

## **Notes to Document regarding Business Contents and Method**

This document is prepared for Applicant's reference in its preparation of the "Document regarding Business Contents and Method" (hereinafter referred to as the "Business Contents Document"), which has to be submitted in accordance with Article 66-51 (2) (ii) of the Financial Instruments and Exchange Act (hereinafter referred to as "FIEA").

We note that the items required to be described in the Business Contents Document are not limited to such items as mentioned in this document but should include any items necessary for the Applicant to accurately explain peculiarities of its business contents and method.

We also note that any change of the items written in the Business Contents Document and its Exhibits (if any) has to be filed with the Kanto Local Finance Bureau.

### **1. Basic Principle regarding Business Operation**

In Section 1, the Basic Principle regarding the Applicant's operation of High-Speed Trading (hereinafter referred to as "HST") has to be described.

Following is an example of the description of the Basic Principle:

*Our company performs the HST business in accordance with the company's internal rules, FIEA, and other related ordinances/regulations, and establishes and maintains the internal control system required for such performance.*

### **2. Business Execution Method**

In relation to the items to be described in Section 2, please refer to III-2-1-1, III-2-1-2, and III-2-1-3 of the Supervisory Guidance regarding HST.

Information regarding Business Execution Method and that regarding Allocation of Responsibilities can be provided respectively in Sections 2 and 3, or collectively in one of them.

Structure for HST execution, such as the name(s) of related department(s), job description, reporting line and etc., should be described.

The departments relating to HST should include:

- (i) department in charge of making judgments on the execution of HST,
- (ii) department in charge of programming,
- (iii) department in charge of management and maintenance of electronic information system and prevention of aberrant operation,
- (iv) department in charge of compliance,
- (v) department in charge of preparation of trade books and reports,
- (vi) department in charge of risk management,
- (vii) department in charge of trade monitoring (including management of corporate insider information, establishment of internal monitoring rules, and so on),
- (viii) department in charge of internal audit.

We note that the Applicant should develop and establish the structure for HST execution

by taking into consideration such factors as the content, peculiarities, size or complexity of the Applicant's business.

We also note that the Applicant is not required to establish all of the above departments independently so long as it can perform the above operations appropriately by the structure where one department deals with more than one of such operations.

In the case that one or more of the above operations is consigned to a third party, the name of such consignee and the method for monitoring it should be described.

The Applicant should mention information concerning what internal rules are established and how they are applied in order for the Applicant to ensure the appropriate performance of HST.

The Applicant should also provide the information regarding internal education and training for ensuring the Applicant's compliance with the internal rules, etc.

### **3. Allocation of Responsibilities**

As information regarding allocation of responsibilities, the name(s) of the related department(s), the title of the top of each department and jobs description for each department should be mentioned.

### **4. Summary of HST strategy**

In relation to the items to be described in Section 4, please refer to III-3-1-1 of the Supervisory Guidance regarding HST.

The Applicant has to describe in Section 4 the basic information, including but not limited to (i) the category of trading strategy, (ii) the name/tradename of the stock exchange, etc., and (iii) types of securities and derivatives, for each of all HST strategies applied by it.

The Applicant engaging in HST business as of April 1, 2018, should explain its strategies employed as of the application date. The Applicant expecting to start engaging in HST business on or after April 2, 2018, should explain the strategies to be employed by it on or after its registration.

The information can be provided in a form of an exhibit.

(Example 1)

- (a) Name of the HST strategy: AAA
- (b) Summary: *(characteristics of the HST strategy should be concisely mentioned.)*
- (c) Category: Market Making
- (d) Name of the Stock Exchange: Tokyo Stock Exchange
- (e) Types of securities and derivatives: Japanese listed stocks
- (f) Name of the broker/dealer: BBB and CCC

(Example 2)

- (a) Name of the HST strategy: XXX
- (b) Summary: *(characteristics of the HST strategy should be concisely mentioned.)*
- (c) Category: Arbitrage
- (d) Name of the Stock Exchange: Tokyo Stock Exchange and Osaka Exchange
- (e) Types of securities and derivatives: Japanese listed stocks and Nikkei 225 Futures
- (f) Name of the broker/dealer: YYY and ZZZ

## **5. Name and title of the person responsible for compliance relating to HST business**

The name and title of the person responsible for supervising compliance matters relating to HST business, which has to be mentioned in Section 5, and that of the person responsible for management of HST business, which has to be mentioned in Section 6, can be collectively mentioned in a form of an exhibit.

## **6. Name and title of the person responsible for management of HST business**

In this Section, the name and title of the person responsible for management of HST business (including the person responsible for any of the following) has to be mentioned:

- (i) judgement on the execution of HST,
- (ii) programming relating to HST,
- (iii) electronic information system and any other facilities.

## **7. Summary, installed place and maintenance method for electronic information system and other facilities relating to HST (hereinafter referred to the “HST Facilities”)**

In Section 7, information regarding the summary, installed place and maintenance method and any other material points of the HST Facilities has to be mentioned.

Instead of providing verbal explanation on the above, a diagram showing the HST Facilities’ configuration can be provided as an exhibit.

As the summary of the HST Facilities, information regarding the latency-shortening method as well as information regarding the use of the virtual server, etc., (the name of broker/dealer providing the virtual server, the number of the virtual server(s) used by the Applicant, etc.) has to be provided.

As installed place, the place for installation of the HST Facilities, such as a collocation area provided by Japan Exchange Group, should be mentioned.

In the case that information regarding maintenance method is described in Section 2, such information need not be mentioned herein.

## **8. Method to sufficiently manage the HST Facilities**

In relation to Section 8, please refer to III-2-1-2 and III-2-1-3 of the Supervisory Guidance for HST.

Information concerning the measures employed with the purpose of preventing smooth and proper operation of the financial instrument exchange/market from being impaired by an aberrant operation (for instance, trade limit, kill switch, stress test and etc.) should be provided.

In the case that the above information is provided in Section 2, the Applicant need not repeat the same herein.

End