

Q&A about the TOKYO PRO-BOND Market

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Objectives for the establishment of the TOKYO PRO-BOND Market

Q1: What are your objectives for establishing the TOKYO PRO-BOND Market?

A1: The TOKYO PRO-BOND Market is to serve as a new bond market for professional investors under a 2008 revision to the Financial Instruments and Exchange Act that provides a legal framework for the establishment of markets intended solely for financial professionals.

The large majority of bonds — particularly bonds which are not required to have bond administration companies and whose face value is 100 million Yen or more— issued within the Japanese bond market are intended for professional investors; yet, despite that characteristic, the disclosure framework of the FIEA and business practice are quite prescriptive as they also cover individual investors. On a similar note, many foreign issuers are interested in issuing bonds in Japan; yet, because of obstacles presented by a requirement that disclosure be in Japanese, the value of new issuances has not necessarily been on an uptrend.

The TOKYO PRO-BOND Market seeks to make full use of the legal framework for markets for professionals while providing additional flexibility and efficiency with regards to bond issuances comparable to what is provided by the euro market. It seeks to improve the attractiveness of the market for bond issuers, investors, securities companies, and other related parties both within Japan and internationally, thereby contributing to the development of the Japanese bond market as a core Asian exchange.

Q2: What merits will the TOKYO PRO-BOND Market provide to bond issuers and investors?

A2: The TOKYO PRO-BOND Market will provide issuers with a high degree of flexibility and nimbleness.

By simplifying the process for listing bonds, most notably by simplifying disclosure requirements while maintaining the quality of information to be provided to investors, we hope to make it easier for issuers to issue bonds in a flexible and timely manner. We also intend to make it easy for investors to access essential information on the Exchange website. As with overseas MTN (medium-term note) programs, an issuer, once it has registered the maximum limit for the value of bonds that can be issued within a set period together with basic financial and other information (Program Listing), would be able to issue bonds when and as desired up to the limit of the registered amount.

Foreign issuing entities (corporations, organisations) likewise stand to benefit from the added convenience. Whereas conventional samurai bond issues require Japanese-language disclosure, the TOKYO PRO-BOND Market allows English-language disclosure or a combination of the two. Similarly, financial statements may be based on Japanese accounting standards (J-GAAP), international accounting standards (IFRS), or US accounting standards (US-GAAP), and the bonds may be denominated in a variety of currencies including Yen but not limited to Yen.

Domestic and overseas investors will benefit from the increased variety of securities in the Japanese market because more domestic and overseas issuers will be able to issue in

Japan utilizing the TOKYO PRO-BOND Market. Overseas investors will find it easier to invest in the Japanese market thanks to increased disclosure in English. European and other overseas investors who are restricted from investing in non-listed securities will also be able to invest in bonds issued in Japan and their investment opportunities will be broader. Finally, the information for investors will be disclosed in the TOKYO AIM website and issuer's website and will be easily accessible for them.

* MTN is an abbreviation for "medium term note," and refers to bonds issued in accordance with an MTN program, which is the most common way of issuing corporate bonds in the Euromarket. Under an MTN program, issuers conclude a basic agreement with several dealers prior to the issue of a series of bonds so that they can issue bonds flexibly according to their financing needs. MTN programs are typically listed on the London Stock Exchange, Luxembourg Stock Exchange and other exchanges.

Overview, definitions (Market Listing Regulations 1–3, Regulation 25)

Q3: What kind of marketable securities can be listed?

A3: The following may be listed on the exchange: corporate bonds issued by domestic or foreign legal entities; securities issued by domestic or foreign legal entities under special statute; bonds of investment corporations; among foreign investment securities in investment corporations, those securities similar to bonds of investment corporations; municipal bonds of domestic or foreign issuers; specified corporate bonds issued by domestic or foreign legal entities; among beneficiary certificates of special purpose trusts, those of the type that with regard to cash distributions during the trust period receive distributions in predetermined amounts; beneficiary certificates of special purpose trusts issued by foreign entities; and government bonds issued by foreign sovereigns. There are no particular restrictions on the place of issuance.

With regards to corporate bonds, one may list not only straight bonds but also, as long as they fall under the definition of a corporate bond, structured bonds. Note, however, that this does not apply to convertible corporate bonds or exchangeable corporate bonds. Islamic bonds may be listed if in the form of beneficiary certificates of special purpose trusts.

Q4: May one later change the language of disclosure? What are the points to keep in mind here?

A4: The language of disclosure may be changed. For example, a foreign issuing entity may decide to present disclosure materials in Japanese and English at the time of the issuance and later follow with English-language disclosure. However, it would be necessary to take measures to ensure that investors are clear about the disclosure language being adopted by, for example, letting them know at the time of issuance that subsequent disclosure will be conducted only in English. Also, an issuing entity may use both Japanese and English in one disclosure material for the sake of convenience of both the issuer and the investor.

Q5: Regulation 3 of the Market Listing Regulations states that "the legal systems and

actual practices that prevail in the home countries of issuers.” Specifically, what does this mean?

A5: It means that we will broadly recognize the legal systems and practices that exist in the country where the bonds are issued, rather than the legal systems and practices of the country in which the issuing entity is legally established. The Exchange operates on a principles-based approach (Regulations 1 and 2 of the Market Listing Regulations); and, based on that, we intend to apply these regulations in a flexible and appropriate manner with due consideration of bond market practices. In terms of the governing law, there is no particular restriction in the Regulations of the Exchange.

Market Listing Regulations (Regulations 4–8)

Q6: Would you explain the relationship between bond issuance and listing?

A6: If an issuer wants to issue bonds utilizing disclosure frameworks of the TOKYO PRO-BOND Market, the bonds have to be listed on the TOKYO PRO-BOND Market. If not listed on the TOKYO PRO-BOND Market, an issuer would have to use some other system (i.e., some method of subscription recognized by the Financial Instruments and Exchange Act, perhaps by filing a marketable securities application, soliciting qualified institutional investors, or arranging a small private placement) and thus would be unable to receive the benefits provided by the TOKYO PRO-BOND Market (flexibility combined with an ability to sell to essentially the same general range of investors (excluding individual investors) that one would sell to now).

Q7: Where and when can a Securities Listing Application Statement be filed?

A7: Applications are accepted at the offices of the Exchange. The reception desk is open while the Exchange is in session (from 8:45 to 16:45), although we will take into consideration time differences and other such factors so as to make the process more convenient for overseas issuing entities. The same hours apply to electronic submission.

Q8: May we appoint a representative to file an application in our place? Furthermore, can we file the application and receive advice in English?

A8: A representative may file an application for you. Also, applications, advice, and confirmations can all be conducted in English.

Q9: What is meant by “Program Information”? What is to be gained by presenting it? What obligations are incurred upon doing so?

A9: Program Information is equivalent to the euro MTN program and indicates the maximum limit for the value of bonds that can be issued within a set period together with basic financial and other information. Program Information is to be rated, and a candidate for lead managing underwriter is to be listed. Once this is done, one can flexibly issue and

list the bonds at the time of issuance. Note that the bond issuing entity (the party that submitted the Program Information) does bear a responsibility to observe Exchange rules, including requirements for timely disclosure.

Q10: What is the difference between Program Information and shelf registration documents?

A10: The Program Information and shelf registration document are both intended to disclose basic information, financial information, and the maximum limit for the value of bonds that can be issued by the issuer. Shelf registration documents are disclosures issued under the stipulations of the Financial Instruments and Exchange Act, whereas Program Information is based on Exchange regulations. Program Information is to be presented on Form No. 2 (a format prepared by the Exchange) or on some other form deemed appropriate by the Exchange. In the shelf registration document, issuers can describe either the expected issuance amount during the set period of time or the maximum limit of the outstanding balance. The outstanding balance described here does not include the issuing amounts of the bonds that were issued based on the past shelf registration. On the other hand, the maximum limit of the outstanding balance which covers the amount from the issues in the past Program Information shall be described in the Program Information, in the same manner as the euro MTN program. Therefore, if the bonds issued based on the present or past Program Information are redeemed, the expected issuance amount will increase by the same amount as the redemption.

Q11: You mean that it is possible to use some form other than Form No. 2 to submit Program Information?

A11: Yes, we accept formats considered appropriate based on the Rule 3, Paragraph 1 of the TOKYO PRO-BOND Market Listing Enforcement Rules. The program format utilised for the euro MTN program, for example, could be used as is. As for the sovereign bond, the formats that are stipulated by Cabinet Office Ordinance on Disclosure of Information on Issuers of Foreign Government Bonds can be used.

Q12: What is the relationship between Program Information and Specified Securities Information?

A12: When, after submitting Program Information, the party wants to issue and list bonds of a value within the maximum limit, it must file a Specified Securities Information report. Note the report may simply refer to the Program Information contents.

Q13: Must we submit Program Information?

The submission of Program Information is voluntary. As with shelf registration statements, a party that issues bonds frequently (several times a year) would benefit considerably from submitting Program Information, as it would speed up and simplify processing for each issuance. However, for a party that issues bonds only once a year or so, there might not be

a material benefit from submitting Program Information. Such a party would normally issue and list bonds by simply presenting Specific Securities Information alone.

Q14: Are there any necessary conditions for utilizing Program Information?

A14: Program Information must accord with the listing eligibility requirements of Regulation 5 and 9 of the Market Listing Regulations. In principle, the Program Information must have a rating from a credit rating agency and the lead managing underwriter must be registered on the Lead Managing Underwriter List prepared by the Exchange.

Q15: Do bonds issued using Program Information have to be listed?

A15: No, not necessarily, the issuing party is free to determine whether or not to list the bond. However, if the issuing party chooses not to list, it must necessarily conduct the issuance under another system, for example by soliciting qualified institutional investors or arranging a small private placement.

Q16: How is Program Information publicly disclosed?

A16: Program Information is to be continually posted simultaneously on the Exchange website and on the website normally utilized by the issuing party to disclose information.

Q17: What is Specified Securities Information?

A17: Specified Securities Information refers to documents that are to be submitted (and publicly disclosed) upon the issuance/listing of bonds under the TOKYO PRO-BOND Market system. It is equivalent to a Securities Registration Statement in the case of a public offering. The contents and format of a Specified Securities Information report are determined by the Exchange. Note that the Exchange is doing much to minimize the costs entailed by preparing additional documentation for the TOKYO PRO-BOND Market. For example, companies that continually file Annual Securities Reports with the FSA do not need to state corporate information including financial statements in the report. Secondly, overseas issuers may submit the reporting documents they provide to their home country financial authorities or exchanges.

Q18: May we use a form other than Form No. 5 to submit Specified Securities Information?

A18: Yes, we accept formats considered appropriate based on Rule 4, Paragraph 3, of the TOKYO PRO-BOND Market Listing Enforcement Rules. For example, the disclosure formats utilized in the euro market may be used here as well. As for the sovereign bond, the formats that are stipulated by Cabinet Office Ordinance on Disclosure of Information on Issuers of Foreign Government Bonds can be used.

Q19: When the bonds have been guaranteed, is it necessary to also disclose information on the guarantor?

A19: Yes, Form No. 5 asks for guarantor information.

Q20: Could you tell us about special exemptions concerning Specified Securities Information?

A20: A company that has continually filing Annual Securities Reports with the FSA over an entire year is required to indicate that it files Annual Securities Reports and they can leave the corporate information section of the Specified Securities Information form (Form No. 5, Section 2) blank. Also, there would be no need to present/disclose Issuer Filing Information. Issuers are required to disclose the terms and conditions of issuance of the bonds (information equivalent to Part I Securities Information which is described in Attachment Form No. 5.) in place of Specified Securities Information when conducting solicitations for securities covered by Article 3 of the Financial Instruments and Exchange Act (municipal bonds, etc.). The terms and conditions of issuance of the bonds include no financial information about the issuer. However, if the issuer has relevant financial information available, it is expected to release it proactively by disclosing the relevant information on their website or through other means.

Q21: How would Specified Securities Information be presented in a case in which Program Information has already been disclosed?

A21: If, after presenting Program Information, the party wants to pursue and list bonds within the maximum limit, it must file a Specified Securities Information report. Note the Specified Securities Information may simply refer to the Program Information contents. That is, the contents are quite simple, equivalent to a supplemental shelf registration document. Note too that while a supplemental shelf registration document requires continuous disclosure (appendage of or referral to annual and quarterly reports), a Specified Securities Information report merely needs to indicate that an Annual Securities Report has been issued.

Q22: What accounting standards will you recognize?

We will recognize the following standards — J-GAAP, US-GAAP, or IFRS — or an alternative accounting standard deemed acceptable by the Exchange. If applicable, audits by audit firms must include and disclose the discrepancies between one and the other among the three standards (i.e., adjusted disclosure).

Q23: Could you tell us how Specified Securities Information is to be disclosed?

A23: Specified Securities Information is to be continually posted simultaneously on the Exchange website and on the website normally utilized by the issuing party to disclose information.

Listing eligibility (Market Listing Regulations 9–12)

Q24: Is the Exchange to conduct listing examinations?

A24: The Exchange will confirm that the bonds satisfy the necessary conditions for listing eligibility under Regulation 9. When listing equities, the examination can be quite rigorous. However, we will simply confirm that some formal requirements have been met and thus expect our examinations to be limited and conducted on a timely basis.

Q25: How broadly are you using the term “credit rating agency” within the regulations?

A25: Within the Market Listing Regulations we stipulate credit rating agencies to be “domestic credit rating agencies pursuant to the stipulations of Article 2, Paragraph 36, of the Financial Instruments and Exchange Act and rating agencies established under foreign laws that are subject to frameworks of regulations and supervision judged equivalent to those of credit rating agencies.” Currently, domestic and overseas credit rating firms corresponding to this would include: Standard & Poor’s (not necessarily the Japanese entity); Moody’s (not necessarily the Japanese entity); Fitch (not necessarily the Japanese entity); Rating and Investment Information, Inc.; and Japan Credit Rating Agency. It is possible that we would also recognize other credit rating agencies, so please consult with the Exchange regarding specific cases.

Q26: Would a rating downgrade infringe on delisting standards?

A26: No, a rating downgrade would not infringe on the standards.

Q27: Are we correct in our understanding that the level of the rating itself is not an issue; for example, you do not require the rating to be, say, BBB or above?

A27: You are correct in your understanding — the rating itself needs to be disclosed but is not an eligibility criteria.

Q28: Are there any exemptions from the credit rating requirement?

A28: The bond does not have to be rated if it is a domestic or foreign municipal bond or foreign government bond, or is a bond guaranteed by a national government, a local government organisation (either domestic or foreign), the Japan Finance Corporation / Japan Bank for International Cooperation, or another financial institution deemed acceptable by the Exchange.

Q29: What is a Lead Managing Underwriter List? Is a lead managing underwriter different to a J-Nomad?

A29: The Lead Managing Underwriter List is simply a list of securities companies that could potentially serve as a lead managing underwriter when listing a bond on the TOKYO PRO-BOND Market or when disclosing Program Information. The list is prepared by the Exchange. It is unrelated to the TOKYO AIM J-Nomad system; that is, the TOKYO PRO-BOND Market does not utilize the J-Nomad system.

Q30: Is a Lead Managing Underwriter List to be prepared for each issuing party, or will there just be one list for use with all issues?

The list is intended for all issues taken together rather than for individual issues. It is to be prepared (and disclosed) by the Exchange.

Q31: What are the criteria for registration on the list, and what does it take to get removed from it?

A31: A party wishing to register on the list is to file an application with the Exchange. The Exchange will then examine the application while considering such factors as, that party's appropriate domestic and overseas experience as a lead managing underwriter. Conversely, if the Exchange deems the continued listing of a party to be inappropriate (as would be the case, for instance, if that party decides to withdraw from the bond underwriting business), the Exchange, at its discretion, may remove that party from the list.

Q32: Would a company have to pay some registration fee to get listed on the Lead Managing Underwriter List?

A32: No, it would not. There will be no fee.

Q33: Will there be any exceptions to the lead managing underwriter requirement?

A33: There would be no need for underwriting by a securities company if, say, a financial institution deemed suitable by the Exchange were to purchase the whole amount of the bond issue. Here, the financial institution would presumably confirm the quality of the bonds itself. We would thus make an exception in such a case — that is, a lead managing underwriter would not be required.

Q34: What is the standard schedule for a listing based on Program Information?

A34: The basic schedule is as follows. First, listing approval is usually granted the day after the listing application is filed. The listing date is the day after the payment date, and in the cases of book-entry bonds, various terms required for paying agent related procedures must be determined until four days before the payment date. Thus, the listing should go

smoothly if an application is filed at the time when such terms are determined. Also note that an issuer that does not have an issuer code must apply for one beforehand. Similarly, parties that have never utilised the Japan Securities Depository Center must apply ahead of time in order to participate in that system. Each of the last two matters generally takes about one or two weeks, so it is recommended that these two points are taken care of by the time of Program Listing.

(Standard schedule)

D - 4: Determination of terms, filing of listing application

D - 3: Listing approval

D - 2: Payment date

D + 1: Listing

Q35: What is the standard schedule for a listing not based on Program Information?

A35: The time that it takes to obtain listing approval could be somewhat different when the listing is based on Program Information and when it is not. When the listing is based on Program Information, a determination of listing eligibility can be almost instantaneous if the program already has a credit rating and because the Program Information already lists a candidate for the underwriting securities company. On the other hand, when the listing is not based on Program Information, it is necessary to confirm such matters upon receipt of a listing application. This said, however, the items to be confirmed are very straightforward, whether the bond has a rating, and whether there is an underwriting securities company and so we expect that the Exchange will process the application on a timely basis. Also note that the above-mentioned necessity of acquiring an issuer code and applying to participate in the Japan Securities Depository Center also applies whether or not the listing is based on Program Information.

Duty of disclosure of issuer information, other duties (Market Listing Regulations 13–19)

Q36: Could you please tell us a bit more about the "timely and appropriate" disclosure regulations?

A36: Items for disclosure and their related standards under Regulation 14 are listed in Annex 1 of Regulations for Companies. They include such items as dissolutions, bankruptcies, and dishonored notes.

Q37: Could you tell us about the method for timely and appropriate disclosure.

Relevant information is to be continually posted on the Exchange website and on the

website normally utilised by the issuing party to disclose information.

Q38: In what cases would one be exempt from the timely and appropriate disclosure requirements?

The following are exempt from the requirements: (1) bonds that require no disclosure of the activities of the party that issued them (as would be the case for municipal bonds, specified corporate bonds, beneficiary certificates and special purpose trusts, and government bonds issued by foreign sovereign issuers); (2) issuers of equities, etc., that are listed on a domestic or foreign financial exchange; and (3) the fully owned subsidiaries of such issuers. (That said, we do require that the issuer makes it possible to access information pertaining to the listing of equities from the Exchange website.)

Q39: Can a format other than that of Form No. 7 be used for Issuer Filing Information?

A39: Yes, we accept formats considered appropriate based on the Rule 9, Paragraph 1 of the TOKYO PRO-BOND Market Listing Enforcement Rules. For example, the disclosure formats utilised in the euro market may be used here as well. As for the sovereign bond, the formats that are stipulated by Cabinet Office Ordinance on Disclosure of Information on Issuers of Foreign Government Bonds can be used.

Q40: In what situations is it not necessary to disclose Issuer Filing Information?

A40: Issuers required to file Annual Securities Reports with the FSA do not need to disclose Issuer Filing Information (this said, we do require that the party allow access to Annual Securities Reports and other such disclosure information from the Exchange website). Also, it is not necessary to disclose Issuer Filing Information when conducting solicitations for securities covered by Article 3 of the Financial Instruments and Exchange Act (municipal bonds, etc.).

Q41: What accounting standards will you recognize?

A41: Same as Q22 We will recognize the following standards — J-GAAP, US-GAAP, or IFRS — or an alternative accounting standard deemed acceptable by the Exchange. If applicable, audits by audit firms must include and disclose the discrepancies between one and the other among the three standards (i.e., adjusted disclosure).

Q42: Could you tell us how Issuer Filing Information is to be disclosed?

A42: Issuer Filing Information is to be continually posted simultaneously on the Exchange website and on the website normally utilized by the issuing party to disclose information.

Q43: To what degree is the issuer expected to maintain a web presence (website)?

A43: Issuer information is to be disclosed on the Exchange website and the issuer's own

website. We require that the issuer's website be easy to use (from the point of view of the investor), with the information within it easy to find and easy to understand. We also require that issuers link their websites to the Exchange website.

Q44: In what cases would listing fees be incurred. How much would they be?

A44: Listing fees would be incurred upon the disclosure of Program Information and upon the issuance/listing of bonds. No fees would be incurred to maintain the listing.

Program fee is 2m yen, Initial listing fee (In the case where the Applicant has submitted program information and the relevant listing takes place during the expected issuance period specified in the program information.) is the smaller of 1m yen and issue amount* 0.5/10000, and initial listing fee (In all cases other than the above) is 2m yen. However, the amount is discounted to half price until December 31, 2011. Therefore, program fee is 1m yen, initial listing fee (Program) is the smaller of 0.5m yen and issue amount* 0.5/10000, and initial listing fee(In all cases other than the above) is 1m yen.

Maintenance of market order, delisting (Market Listing Regulations 20–24)

Q45: In what sort of instances would a bond be delisted?

A45: As described in Paragraph 1 of Regulation 23, a bond is subject to delisting in any of the following cases — (1) arrival of the final redemption date; (2) acceleration of the final redemption date of bonds and redemption in the full amount; (3) an absorption-type corporate split or new incorporation with succession by a new entity to obligations related to a listed bond issue; (4) a material misstatement by an issuer of listed bonds concerning the Specified Securities Information, Issuer Filing Information, or Annual Securities Report; (5) a call for immediate redemption of listed bonds due to a default event; and (6), further to the above, a determination by the Exchange that delisting is appropriate for the protection of the public interest or for the protection of investors. There may also be cases in which delisting may be taken as a measure against a listed bond issuer for some infraction of rules and regulations (see Regulation 20, Paragraph 2).

Q46: Could one apply for a delisting in a case other than one of the above?

A46: We do not plan to accept applications for delisting in circumstances other than those set out in A44 above.

Trading system (Business Regulations, etc.)

Q47: Would it be permissible to trade listed bonds off market?

A47: Yes. One may trade listed bonds off market just like any other bond.

Q48: What would be the minimum trading unit?

A48: For a yen-denominated bond, the minimum trading unit would be ¥100mn face value. For a bond denominated in a foreign currency, it would be the face value of that series.

Q49: What range of investors do you have in mind?

A49: Only (1) specified investors and (2) nonresidents would be allowed to place orders on the TOKYO PRO-BOND Market. Specified investors are considered to include life insurance companies and other accredited institutional investors, listed companies, joint-stock corporations with at least ¥500mn in capital, and, in addition to the above, other approved corporations, together with approved individuals with net financial assets of at least ¥300mn and at least one year of trading experience* (here, "approved" means that the entity must first seek and obtain approval from a securities company).

Q50: Are nonresidents eligible for the Japanese Bond Income Tax Exemption Scheme introduced by the tax system revision in fiscal year 2010?

A50: Yes, they are eligible for the Japanese Bond Income Tax Exemption Scheme, with a few exceptions.

Q51: Is the Exchange to operate on a presumption that the bond is taxable or that the bond is tax-exempt?

A51: The interest portion of a bond payment may be taxable (for a taxable bond) or tax-exempt (tax-exempt bond). Here, the Exchange will operate on a presumption that all bonds are taxable. If we were to take the other approach and assume that all bonds are tax-exempt, an inability to determine the ownership history of a bond (who held it and when) would mean that when bonds come up for delivery upon a trade, the delivery might include a taxable bond having a history of being acquired off market by a party subject to tax (an individual or a juridical person having a capitalization of ¥100mn or less). In other words, we would be unable to tell if the delivery has any taxable bonds mixed in within it. And, because of that inability, we have no choice but to assume that all bonds are taxable. Given that, we require the amount to be delivered to be (1) the proceeds from the transaction plus (2) the past interest net of tax.

Q52: Are there any limitations on currency with regards to bonds denominated in foreign currencies?

A52: No, there are no special limitations.

Clearance and settlement system (the TOKYO PRO-BOND Market: Trading System and Settlement and Clearance System, etc.)

Q53: How are clearance and settlement to be handled for transactions on the Exchange?

A53: With regards to the buying and selling of domestically issued bonds on the Exchange, clearance and settlement are to be conducted through the Japan Securities Clearing Corporation (JSCC). With regards to the buying and selling of foreign issued bonds on the Exchange, clearance and settlement cannot be conducted through the JSCC, and so those functions are instead to be handled on a one-on-one basis by the securities companies on the buying and selling sides. When a transaction is effected, the Exchange will inform the securities companies that are to act as parties to the clearance, etc.

Q54: How are clearance and settlement to be handled for transactions off the Exchange?

A54: For transactions off the exchange, whether in dealing domestic or foreign-issued bonds, clearance and other such matters are to be handled in a manner determined by the relevant securities companies themselves.

Legal, etc.

Q55: When conducting solicitations for newly listed bonds and listed bonds, how would the limitation on transfer in contracts “limited transfer contracts” required under the Financial Instruments and Exchange Act be handled?

A55: (For newly listed bonds)

When soliciting purchases by specified investors of a bond issue to be listed on the TOKYO PRO-BOND Market, in principle, “limited transfer contracts”(1) between the issuing entity and the investor and (2) between the securities company and the investor are required.

Financial Service Agency (FSA) explains that there are no specific methods that are exclusively suggested for concluding the relevant “limited transfer contracts” and it explains how investors could issue the said documents and how securities companies could conclude contracts for and on behalf of issuers. (No. 6 in Page 5 of the list of answers for the public comments released by FSA on December 2, 2008) With this in mind, an example of a securities company and an investor concluding a contract concerning the bonds to be listed on the TOKYO PRO-BOND Market could be to have a securities company issue a document describing the legally required items for investors. Also, an example of a contract conclusion between an issuer and an investor could be (1) to have the securities company issue a document for investors on behalf of the issuer, or conversely, (2) to have the securities company issue a document for the issuer on behalf of the investor, or (3) to have the securities company stand proxy for both the issuer and the investor. (Subject to consents from the issuer and the investor)

When the above documents are issued, it has to be noted that the administration

burden of each relevant party should not be increased compared to the case of new issuances in the existing publicly offered bonds. Therefore, as for the “limited transfer contract” to be concluded between a securities company and an investor, it could be noted in the relevant document that a comprehensive “limited transfer contract”, which is relevant to all of the issues to be listed on the TOKYO PRO-BOND Market, could be concluded in advance and prior consents from investors could be obtained to render individual contracts unnecessary. With this method, when a securities company conducts a trade for the TOKYO PRO-BOND Market listed bond with an investor who trades on the TOKYO PRO-BOND Market for the first time, it is only necessary to issue the above document. In addition, with regard to the “limited transfer contract” between an issuer and an investor, the investor could grant a comprehensive proxy to a securities company if, for example, the method described in the above (2) is applied.

FSA upholds the position that "The duties of notification for qualified institutional Investors do not require an issuance of a notification per individual trading, provided that a document which comprehensively describes the details of the notification is issued in advance and that consents from the qualified institutional investors are obtained." (No. 4 in Page 5 of the list of answers for the public comments released by FSA on December 22, 2009) This means that a comprehensive notification could be accepted if targeted securities are specified in the relevant document and that consents from investors are obtained to render a notification per individual trading unnecessary. This intention should also apply to the “limited transfer contract” and to the relevant grant of proxy in case of solicitations, etc., of purchases by specified investors. As a means to specify the targeted securities, "TOKYO PRO-BOND Market listed issue" should be sufficient.

Furthermore, the “limited transfer contract” is described as being effective when the contract is concluded between the parties concerned, which also means that the contract format (e.g. whether or not signatures and/ or seals are required) can be decided by the parties concerned.

(For listed bonds)

With regards to OTC (off-Exchange) trading of bond issues listed on the TOKYO PRO-BOND Market, solicitations, etc., for sales to specified investors which are accompanied by a “limited transfer contract” between the soliciting party and the investor are required. Depending on the types of the trade (purchase or sales) made by an investor, an investor may serve as the purchaser (and the securities company will serve as the solicitor) or as the solicitor (and the securities company will be the purchaser).

As for the “limited transfer contract” in this context, basically, it can be deemed as the same as the “limited transfer contract” in case of conducting solicitations of purchases by specified investors. This means that the said contract could be concluded by having a securities company issue a document which describes the legally required items for investors.

With regards to OTC (off-Exchange) trading of the listed bonds, transactions are expected to be conducted frequently and the administrative burden is likely to be increased if a “limited transfer contract” needs to be concluded per individual trading. Therefore, it could be noted in the relevant document that a comprehensive “limited transfer contract”, which is relevant to all of the issues to be listed on the TOKYO PRO-BOND Market, could be concluded in advance and prior consents from investors could be obtained to render individual contracts unnecessary. With this method, when a securities company conducts a trade for the TOKYO PRO-BOND Market listed bond with an investor who trades on the TOKYO PRO-BOND Market for the first time, it is only necessary to issue the above document.

FSA upholds the position that "The duties of notification for qualified institutional Investors do not require an issuance of a notification per individual trading, provided

that a document which comprehensively describes the details of the notification is issued in advance and that consents from the qualified institutional investors are obtained." (No. 4 in Page 5 of the list of answers for the public comments released by FSA on December 22, 2009) This means that a comprehensive notification could be accepted if targeted securities are specified in the relevant document and that consents from investors are obtained to render a notification per individual trading unnecessary. This intention should also apply to the "limited transfer contract" and to the relevant grant of proxy in case of solicitations, etc., for sales to specified investors. As a means to specify the targeted securities, "TOKYO PRO-BOND Market listed issue" should be sufficient.

(Disclosure exempt securities)

The explanations up to the above assume the securities subject to the disclosure rules of corporate bonds, etc. On the other hand, there are securities that are not subject to the disclosure rules of the Financial Instruments and Exchange Act, such as domestic local government bonds, etc. Such bonds are not required to be accompanied by the conclusion of the "limited transfer contract".

Reference documents:

With regards to solicitations of purchases by specified investors: see Article 2, Paragraph 3, Item 2-b (2) of the Financial Instruments and Exchange Act; Article 1-5-2, Paragraph 2, Item 3 of the Enforcement Order of the Financial Instruments and Exchange Act; and Article 12, Item 1-b, and Article 11-2, Paragraph 1 of the Cabinet Order on Regulation of Trading of Marketable Securities.

With regards to solicitations for sales to specified investors: see Article 2, Paragraph 4, Item 2-b (2) of the Financial Instruments and Exchange Act; Article 1-8-2, Item 3 of the Enforcement Order of the Financial Instruments and Exchange Act; and Article 13-6, Item 1-b, and Article 13-5, Paragraph 1 of the Cabinet Order on Regulation of Trading of Marketable Securities.

With regards to the disclosure-exempt securities: see Article 3 of the Financial Instruments and Exchange Act.

Q56: What are the duties of notification regarding a bond listing?

A56: When soliciting purchases by specified investors of a bond issue to be listed on the TOKYO PRO-BOND Market, the party conducting the solicitation must notify the party receiving the solicitation. The notification does not necessarily have to be in writing. However, items to be comprehensively notified regarding all of the issues to be listed on the TOKYO PRO-BOND Market could be described in advance in a document concerning the said "limited transfer contracts" and prior consents from investors could be obtained to render individual notification unnecessary.

Furthermore, with regards to OTC (off-Exchange) trading of bond issues listed on the TOKYO PRO-BOND Market, the party conducting the solicitation is required to notify the party receiving the solicitation. As in the case of the new listings, when the first trading concerning the TOKYO PRO-BOND market listed bonds is to be conducted, items that have to be comprehensively notified and that are relevant to all of the issues to be listed on the TOKYO PRO-BOND Market could be described in the document concerning the "limited transfer contract" in advance and prior consents

from investors could be obtained to render individual notification unnecessary.

Reference documents: see Article 23-13, Paragraph 3, Item 1 of the Financial Instruments and Exchange Act; and Article 14-14-2, Paragraph 2, Item 3, of the Cabinet Office Ordinance on Disclosure of Corporate Information.

Q57: Could you please tell us something about the contents of and system for underwriting examinations and due diligence examinations by securities companies? What duties or restrictions are imposed by the TOKYO PRO-BOND Market regulations?

A57: We do not plan to include within the TOKYO PRO-BOND Market regulations any specific duties with regards to the systems for contents of underwriting and due diligence examinations by securities companies. We intend for securities companies to decide on a case-by-case basis the extent of their examinations in reference to practices on the euro market and other markets.

Relating to this, the TOKYO PRO-BOND Market has the following features.

1. In a case in which the issuing company is a continuous disclosure company (for example, a company that lists on a Japanese exchange), the legal risks based on Articles 17 and 21 of the Financial Instruments and Exchange Act to be borne by the underwriting securities company will be considerably lightened, considering that (1) continual disclosure documents (annual and quarterly financial reports) are not referred within the Specified Securities Information report (equivalent to a Securities Registration Statement or supplemental shelf registration document), but rather the Specified Securities Information report may simply indicate that an Annual Securities Report has been issued, and (2) continual disclosure documents are exempt from the civil liability burden additionally imposed on securities companies by Articles 17 and 21 of the Financial Instruments and Exchange Act (also applies to Specified Securities Information) (in other words, the securities company is not to bear the additional responsibility for the continuous disclosure documents of the issuing company).
2. Regulations imposed by the JSDA on underwriting examinations do not apply.
3. The market is for professionals, not individual investors (other than high-net-worth individuals who are included in the definition of Specified Investors), and thus the TOKYO PRO-BOND Market does not anticipate that securities companies will conduct underwriting and due diligence examinations without considerations of the protection of individual investors. Securities companies do this with an eye to standby underwriting risk (the risk of having to take on the portion of the bonds that remain after an offering) and reputational risk (for example, the risk of price fluctuation by a substantial revision in the contents of disclosures or a material announcement by the issuing company immediately after the issuance).

We are also closely watching the activities of the Global COE Asian Capital Market Legislation Research Group (within the Faculty of Law, Waseda University), the Capital Markets Association for Asia (CMAA), and other researchers as they work toward the proposal regarding establishment of standard administrative practices for underwriting. The

Exchange plans to actively participate in such activities.

Reference documents:

With regards to civil liabilities: see Article 27-33 and Article 21, Paragraph 1, Item 4 of the Financial Instruments and Exchange Act.

With regards to the items to be listed within the Specified Securities Information reports to be disclosed by continuous disclosure companies: see Article 27-31 of the Financial Instruments and Exchange Act and Article 2, Paragraph 2, Item 1 of the Cabinet Office Ordinance on Disclosure of Corporate Information.

With regards to cases in which Issuer Filing Information is not required to be disclosed: see Article 27-32, Paragraph 1 of the Financial Instruments and Exchange Act and Article 8, Paragraph 1, Item 1 of the Cabinet Office Ordinance on Disclosure of Corporate Information.

With regards to the duties of underwriters: see Article 40, Item 2 of the Financial Instruments and Exchange Act and Article 123, Paragraph 1, Item 4 of the Enforcement Order of the Financial Instruments and Exchange Act.

Q58: Is the TOKYO PRO-BOND Market data to be included within Japan Securities Dealers Association (JSDA)'s Reference Statistical Prices (Yields) for OTC transactions?

A58: Bonds issued with the TOKYO PRO-BOND Market system are currently not included within JSDA's Reference Statistical Prices (Yields) for OTC transactions. We continue to discuss the matter, however, with related parties.