

RULES CONCERNING BINARY OPTION TRANSACTIONS

(November 19, 2013)

CHAPTER I GENERAL PROVISIONS

(Purpose)

Article 1 The purpose of the Rules Concerning Binary Option Transactions (hereinafter referred to as the “Rules”) is to prescribe matters to be complied with in relation to binary option transactions conducted between an Association Member and its customer, including the details of the transactions, investment solicitation, and customer administration, thereby contributing to the protection of investors.

(Definitions)

Article 2 In the Rules, the meanings of the terms set forth in each of the following items shall be prescribed therein:

(1) Binary Option Transactions:

Specified OTC (Over-The-Counter) Option Transactions prescribed in Article 123, Paragraph 7 of the Cabinet Office Ordinance on Financial Instruments Business, Etc. (hereinafter referred to as the “FIBCOO”) that meet all the Items from (a) through (c) below:

- (a) The transactions are securities-related derivative transactions (the Securities-Related Derivative Transactions as prescribed in Article 3, Item (7)(b) of the Articles of Association);
- (b) It is provided as a transaction with a large number of individuals as counterparties; and
- (c) The structure of the transactions enables customers to conduct transactions continuously and repeatedly.

(2) Option:

The right to exercise the following transactions in the Binary Option Transactions; when certain conditions are met by the value (hereinafter referred to as the “Exercise Price”) of the Financial Indicator (the Financial Indicator set forth in Article 2, Paragraph 25, Item (i) or (iv) of the Financial Instruments and Exchange Act (hereinafter referred to as the “FIEA”); the same shall apply hereinafter) that has been agreed upon by the parties in advance as the Financial Indicator subject to such intention and the actual value of such Financial Indicator at the time when the person who obtains the right (the person who is vested the option; the same shall apply hereinafter) indicates its intention (hereinafter referred to as the “Determination Price”), the person who vests the right (the person who vests the option; the same shall apply hereinafter) pays a certain amount of money agreed upon by the parties hereto in advance (hereinafter referred to as the “Payout Amount”) to the person who obtains the right.

(3) Issue:

The Option that has the same Financial Indicator referred to by the Exercise Price and the Determination Price and the same End of Determination Period. Provided, however, if there is a distinction between call option and put option, it means a call option or a put option that has the same Financial Indicator referred to in the Exercise Price and the Determination Price and the same End of Determination Period.

(4) Transaction Start Time:

The time from which a customer can sell or purchase each Issue

(5) End of Determination Period:

In each Issue, the final timing of the period (or, if the said period fall on the one timing, the said timing), where the person who obtains the right can determine, upon exercise of the said right, that the person who vests the right pays the Payout Amount to the person who obtains the right.

(6) Transaction Period:

The period from the Transaction Start Time to the End of Determination Period of each Issue

(7) Binary Option Transactions, etc.:

The Binary Option Transactions, or intermediary, brokerage or agent thereof

(General Rules)

Article 3 When an Association Member conducts the Binary Option Transactions, etc., it must comply with the FIEA and other applicable laws and regulations, and various rules in addition to the Rules.

2 When an Association Member conducts the Binary Option Transactions, etc., it must keep in mind not to solicit any excessively speculative transactions.

CHAPTER II DETAILS OF TRANSACTIONS

(Transaction Period)

Article 4 An Association Member must set the Transaction Period of each Issue in the Binary Option Transaction to two hours or longer.

2 An Association Member must set the End of Determination Period of each Issue as at the same timing or at the interval of two hours or longer. Provided, however, this provision does not apply if handling Issues that have different Financial Indicators to be referred to and if there is a rational reason for the End of Determination Period of each Issue.

(Sale and Purchase Order Deadline)

Article 5 An Association Member must establish a system that enables it to accept a purchase or sale order of the Binary Option Transactions from its customers by or immediately before the End of Determination Period.

(Transaction Method)

Article 6 An Association Member must conduct the Binary Option Transactions in either of the methods set forth in the Items below:

- (1) For identical Options (options which have the same Transaction Period, Financial Indicator to be referred to, Exercise Price, and conditions for fixing the Payout Amount), a method providing customers with the opportunities to newly buy and sell the Options simultaneously; or
- (2) A method to provide a system that excludes conditions under which all the customers suffer losses (excluding the method prescribed in the preceding Item).

(Indication, Etc. of Transaction Price)

Article 7 When conducting Binary Option Transactions, an Association Member must establish a structure set forth in the Items below about the transaction price of the Option that is to be indicated to customers:

- (1) A structure to calculate the transaction price in a fair manner in light of the Exercise Price of the Option, remaining time up to the End of Determination Period, and the value of the Financial Indicator to be referred to, and to indicate such price to the customers;
- (2) A structure to indicate both the purchase and sale price of the Option to the customers simultaneously; and
- (3) A structure to fix the Payout Amount and indicate the change of the Option value during the Transaction Period by indicating the transaction price to customers.

(Establishment of Exercise Price)

Article 8 When conducting Binary Option Transactions, an Association Member must prescribe in advance standards for establishing an exercise price and also establish a system for establishing the Exercise Price that may not induce excessively speculative transactions.

(Representation, Etc. of Exercise Price)

Article 9 When conducting Binary Option Transactions, an Association Member must indicate the Exercise Price before the Transaction Start Time.

- 2 The Exercise Price indicated pursuant to the provision in the preceding Paragraph must be the same for all customers.
- 3 An Association Member must not add the Exercise Price for the Issues that occur during the Transaction Period if either of the conditions set forth in the Items below is met.
 - (1) Customers can smoothly conduct new purchase or sale transactions based on the Exercise Price that has already been set; or
 - (2) The Exercise Price is added at a timing that falls only less than two hours before the End of Determination Period.

**CHAPTER III INVESTMENT SOLICITATION AND CUSTOMER
ADMINISTRATION**

(Prohibition of Representation Soliciting Excessively Speculative Transactions)

Article 10 An Association Member must not make an indication that solicits or is likely to solicit excessively speculative transactions with respect to Binary Option Transactions.

(Publication of Transaction Outline)

Article 11 An Association Member must publish the matters that should be understood in advance by customers for the Binary Option Transactions handled by the Association Member on its web site or by other means for the purpose of enabling the customers to conduct the Binary Option Transactions properly.

2 The matters that should be understood by customers prescribed in the preceding Paragraph shall include at least those set forth in the Items below:

- (1) Outline of the Binary Option Transactions handled by the Association Member:
 - (a) The method to determine the transaction price;
 - (b) The method to establish the Exercise Price (if there is possibility that the Exercise Price is additionally established, including the conditions, etc. thereof); and
 - (c) Points to be noted on the Financial Indicator to be referred to and the provider of the Financial Indicator.
- (2) Risks of the Binary Option Transactions handled by the Association Member:
 - (a) Even if each transaction amount is small, the customer may suffer a large amount of loss if trading is conducted many times and repeatedly;
 - (b) The customer who holds long positions loses the entire amount of the investment principal, if the Option cannot be exercised by the End of Determination Period; and
 - (c) The customer who holds short positions need to pay the Payout Amount, if the Option is exercised. In such case, the Payout Amount exceeds the transaction price that the customer received, and such difference is an investment loss of the customer.
- (3) Other matters that are deemed necessary for rational investment decision by the customers who conduct the Binary Transactions handled by the Association Member:
 - (a) The difference between the total amount of all customers' payment and the total amount of all customers' receipt is a source of the Association Member's revenue;
 - (b) The customer needs to have professional knowledge on option transactions in order to make a rational investment decision on the transactions; and
 - (c) If there is possibility that transactions are suspended, etc. (i.e., termination of continuous transactions with customers, or termination or delay of new sale and purchase transactions; the same shall apply hereinafter) due to suspension of distribution of Financial Indicator to be referred to or system failure, the assumed reason thereof.

(Delivery of Transaction Explanation Document and Collection of Confirmation Document)

Article 12 When an Association Member conducts Binary Option Transactions, etc. with a customer (excluding a professional investor (the professional investor prescribed in Article 2, Paragraph 31 of the FIEA (excluding a person who is regarded as a customer other than a professional investor in the type of agreement set forth in Article 53, Item (i) or (ii) of the FIBCOO pursuant to the provision of Article 34-2, Paragraph 5 of the FIEA, and including a person who is regarded as the professional investor in the type of agreements set forth in Article 53, Items (i) and (ii) of the FIBCOO pursuant to the provision of Article 34-3, Paragraph 4 of the FIEA (including the cases where the provision applies mutatis mutandis to Article 34-4, Paragraph 6))); the same shall apply in this Article and the next Article), the Association Member must prepare a document describing the matters that should be understood in advance by the customer (hereinafter referred to as the "Transaction Explanation Document") prescribed in Paragraph 1 of the preceding Article. Provided, however, if part of the matters that should be understood in advance by the customer prescribed in Paragraph 1 of the preceding Article have already been described in a document prescribed in Article 37-3 of the FIEA

(hereinafter referred to as the “Document to be Delivered prior to Conclusion of Contract”), such matters can be omitted in the Transaction Explanation Document.

2 When an Association Member intends to conclude a contract for Binary Transactions, etc. with a customer, the Association Member must deliver to the customer the Transaction Explanation Document (if part of matters that should be understood in advance by the customer prescribed in Paragraph 1 of the preceding Article are described in the Document to be Delivered prior to Conclusion of Contract, including such Document to be Delivered prior to Conclusion of Contract; the same shall apply hereinafter), and explain the matters described in the Transaction Explanation Document.

3 If all the matters that should be understood in advance by the customer prescribed in Paragraph 1 of the preceding Article are described in the Document to be Delivered prior to Conclusion of Contract, preparation, delivery, and explanation of the Transaction Explanation Document as prescribed in the preceding two Paragraphs are regarded to be completed when preparation, delivery, and explanation of such Document to be Delivered prior to Conclusion of Contract are completed.

4 When an Association Member intends to conclude a contract for Binary Option Transactions, etc. with a customer, the Association Member must collect a confirmation document concerning the Binary Option Transactions, etc. (hereinafter referred to as the “Confirmation Document”) from the customer for the purpose of ensuring that the customer fully understands the matters described in the Transaction Explanation Document (including the Document to be Delivered prior to Conclusion of Contract prescribed in the preceding Paragraph), and that such transaction is conducted by the customer on its judgment and responsibility.

5 The Confirmation Document prescribed in the preceding Paragraph must be a form that can prove that the customer fully understands each matter that is set forth in the preceding Article, Paragraph 2, Items (2) and (3).

6 The provisions in the preceding four Paragraphs do not apply if an Association Member has delivered to the customer the Transaction Explanation Document (including the Document to be Delivered prior to Conclusion of Contract prescribed in Paragraph 3) that should be delivered pursuant to the provision in Paragraph 2 for the transaction within one year before concluding a contract for the Binary Option Transactions, and has collected the Confirmation Document from the customer.

(Transaction Volume Limit and Loss Limit)

Article 13 When an Association Member intends to conclude a contract for Binary Option Transactions, etc. with a customer for the first time, the Association Member must be reported to the transaction volume limit or the loss limit by the customer.

2 When conducting Binary Option Transactions, etc., an Association Member must set a proper transaction volume limit or a loss limit depending on the attribute of the customer for the purpose of preventing excessively speculative transactions and a huge loss by the customer.

3 An Association Member must understand the transaction condition or loss condition of a customer on the Binary Option Transactions, etc., and establish rules that prescribe an action to be taken by the Association Member when the transaction limit or the loss limited reported by the customer pursuant to Paragraph 1 is exceeded, or when the transaction volume limit or the loss limited determined by the Association Member is reached, as well as systems to prevent excessively speculative transactions or a huge loss by the customer.

(Handling in Case of Transaction Suspension, Etc.)

Article 14 When a transaction is suspended, etc., an Association Member must publicly announce the fact of transaction suspension and reason thereof through its web site or by other means.

2 If a transaction is suspended, etc., an Association Member must investigate the reason for such suspension, and establish a monitoring system to ensure that such investigation is properly conducted.

(Publication of Transaction Results)

Article 15 An Association Member must publish the following matters about Binary Option Transactions pertaining to the entire transaction conditions with customers within a certain period of time on its web page or by other means:

- (1) Ratio of the total amount received by customers against the total amount paid by customers;
- (2) Ratio of the total number of customers who suffer losses against the total number of customers who conduct the transactions

(Application of Investment Solicitation Rules)

Article 16 The transaction commencement standards, delivery of alert document, and other matters concerning investment solicitation and customer management associated with Binary Option Transactions, etc., shall be as prescribed in the “Rules Concerning Solicitation for Investments and Management of Customers, Etc. by Association Members” in addition to the provisions in this Chapter.

CHAPTER IV ESTABLISHMENT, ETC. OF INTERNAL RULES

(Establishment, Etc. of Internal Rules)

Article 17 When conducting Binary Option Transactions, etc., an Association Member must establish internal rules that prescribe concrete handling rules necessary for complying with the Rules.

2 An Association Member must conduct monitoring such as investigation on a regular basis to ensure that the internal rules prescribed in the preceding Paragraph are properly executed.

(Document Delivery, Etc. through Electromagnetic Method)

Article 18 An Association Member may deliver the matters that should be described in the Transaction Explanation Document in a way using an electronic data processing system or other ways using information and telecommunication technology pursuant to Articles 2 and 3 of the “Rules Concerning Handling of Documents Delivery, Etc. Through Electromagnetic Method” (hereinafter referred to as the “Rules on Electromagnetic Document Delivery”) in lieu of delivery of the Transaction Explanation Document as prescribed in Article 12, Paragraph 2. In such case, the Association Member shall be regarded to duly deliver the Transaction Explanation Document.

2 An Association Member may, in lieu of collection of the Confirmation Document prescribed in Article 12, Paragraph 4, receive the matters that should be prescribed in the Confirmation Document in a way using an electronic data processing system or other ways using information and telecommunication technology pursuant to the provisions in the “Rules on Electromagnetic Document Delivery.” In such case, the Association Member shall be regarded as duly having collected the Confirmation Document.

SUPPLEMENTARY PROVISIONS [Omitted]

(Note) These Rules are based on the version in effect as of January 1, 2021.

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.