



# **Overview of Jasdaq Securities Exchange, Inc.**

**As of November 24, 2009**

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## **1. Organization**

### **a Outline**

The Jasdaq Securities Exchange, Inc. (“Jasdaq”) is a new financial instruments exchange that opened its doors on December 13, 2004. However, prior to the commencement of operations as an exchange, Jasdaq was for many years an important component in the Japanese securities market infrastructure, functioning as the operator of the over-the-counter equity market established by the Japan Securities Dealers Association (“JSDA”).

Since its inception in 1949 as an over-the-counter equities market, it has continued to contribute to the growth of new companies in Japan and has served as the largest market for new-company equity in the country, supporting the growth of a wide range of enterprises. As an exchange, Jasdaq is organized in a manner that builds on and expands this experience in the over-the-counter equities market.

In addition to this market, Jasdaq established a new market called as “NEO” on August 13, 2007. Now Jasdaq owns two markets, “JASDAQ (\*1)” and “NEO (\*2) ”.

\*1) JASDAQ is an abbreviation for Japan Securities Dealers Association automated Quotation

\*2) NEO is an abbreviation for New Entrepreneurs’ Opportunity and New Evaluation Opportunity.

### **b Legal status**

Jasdaq was established and is operated as a financial instruments exchange licensed by the Prime Minister (license to open financial instruments markets) in accordance with the Financial Instruments and Exchange Law of Japan. It acquired its financial instruments exchange license from the Prime Minister in December 2004, and to do so, Jasdaq enhanced its systems by formulating Articles of Incorporation, Business Regulations, Brokerage Agreement Standards and other rules and bylaws to facilitate fair and efficient securities trading, to provide adequate investor protection and to fulfill the requirements of the Financial Instruments and Exchange Law.

Jasdaq is a wholly owned subsidiary of Osaka Stock Exchange, Co., Ltd. (OSE.) OSE is a financial instruments exchange licensed by the Prime Minister (license to open financial instruments markets) in accordance with the Financial Instruments and Exchange Law of Japan.

### **c Governance**

The basic philosophy behind Jasdaq’s corporate governance is that strong corporate governance is required in order to bolster its functions as a financial instruments exchange and earn high levels of trust from its shareholders, market participants and other interested parties, and that only by doing so will it be able to accomplish its social mission of facilitating the sound development of the national economy and according protection to investors.

Below is an outline of some of the many programs that Jasdaq has undertaken to strengthen its corporate governance.

#### **# Superiority of outside directors on the board**

Jasdaq has a 6-member board of directors, of which the majority (4) are outside directors. To improve independence and ensure the transparency of management, outside directors are selected from among candidates who meet the following

independence requirements in addition to the suitability requirements found in the Companies Law:

- No interest in Jasdaq; however, this does not apply to full-time employees of JSDA.
- Superior knowledge, insight and expertise capable of rendering fair judgments regarding the appropriate operations of the market operated by Jasdaq (“Jasdaq’s market”) so as to facilitate fair and efficient securities trading and market transactions of derivatives and contribute to the public interest and the protection of investors.

The four outside directors are people with experience such at government agencies, legal professionals, academics and executives of JSDA. They are recognized as having high degrees of expertise in their respective fields, and their presence actively brings in a wide range of outside perspectives to Jasdaq management, thereby enabling fairer decision-making.

#### # Independence of self-regulatory units

The Jasdaq Board of Directors nominates two representative executive officers as well as executive officers in charge of individual responsibilities. The Board delegates executive authority over the operations and management of the Jasdaq Market to the Chief Executive Officer (“CEO”) and executive authority over self-regulation to the Chief Regulatory Officer (“CRO”). This organization ensures that the CRO’s executive authority is independent of the CEO’s.

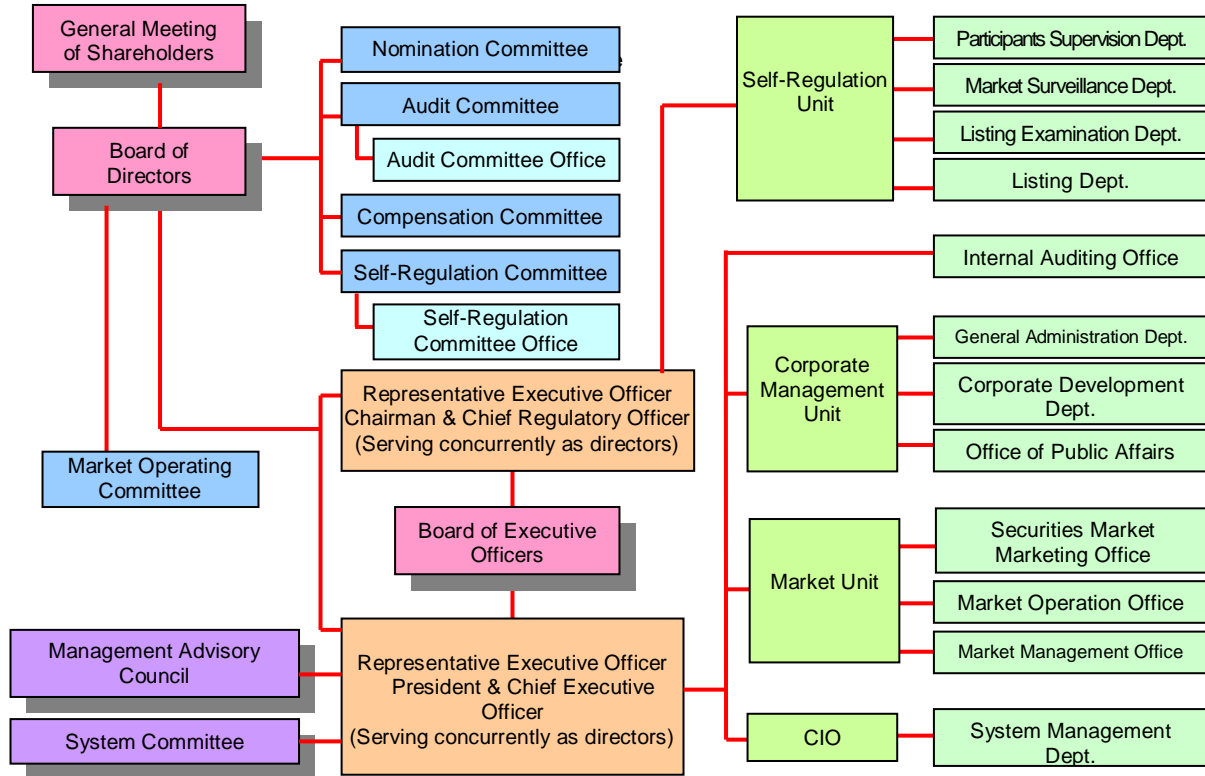
#### # Self-Regulation Committee

Jasdaq places Self-Regulation Committee to ensure independent performance of self-regulation operation under the Financial Instruments and Exchange Law.

The Self-Regulation Committee governs matters on self-regulatory operation of the exchange. For example, they make decision on listing and delisting of securities, research on trading participants’ compliance situation, examination of securities trading, examination of certification for trading participants, dispositions and disciplinary measures against trading participants and listed companies etc, examination against disclosure of listed companies etc. Also, they formulate, amend or abolish rules with respect to the above matters.

**d Organizational structure**

The Jasdaq's organizational structure consists of the General Meeting of Shareholders, Board of Directors, CEO, CRO, several committees (including the Self-Regulation Committee) and the executive body.



**e Funding of the organization**

Jasdaq revenues come primarily from trading commissions received from trading participants (financial instruments firms), listing commissions received from listed companies, and information charges received from information vendors.

(Unit: millions yen)

	FY 2006	FY 2007	FY 2008
(Revenues)			
Trading-related	7,615	4,695	2,606
Listing-related	1,205	1,152	978
Information-related	1,257	1,351	1,421
Others	367	290	234
Total	10,445	7,489	5,240
(Expenditures)	7,770	7,647	6,202
Operating profits	2,674	- 158	-962
Net profits	1,518	- 1,534	-5,680

\* Each financial year extends from April to March of next year.

## **f Regulatory Framework**

Jasdaq is a self-regulatory organization under the Financial Instruments and Exchange Law. Under the law, financial instruments exchanges are established to cause trading participants to comply with relevant laws and ordinances and exchange rules, and so on. The law also provides for the exchanges levying penalties against trading participants who violate Laws and Ordinances or the exchange's rules, etc., and requires the exchanges to provide in their articles of incorporation for the formulation of required rules and bylaws. Specific rules to be formulated include rules on trading, rules on trading participants, rules on settlement and delivery and rules on the listing of securities.

Jasdaq formulates many different rules and bylaws; below are those considered to be the main rules and bylaws:

- Articles of Incorporation
- Business Regulations
- Trading Participant Regulations
- Clearing/Settlement Regulations
- Margin/Loan Trading Regulations
- Security Listing Regulations
  - Criteria for Listing Examination
  - Rules on Timely Disclosure of Corporate Information by Issuer (“Timely Disclosure Rules”)
  - Criteria for Delisting
- Brokerage Agreement Standards

Each time Jasdaq formulates or amends its rules with the approval of the regulatory authority, it endeavors to provide wide notification, furnishing information to trading participants, listed companies and others interested in the market, and also making public announcements. Furthermore, information on the Jasdaq's web site is constantly updated so that the most recent rules and bylaws can be accessed.

## **2. Market Access**

Becoming a trading participant eligible to trade securities on a Jasdaq's market requires a trading certification from Jasdaq.

Jasdaq's trading certifications are granted only to financial instruments firms. Obtaining a Jasdaq's trading certification requires the submission of a Jasdaq's certification application and a judgment by Jasdaq that the following matters and others, which are deemed necessary for the public interest or the protection of investors, are appropriate:

### **a Party engaged in trading of securities on a Jasdaq's market as an important business**

Requires a number of real, continuous years in the securities industry and a trading track record, etc. for the purpose of direct trading on a Jasdaq's market.

**b Management organizations**

Requires a sound, healthy management organization that can be expected to fully uphold the social trust and credibility of Jasdaq's markets, including absolutely no ties of any sort to antisocial forces and no control or influence from parties deemed to be inappropriate as trading participants (ties with antisocial forces, etc.) from the perspective of Jasdaq's market administration.

**c Financial base**

Requires the expectation that the following standards will be fulfilled by the deadline for obtaining trading certification, together with stable management and other indicators of stable profitability.

All of the following financial standards must be satisfied:

- Capital of at least 300 million yen
- Net assets of at least 1,000 million yen and in excess of capital
- Capital adequacy ratio of at least 200%

Note that Jasdaq trading participants are required to meet higher financial standards than those for registration as a financial instruments firm under the Financial Instruments and Exchange Law (capital of at least 50 million yen, net assets of at least 50 million yen and a capital adequacy ratio of at least 120%).

**d Executive organization**

Requires an appropriate executive organization capable of accepting, executing and settling trading orders on a Jasdaq's market, managing loss risks and complying with Laws and Ordinances, administrative dispositions pursuant to Laws and Ordinances, the Jasdaq's Articles of Incorporation, Business Regulations, Brokerage Agreement Standards and other rules, and the good-faith rules of trading.

Jasdaq has 98 trading participants.

### **3. Listing**

**a Outline**

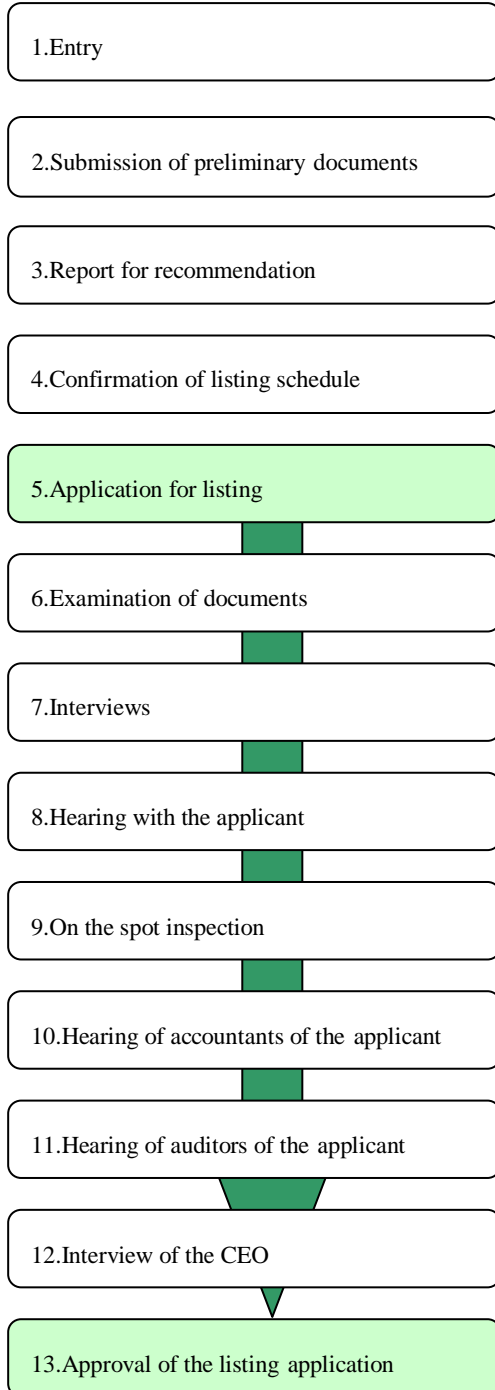
When it receives a listing application from an issuing company, Jasdaq performs a listing examination according to its rules and approves the listing after confirming the issuer's qualifications.

Jasdaq continues to monitor listed companies' qualification for listing after they are listed and delists companies if they fall under the delisting standards.

Jasdaq causes its listed companies to comply with timely and appropriate corporate information disclosure obligations.

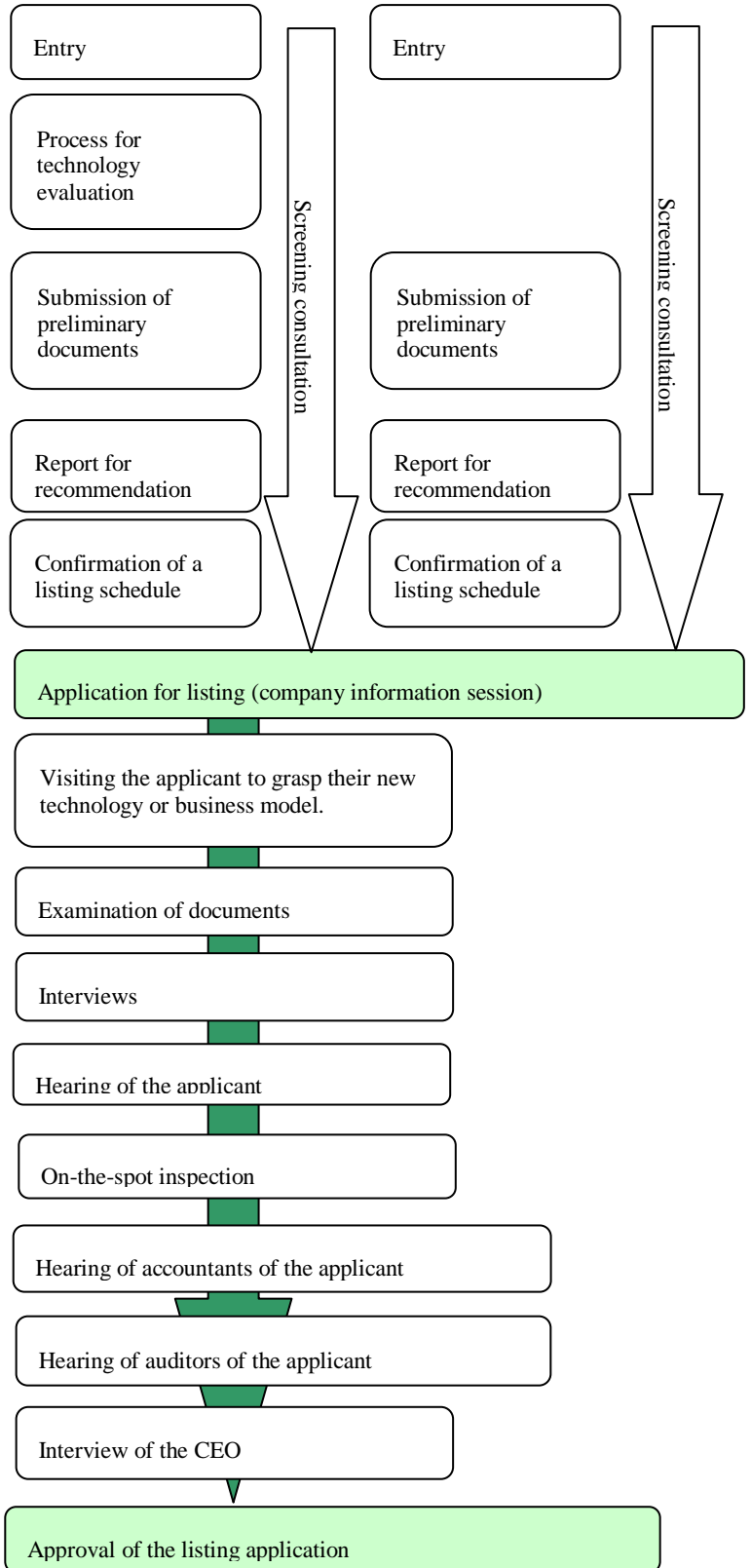
**b The listing process**

a. JASDAQ



b. NEO

A. In case Technology Evaluation (\*) is required      B. In case Technology Evaluation (\*) is not required.



**\* Technology Evaluation**

One of the objectives of NEO is to support companies possessing new technologies or new business models with growth potential. Since companies to be listed often aim to improve and commercialize new technologies, technology evaluation is essential. Therefore, when accepting applications for listing from companies that run businesses based on highly advanced technologies, Jasdaq requires such companies to submit documentation explaining their technologies. When necessary, it also requires such companies to submit documentation presenting the results of technology evaluations conducted by more than one outside expert. Based on the documents furnished by companies, the Technology Evaluation Advisory Committee evaluates the substantiality of relevant technologies at the time of application for listing (except in cases in which concrete results or tangible effects of technologies have been objectively confirmed and technologies have already been commercialized).

The Technology Evaluation Advisory Committee does not endorse technologies evaluated or the commercialization of products applying such technologies. In making its final decision on listing, Jasdaq fully respects the evaluation made by the Committee.

**c Criteria for listing examination**

Item	Criteria for Listing	
	JASDAQ	NEO
Number of shareholders	If the number of listed shares is: - less than 10,000 basic lot units: 300 or more - 10,000 or more and less than 20,000: 400 or more - 20,000 or more: 500 or more	
Total market value (*1)	Total market value (market capitalization) shall be (expected to be) ¥1 billion or more on the day of listing	Total market value (market capitalization) shall be (expected to be) ¥5 billion or more on the day of listing.
Profits	Positive net profits or ¥500 million or more ordinary profits on a consolidated basis	—
Net asset	¥200 million or more on the last day of the business year immediately before the application	0 or more on the last day of the business year immediately before the application
Elapsed years of business	—	Less than 10 years since the company booked the sales based on a new technology or business model with growth potential
Audit opinion, etc.	On the audit report attached to the financial statements of the term immediately before the application, "an unqualified opinion" shall be expressed. On the interim audit report attached to the interim financial statement of the term of the application, "an opinion that useful information is expressed" shall be expressed. On the quarterly review report attached to the quarterly financial statement of the term of the application, "an unqualified decision" shall be expressed.	
	If the term immediately before the application started before March 31st, 2008, on the interim audit report attached to the interim financial	—

	statement of the term immediately before the application, "an opinion that useful information is expressed" shall be expressed. If the term immediately before the application started after April 1st, 2008, on the quarterly review report attached to the third quarterly financial statement of the term immediately before the application, "an unqualified decision" shall be expressed.	
	The securities reports and other documents produced for the latest two business years shall be free of any "misstatement".	
Establishment of Board of Directors	Board of Directors to be established at least 1 year prior to the listing application date	
Designation of a stock-transfer agent	Stock services shall be commissioned to a stock-transfer agent or agreement to accept commission be received from a stock-transfer agent.	
Restriction of stock transfer	No restrictions on transfer of shares in place	
Deposit and transfer of stocks by a designated depository center	Agreement reached on handling by designated custody and transfer agency, or deemed likely to reach agreement	
Number of shares per basic lot ( <i>Tangen</i> )	100 shares on the day of listing	
Public placement or sale	500 units or more of public or secondary offering shall be carried out. (*2)	1,000 units or more of public offering required. However, if 500 or more of 1,000 of more units of public offering are carried out, rest of them can be sold instead of public offering.

\*1 Total market value is calculated by multiplying the issue price of stocks offered publicly or secondarily on the day of listing by the number of stocks for the listing application

\*2 If, however, the free float weight on the day of listing is expected to be 30% or more, neither public nor secondary offering may not be carried out. (A free float weight is the ratio of stocks other than those owned by the applicant company, any director of the company or any shareholder that has 5% or more of the company shares.)

#### **d Timely disclosure**

Jasdaq's "Timely Disclosure Rule" provides for fair price formation and investor protection by requiring listed companies to immediately report any material corporate information to Jasdaq when it occurs and to disclose this information to investors in a timely and appropriate manner.

Obviously, any changes or cancellations, etc. of material corporate information already disclosed also constitute material corporate information.

#### **# Timely disclosure items**

Corporate information requiring timely disclosure is defined as information regarding the operations, administration or results, etc. of the company that would have a material impact on decisions to invest in its securities. There are three main categories:

- (i) Information concerning the listed company
  - Information on the fact of decisions
  - Information on the fact of events
  - Information on business results
- (ii) Information concerning subsidiaries of the listed company
  - Information on the fact of decisions at subsidiaries
  - Information on the fact of events at subsidiaries
  - Information on business results at subsidiaries
- (iii) Information concerning the parent company, etc. of the listed company
  - Information on the fact of decisions at the parent company, etc.
  - Information on the fact of events at the parent company, etc.
  - Information on business results at the parent company, etc.

#### # Notification, etc. of material facts

- (i) Listed company notification to Jasdaq

Listed companies are required to immediately notify Jasdaq regarding the details of capital increases, convention of General Meetings of Shareholders and other matters that would have a material impact on the management of the company.

- (ii) Jasdaq requests for information and documentation from listed companies

Jasdaq may require listed companies to furnish information and/or documentation (“make inquiries, etc.” hereinafter) when it is deemed necessary for the management of the listed security to ascertain the truth of material corporate information acquired from reports in the press, etc. or information furnished by outside parties. Listed companies are required to report in an accurate and timely manner regarding matters subject to inquiries, etc. from Jasdaq. Jasdaq may, when it deems necessary, open reports for public perusal.

#### # Timing of timely disclosure

- (i) In the event that material corporate information is generated at a listed company, Jasdaq rules require that the listed company immediately notify Jasdaq and make timely and appropriate disclosure.

(ii) Jasdaq may require the listed company to make timely disclosure in the event that there are rumors deemed to be unauthorized disclosures of information regarding matters for which the company has not made formal decisions such that said rumors have abnormal effects on the share price, etc. When rumors are completely unfounded or inaccurate, it is necessary to immediately deny or clarify them. When rumors are accurate, it is necessary to immediately disclose the status, etc. of progress. Failure to make disclosure because a matter has not been decided or finalized risks both impeding the formation of fair prices and undermining the trust accorded to the listed company itself. Jasdaq therefore requires listed companies to be proactive in their timely disclosure.

#### # Method of timely disclosure

When listed companies make timely disclosure, their corporate information is registered with the “Timely Disclosure Network” (“TDnet”). TDnet is a system for fair, quick and broad communication of timely disclosure information.

When listed companies use TDnet to disclose corporate information under the Timely Disclosure Rule, information will be electronically distributed to press organizations participating in TDnet and will be noted as well on the exchange's web site ("Timely Disclosure Information Access Service") at a time designated in advance by the listed company for TDnet disclosure. At the time the information is noted on the web site, publication measures are deemed to have been completed for the purposes of insider trading regulation.

#### # Nature of disclosure

Listed companies must disclose material information required by investors to make accurate decisions. The material corporate information includes any information that would impact the company's operations, administration or result, etc.

While there is no uniform definition of the information that is required and sufficient for appropriate investor decision-making, at the very least disclosure information is considered to have to cover "an outline of the facts of decisions (events)," "causes of the decided (occurring) facts" and "impact of the facts on the listed company."

When the listed company is unable to finalize all facts at the time information is generated, it must appropriately disclose those facts that are and are not finalized at that time and then make subsequent disclosures as un-finalized portions are finalized.

#### # Timely disclosure and temporary suspension of trading (trading halt)

Jasdaq may suspend trading of an issue for investor-protection purposes when there are reports of corporate information concerning a listed company that Jasdaq deems to have a potentially material impact on the investment decisions of investors.

After suspension, trading will be resumed after there has been enough time for the listed company to make a formal announcement regarding the reports and it be communicated to investors (in principle, 30 minutes).

#### e **Milestone disclosure**

"Milestone Disclosure", which is required only for companies listed on NEO, stipulates provisions for disclosure of information on the progress in achieving business plans of NEO-listed companies, factors behind achievement or lack of achievement of planned goals, and prospects and preconditions for future progress (Milestone Disclosure). Listed companies must make Milestone Disclosures within two weeks following quarterly corporate performance and financial review finalization. When making a Milestone Disclosure, the following information shall be included.

1. Details of and preconditions for the company's business plan with a term of at least three consolidated fiscal years starting from the fiscal year (and, for a listed company not required to prepare consolidated financial statements, the business year) during which the company is listed on NEO. Details and preconditions shall be provided for each consolidated fiscal year.

2. Annual progress regarding the company's business plan, the outlook for achievement of planned goals, and relevant preconditions determined at the time of Milestone Disclosure.
3. With regard to annual progress and outlook for achievement of a company's business plan, factors behind achievement or lack of achievement of planned goals based on comparison with disclosed preconditions.

Each NEO-listed company is also required to review the details of its business plan and related preconditions each consolidated fiscal year starting from the year during which such company is listed on NEO, in response to progress in achieving such plan or changes in external environment.

In such case, a NEO-listed company shall disclose a revised version of its business plan with a term of at least three consolidated fiscal years and related preconditions based on an annual review of such matters. When a company has revised its business plan, it must make a Milestone Disclosure based on details of and preconditions for the revised plan.

**f Criteria for delisting**

Listed companies will be delisted if they fall under the Criteria for Delisting below. Jasdaq monitors listed companies with respect to the Criteria for Delisting and makes decisions about delisting.

Item	Criteria for Delisting	
	JASDAQ	NEO
Number of shareholders	Less than 150 shareholders (grace period: one year)	
Liquidity	When the rate of days the stock is traded to the total trade days of JASDAQ has fallen below 20% and the rate cannot reach or surpass the percentage within six months.	
Total market value	Less than ¥500 million (grace period: nine months, or three months when prescribed documents are not submitted within three months) or less than double the number of the listed stocks	
Deficiency in assets	When deficiency in assets cannot be cleared within one year after the deficiency taking place	
Disposition by suspension of bank credit	Bills, etc. issued by the listed company have been dishonored, and bank transactions became suspended or are certain to be suspended.	
Bankruptcy, reorganization or rehabilitation proceedings, or liquidation	Listed company requires bankruptcy proceedings, rehabilitation proceedings or civil rehabilitation proceedings pursuant to relevant laws, or is in similar circumstances.	
Discontinuity of operations	Listed company has suspended business activities or is in similar circumstances.	
Inappropriate merger, etc.	Listed company has merged with and absorbed, etc. a non-listed company, the exchange deems the listed company not to be the actual surviving company and the listed company fails to meet the standards set forth by the exchange for handling pursuant to the "Criteria for Listing." within three years	
Delay of submission of securities report or quarterly report	Failure to submit to the Prime Minister, etc. a securities report or quarterly report with an attached auditing report or quarterly review report within one month of the period set forth by the Financial Instruments and Exchange Law.	

Misstatement in consolidated financial statements, or adverse opinions, etc.	Any "misstatement" is made by the listed company, and the exchange deemed that the effect to the financial results was significant; or On the audit report and the quarterly review report attached to financial statements of the listed company, an "adverse opinion" or, "refrain from statement of opinion" is expressed on the audit report, or "an unqualified decision" or, "refrain from statement of opinion" on the quarterly review report, by CPAs, etc, and in parallel, the exchange deemed that the effect was significant.	
Breach of the listing agreement	Material violation of the listing agreement by the listed company	
Commission to a stock transfer agency	Fact or certainty of failure to commission Stock Services to a stock transfer agency designated by the exchange	
Restriction of stock transfer	Restriction imposed on the transfer of shares in the listed company	
Acquisition of full ownership by the parent	Listed company has become a wholly owned subsidiary of another company through a share swap or transfer.	
Withdrawal of the agreement about deposit and transfer of stocks by a designated depository center	Withdrawal by the listed company of the agreement pursuant to the Securities Custody and Transfer Law with a designated custody and transfer agency for the issue	
Improper restrictions on shareholder rights	Deemed by the exchange to have imposed improper restrictions on the nature or exercise of shareholder rights and failure to remedy the situation within six months	
Acquisition in full	Listed company acquires all of its listed shares.	
Closing down of basic business	—	In case that closing down of basic business of the listed company causes their corporate activities to stop and the company doesn't re-start the corporate activities within three years
Association with antisocial forces	Fact that a listed company associates with antisocial forces or operates business conflicting with public interest is disclosed, and the exchange deems that the fact is critical.	
Others	In addition to the all items, other cases in which the exchange deemed delisting of the issue to be in the public interest or necessary for the protection of investors	

## 4. Trading

### a Trading by trading sessions

Trading on a Jasdaq's market takes place in sessions. Jasdaq's trading sessions are completely electronic and are conducted over Osaka Securities Exchange's trading system. Trading sessions are held at set hours every day other than holidays (Sundays, national holidays, days preceded or followed by national holidays, Saturdays, the first three days of the year and December 31). The hours when the market is in session are referred to as "trading session hours."

Trading sessions are divided into a "morning session" and "afternoon session." The morning session runs from 9:00 to 11:00 AM; the afternoon session, from 12:30 to 3:10 PM.

Aside from auction trading, listed securities may be also traded through non-auction trading. (See "e".)

## **b Types of trades**

Jasdaq offers three types of trade depending upon the settlement conditions: “regular transaction”, “cash transaction”, and “when-issued transaction” .” The regular transaction is a basic trading format and accounts for more than 99% of all volume.

### **(i) Regular trading (T+3)**

Regular trading is Jasdaq’s basic trading format and involves settlement on the 4<sup>th</sup> day (excluding holidays, and so in all calculations of days below) after the contract. However, regular trading made on ex-dividend or ex-rights dates is settled on the 5<sup>th</sup> day after the contract.

### **(ii) Cash trading (T+0)**

Cash trading is limited to cross trades.

### **(iii) When-issued trading**

When-issued trading is a method that is used when a listed company issues new shares through a capital increase to shareholders. It allows unissued new shares to be traded for a set period of time prior to issue.

When-issued trading is ordinarily available from the date on which rights are allocated until the next day following the date on which the new share certificates are mailed. The former is normally a period of two or three months.

When-issued trading allows settlement on margin—during the trading period, it is possible to repurchase shares that had been sold or sell shares that had been purchased and receive only the difference in prices. Therefore, customers engaging in when-issued trading are required to deposit the standard margin money (ordinarily, 30% of the contract price) with the trading participant in order to ensure that settlement is made and to restrain excessive speculation. To engage in when-issued trading, customers are also required to furnish the trading participant with an “Agreement on Entrustment of When-Issued Trading.”

## **c Trading units**

Trading is in principle conducted in integral multiples of a standard volume set independently by listed companies (referred to as 1 trading unit).

## **d Execution methods**

Trading on a Jasdaq’s markets take the form of “continuous auction” (order-driven trading). The auction method functions on the basis of 1) price priority and 2) time priority. Also, Jasdaq introduced new program called Liquidity Provider Program from April 2008 to bring more liquidity to Jasdaq’s markets.

### **(i) Principles of price priority and of time priority**

#### **(a) Price priority**

The principle of “price priority” dictates that for selling orders, orders with lower prices will have priority over those with higher prices. Conversely, for buying orders, those with higher prices have priority over those with lower.

Likewise, orders can be issued either as “limit orders” that have fixed prices or “market orders” that are willing to trade at any price. Market orders have priority.

(b) Time priority

The principle of “time priority” dictates that for orders at the same price, priority is assigned on a “first-come first-served basis” in the sequence in which orders were input.

(c) Simultaneous orders

There are some exceptions to time priority in the auction method. At the start of the morning and afternoon sessions (“*yoritsuki*”), at the close of the sessions (“*hike*” or “*oobike*”) and for executions to determine the first contract price after trading has been suspended, all orders input up to that time are considered to be simultaneous.

(ii) Trading methods under the continuous auction

The continuous auction method is a basic format for competitive trading. Selling orders are in competition with each other, as are buying orders, and execution takes place when the price of the highest-priority selling order matches the highest-priority buying order.

There are two forms of auction: “matching” (“*itayose*”) and “continuous trading” (“*zaraba*”). *Itayose* is the method used to execute trades at “*yoritsuki*” (the open) or close of the session (“*hike*” or “*oobike*”); *zaraba* is used at all other times between *yoritsuki* and *hike* (called as *zaraba*).

(a) *Itayose* method

The *itayose* method is used to execute trades when it is necessary to: 1) determine the contract price at the opening of a trading session, 2) determine the initial contract price after trading has been suspended and 3) determine the contract price at the close of the trading session as stipulated by the exchange.

Under the *itayose* method, selling orders are taken from the lowest price and buying orders from the highest price. When their cumulative volumes match at a certain price and the following two conditions are satisfied, that price becomes the contract price.

- (i) All market orders can be executed
- (ii) All selling orders below the contract price and all buying orders above the contract price can be executed

If there are two or more prices that match, the contract price is the price of the immediately preceding trade if that is one of the matching prices; if not, the matching price closest to the immediately preceding trade.

(b) *Zaraba* method

The *zaraba* method is used to execute individual orders during the trading session after the opening price has been determined. *Zaraba* refers to “continuous trading” between the open and the close. Under this method, trades are executed on the basis of price priority and time priority for orders that have already been input. During the trading session, orders continually flow in and when their prices match, trades are executed one by one.

(iii) Liquidity Provider Program

The Liquidity Provider Program is a program aiming at bringing more liquidity to our markets.

Liquidity providers act as market makers in Jaspdaq's markets, which provide all electronic order driven trading platform for efficient execution of orders. The liquidity providers are Jaspdaq's member firms that buy and sell securities at prices it displays in Jaspdaq for its own account (principal trades). The firms need to enter into an agreement with Jaspdaq to provide liquidity on any listed securities that they choose to be a liquidity provider. Once they become the liquidity provider, they undertake to quote, at least once a day, with its discretion for bid prices, ask prices, or two-way bid and ask prices.

**e Non-auction trading**

Non-auction trading provides a means of trading outside of auction trading. There are following categories of non-auction trading:

- Single issue trading  
8:20 - 16:30
- Single issue trading (VWAP guarantee and VWAP target)  
8:20 - 9:00, 11:00 - 12:30, 15:10 - 16:30
- Basket trading  
8:20 - 9:00, 11:00 - 12:30, 15:10 - 16:30
- Closing price trading  
Transaction time is 8:50 and 16:30  
Order entry starts from 8:00
- Company share repurchase trading  
Transaction time is 8:45  
Order entry is during 8:00 to 8:45

**f Margin trading, loan trading**

On a Jaspdaq's market, investors can be engaged in any of the forms of trading described above either with their own funds and securities or using margin trading and loan trading facilities.

Margin trading refers to the extension of credit for use in trading from the brokerage to the customer. For these purposes, "extension of credit" refers, for example, to the brokerage lending the customer, at its own discretion, the funds for purchase of shares or shares to be sold. The customer is required to furnish the trading participant with Agreement for Establishment of Margin Transaction Account to engage in margin trading,

There are two forms of margin trading: "standardized margin trading" and "negotiated margin trading." The customer is required to choose which form of margin trading to engage in when commissioning a margin trade to a brokerage. Standardized margin trading covers domestic listed issues that meet certain criteria ("standardized margin issues"), for which the exchange determines the rules governing lending fees and repayment periods, etc. On the other hand negotiated margin trading in principal covers all listed issues, with the lending fee and repayment period, etc. determined freely as agreeable to the customer and brokerage.

Standardized margin trading enables the use of loan trades. In loan trades, the brokerage procures the funding and securities for a trade from a securities finance company in order to facilitate the execution of margin trades. In Japan, securities finance companies licensed by the Prime Minister play the role of supplying funding and securities for standardized margin trading and loan trading. The designated securities finance company for Jasdaq is Japan Securities Finance Co., Ltd.

**g Trading restrictions**

As part of its trading supervision, Jasdaq may impose restrictions on the acceptance of trades and commissions when deemed necessary to avoid inflicting unforeseen damages on general investors, etc. if price fluctuations or trading status are deemed to be or have the potential to be abnormal.

For example, if the prices of a large number of issues continue to shoot upwards from day to day and trading volumes are substantially above normal levels, general investors may not make equity investment decisions for rational reasons and as a result incur unforeseen damages. When the market appears to be overheating in this manner, the exchange may impose regulatory measures on all issues, for example, tighter price bands on orders or stiffer margin trading requirements (higher margin money requirements, collection of part of margin money in cash, reduction of the multiplier used to value securities deposited as collateral against margin, or even restriction or prohibition of margin trading itself).

Similarly, the exchange may impose restrictions if one or a few issues experience prices or trading that is deemed to be or potentially to be abnormal, regardless of conditions in the market as a whole. Specific restrictions are determined in light of the issue(s)' order backlog and trading status and may include temporary suspension of trading, tighter price bands on orders, prohibition of market orders, prohibition of trading participants trading on their own accounts, deposit of shares or purchase prices prior to settlement dates, higher margin money requirements, collection of part of margin money in cash, etc.

## **5. Surveillance and Supervision**

As a self-regulatory organization, Jasdaq monitors for market manipulation, insider trading and other unfair trading ("market surveillance") and works to ensure the soundness and integrity of trading participants (brokerages) (referred to as "participants supervision"). Jasdaq's market surveillance and participant supervision are performed in coordination with the Securities and Exchange Surveillance Commission of the government of Japan.

**a Market surveillance**

Market surveillance refers to the examination of trading on Jasdaq's markets for unfair trading. Warnings may be issued to trading participants or listed companies, or other appropriate measures taken as warranted by findings.

Market surveillance is performed by: (1) trade examiners who study and analyze the content of trades and identify unfair trading, and (2) general affairs officers who consult with brokerages or listed companies on the formulation, amendment and abolition of rules and bylaws.

These departments also work in close coordination with the Listing Department that provides support for the disclosure of information by listed companies, the Participants Supervision Department that oversees trading participants, and other relevant departments.

**b Participants supervision**

Jasdaq supervises trading participants who trade on Jasdaq's markets. As described in "3. Market Access," Jasdaq's trading participants are required to maintain sound management systems, financial bases and appropriate operational systems.

Jasdaq therefore performs rigorous reviews when granting trading certification to brokerages and continues to monitor their financial status and to demand other reports after certification is granted for the purpose of grasping their actual status.

Jasdaq also has a good grasp of status of trading participants to comply with applicable laws and ordinances, Jasdaq rules, etc. as well as of the status of their operations and assets by performing regular inspections.

In the event that violations of laws, ordinances or exchange rules, etc. are identified during inspections, trading participants are subject to stiff disciplinary action and required to enact measures to prevent recurrence.

When performing inspections, Jasdaq endeavors to use "joint inspections" with other exchanges or with the JSDA, thereby improving both the efficiency and the depth of inspections.

(i) Types of inspection

Inspections are performed more or less regularly after taking account of trading participants' compliance with laws, ordinances and exchange rules, etc. They consist of "general inspections" that cover the entire range of the participant's operations and "special inspections" that are based on specific information, etc. and examine specific areas. In principle, general inspections take the form of joint inspections.

(ii) Disciplinary action against trading participants

In its inspections of trading participants, Jasdaq ascertains the facts with respect to violations of laws, ordinances or exchange rules, etc. by trading participants as identified by examinations of the participant's trading on Jasdaq's markets or by administrative dispositions enacted by government authorities.

After conducting its own hearing procedures regarding these activities, Jasdaq consults with the Self-Regulation Committee, enacts stiff penalties and requires the participant to take measures to prevent recurrence.

(a) Penalties

Material violations of laws and ordinances, etc. are subject to the following penalties:

- Revocation of trading certification
- Suspension or restriction, etc. of trading
- Levying of fines for negligence
- Reprimands

(b) **Advisories**

Jasdaq may issue advisories to participants instructing them to take appropriate measures in the event that operations or assets are deemed to be inappropriate including such cases that employee training or internal management are deemed inadequate or that there has been a significant decline in capital adequacy ratios.

(c) **Warnings**

Any violations, etc. of laws or ordinances identified in inspections are noted on the Inspection Results Notice and improvements are sought. Warnings may be issued in cases when penalties are not imposed, taking into account whether violations were willful or negligent, etc.

(d) **Instructions**

In the event that inspections find that the status of operations or assets has the potential to lead to violations of laws or ordinance, etc., Jasdaq may, in cases in which it does not issue warnings or advisories, instruct participants to make improvements in light of their internal management, etc.

## **6. Clearing, settlement and custody**

### **a Clearing and settlement**

Clearing for Jasdaq is undertaken by the Japan Securities Clearing Corporation (“JSCC”) which serves as the uniform settlement agency for securities trading in Japan. The JSCC operates under a license from the Prime Minister as stipulated in the Financial Instruments and Exchange Law and all Jasdaq’s trading participants settle their trades with the JSCC as the central counterparty.

### **b Custody**

The Japan Securities Depository Center (“JASDEC”) serves as the sole transfer agency in Japan, responsible for the transfer of all issues listed on Jasdaq’s market. JASDEC operates under a license from the Prime Minister as stipulated in the “Law concerning Transfer of Bonds, Stocks, etc.”

## **7. Assessment of Risk Factors**

Jasdaq’s employs several risk management techniques. Trading participants are required to furnish regular reports on their financial status, etc., as well as immediate reports in the event that they fall below capital adequacy ratio standards. Jasdaq may suspend or restrict trading in Jasdaq’s markets securities for trading participants whose capital adequacy ratios are below standards.

## **8. Mediation and Intermediation Services**

The Japanese Financial Instruments and Exchange Law does not require financial instruments exchanges to provide mediation or intermediation services and Jasdaq therefore does not offer the services. Information, etc. provided by the general public is used in surveillance and enforcement.

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