

# RULES CONCERNING ESTABLISHING A TRADE COMPLIANCE SCREENING SYSTEM FOR THE PREVENTION OF UNFAIR TRADING

(November 21, 2005)

## (Purpose)

**Article 1** The purpose of the Rules Concerning Establishing a Trade Compliance Screening System for the Prevention of Unfair Trading (hereinafter referred to as “Rules”) is to require Regular Members to establish internal rules and implement other necessary measures when they develop a trade compliance screening system for the prevention of unfair trading of Listed Share Certificates, etc. and to encourage Regular Members to enhance their system for administration of transactions of Listed Share Certificates, etc., thereby ensuring fairness and transparency in the securities market as well as maintaining and improving Regular Members’ credibility among investors.

In this regard, “Listed Share Certificates, etc.” means certificates of securities listed on a domestic financial instruments exchange market as set forth below; this definition shall apply hereinafter:

- (1) Share Certificates, which expression includes the following:
  - (a) Share Option Certificates;
  - (b) Equity Investment Securities (meaning securities set forth in Article 2, Paragraph 1, Item 6 of the Financial Instruments and Exchange Act (hereinafter referred to as “FIEA”));
  - (c) Preferred Equity Investment Securities (meaning preferred equity investment securities issued by a cooperative structured financial institution);
  - (d) Investment Trust Beneficiary Certificates (meaning beneficiary certificates of investment trusts);
  - (e) Foreign Investment Trust Beneficiary Certificates (meaning beneficiary certificates of foreign investment trusts; the same shall apply hereinafter);
  - (f) Investment Securities;
  - (g) Investment Equity Subscription Right Certificates;
  - (h) Foreign Investment Securities;
  - (i) Foreign Share Depository Receipts (meaning depository receipts indicating the rights pertaining to share certificates issued by a foreign corporation);
  - (j) Beneficiary Certificates of Trusts with Beneficial Interest Certificates, limited to either of the following:
    - (j)-1 Domestic Commodity Trust Beneficiary Certificates; *i.e.*, beneficiary certificates of trusts with beneficial interest certificates which are intended to be linked to the price of a particular commodity and for which such particular commodity is designated as the trust property; a “commodity” refers to any of the commodities prescribed in Article 2, Paragraph 1 of the Commodity Futures Act (Act No. 239 of 1950):
    - (j)-2 Beneficiary Certificates of Foreign Securities in Trust; *i.e.*, beneficiary certificates of trusts with beneficial interest certificates for which the trust property is any of the following:
      - (i) Share Certificates issued by a foreign corporation,
      - (ii) Securities linked to a foreign index; *i.e.*, securities issued outside Japan by a foreign corporation which have the same nature as the securities set forth in Article 2, Paragraph 1, Item 5 of the FIEA and for which the redemption amount is intended to be linked to a particular index (quotations on a financial instruments market or any other indicator),
      - (iii) Foreign Investment Trust Beneficiary Certificates,
      - (iv) Foreign Investment Securities, or
      - (v) Beneficiary Certificates of Trusts with Foreign Beneficial Interest Certificates; *i.e.*, securities or certificates issued by a foreign corporation which have the same nature as beneficiary certificates of trusts with beneficial interest certificates.
  - (k) Beneficiary Certificates of Trusts with Foreign Beneficial Interest Certificates;
- (2) Convertible Bond Certificates, meaning certificates of bonds with share options for which the subject of the contribution to be made upon the exercise of share options is the bonds related to such bonds with share options;
- (3) Exchangeable Bond Certificates, meaning certificates of securities set forth in Item 5 of Article 2,

Paragraph 1 of the FIEA or such securities set forth in Item 17 thereof that have the same nature as the securities set forth in Item 5 thereof (hereinafter referred to as “Bond Certificates” in this Article), which securities are to be redeemed, at the request of a holder of Bond Certificates, through issuance of share certificates of a specific company other than the issuer of the Bond Certificates.

**(Establishment of Internal Rules for Entrusted Transactions)**

**Article 2** A Regular Member must establish internal rules that prescribe the matters set forth in each Item below regarding the trade compliance screening for Listed Share Certificates, etc. by its customers:

- (1) Matters relating to the section in charge of trade compliance screening, its power and responsibility;
- (2) Matters relating to the precise understanding of trends and the motives of customers regarding their trade;
- (3) Matters relating to the relevant information for trade compliance screening;
- (4) Matters relating to the sampling of customers subject to trade examination;
- (5) Matters relating to the trade examination of customers;
- (6) Matters relating to the measures to be taken based on the results of trade examination; and
- (7) Other matters that are deemed necessary.

**(Precise Grasp of Trends and the Motives of Customers regarding Their Trade)**

**Article 3** A Regular Member must conduct monitoring (investigation of instruments that customers have sold or purchased, their transaction methods, forms of the transaction, intentions of the investment, and investment experiences, etc.) in a timely manner in accordance with the internal rules prescribed in the preceding Article, and endeavor to precisely grasp the trends and motives of customers regarding their trade.

**(Trade Examination)**

**Article 4** A Regular Member must conduct trade examination in accordance with the internal rules prescribed in Article 2.

**2.** A Regular Member must select customers subject to the trade examination prescribed in the preceding Paragraph based on the sampling criteria prescribed by the Association and the issues and customers listed in the Annex “Table for Selecting Customers Subject to Trade Examination”. Provided, however, that the sampling criteria except for case 5 listed in the Annex imposes an excessive economic burden on a Regular Member, or if there are other reasons that make it difficult for a Regular Member to conduct the trade examination according to the sampling criteria, the Regular Member may change the sampling criteria that deems appropriate taking its customer management system into consideration.

**3.** Notwithstanding the proviso of the preceding Paragraph, as for non face-to-face transactions (transactions where an order from a customer is accepted and processed automatically through the Internet, etc.; the same shall apply hereinafter), a Regular Member must not change the sampling criteria prescribed by the Association unless the number of customers selected pursuant to the sampling criteria is too large from the viewpoint of the trade compliance screening system that is generally judged appropriate, and unless the equivalent examination results can be obtained through a concurrent trade examination using analytical items as prescribed separately by the Association compared with the examination of customers selected based on the preceding Paragraph.

**4.** A Regular Member must conduct trade examination on the trades of customers selected based on

the preceding two Paragraphs using analytical matters and other necessary matters that are separately prescribed by the Association.

**5.** If, as a result of the trade examination prescribed in the preceding Paragraph, a Regular Member identifies a matter that may lead to an unfair trade, the Regular Member must give a warning to the customer who conducted the trade. If such conduct continues thereafter without improvement, the Regular Member must cease receiving orders from the customer and implement any other appropriate measures.

**6.** When, as a result of the trade examination prescribed in Paragraph 4, the Regular Member recognizes that the transaction regarding the said customer is suspected of insider trading, it must report the result of the trade examination and the content of any measures if applied to the customer to the Association (limited to the case where the trade was conducted outside of the Financial Instruments Exchange Market or conducted in the Financial Instruments Exchange Market by the Regular Member who is not a trading participant, etc. of the Financial Instruments Exchange which operates the Financial Instruments Exchange Market where the said trading was conducted) and the Securities Exchanges Surveillance Committee.

**(Retention, Etc. of Internal Records, Etc.)**

**Article 5** A Regular Member must prepare internal records on the matters set forth below and retain them for five years:

- (1) The results of the trade examination prescribed in the provision of Article 4, Paragraph 4 (except for cases clearly not falling under an unfair trade), and measures taken in relation to the customer; and
- (2) The reasons for changing the sampling criteria for non-face-to-face transactions.

**2.** In addition to those prescribed in the preceding Paragraph, a Regular Member must obtain the information on orders by customers through the Internet that is necessary for ensuring the effectiveness of trade examination, and retain such information properly.

**(Review of the Internal Rules, Etc.)**

**Article 6** A Regular Member must thoroughly disseminate the internal rules prescribed in the provisions of Article 2 to its officers and employees, and make a section in charge of managing sale and purchase review the internal rules in response to the actual market conditions and transactions in order to ensure their effectiveness.

**(Internal Rules for Proprietary Trading)**

**Article 7** In addition to the internal management of entrusted orders based on each of the preceding Articles, a Regular Member must properly manage transactions that are made on its proprietary account, taking its business model, size, etc. into account.

**SUPPLEMENTARY PROVISIONS [Omitted]**

(Note) These Rules are based on the version in effect as of January 1, 2016.

This translation is solely for the convenience of those interested therein, and accordingly all questions that may arise with regard to the meaning of the words or expressions herein shall be dealt with in accordance with the original Japanese text.
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## ANNEX

### Table for Selecting Customers Subject to Trade Examination

Customers subject to trade examination must be selected depending on the classification of the issues as set forth below, and the examination shall be conducted for customers in each classification.

	Issue		Customer
1	Issue with a high involvement in its sale and purchase by the Regular Member	1	Customers having a high involvement in the sale and purchase of a specific issue
2	Issues of which the Regular Member conducted the sale and purchase during a certain period of time including the close of trading session	2	Customers who conducted sale and purchase of a specific issue during a certain period of time including the close of trading session
3	Issues of which the Regular Member executed both sale and purchase at the same time and at the same price	3	Customers who conducted both sale and purchase for a specific issue at the same time and at the same price
4	Issues of which the Regular Member conspicuously canceled or changed orders to a less favorable price	4	Customers who conspicuously canceled or changed orders to a less favorable price
5	Issues of which the material fact was announced among issues traded by the Regular Member	5	Customers suspected of having conducted insider trading judging from the status of trading, etc.
6	All issues traded by the Regular Member	6	Customers who were the subject of information from a Financial Instruments Exchange or a trading participant, etc. regarding a suspected unfair trade
7	All issues traded by the Regular Member	7	Any other customers suspected of having conducted unfair trades

(Note)

1. Regarding Items 1 through 4 above, a Regular Member may select customers subject to trade examination from all the issues that were sold and purchased by the Regular Member.
2. Regarding discretionary investment contract that is prescribed in Article 2, Paragraph 8, Item 12(ii) of the FIEA, and the actions set forth in the provisions of Article 123, Paragraph 1, Item 13 (i) - (v) of the Cabinet Office Ordinance concerning the Financial Instruments Business, etc., customers may be excluded from those subject to the selection.
3. Regarding off-market hour transactions (sale and purchase of securities that are conducted in a session other than trading session as prescribed in the rules for a Financial Instruments Exchange) and transactions conducted outside a Financial Instruments Exchange Market, customer may be excluded from those subject to the selection, except for 5 above.