

Guidelines Concerning Closing Price Guaranteed Transactions, etc.

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Tokyo Stock Exchange Regulation

A financial instruments firm which received a so-called closing price guaranteed transaction¹, etc. order from a customer undertakes so-called advance hedging² particularly at the time of the approach of the end of the trading session in order to avoid price fluctuation risks. These guidelines are established to indicate (a) points to be noted with regard to the execution of such transactions, etc. and (b) the types of trading behavior that TSE Regulation especially monitors in investigating whether there is any potential market manipulation, etc.

Note that these guidelines are not intended to indicate an official interpretation of laws and regulations, etc.

1. Special characteristics and points to be noted with regard to closing price guaranteed transactions, etc.

A financial instruments firm carries out so-called advance hedging when undertaking a closing price guaranteed transaction, etc. In cases where the average purchase (sale) price executed as an advance hedging is lower (higher) than the closing price, said hedging is thought to have the potential to work as an incentive for a financial instruments firm to intentionally manipulate the closing price - such as the difference between the closing price and the average purchase (sale) price becoming a dealing profit, etc.

Additionally, in cases, in particular as regards the closing time of a trading session, where large purchases (sales) are made in the process of advance hedging, there is risk of causing a significant impact on the closing price which is widely used as the official quotation for the market price and, in particular, for asset evaluation, etc. As well as having the potential of creating misunderstandings broadly amongst other investors, it is thought that this could be deemed to be an intended price.

These acts are likely to cause conflicts of interest of customers and, additionally, acts which intentionally manipulate prices could fall under artificial price formation which is a prohibited act of a financial instruments firm under laws and regulations. It should be noted that in certain instances suspicions of market manipulation could arise by giving the false impression that there is heavy trading and, through major market movements, consequently inducing transactions.

Furthermore, when accepting closing price guaranteed transaction, etc., financial instruments firms should pay attention to the following:

- Be fully aware of the characteristics which these closing price guaranteed transactions, etc have;
- Prepare internal rules relating to matters which should be explained to customers (such as whether there will be advance hedging and the impact on price formation, etc.) and to the execution method of trading for advance hedging, etc.; and
- Put in place internal systems such as checking after-the-fact as well whether there has been

¹ A transaction in which a financial instruments firm agrees to fulfill the entrustment, etc. from customers of purchases or sales of securities at a closing price to be determined in the future on a securities market.

² Prior to concluding the trade relating to the relevant transaction, the act of making a purchase in order to procure the security relating to the relevant transaction on one's own account or the act of making a sale of the security of the same issue as the relevant security.

unnatural price formation, etc.

2. Types of trading behavior that may come under scrutiny of TSE Regulation

In investigating whether advance hedging relating to a closing price guaranteed transaction, etc. violates the regulations concerning market manipulation, etc., TSE Regulation especially monitors the following types of trading behavior. Note that not all acts are necessarily considered legal simply because they do not fall under the following types of trading behavior.

| Trading behavior | Points under scrutiny | Remark |
|--|---|---|
| Buy-up (Sell-down) | <ul style="list-style-type: none"> Whether a purchase (sale) order or a market order is made repeatedly and continuously at a price above (below) the last execution price within 15 minutes prior to end of the afternoon trading session. | Advance hedging selling relating to a closing price guaranteed transaction would be subject to short-selling restrictions. |
| Trading for price maintenance purposes | <ul style="list-style-type: none"> Whether transactions are made repeatedly and continuously in a manner to maintain the level of the last execution price (suppress a higher price) within 15 minutes. | This corresponds to cases where a financial instruments firm places a purchase (sale) order repeatedly and continuously so as to fix the level of the last execution price notwithstanding that there are circumstances where it could be anticipated that purchases (sales) could be made at a lower (higher) price when the market is in a downward (upward) trend. |
| Hedging volume at the time of the approach of the end of the trading session, etc. | <ul style="list-style-type: none"> Whether advance hedging volume, compared to the liquidity of the relevant issue, is excessive within the 15 minutes prior to the end of the afternoon trading session (in the case of a half-day, the morning trading session. Below the same being applicable). Whether acts are engaged in so as to intentionally delay the timing of the execution in order to increase an impact on price formation. | |
| Involvement in closing price formation | <ul style="list-style-type: none"> Whether orders are made at a volume and price so as to | |

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| | have an excessive impact on price formation compared to the liquidity at the time of the end of the trading session. | |
| Total volume of advance hedging | <ul style="list-style-type: none"> • Whether transactions are made exceeding the volume required for advance hedging through auction trading (so-called over-hedging). | |
| Front-running acts | <ul style="list-style-type: none"> • Whether there are front-running acts using information relating to the closing price guaranteed transaction and information of the advance hedging relating to the relevant transaction. | |

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