

REGULATIONS CONCERNING OFF-EXCHANGE PURCHASE AND SALE, ETC., OF LISTED STOCKS, ETC.

- Fair Business Practice Regulations No.5 -

(Nov. 18, 1998)

CHAPTER I. GENERAL PROVISIONS

(Purpose)

Article 1 The purpose of the Regulations Concerning Purchase and Sale, etc., of Listed Stocks, etc., Off-exchange (hereinafter referred to as “Regulations”) is to ensure fair and smooth off-exchange purchase and sale of listed stocks, etc., and its intermediation, etc., conducted by regular members and purchase and sale thereof intermediated, etc., by regular members and thereby contribute to the protection of investors.

(Definitions)

Article 2 The terms defined in each of the following items shall have the respective meanings enumerated therein for the purposes of the Regulations:

- (1) Listed Stocks, etc.: Stocks, equity securities (including preferred equity securities), convertible-type bonds with subscription rights (among bonds with subscription rights, those bonds resolved under Article 341-3, Paragraph 1, Items 7 and 8 of the Commercial Code; the same shall apply hereinafter), exchangeable bonds, bonds with subscription rights, etc. (bonds with subscription rights [excluding convertible-type bonds with subscription rights], and corporate bonds and stock subscription rights listed for combined purchase and sale which are subscribed for and allocated at the same time; the same shall apply hereinafter), stock subscription rights, warrants, investment trust beneficiary certificates (beneficiary certificates for investment trusts), foreign investment trust beneficiary certificates (beneficiary certificates for foreign investment trusts), investment securities, and foreign investment securities which are listed on stock exchanges in Japan
- (2) Off-exchange Purchase and Sale: Purchase and sale of the listed stocks, etc., outside the securities market on exchanges
- (3) Intermediary Business, etc.: Intermediary, brokerage or agency business
- (4) Small Order: Order concerning the off-exchange purchase and sale of one issue at a purchase and sales price of three million yen (¥3,000,000)
- (5) Semi-block Order: Order concerning the off-exchange purchase and sale of one issue at a purchase and sales price in excess of three million yen (¥3,000,000) but not more than fifty million yen (¥50,000,000)
- (6) Block Order: Order concerning the off-exchange purchase and sale of one issue at a purchase and sales price in excess of fifty million yen (¥50,000,000)
- (7) Ultra-block Order: Order at a purchase and sales price of five billion yen (¥5,000,000,000) or more among block orders
- (8) Basket Order: Order for simultaneously purchasing or selling fifteen issues or more off-exchange, with respect to which the aggregate purchase and sales price related to such purchase or sale amounts to one hundred million yen (¥100,000,000) or more

(Compliance with Laws, etc.)

Article 3 When an regular member conducts the off-exchange purchase and sale or the intermediary business thereof, the regular member shall comply with the Regulations as well as the Securities and Exchange Law and other related laws and regulations.

(Exemption)

Article 4 The Regulations shall not apply to, among the off-exchange purchase and sale which are conducted by regular members and the off-exchange purchase and sale, the intermediary business, etc., of which is conducted by regular members, the purchase and sale with a volume of less than one purchase-and-sale unit prescribed by the stock exchanges.

2. The Regulations shall not apply to the purchase of the listed stocks, etc., through a take-over bid made by a regular member which purchases the listed stocks, etc., through a take-over bid on behalf of the take-over bidder, or the purchase of the listed stocks, etc., through a take-over bid made by a regular member which becomes the take-over bidder, or the purchase of own stocks through a take-over bid made by a regular member which is a company that issues the listed stocks, etc.

3. Chapter II of the Regulations shall not apply to, among the off-exchange purchase and sale which are conducted by regular members, and the off-exchange purchase and sale, the intermediary business, etc., of which is conducted by regular members, the purchase and sale related to the orders received in the hours when the trading related to the listed stocks, etc., is not conducted on a stock exchange which publicizes the standard prices related to such purchase and sale of the listed stocks, etc. (hereinafter referred to as “Standard-price Publishing Stock Exchange”)(such purchase and sale hereinafter being referred to as the “Price Restriction-exempted Purchase and Sale”).

CHAPTER II. PRICES, ETC., OF OFF-EXCHANGE PURCHASE AND SALE

(Price Restrictions, etc.)

Article 5 When receiving any of the orders enumerated in the following items from a customer or another regular member, a regular member shall conduct the purchase and sale or the intermediary business thereof, etc., at the price prescribed in the relevant item:

(1) Small order:

Price within the range from the most-recently quoted lowest offer quotation to the most-recently quoted highest bid quotation (hereinafter referred to as “Best Quotation”) at Standard-price Publishing Stock Exchange;

(2) Semi-block order:

Price within 3% higher or lower than the most-recently concluded purchase and sales price at Standard-price Publishing Stock Exchange;

(3) Block order:

Price within 7% higher or lower than the most-recently concluded purchase and sales price at Standard-price Publishing Stock Exchange.

2. When receiving a basket order from a customer or another regular member, a regular member shall conduct the purchase and sale or the intermediary business thereof, etc., at a price within 5% higher or lower than the amount calculated on the basis of the most-recently concluded purchase and sales price at Standard-price Publishing Stock Exchange pursuant to the provisions of the Detailed Rules Concerning the Regulations Concerning Purchase and Sale etc., of Listed Stocks, etc., Off-exchange (hereinafter referred to as “Detailed Rules”).

(Handling if Special Quotation is Indicated)

Article 6 In the event that a quotation specially made known (hereinafter referred to as “Special Quotation”) is indicated at Standard-price Publishing Stock Exchange pursuant to the rules concerning bid and asked prices established by such stock exchange, when a regular member receives a small order, the regular member shall conduct the purchase and sale or the intermediary business thereof, etc., at the price of such Special Quotation.

2. In the event that Special Quotation is indicated at Standard-price Publishing Stock Exchange, when a regular member receives an order concerning an off-exchange purchase and sale other than a small order, the regular member shall change the “most-recently concluded purchase and sales prices” in Paragraph 1, Items (2) and (3) of the preceding Article and in Paragraph 2 of the same Article to read as “Special Quotation.”

(Handling if There is no Purchase and Sales Prices, etc., on Stock Exchange)

Article 7 In the event that either/neither an offer quotation or/nor a bid quotation is indicated on a given day at Standard-price Publishing Stock Exchange, when receiving a small order, a regular member shall conduct the purchase and sale or the intermediary business thereof, etc., at the most-recently concluded purchase and sales price on such stock exchange (in the event that no such price is concluded, the standard price determined by such stock exchange) on such day.

2. In the event that there is no most-recently concluded purchase and sales price at Standard-price Publishing Stock Exchange on a given day, when receiving an order concerning the off-exchange purchase and sale other than the small order, a regular member shall change the “most-recently concluded purchase and sales prices” in Article 5, Paragraph 1, Items (2) and (3) hereof and in Paragraph 2 of the same Article to read as the “standard prices determined by such stock exchange.”

(Confirmation of Purchase and Sales Price, etc., and Keeping of Records)

Article 8 When receiving an order concerning the off-exchange purchase and sale, a regular member shall confirm that the price or amount of the purchase and sale to be conducted is the price or amount prescribed in Article 5 above through the preceding Article, and shall keep the records of such confirmation.

CHAPTER III. SUPERVISION OF PURCHASE AND SALE

(Suspension of Purchase and Sale, etc.)

Article 9 In the cases enumerated in each of the following items, the Association may suspend the off-exchange purchase and sale to be conducted by regular members and the off-exchange purchase and sale, the intermediary business, etc., of which is to be conducted by regular members:

- (1) In the event that, with respect to certain listed stocks, etc., a stock exchange suspends the purchase and sale thereof and takes other measures;
- (2) In the event that the information concerning certain listed stocks, etc., or the issuers thereof, which is deemed to be likely to materially affect the investors’ investment judgment, is disclosed, if the content of such information is unclear or if the Association deems it necessary to make the content of such information known;
- (3) In the event that the Association deems that something is, or is likely to be, wrong with the status of the purchase and sale, etc., or the Association otherwise deems that it is not proper, for the purpose of the administration of the purchase and sale, to have the purchase and sale, etc., conducted on a continuous basis; or
- (4) In the event that the Association otherwise deems necessary.

2. The period of the suspension of the purchase and sale in the cases enumerated in each item of the preceding paragraph shall be the period deemed necessary by the Association on each such occasion.

CHAPTER IV. REPORT AND PUBLICATION

(Report on Purchase and Sale)

Article 10 Within five minutes after the conclusion of an off-exchange purchase and sale, a regular member shall report the matters enumerated in each of the following items to the Association pursuant to the provisions of the Detailed Rules; provided, however, that in the event that such report is delayed due to rational reasons or in the cases otherwise prescribed in the Detailed Rules, the regular member shall report to the Association without delay:

- (1) Name of issue;
- (2) Purchase and sales price (i.e., the purchase and sales price prescribed in the Detailed Rules);
- (3) Purchase and sales volume;
- (4) Date and time when the purchase and sale is concluded;
- (5) Purchase or sale;
- (6) Proprietary trading or brokerage (i.e., the purchase and sale conducted by the regular member for its own account or the purchase and sale in which the regular member conducts the brokerage, intermediary or agency business);
- (7) Name of the Standard-price Publishing Stock Exchange, and such price (in the case of a small order, the Best Quotation);
- (8) The counterparty to the purchase and sale (if such counterparty is a regular member, state the name of such regular member, and if such counterparty is a customer, state to that effect); and
- (9) Other matters deemed necessary by the Association.

(Exceptional Cases Concerning Report on Purchase and Sale Caused to be Concluded by Authorized Regular Members)

Article 11 With respect to the off-exchange purchase and sale which regular members that are authorized to conduct the management business of the proprietary trading system (hereinafter in this Article referred to as “Authorized Regular Members”) caused to be concluded through such business (hereinafter in this Article referred to as “Authorized Business”), Authorized Regular Members shall make the report set forth in the preceding Article, and the regular members other than Authorized Regular Members shall not make the report set forth in the preceding Article which is related to such purchase and sale.

2. With respect to the off-exchange purchase and sale caused to be concluded through Authorized Business, Authorized Regular Members shall report the matters deemed necessary by the Association, in addition to the matters enumerated in each item of the preceding Article, to the Association on the day on which the report set forth in the preceding Article is made.

3. With respect to the off-exchange purchase and sale caused to be concluded through Authorized Business, Authorized Regular Members shall sum up the purchase and sales volume of each issue every month, and shall report such volume to the Association by the 10th day of the following month.

(Corrections and Cancellations of Report on Purchase and Sale)

Article 12 If a regular member intends to correct or cancel the report on the purchase and sale conducted pursuant to the provisions of Article 10 hereof, a regular member shall promptly make such corrections and cancellations as prescribed by the Detailed Rules.

(Publication of Purchase and Sale, etc.)

Article 13 Promptly after receiving the report set forth in Article 10 hereof from a regular member, the Association shall notify the matters enumerated in each of the following items to the regular members, and shall publicize such matters; provided, however, that when such report is related to the ultra-block orders (excluding the orders, with respect to which the regular member arranges within its company so that the sales orders and the purchase orders are balanced), the Association shall notify the regular members to that effect at the time and on the date prescribed in the Detailed Rules, and shall also publicize it:

- (1) Name of issue;
- (2) Purchase and sales price;
- (3) Purchase and sales volume;
- (4) Date and time when the purchase and sale is concluded; and
- (5) Other matters deemed necessary by the Association.

2. The Association shall, in accordance with the report set forth in Article 10 hereof, sum up on a daily basis, notify the regular members of, and publicize the purchase and sales volumes of each class of the listed stocks, etc., the purchase and sales prices of each issue and the purchase and sales volumes thereof.

CHAPTER V. SPECIFICATION OF TRANSACTION MODE, ETC.

(Explanation to Customers)

Article 14 When receiving an order concerning an off-exchange purchase and sale from a customer, a regular member shall deliver in advance to the customer (excluding the parties enumerated in each item of Article 28, Paragraph 1 of the Cabinet Office Ordinance Concerning Securities Companies) a written explanation describing the matters enumerated in each of the following items, an outline of such purchase and sale and the matters necessary to conduct such purchase and sale at the customer's discretion and responsibility, and shall fully explain these matters, etc.; provided, however, that this shall not apply to the cases where such written explanation is delivered to such customer within one (1) year prior to the conclusion of such purchase and sale:

- (1) The matters enumerated in the Detailed Rules as differences between the purchase and sale conducted on the exchange securities market and the purchase and sale conducted off-exchange;
- (2) In the event that a customer does not expressly desire the purchase and sale conducted off-exchange or in the event that a customer does not instruct any specific transaction mode, the purchase and sales shall be concluded on the securities market on exchanges;
- (3) In the event that a regular member causes the purchase and sale to be concluded by becoming the other party thereto, such purchase and sale is conducted off-exchange on a dealer's basis;
- (4) The brokerage transaction which is concluded off-exchange, consists of the purchase and sales methods through the intermediary, brokerage and agency business;
- (5) Standard-price Publishing Stock Exchange is the stock exchange designated by a customer; and

(6) Other matters deemed necessary by a regular member.

2. In the event that the purchase and sale is conducted within one (1) year from the day on which the written explanation set forth in the preceding paragraph is delivered, the provisions of the proviso of the preceding paragraph shall apply by deeming the date of such purchase and sale as the date of the delivery of such written explanation.

(Specification of Transaction Mode, etc.)

Article 15 When receiving an order concerning the off-exchange purchase and sale from a customer or other regular member, a regular member shall, on each such occasion, clarify the transaction mode and the matters enumerated in each of the following items to such customer or other regular member:

- (1) Price information of Standard-price Publishing Stock Exchange and the price if the purchase and sale is conducted off-exchange;
- (2) The amount borne by and collected from the customer, such as the commission, etc.; and
- (3) The matters specially made known to the customer concerning the delivery settlement.

CHAPTER VI. MISCELLANEOUS PROVISIONS

(Establishment of Internal Rules, etc.)

Article 16 A regular member shall establish the internal rules and the control system, in order to maintain the fairness of off-exchange purchase and sale and its intermediation, etc., conducted by the regular member and purchase and sale thereof intermediated, etc., by the regular member.

2. A regular member shall appoint one or more managers in charge of the off-exchange purchase and sale, and shall notify them to the Association in the prescribed form. The same shall apply to the replacement of the managers in charge.

(Preparation and Keeping of Purchase and Sales Records)

Article 17 When a regular member has conducted an off-exchange purchase and sale its intermediation, etc., the regular member shall immediately prepare an order slip and other related documents, and shall keep the records in a proper manner.

(Delivery, etc., of Written Explanation using Electromagnetic Methods)

Article 18 In substitution for the delivery of the written explanation prescribed in Article 14, based on the Resolutions of the Board of Governors “Concerning the Treatment of Submission, etc., of Documents Using Electromagnetic Methods,” regular members may use methods employing electronic information processing systems or other information technologies to provide the items to be recorded in the written explanation for the customers. In such a case, the regular members shall be regarded as having submitted the written explanation.

SUPPLEMENTARY PROVISIONS [Omitted]

(Note) This rule is based on the April 2003 edition of the original Japanese text.