

RULES CONCERNING PUBLICATION OF OVER-THE-COUNTER TRADING REFERENCE PRICES, ETC. AND TRADING PRICES OF BONDS

(December 20, 1976)

(Purpose)

Article 1 The purpose of the Rules Concerning Publication of Over-The-Counter Trading Reference Prices, Etc. and Trading Prices of Bonds (hereinafter referred to as “Rules”) is to ensure fair and smooth over-the-counter trading and other transactions in bonds (those issued in Japan and except bonds with share options; the same shall apply hereinafter) and thereby contribute to the investor protection by prescribing matters deemed necessary with respect to the Association’s publication of yields, etc. to be the reference of over-the-counter bond trading, ensuring the fairness of over-the-counter bond transactions between Association Members and customers (including other Association Members; the same shall apply hereinafter), the prohibition of extraordinary bond transactions, the administration of the execution process, etc.

(Compliance with Laws and Regulations, Rules, Etc.)

Article 2 When executing over-the-counter trading and other transactions in bonds with customers, an Association Member must comply with the Financial Instruments and Exchange Act (hereinafter referred to as the “FIEA”) and other related laws and regulations, rules, etc. in addition to these Rules.

(Publishing Reference Statistical Prices [Yields] for Transaction)

Article 3 The Association shall publish the Reference Statistical Prices [Yields] for Transaction on the basis of reports from the Association Members (hereinafter referred to as “Designated Reporting Members”) designated by the Association in order to contribute to Association Members’ and customers’ reference for the over-the-counter bond trading conducted between Association Members and customers.

2. The Reference Statistical Prices [Yields] for Transaction shall be the prices calculated by the Association set forth in each Item of Paragraph 1 of the following Article based on the quotations (mid-price quotations between asks and bids) reported by the Designated Reporting Members for issues selected pursuant to Article 5, Paragraph 2 as benchmarks for over-the-Counter bond trading (hereinafter referred to as “Designated Issues”).

3. The Reference Statistical Prices [Yields] for Transaction shall be publicized each business day in the form prescribed by the Association. Provided, however, that if the number of prices for an issue reported by Designated Reporting Members does not fulfill the requirement under the provision of the “Detailed Rules Relating to the Rules Concerning Publication of Over-The-Counter Trading Reference Prices, Etc. and Trading Prices of Bonds” (hereinafter referred to as “Detailed Rules”) at the time prescribed in Article 7, Paragraph 1, then the Reference Statistical Prices [Yields] for Transaction shall not be publicized for that business day.

(Calculation Method, Etc. of the Reference Statistical Prices [Yields] for Transaction)

Article 4 The Reference Statistical Prices [Yields] for Transaction shall be the price set forth in the following Items:

(1) Average Price:

The arithmetical average price of the quotations reported by Designated Reporting Members

(2) Middle Price:

The numerically middle price of the quotations reported by Designated Reporting Members

(3) Highest Price:

The highest price of the quotations reported by Designated Reporting Members

(4) Lowest Price:

The lowest price of the quotations reported by Designated Reporting Members

2. The Reference Statistical Prices [Yields] for Transaction shall be, as for yields, expressed by the compound-yield stated in multiples of 0.001 percent (provided, however, that the yields for discount bonds with remaining maturities of under one year and principal-only book-entry transfer government bonds (JGBs) and coupon-only book-entry transfer government bonds (JGBs) with respective remaining maturities of less than six months shall, in principle, be simple-yield stated in multiples of 0.001 percent). As for prices, they shall be quotations excluding accrued interests and stated in multiples of ¥0.01 per ¥100 in face value.

(Selection of the Designated Issues)

Article 5 The Designated Reporting Members shall report to the Association on issues of public and corporate bonds of public offering (limited to issues with principal, interest, and redemptions denominated in Japanese yen; the same shall apply hereinafter in this Article), public and corporate bonds that are listed in a specified financial instruments exchange market prescribed in Article 2, Paragraph 32 of the FIEA (hereinafter referred to as the “Specified Financial Instruments Exchange Market”), and public and corporate bonds that are issued based on the program information that is submitted to the Specified Financial Instruments Exchange Market and disclosed (*i.e.*, documents that can be disclosed by a person who intends to make an application for listing of public and corporate bonds in the Specified Financial Instruments Exchange Market pursuant to the rules prescribed by such Specified Financial Instruments Exchange Market, and that describes the upper limit of outstanding amount and other information of the public and corporate bonds) and that are selected as Designated Issues whose quotations is to be reported to the Association (hereinafter referred to as “Reporting Issues”) within the time frame prescribed in the Detailed Rules.

2. Among the issues reported on by the Designated Reporting Members pursuant to the preceding Paragraph, the Association shall choose the Designated Issues under the provisions of the Detailed Rules.

(Excluding Issues from the Designated Issues)

Article 6 Designated Reporting Members deciding to cease reporting on issues they have selected from among Designated Issues pursuant to the preceding Article, Paragraph 1 shall notify the Association by the day prescribed in the Detailed Rules.

2. When the Association receives the notification from the Designated Reporting Members pursuant to the preceding Paragraph, the issue shall be removed from the Designated Issues if the number of Designated Reporting Members reporting for the issue pursuant to the preceding Article, Paragraph 1 does not fulfill the number of firms prescribed in the Detailed Rules.

(Method, Etc. of Report of Quotations by Designated Reporting Members)

Article 7 Designated Reporting Members shall report the quotations as of 3:00 p.m. each business day serving as reference for sale or purchase transactions involving an amount of around 500 million yen at face value, with regard to the issues that they have selected for reporting from the Designated Issues pursuant to Article 5, Paragraph 1, which reports shall be sent to the Association in accordance with the categories set forth in the following Items, in principle, by the time prescribed in the applicable Item.

- (1) Bonds other than corporate bonds, Specified Bonds, or yen-denominated foreign bonds (meaning bonds designated by the Association as corporate bonds, Specified Bonds, or yen-denominated foreign bonds based on the categories for reporting and publication of Reference Statistical Prices [Yields]; the same shall apply hereinafter in the following Item):
4:30 p.m. of the same day

- (2) Corporate bonds, Specified Bonds, and yen-denominated foreign bonds:
5:45 p.m. of the same day

2. The quotations that Designated Reporting Members report to the Association shall be proper in light of the over-the-counter bond-market trends, creditworthiness of the issuer, situation of sales and purchases at their company, etc.

3. If there is difficulty in the reporting of proper quotations prescribed in the preceding Paragraph, Designated Reporting Members may suspend reporting a quotation for the concerned issue by informing the difficulty to the Association in the prescribed form without delay.

(Criteria. Etc. for Designated Reporting Members)

Article 8 When an Association Member applies for Designated Reporting Member, the Association shall, under the provisions of the Detailed Rules, examine the designation criteria set forth in each of the following Items to designate it as Designated Reporting Member:

- (1) The Association Member understands the purpose of the Reference Statistical Prices [Yields] for Transaction system, and be willing to become a Designated Reporting Members;
- (2) The Association Member is well versed in the over-the-counter bond trading business, etc.;
- (3) The Association Member has the necessary organization and staff to appropriately conduct the operation of quotation reporting; and
- (4) Other matters determined by the Association.

2. If a Designated Reporting Member no longer meets the designation criteria set forth in each Item of the preceding Paragraph, or if a Designated Reporting Member has notified the Association of the decision to resign as a Designated Reporting Member in the prescribed form by one month before the resignation date, the designation shall be withdrawn.

(The Matters to be Observed, Etc. by Designated Reporting Members)

Article 9 Designated Reporting Members must report the Designated Issues by the time prescribed in Article 7, Paragraph 1 and carry out the reporting of proper quotations.

2. For the level of quotation reported to the Association, a Designated Reporting Member must not take an action that compromises adequacy and fairness of the quotation such as exchanging opinions or adjusting the level of quotation in advance with other Designated Reporting Members.

3. In regard to an Association Member that violates the preceding two Paragraphs by failing to report within the reporting time or report proper quotations, or taking an action that compromises adequacy and fairness of the quotation, the Association may take measures such as revocation of the designation of the Association Member.

(Publishing Monthly Trading Volume, Etc.)

Article 10 Based on reports from Association Members, the Association shall publish monthly over-the-counter bond trading volume every month. In this case, the trading volume of Gensaki Transactions shall be stated separately in each category.

2. Based on reports from Association Members, the Association shall publish every month the month-end outstanding balances of Gensaki Transactions.

(Report of Monthly Transactions, Etc.)

Article 11 Association Members shall report monthly over-the-counter bond trading volume to the Association in the prescribed form by the 10th of the next month (the preceding business day in the case where the given 10th is a non-business day).

2. Association Members shall report to the Association the month-end outstanding balances of Gensaki Transactions by the 10th of the next month (the preceding business day in the case where the given 10th is a non-business day) in the prescribed form.

(Reporting of Corporate Bond Transactions)

Article 11-2 If conducting corporate bond transactions, a Regular Member shall report those transactions to the Association every business day pursuant to the Detailed Rules.

2. In corporate bond transactions prescribed in the preceding Paragraph, if a Regular Member sends information on the trade matching to the Pre-Settlement Matching System (the Pre-Settlement Matching System prescribed in Article 2, Item 1 of the “Rules Concerning Matching of Settlement Conditions, Etc. for Securities Transactions, Etc.” prescribed by the Japan Securities Depository Center, Incorporated; the same shall apply hereinafter), reporting obligation prescribed in the preceding Paragraph shall be regarded as being fulfilled.

3. The Association shall receive the information on corporate bond transactions that is sent by the Regular Member to the Pre-Settlement Matching System pursuant to the preceding Paragraph through Japan Securities Depository Center, Incorporated.

(Publication of Information on Corporate Bond Transactions)

Article 11-3 The information on corporate bond transactions reported by Regular Members pursuant to the preceding Article will be published by the Association every business day pursuant to the Detailed Rules.

(Ensuring Fairness of Transaction)

Article 12 When conducting over-the-counter transactions of public and corporate bonds with customers, Association Members shall ensure the fairness of the transaction by conducting transactions at a proper price based on the current market price calculated in legitimate manners (hereinafter referred to as “Internal Current Market Price”) (In transactions in government bonds for which contracts with a condition precedent that the government bonds are issued on their originally planned issue date are concluded prior to the day before the said issue date and of which delivery and settlement made after the issue date [hereinafter referred to as “When-Issued Government Bond Transactions”], the proper price for transactions for government bonds with the condition precedent for the period from the time when the planned auction date, issue amount, issue date, and maturity date of government bonds for which the Ministry of Finance announces the auction become known to the time when the auction number and bond coupon rate and other terms on the auction date are announced [hereinafter referred to as “Pre-Auction Government Bond Transactions”] shall be the proper compound-yield [the interest rate spread over the basic interest rate in case of floating rate government bonds] calculated in accordance with the method used for the Internal Current Market Price.).

2. Internal Current Market Price prescribed in the preceding Paragraph shall be made in consideration of continuity of acquisition and calculation.

3. Association Members shall calculate Internal Current Market Price in proper and legitimate manners as to the issue whose Internal Current Market Price is difficult to acquire or whose Internal Current Market Price has not been calculated continuously.

4. An Association Member shall explain the outline of calculation method for transaction prices either orally or in writing when it receive a customer request.

(Items to be Explained to Customers Regarding When-issued Transactions)

Article 13 An Association Member shall explain in advance the effect that the transactions are ones with condition precedent, the treatment in case that condition precedent not be fulfilled, etc., to a customer who conducts transactions in When-Issued Government Bond Transactions for the first time

(Ensuring Fairness of Transaction with Small Investors)

Article 14 Association Members shall give still more consideration to the fairness of the transactions by paying full attention to the following Items when executing over-the-counter transactions with customers who deal in public and corporate bond transactions whose face value is below ¥10,000,000 (except Qualified Institutional Investors prescribed in Article 2, Paragraph 3, Item 1 of the FIEA, and the Business Corporations, etc. prescribed in the following Paragraph; hereinafter referred to as “Small Investors”) in addition to the matters prescribed in two preceding Articles:

(1) Provision of Price Information:

- (a) Association Members shall, when requested by Small Investors to offer price information, immediately provide their own over-the-counter offered prices (the compound-yield in case of Pre-Auction Government Bond Transactions in which prices cannot be indicated [or the interest rate spread for the basic interest rate in the case of floating rate government bonds]);
- (b) Association Members shall, when it receives a Small Investors request, provide the latest contract price or the final quotations at the Financial Instruments Exchange Market or the Reference Statistical Prices [Yields] for Transaction publicized by the Association.

(2) Enlightenment of the Knowledge of Over-the-Counter Transactions of Public and Corporate Bonds;

Association Members shall endeavor to enlighten Small Investors with respect to over-the-counter bond transactions, by keeping at a counter leaflets, etc., about the knowledge of transactions of public and corporate bonds.

2. “Business Corporations, etc.” prescribed in the preceding Paragraph shall be those set forth in each of the following Items (excluding those who are qualified as the Qualified Institutional Investors):

(1) Business corporation (limited to those fall under either of the following):

- (a) A listed company or a similar company; or
- (b) A foreign corporation that has characteristics mentioned in the above (a).

(2) An entity that falls under any of the following:

- (a) National or municipal government;
- (b) Bond issuing entity prescribed in Article 2, Paragraph 1, Item 3 of the FIEA;
- (c) Mutual aid association of a government office; or
- (d) Juridical person that is economically and socially trustworthy such as incorporated school or religious corporation.

(Explanation of Listed Bond Transactions)

Article 15 An Association Member shall explain the difference between transactions of listed bonds in the Financial Instruments Exchange Market and over-the-counter transactions in advance to a Small Investor who conducts bonds listed in the Financial Instruments Exchange Market for the first time, either orally or in writing.

2. An Association Member shall, when receiving an order for sale and purchase or other transactions of listed public and corporate bonds, confirm to a customer whether transactions are to be conducted in the Financial Instruments Exchange Market or over-the-counter.

(Extraordinary Transactions)

Article 16 Association Members must not effect the acts set forth in each of the following Items and any other acts with the aim of compensating for customer's loss or adding to his/her profit (hereinafter referred to as "Extraordinary Transactions"):

- (1) Over-the-counter bond transactions in same issues in which sale and purchase are effected simultaneously at prices favorable to a customer or a third party, but unfavorable to an Association Member (the price differential that corresponds to a proper interest based on a difference in the delivery date and the price differential which corresponds to the differential in delivery terms between bond certificates and registered bonds are excluded);
- (2) A transaction to be conducted with promising in advance on the occasion of selling bonds to a customer or purchasing them from a customer that repurchasing or selling at prices favorable to a customer or cancellation will be made (Gensaki Transactions are excluded); and
- (3) A transaction to be conducted in collusion with a third party promising in advance on the occasion of selling bonds to a customer or purchasing them from a customer that the customer will be sure to gain profits by selling the bonds to, or purchasing them from, the third party.

2. An Association Member must, when a short-term (those prescribed in the Detailed Rules) transaction conducted with a customer has produced a substantial amount of profits (those prescribed in the Detailed Rules) for the customer, be mindful of the possibility that such a transaction may fall under the Extraordinary Transaction, and shall endeavor to further strengthen internal administration such as matters concerning the contract with the customer, confirmation of such a contract, and keeping of records.

(Preparing and Keeping Transaction Records and Classifying and Retaining Internal Market Price)

Article 17 When having conducted an over-the-counter bond transaction, the Association Member must administer these transactions appropriately by immediately making, classifying and keeping order tickets and other related documents that state such matters as the contracting time.

2. An Association Member must classify and retain Internal Current Market Prices prescribed in Article 12 hereof on a daily basis; provided, however, that, if an Internal Current Market Price is calculated in accordance with a certain rule, the Association Member is only required to classify and retain the rationale for such rule.

3. When an Association Member conducted any transactions of the issues applicable to Article 12 Paragraph 3, the Association Member must prepare, classify and retain the documents serving as the basis for calculating the contracting price in the transaction.

(Establishment of Internal Rules Concerning Administration of Execution Process)

Article 18 Association Members shall establish a set of internal rules concerning the administration of execution process in order to manage the execution process properly as prescribed in the preceding Article.

(Establishment of Internal Administration System)

Article 19 Association Members must establish a set of internal rules in order to maintain the fair trade of public and corporate bonds. Association Members must also endeavor to establish an internal administration system including internal inspection and audit, and operate it properly.

2. Designated Reporting Members must establish a set of internal rules in order to ensure proper quotation reporting. Designated Reporting Members must also endeavor to establish an internal administration system, including internal inspection, and operate it properly.

(Notification to the Association of Persons Responsible for the Report of Quotations, Etc.)

Article 20 Designated Reporting Members shall appoint one person responsible for the report of quotations and two persons in charge of the report of quotations, and notify the Association of such appointments in the prescribed form.

2. When the Designated Reporting Members change the person responsible for the report of quotations or persons in charge of the report of quotations prescribed in the preceding Paragraph, they shall notify the Association of such change in the prescribed form.

(Delivery Using Electromagnetic Methods)

Article 21 In substitution for the delivery of the following documents, under the provision of “Rules Concerning Handling of Documents Delivery, Etc. of Documents Through Electromagnetic Method,” an Association Member may use methods employing electronic information processing systems or other information technologies to provide the Items to be stated in the documents for the customers. In such a case, the Association Member shall be regarded as having delivered the following documents:

- (1) Documents explaining the outline of calculation method for transaction prices prescribed in Article 12, Paragraph 4;
- (2) Documents explaining the difference between transactions in a Financial Instruments Exchange Market and transactions over-the-counter prescribed in Article 15, Paragraph 1.

(Handling of Reference Statistical Prices [Yields])

Article 22 The methods of publication and calculation of Reference Statistical Prices [Yields], the method of reporting quotations by Designated Reporting Members, and other matters concerning the handling of Reference Statistical Prices [Yields] shall be governed by the provisions separately prescribed by the Association, in addition to what is prescribed in these Rules.

SUPPLEMENTARY PROVISIONS [Omitted]

(Note) These Rules are based on the version in effect as of January 1, 2019.

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.
