

# **RULES CONCERNING CFD TRANSACTIONS**

**(March 16, 2010)**

## **(Purpose)**

**Article 1** The purpose of the Rules Concerning CFD Transactions (hereinafter referred to as the “Rules”) is to contribute to investor protection by prescribing points to be observed with respect to CFD Transactions to be carried out between an Association Member and a customer or intermediary, brokerage, or agency service thereof.

## **(Compliance with Laws, Ordinances and Rules, etc.)**

**Article 2** When conducting CFD Transactions or providing intermediary, brokerage, or agency service thereof, an Association Member must comply with the Financial Instruments and Exchange Act (hereinafter referred to as the “FIEA”) and other related laws, ordinances and rules, etc. in addition to the Rules.

## **(Definitions)**

**Article 3** The terms set forth in the following Items shall have the respective definitions prescribed therein for the purpose of the Rules:

(1) CFD Transactions

Transactions that meet all the requirements set forth from (i) to (iv) below:

- (i) It shall be a transaction prescribed in Article 28, Paragraph 8, Item 3 of the FIEA (limited to the transactions set forth in (a) and (b) of the same Item), in the same Paragraph, Item 4 (limited to the transactions set forth in (a) and (b) of the same Item), or in the same Paragraph, Item 5 (limited to transactions similar to those set forth in the same Paragraph, Item 3-(a) and -(b)); provided, however, that a transaction relating to the right set forth in each Item of the same Paragraph that is regarded as securities pursuant to Article 2, Paragraph 2 of the FIEA shall be excluded.
- (ii) It shall be a transaction that is conducted against an individual (excluding an operating partner, etc. that meets the requirements set forth in Article 10, Paragraph 1, Item 24-(b)-(1) of the Cabinet Office Ordinance on Definitions Specified under Article 2 of the Financial Instruments and Exchange Act (i.e. the business execution association member prescribed in the same Paragraph, Item 23; the same shall apply hereinafter) in the case where such an operating partner, etc. conducts the transaction as the business execution association member);
- (iii) It shall be a transaction that uses net settlement based on the difference between the contract price and the settlement price and that does not deliver or receive financial instruments prescribed in Article 2, Paragraph 24 of the FIEA;
- (iv) It shall not be a transaction that falls under all of the following (a) to (c):
  - (a) Market Transactions of Derivatives that are prescribed in Article 2, Paragraph 21 of the FIEA or Foreign Market Derivatives Transactions that are prescribed in the same Article, Paragraph 23;

- (b) Transaction that has a deadline and is liquidated when such deadline comes, and cannot be continued;
  - (c) In the case where a person operating a Financial Instruments Market (a Financial Instruments Market prescribed in Article 2, Paragraph 14 of the FIEA) or a Foreign Financial Instruments Market (a Foreign Financial Instruments Market prescribed in the same Article, Paragraph 8, Item 3-(b) of the FIEA) does not use the expression “CFD” or “Contract For Difference” in the name or a product description of such transaction.
- (2) OTC (Over-the-Counter) CFD Transactions: CFD Transactions that fall under the transactions prescribed in Article 28, Paragraph 8, Item 4-(a) or -(b) of the FIEA
  - (3) CFD Transaction Contract: Contract for conducting a CFD Transaction with a customer or providing intermediary, brokerage, or agency service of CFD Transaction for a customer
  - (4) OTC CFD Transaction Contract: Contract for conducting an OTC CFD Transaction with a customer or providing intermediary, brokerage, or agency service of OTC CFD Transaction for a customer
  - (5) Real Deposit Amount: Amount that is prescribed in Article 117, Paragraph 1, Item 29 of the Cabinet Office Ordinance regarding the Financial Instruments Business, etc. (hereinafter referred to as the “FIB Cabinet Office Ordinance”) and that is related to an OTC CFD Transaction
  - (6) Transaction Amount: Amount that is calculated by multiplying a price of securities relating to an OTC CFD Transaction or a value of securities indicators (the securities indicators prescribed in Article 2, Paragraph 8, Item 11-(a) of the FIEA; the same shall apply hereinafter) by the number or the volume of transactions
  - (7) Loss-Cut Transaction: Settlement of an OTC CFD Transaction that should be conducted if the amount of loss generated by the settlement of the OTC CFD Transaction conducted by the customer reaches the amount calculated by a method pre-determined with the customer
  - (8) Loss-Cut Level: Ratio of the Real Deposit Amount to the Transaction Amount with which the Loss-Cut Transaction is conducted
  - (9) Loss-Cut Base Amount: Amount calculated by multiplying the Transaction Amount by the Loss-Cut Level

**(Prohibited Actions for Solicitation)**

**Article 4** An Association Member must not take the following actions:

- (1) When concluding a CFD Transaction Contract (excluding an OTC CFD Transaction Contract; the same shall apply in the next Item), soliciting a customer without confirming that the customer is willing to have such solicitation before starting the solicitation.
  - (2) Continuing solicitation even after the customer who received the solicitation of a CFD Transaction Contract expresses its intention not to conclude the CFD Transaction Contract (including the case where the customer expresses its intention to no longer receive the solicitation).
2. The provision in the preceding Paragraph shall not apply if the customer to whom the actions set forth in each Item of the preceding Paragraph were taken is a Professional Investor prescribed in Article 2,

Paragraph 31 of the FIEA (including a person who is regarded as a Professional Investor pursuant to Article 34-3, Paragraph 4 of the FIEA that is applied mutatis mutandis to Article 34-4, Paragraph 6 of the FIEA).

**(Management System of Loss-Cut Transaction)**

**Article 5** When an Association Member conducts an OTC CFD Transaction with a customer, it must fully prepare a management system for the conduct of the Loss-Cut Transaction.

2. The management system in the preceding Paragraph shall satisfy the following criteria:

- (1) After satisfying the requirements set forth in Article 7 for each OTC CFD Transaction, determining the Loss-Cut Level in order that the loss of the customer may not exceed the amount of margin (guarantee money or securities deposited by the customer to the Association Member) in consideration of the price fluctuation risk and the liquidity risk;
- (2) Reflecting an arrangement with the customer on the Loss-Cut Transaction to a contract with the customer;
- (3) At each point during the transaction hours, confirming that Real Deposit Amount relating to an OTC CFD Transaction conducted by the customer does not fall short of the Loss-Cut Base Amount (hereinafter referred to as the “Loss-Cut Checking”), and executing the Loss-Cut Transaction if the amount falls short;
- (4) When performing the Loss-Cut Checking, calculating the Real Deposit Amount at the time of conducting the Loss-Cut Checking and the Loss-Cut Base Amount at least at a certain timing on the same business day (i.e. the certain timing of the business day prescribed in Article 117, Paragraph 1, Item 30 of the FIB Cabinet Office Ordinance), and based on the Transaction Amount that reflects the price of securities relating to the OTC CFD Transaction or the value of securities index relating to the OTC CFD Transaction at that timing;
- (5) Reporting the situation where the Loss-Cut Transaction is executed, to the board of directors or its equivalent on a regular basis or as necessary.

3. An Association Member must conduct the business relating to an OTC CFD Transaction pursuant to the management system prescribed in the two preceding Paragraphs.

**(Intervals of Loss-Cut Checking)**

**Article 6** An Association Member must conduct Loss-Cut Checking at intervals of ten minutes or shorter.

**(Setting of Loss-Cut Level)**

**Article 7** When an Association Member sets the Loss-Cut Level, it must not fall short of the level set forth in each Item below, depending on the category of OTC CFD Transactions set forth in the respective Items below:

- (1) OTC CFD Transactions that are individual Share-Related OTC Derivatives Transactions prescribed in Article 117, Paragraph 20, Item 1 of the FIB Cabinet Office Ordinance - The level prescribed in the following (i) or (ii), depending on the category set forth in the following (i) or (ii):
  - (i) 2/100 for transactions for which Loss-Cut Checking is made by an Association Member at

intervals of one minute or shorter;

- (ii) 4/100 for transactions for which Loss-Cut Checking is made by an Association Member at intervals longer than one minute.
- (2) OTC CFD Transactions that are Stock Index-Related OTC Derivatives Transactions prescribed in Article 117, Paragraph 20, Item 2 of the FIB Cabinet Office Ordinance - The level prescribed in the following (i) or (ii), depending on the category set forth in the following (i) or (ii):
- (i) 1/100 for transactions for which Loss-Cut Checking is made by an Association Member at intervals of one minute or shorter;
  - (ii) 2/100 for transactions for which Loss-Cut Checking is made by an Association Member at intervals longer than one minute.
- (3) OTC CFD Transactions that are Bond-Related OTC Derivatives Transactions prescribed in Article 117, Paragraph 20, Item 3 of the FIB Cabinet Office Ordinance - The level prescribed in the following (i) or (ii), depending on the category set forth in the following (i) or (ii):
- (i) 0.4/100 for transactions for which Loss-Cut Checking is made by an Association Member at intervals of one minute or shorter;
  - (ii) 0.8/100 for transactions for which Loss-Cut Checking is made by an Association Member at intervals longer than one minute.
- (4) OTC CFD Transactions that are other Securities-Related OTC Derivatives Transactions prescribed in Article 117, Paragraph 20, Item 4 of the FIB Cabinet Office Ordinance - The level prescribed in the following (i) or (ii), depending on the category set forth in the following (i) or (ii):
- (i) 2/100 for transactions for which Loss-Cut Checking is made by an Association Member at intervals of one minute or shorter;
  - (ii) 4/100 for transactions for which Loss-Cut Checking is made by an Association Member at intervals longer than one minute

**(Lump-Sum Loss-Cut Checking)**

**Article 8** In the case an Association Member performs Loss-Cut Checking on several OTC CFD Transactions that are conducted with the same customer, the Real Deposit Amount, the Transaction Amount, and the Loss-Cut Base Amount may be calculated on a lump-sum basis in the transactions in each Item for the same customer depending on the transaction category in each Item of the preceding Article.

2. In the case of the preceding Paragraph, if the customer has conducted a sale, etc. (a sale, etc. of securities prescribed in Article 117, Paragraph 25 of the FIB Cabinet Office Ordinance; the same shall apply hereinafter) and a purchase, etc. (a purchase, etc. of securities prescribed in Article 117, Paragraph 26 of the FIB Cabinet Office Ordinance; the same shall apply hereinafter) of the same securities or securities indicators, the larger of the total Transaction Amount of OTC CFD Transaction relating to the sale, etc. of such securities and the total Transaction Amount of OTC CFD Transaction relating to the purchase, etc. of such securities may be considered the Transaction Amount of OTC CFD Transactions relating to the same securities or securities indicators.

**(Establishment of Internal Rules)**

**Article 9** When an Association Member conducts CFD Transactions, or conducts intermediary, brokerage, or agency service thereof, it must establish and comply with internal rules that describe the concrete handling of each provision, and inspect, on a regular basis, that such internal rules are properly followed under the responsibility of the internal administration supervisor.

**(Reporting of Transactions)**

**Article 10** An Association Member who conducts CFD Transactions, or conducts intermediary, brokerage, or agency service thereof shall report the CFD Transaction situation to the Association pursuant to a rule prescribed by the Association.

**SUPPLEMENTARY PROVISIONS [Omitted]**

(Note 1) This rule is based on the January 1,2020 edition of the original Japanese text.

(Note 2) 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.