Listing Regulations.</li> <li>- It shall not be an indicator which is already created by amplifying or inverting the fluctuations of another indicator.</li> <li>- It shall ensure a fair price formation mechanism; for example, derivatives trading pertaining to the underlying indicator shall be conducted on a listing market(s) (including a similar market(s)).<sup>2</sup></li> </ul> </li> <li>• For ETPs which track a new indicator, etc., TSE will require management companies to conduct further disclosure on a daily basis, that includes disclosing the characteristics of indicators, etc.</li> </ul>	<p>Sub-items (b), (c), (e) and (f) are not applicable.</p> <ul style="list-style-type: none"> <li>• This criterion is not applicable to ETNs.</li> <li>• For the underlying indicator as well, TSE will apply the same requirements as those for an existing indicator. However, TSE will not require the creation of ETPs based on such underlying indicator.</li> <li>• Specifically, TSE will require management companies to conduct disclosure for investors in terms of the following points. Such daily disclosure will be available through TDnet.               <ul style="list-style-type: none"> <li>- Characteristics in calculating a new indicator                   <ul style="list-style-type: none"> <li>• Difference from the underlying indicator</li> <li>• Characteristics of a new indicator</li> </ul> </li> </ul> </li> </ul>

<sup>2</sup> For example, (1) in cases where the underlying indicator is composed of the price of securities (stocks, bonds, REITs, etc.) or derivatives (excluding commodities derivatives), the derivatives trading (including derivatives if the underlying indicator is composed of the prices of such derivatives) of the underlying indicators shall be conducted on the listing market, and (2) in cases where the underlying indicator is a new indicator pertaining to the prices of commodities or commodities derivatives, the component assets (including derivatives pertaining to such assets) of the underlying indicator shall be traded on organized market(s).

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		<ul style="list-style-type: none"><li>- Points to consider on a new indicator<ul style="list-style-type: none"><li>• Difference in profits and losses from the underlying indicator</li><li>• Investment styles to be noted, etc.</li></ul></li><li>• In the process of listing examinations, TSE will confirm on a case-by-case basis that management companies have disclosed the above to investors, referring to statutory disclosure documents, such as securities registration statements, etc.</li></ul>
2. Measures to increase confidence in ETFs which contain credit risks  (1) Ensuring a management system, etc. related to the credit standing of	<ul style="list-style-type: none"><li>• TSE will develop the following listing system for ETFs which track a specified indicator by embedding into investment trust assets, etc. either securities issued to achieve investment performance linked to a specified indicator (known as "indicator linked-bond"), or rights related to a contract with a specific entity (known as "OTC swap contracts") in investment trust assets, etc. <sup>3</sup></li><li>• TSE will establish codes of conduct which require management companies pertaining to indicator-tracking securities, etc. incorporated ETFs to continue endeavoring to maintain appropriate rules and systems including management systems related to the credit standing of a counterparty(s) <sup>4</sup>, etc.</li></ul>	<ul style="list-style-type: none"><li>• For such ETFs, TSE will provide new definitions as "ETFs in which indicator-tracking securities, etc. are incorporated" (hereinafter referred to as "indicator-tracking securities, etc. incorporated ETFs"; the same shall apply hereinafter) in the Securities Listing Regulations.</li><li>• In the process of initial listing examinations, TSE has required management companies to develop an appropriate management system pertaining to credit standing, etc. and other systems. The revision in the left</li></ul>

<sup>3</sup> Rights pertaining to OTC swap contracts are limited to rights pertaining to OTC derivatives as prescribed in Article 2, Paragraph 22 of the Financial Instruments and Exchange Act, rights pertaining to commodities investment, etc. trading or monetary claims as prescribed in Article 3, Item 7 of the Enforcement Order of the Act on Investment Trusts and Investment Corporations.

<sup>4</sup> A "counterparty" refers to the issuer of securities to be incorporated in investment trust assets, etc. or the counterparty of a contract. In cases where a guarantor is present, a counterparty shall be read as, or shall include, such guarantor.

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(2) Reports and public inspections of management systems related to the credit standing of a counterparty(s), etc.	<ul style="list-style-type: none"><li>• Management companies for indicator-tracking securities, etc. incorporated ETFs will be obligated to submit a report on their management systems, etc. related to the credit standing of a counterparty(s), etc.</li><li>• Such report will be available for public inspection on the TSE website.</li></ul>	<p>will clarify that TSE will also require management companies to continue to maintain such systems after listing.</p> <ul style="list-style-type: none"><li>• Specifically, the following matters will be required to be reported.<ul style="list-style-type: none"><li>- Criteria for selecting a counterparty(s)</li><li>- Management system pertaining to the financial positions of a counterparty(s), etc.</li><li>- Measures to reduce possible losses of investment assets when a credit risk arises and measures in cases where such losses actually occur</li><li>- Methods to distribute information related to a counterparty(s), etc.</li></ul></li><li>• In cases where there is any change in the content of the report, the management company will be obligated to submit an amendment report without delay except for a case where TSE deems that such amendment is of minor significance.</li></ul>
(3) Clarification of items to be disclosed related to the financial	<ul style="list-style-type: none"><li>• For indicator-tracking securities, etc. incorporated ETFs, TSE has required management companies to disclose changes in credit ratings and material facts related to the financial positions of their counterparties, etc. on a timely</li></ul>	<ul style="list-style-type: none"><li>• This item clarifies such content.</li></ul>

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<p>position of a counterparty(s)</p> <p>(4) Development of delisting criteria</p>	<p>basis. With this revision, TSE will clarify material facts related to financial positions, etc. as follows.</p> <ul style="list-style-type: none"> <li>- Change in the credit ratings of a counterparty(s) or those of bonds, etc. which are incorporated in the ETFs.</li> <li>- Liabilities in excess of assets or notes on matters relating to the going concern assumption</li> <li>- "Adverse opinion" or "Opinions are not expressed" in securities reports, etc.</li> <li>- Suspension of business activities (bank transactions), liquidation, bankruptcy, etc.</li> <li>- Acceleration of obligations</li> <li>- In addition to the above, material facts related to the financial position of a counterparty(s)</li> </ul> <p>• In cases where indicator-tracking securities, etc. incorporated ETFs fall under any of the following, they shall be delisted.</p> <p>(Delisting in cases where ETPs are deemed not to continue being managed)</p> <ul style="list-style-type: none"> <li>- In cases where a) the financial position of a counterparty(s), etc. deteriorates and b) securities or rights pertaining to contracts to be incorporated in the investment trust assets, etc. are not changed to other assets than securities issued by such counterparty or rights pertaining to contracts in which the other party(s) is such counterparty during a period from the day when TSE deems such deteriorations to the day when one year elapses from such day.</li> </ul>	<ul style="list-style-type: none"> <li>• "The financial position of a counterparty(s), etc. deteriorates" means a case where such counterparty(s) falls under any of the following conditions: <ul style="list-style-type: none"> <li>- Liabilities in excess of assets or notes on matters relating to the going concern assumption;</li> <li>- "Adverse opinion" or "Opinions are not expressed" in securities reports;</li> <li>- Suspension of business activities (bank transactions),</li> </ul> </li> </ul>

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	<p>(Delisting in cases where a management system related to credit standing ceases to be maintained)</p> <ul style="list-style-type: none"><li>- Where a management system has not been maintained at the management company with regard to the credit standing of a counterparty(s), etc. for ensuring management continuity and reducing possible losses of investment trust assets, etc.</li></ul>	<ul style="list-style-type: none"><li>liquidation, bankruptcy, etc.;</li><li>- Acceleration of obligations</li><li>- In addition to the above, a case where TSE deems that the financial position of a counterparty(s) has significantly deteriorated.</li><li>• TSE will conduct public announcement and warning as a grace period pertaining to delisting until one year elapses or such financial deterioration is resolved. However, in cases where TSE deems that such grace period is not appropriate, such ETF shall be delisted on an as-needed basis.</li><li>• In cases where such management system ceases to be maintained, etc. and, its operations are taken over by another management company to be maintained, the ETP will be not necessarily delisted.</li></ul>
3. Reverse-splits or splits of beneficiary rights, etc.	<ul style="list-style-type: none"><li>• TSE shall take the following measures for reverse-splits or splits of beneficiary rights, etc.<sup>5</sup> of ETFs, etc.:</li><li>- TSE will set matters to be observed that management companies will not conduct reverse-splits or splits of beneficiary rights, etc. which is likely to</li></ul>	<ul style="list-style-type: none"><li>• The same measures will be taken for ETNs and REITs</li><li>• The handling of effective dates, etc. will be the same as those of stocks</li></ul>

<sup>5</sup> Beneficiary rights, etc. refer to beneficiary rights and investment units of ETFs.

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	disrupt the secondary market or impair beneficiaries' interests <sup>6</sup> . - In cases where management companies have decided reverse-splits or splits of beneficiary rights, etc., they shall be obligated to disclose such facts and other necessary matters on a timely basis.	
4. Other	• TSE will make other necessary amendments and adjustments to the listing rules.	

III. Implementation Schedule (planned)

- The amendments and adjustments to the listing rules, etc. will be implemented in early March 2012. Management companies pertaining to indicator-tracking securities, etc. incorporated ETFs listed as of the implementation date shall submit a "Report on Management System pertaining to Credit Standing of Counterparty, etc." to TSE by June 30, 2012

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<sup>6</sup> Beneficiaries, etc. refer to beneficiaries related to beneficiary rights and investors related to investment units.