

A GUIDE TO EXCHANGE FOREX MARGIN CONTRACT

October 2008

The Financial Futures Association of Japan

In commencing Exchange Forex Margin Contract transaction, you should read this booklet thoroughly and understand what is explained in it.

Exchange Forex Margin Contract transaction may cause a loss due to the fluctuation of the prices of currencies. Even though they may produce substantial profits, Exchange Forex Margin Contract transactions involve the risk of incurring significant losses. Therefore, as you commence or continue trading, in addition to reading this booklet, it is very important that you study the mechanics of transactions and their inherent risks and that you do this at your responsibility only if you believe that the participation to trading is suitable in light of your financial resources, your trading experience, your purpose and other factors.

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Please refer to the attachment in respect of company information.

This booklet is required to be furnished by a financial instruments firm to customers under Article 37-3 of the Financial Instruments and Exchange Law, and covers transactions of Exchange Forex Margin Contract (or "Click 365") which are conducted on the Tokyo Financial Exchange.

* This English version is a translation of the original Japanese text. The original Japanese text will prevail should there be any difference in meaning between the English and Japanese versions.

Risks and Other Important Matters Involved in Exchange Forex Margin Contract Transaction

Exchange Forex Margin Contract transaction may cause a loss due to the fluctuation of the prices of currencies, which are the objects of transaction. When interest rates of currencies which are the objects of transactions and swap points you are receiving turn to be negative figures, you will have to pay swap points. Exchange Forex Margin Contract transaction involves an amount larger than the amount of margins that a customer is required to deposit for the transactions, and therefore, the amount of loss may be larger than the amount of margins.

In the situation that the market prices change abruptly, the spread of bid and offer widens or it is possible that you are unable to make transactions as you wish.

When the trading system or online communication system connecting the exchange with the financial instruments firm and with the customer fails to operate properly, it is possible that you are unable to place, execute, confirm or cancel an order.

We collect fees at the time of order filling. Please refer to the attachment for details.

A customer is not allowed to cancel an order (cooling-off) once it has been filled.

Mechanics of Exchange Forex Margin Contract Transaction

Exchange Forex Margin Contract transaction are conducted on the Tokyo Financial Exchange under the rules established by the exchange.

Customer services for Exchange Forex Margin Contracts by a financial instruments firm are conducted in accordance with such rules (including the decisions and practices of the Exchange; hereinafter the same) as well as with the Financial Instruments and Exchange Act and other relevant laws and orders and the rules of the Financial Futures Association of Japan.

Method of Transaction

14 currencies are traded against Japanese Yen and 11 Cross-Rates are traded on the Tokyo Financial Exchange (hereinafter referred to as "Exchange").

The name, trading unit and minimum price change of each currency traded against Japanese Yen are as follows:

Name of currency	Trading unit	Minimum price change
U.S. Dollar	10,000 U.S. Dollar	0.01 (100Yen)
Euro	10,000 Euro	0.01 (100Yen)
United Kingdom Pound	10,000 United Kingdom Pound	0.01 (100Yen)
Australia Dollar	10,000 Australia Dollar	0.01 (100Yen)
Canada Dollar	10,000 Canada Dollar	0.01 (100Yen)
Switzerland Franc	10,000 Switzerland Franc	0.01 (100Yen)
NZ Dollar	10,000 NZ Dollar	0.01 (100Yen)
Turkey Lira	10,000 Turkey Lira	0.01 (100Yen)
Poland Zloty	10,000 Poland Zloty	0.01 (100Yen)
South Africa Rand	100,000 South Africa Rand	0.005 (500Yen)
Norway Krone	100,000 Norway Krone	0.005 (500Yen)
Hong Kong Dollar	100,000 Hong Kong Dollar	0.005 (500Yen)
Sweden Krona	100,000 Sweden Krona	0.005 (500Yen)
Mexico Peso	100,000 Mexico Peso	0.005 (500Yen)

The listing of Turkey Lira and Mexico Peso among currencies traded

against Japanese Yen is postponed for the time being.

The currency pair, trading unit and minimum price change of each Cross-Rate are as follows:

Currency pair	Trading unit	Minimum price change
Euro/ U.S. Dollar	10,000 Euro	0.0001 (1 U.S. Dollar)
United Kingdom Pound/ U.S. Dollar	10,000 United Kingdom Pound	0.0001 (1 U.S. Dollar)
Australia Dollar/ U.S. Dollar	10,000 Australia Dollar	0.0001 (1 U.S. Dollar)
NZ Dollar/ U.S. Dollar	10,000 NZ Dollar	0.0001 (1 U.S. Dollar)
U.S. Dollar/ Canada Dollar	10,000 U.S. Dollar	0.0001 (1 Canada Dollar)
United Kingdom Pound/ Switzerland Franc	10,000 United Kingdom Pound	0.0001 (1 Switzerland Franc)
U.S. Dollar/ Switzerland Franc	10,000 U.S. Dollar	0.0001 (1 Switzerland Franc)
Euro/ Switzerland Franc	10,000 Euro	0.0001 (1 Switzerland Franc)
Euro/ United Kingdom Pound	10,000 Euro	0.0001 (1 United Kingdom Pound)
United Kingdom Pound/ Australia Dollar	10,000 United Kingdom Pound	0.0001 (1 Australia Dollar)
Euro/ Australia Dollar	10,000 Euro	0.0001 (1 Australia Dollar)

These currencies and Cross-Rates are traded by the same methods as follows.

- a. Contract day trading means a trading for which every trading day is the last trading day. Open positions which were not closed on any trading day extinguish at the end of the matching session and, simultaneously, new positions for the following trading day are created with the same details as the extinguished positions. Such extinction and creation of open positions are called roll-over.

- b. A roll-over results in the accrual of cash value of interest rate differential (swap points) if such interest rate differential exists for the two currencies composing the pair.
- c. The open positions are cash settled by the first-in first-out method or designation settlement method .
- d. The settlement day is in principle a calendar day to which the opening of the matching session on the second trading day after the day of the transaction belongs. *Provided*, That the Exchange will give a notice if such settlement day is deferred because such calendar day falls on a holiday of banks in Japan, the mother market for the foreign currency of a currency pair or the U.S. market.

Margining

(1) Margin Calculation Method

The flat margining system is used in the calculation of margins. If there are long positions and short positions for the same pair of currencies, only larger positions either long or short are subject to the computation of margins.

The flat margining system calculates margin requirements by making an addition or deduction of accumulated mark-to-market valuation profit or loss and accumulated settlement profit or loss and accumulated swap points accrued as a result of roll-over to or from the amount calculated by multiplying the position volume by Yen currency amount prescribed by the Exchange per one contract.

(2) Deposit of Margin

There are financial instruments firms who require their customers to deposit order placement margins for the amount specified by the financial instruments firms when the customers place orders for Exchange Forex Margin Contracts.

Note: If there are other unsettled transactions, the following (3) will apply.

(3) Maintenance of Margin

When the amount of margin requirement calculated by the Exchange for open positions each trading day exceeds the amount of trading margins on deposit, the customer is required to make a deposit with the financial instruments firm for an amount of at least the difference between the margin requirements

and the margins on deposit no later than the date and time specified by the financial instruments firm in the manner prescribed by the Exchange.

(4) Deposit of Margin in the form of Securities, etc.

Securities, etc. cannot be used as margins.

(5) Valuation Profit or Loss and Swap Points

If the total amount of accumulated mark-to-market valuation profit or loss and settlement profit or loss as a result of the closing of open positions and accumulated swap points accrued as a result of a roll-over is a positive figure, the amount equivalent to such total amount is reduced from the amount of margin requirements. If such total amount is a negative figure, the amount equivalent to such total amount is added to margin requirements.

(6) Withdrawal of Margin

If the total amount of margins on deposit and settlement profits exceeds the amount specified by the financial instruments firm, which must be equal to or more than the amount prescribed by the Exchange as the basis of withdrawal, the customer may withdraw cash with limits of no more than such excess amount.

(7) Loss Cut

If the amount of loss has reached a certain level relative to the amount of margins on deposit, the financial instruments firm may make resale or repurchase in the customer's account in order to prevent further increase of the loss. Such loss cut may not protect a customer from suffering a loss more than the amount of margins if the market price moves rapidly.

(8) Failure of Depositing Margin within Time Limit

If a financial instruments firm has called margins and a customer has failed to deposit margins within a stipulated time limit, the firm may, at the firm's discretion, make resale or repurchase in the customer's account in order to settle such Exchange Forex Margin Contract transaction. (The same will apply in the case where a customer fails to make the payment due to a financial instruments firm in connection with a financial instruments transaction.)

(9) Return of Margin

A financial instruments firm will return to a customer the amount prescribed by the Exchange as the amount that the financial instruments firm must return

without delay when a customer requests the return of margins on deposit for the amount after adding settlement profit and deducting the amount that the customer owes to the financial instruments firm after the settlement of Exchange Forex Margin Contract transaction.

(10) Other Information

The above explanation of margining will apply in cases where a financial instruments firm acts as a broker for an order of Exchange Forex Margin Contracts. For details concerning margining, ask your financial instruments firm.

Payment and Receipt of Money upon Settlement

When an Exchange Forex Margin Contract is closed, the amount calculated according to the following computation method is added to or deducted from the amount of margins on deposit for each pair of currencies. Withdrawal of cash or additional deposit of margin is made in accordance with " **Margining (6) Withdrawal of Margin**".

$$\begin{aligned} & \{ 10,0000 \text{ currency units}^* \times \text{trade price differential (Yen)} \\ & + \text{accumulated swap points} \} \times \text{trading volume} \end{aligned}$$

* In the case of South Africa Rand, Norway Krone, Hong Kong Dollar, Sweden Krona and Mexico Peso, 100,000 currency units.

Note: Trade price differential means the difference between the trade price of a resale or repurchase and the trade price of the original purchase transaction or the original sale transaction which has been offset by the resale or repurchase. In the case of the currency of Cross-Rate transactions, Yen amount is fixed at the clearing price of the currency against Yen on the day on which the transactions is closed.

Transaction Restrictions

You should be aware that, when the Exchange recognizes that trading on the market is irregular or that there is a threat that such trading will become irregular, the Exchange may take restrictive measures such as the following.

- a. The amount of margin may be increased.
- b. Trading volume, open positions or order volume may be restricted.

- c. There may be suspension or cessation of trading.
- d. Trading session may be changed temporarily.

Tax on Profit

Profit arisen from Exchange Forex Margin Contract transaction (trading profit arising from closing transaction and swap point revenue) is subject to self-assessed separate taxation as "sundry income." Therefore, a customer is required to submit an income tax report. Tax rate is fixed at 15% for income tax and 5% for local tax.

Please ask professionals as a certified public tax accountant for details.

Procedures for Placing Orders with Financial Instruments Firms

When, as a customer, you place an order with a financial instruments firm for Exchange Forex Margin Contract, you are advised to follow the procedures outlined below.

(1) Commencement of Transactions

a. Receipt of this booklet

First, you will receive this booklet from your financial instruments firm. You should fully understand the mechanics of Exchange Forex Margin Contract transaction and their risks, and provide to the firm a written acknowledgment mentioning that you will conduct transactions in your judgement and at your responsibility.

b. Establishment of an Forex Margin Contract Account

When you begin Exchange Forex Margin Contract transaction, you are required to submit in advance an agreement regarding the establishment of a Forex Margin Contract Account to your financial instruments firm for establishing such account. At the same time, you may be required to show the documents of your identification to the firm.

c. Submitting an intermediary agreement

When you request your financial instruments firm to act as an intermediary for placing an order for Exchange Forex Margin Contract, you are required to submit in advance an intermediary agreement to the firm.

(2) Deposit of Order Placement Margins

When you place an order for Exchange Forex Margin Contract, you may be required in advance to deposit stipulated margins with your financial instruments firm. The financial instruments firm will furnish receipts to customers when the firm has received the margins.

(3) Instruction at the time of Placing Orders

When you place an order for Exchange Forex Margin Contracts, you are required to provide accurate instructions to your financial instruments firm during the business hours of the firm with regard to the following matters or to

make accurate input on a screen of an order placement system provided by your financial instruments firm:

- a. the name of the financial instruments exchange listing the contract you are going to place an order for (in this case, the Tokyo Financial Exchange);
- b. a pair of currencies for which you are going to place an order;
- c. sale or purchase;
- d. volume;
- e. the price (such as limit order and market order);
- f. the life of the order; and
- g. other instructions that a customer should give at the time of placing the order (such as the case where you place a set of orders with different ordering methods).

(4) Holding of or Method to Close Open Positions

When a transaction to offset existing open positions are concluded, the customer chooses whether to treat such transaction as resale or repurchase and to reduce the volume of such transaction from the open positions by the first-in-first-out method or to establish new open positions opposite to the existing open positions and, later, to designate and reduce the open positions ("designation settlement method"). If a customer chooses the designation settlement method, the customer is required to deposit larger amount of margins than choosing resale or repurchase for the period until the designation.

(5) Conclusion of Transactions for which You Placed Orders

When your order has been filled, your financial instruments firm will furnish you with a transaction report showing the details of the transaction concluded.

(6) Maintenance of Margin

When an Exchange Forex Margin Contract transaction is concluded for a customer's order, the order placement margins are converted into trading margins. If margins are short, you are required to deposit additional margins.

(7) Customer Service Fee

A financial instruments firm will collect customer service fee at such rate or amount and in such manner as agreed in advance with a customer. (See the attachment.)

(8) Consumption Tax

Consumption tax is collected together with the customer service fee.

(9) Report of Trading Balance, Open Positions, Margin, etc.

A financial instruments firm will, in order to help a customer to confirm the state of trading, prepare and furnish, each time of conclusion of transaction if a customer requests, quarterly if a customer does not request (if there is no concluded transaction, annually; hereinafter such period is referred to as "reporting period"), a customer with a report of the details of transactions concluded during the reporting period and the balance of positions and other unsettled accounts as of the last day of the reporting period.

(10) Furnishing of Statements by Electronic or Magnetic Method

If you agree with the receipt of statements from the financial instruments firm by an electronic or magnetic method, you are requested to give a consent in writing or by an electronic or magnetic method.

(11) Procedures for Position Transfer, etc. in the Event of Suspension, etc. of Firm's Trading

In the event that a financial instruments firm who is a trading member of the Exchange has been suspended from trading or imposed other penalties by the Exchange for reasons of insolvency, etc. and the Exchange decided to transfer or close unsettled positions held for such firm's customers, each customer of such firm is requested to:

- a. make an offer to and obtain the consent from another financial instruments firm who is a trading member of the Exchange to become a transferee of the positions, and open a Forex Margin Contract Account with such transferee financial instruments firm, if the customer wishes to transfer the positions; or
- b. give an instruction to the financial instruments firm who was suspended from trading or imposed other penalties to close the positions, if the customer so wishes.

If a customer does not take any of the procedures a. or b. above by the date and time specified by the Exchange, the Exchange will liquidate the positions for the customer's account.

Each customer's margin and settlement profit has been kept on deposit with

the Exchange directly and, therefore, will be returned to each customer from the Exchange or the transferee financial instruments firm to such extent in accordance with the rules and regulations of the Exchange.

(12) Other Information

Please be sure to check the contents of notices or reports from your financial instruments firm, and if you find they are incorrect or doubtful, you are advised to make an immediate inquiry directly to the firm's manager responsible for these matters.

Please ask your financial instruments firm for further information about the mechanics of Exchange Forex Margin Contract transaction, the procedures for placing orders, etc.

Important Terms used in Exchange Forex Margin Contract Transactions

Additional Margin

An amount of money to be additionally deposited when, due to a daily change in the market price, the amount of margins on deposit drops under the amount required to maintain the customer's open positions.

Balanced Positions

Simultaneous holding of long positions and short positions for the same products.

Cash Settlement

A method of settling futures transactions or options transactions by paying or receiving cash value based on the computed profits or losses without delivering the underlying assets.

Contract Day Trading

With respect of Exchange Forex Margin Contract, a trading for which every trading day is the last trading day. Open positions which was not offset during the trading day are carried forward to the next trading day.

Delivery Settlement

A method of settling futures transactions or options transactions by delivering the underlying assets in exchange for consideration on the settlement date of such transactions. Delivery settlement is not available for Exchange Forex Margin Contract.

Designation Settlement Method

When a transaction to offset existing open positions is concluded for the same Exchange Forex Margin Contract, a customer chooses to hold the balanced positions of the new position and the existing open positions, and later the cus-

customer designates open positions to be closed. Such method to reduce positions is called designation settlement method.

Financial Instruments Firm

A person registered under the Financial Instruments and Exchange Act to engage in the business handling financial instruments transactions including Exchange Forex Margin Contract transactions.

First-In-First-Out Method

A method to reduce the open position established first when a transaction to offset existing open positions are concluded.

Hedging Transaction

A transaction of taking positions in a futures market opposite, in terms of risk, to assets or liabilities which are now held or will be held in the future in order to reduce the risk involved in price fluctuation of such assets or liabilities.

Limit Order

An order in which a customer specifies the limit of price (the lowest price when selling or the highest price when purchasing). On the contrary, an order in which a customer does not specify any price in advance is called market order.

Loss Cut

A compulsory settlement by a financial instruments firm, at the time when a loss of a customer has reached a pre-determined level, for the purpose of risk control.

Margin

Guarantee money deposited for the purpose of insuring the contract fulfillment for futures or options transactions.

Mark-to-Market

Procedures for the revaluation of open positions based on the settlement price established by the Exchange in order to reflect a daily change in market prices.

Purchase Transaction; Long Position

A transaction in which a customer purchases futures or options is called a purchase transaction. In the case of Exchange Forex Margin Contracts, a profit arises if the trade price for resale is higher than the trade price for the original sale transaction, or a loss arises if the trade price for resale is lower than the trade price for the original sale transaction. An unsettled purchase transaction is called a long position.

Repurchase

A purchase transaction to offset (decrease) a short position.

Resale

A sale transaction to offset (decrease) a long position.

Roll-over

Carrying forward of open positions of Exchange Forex Margin Contracts, which were not offset during the trading day, to the next trading day.

Sale Transaction; Short Position

A transaction in which a customer sells futures or options is called a sale transaction. In the case of Exchange Forex Margin Contracts, a profit arises if the trade price for repurchase is lower than the trade price for the original sale transaction, or a loss arises if the trade price for repurchase is higher than the trade price for the original sale transaction. An unsettled sale transaction is called a short position.

Settlement Price

The price determined by the Exchange after the close of a trading session for the purpose of mark-to-market.

Specific Investor

An eligible institutional investor, the national government, the Bank of Japan, etc. which are deemed to have professional knowledge and experience of investment in securities including Exchange Forex Margin Contracts transactions. An individual satisfying certain criteria may request to be treated as a specific investor and a certain specific investor may request to be treated as a customer other than a specific investor.

Swap Points

Roll-over of Exchange Forex Margin Contracts is deemed to be effectively equivalent to borrowing of sold currency and lending of purchased currency for the period from the settlement day for the trading day until the settlement day for the next trading day. The implicit amount calculated on the basis of the interest rate differential of currencies to adjust such differential is called swap points in the case where the settlement day is carried forward by a roll-over.

Trading Day

A trading day as defined by the Tokyo Financial Exchange begins with the opening of the trading session of a business day and ends with the close of the trading session. A trading day dates on the date of such business day.

Trading Session

Exchange Forex Margin Contract transactions of the Tokyo Financial Exchange take place in a session determined by the Exchange.

(Contact)

Your inquiry about Exchange Forex Margin Contracts will be answered at the above contact.

Remarks on Furnishing of Guide to Exchange Forex Margin Contract

1. The trade name and registration number should be printed on the front cover.
2. An association member shall explain in an attachment about the rate or amount of and manner to collect customer service fee and other fees.
3. If an association member collects fees for closing open positions by the designation settlement method, the association member shall state such fact in the frame, and further insert the statement of "we collect fees at the time of reducing open positions by the designation, and therefore such customer pays duplicated fees, and" after "if a customer chooses the designation settlement method," in "(4) Holding of or Method to Close Open Positions" of "Procedures for Placing Orders with Financial Instruments Firms."
4. An association member shall explain in an attachment about the outline of the financial instruments firm and the summary of types of business and manner of operations of financial instruments business carried out by the financial instruments firm (excluding the matters stated in this Guide).

Example: history, date of establishment, amount of capital, location of the principal business office, other business engagements, contact for grievances and membership of all of associations or recognized investor protection organizations.
5. An association member may furnish a customer with the contents of this booklet by the method using an electronic data processing and network system or other method using information technology after obtaining a consent from the customer
6. Matters that an association member is required to state under the laws and regulations:
 - (1) a customer should read fully (at the top);
 - (2) particularly important matters which influence the judgment of customers (in the frame);
 - (3) the summary of fees (in the frame);
 - (4) possibility of loss arising from movement of interest rate, price of cur-

- rency, etc (in the frame);
- (5) possibility that the amount of loss under (4) exceeds the amount of margins on deposit (in the frame);
 - (6) the name of the exchange;
 - (7) whether cancellation of a contract is allowed or not (in the frame);
 - (8) the trade name and location of an association member;
 - (9) the statement that it is a financial instruments firm and the registration number;
 - (10) Indices to cause losses directly and the reasons therefor;
 - (11) if the amount of loss under (10) may exceed the amount of margins on deposit, the indices to cause such loss directly and the reasons therefor;
 - (12) The summary of taxation;
 - (13) if the transaction is subject to loss cut rules, the details (including the possibility of loss exceeding the amount of margin on deposit);
 - (14) if a customer is allowed to cancel a contract, the details and the summary of method;
 - (15) company information of an association member;
 - (16) the outline of types of business and manner of operation of financial instruments business carried out by an association member;
 - (17) method to communicate with an association member by a customer;
 - (18) with respect to margins, the amount, ratio to the notional principal amount, computation method, types of, prices applicable to and method to deposit and return securities to be used as margin, minimum margin and additional margin;
 - (19) method to fulfill liabilities and settlement method;
 - (20) method to collect fees;
 - (21) matters regarding procedures for acceptance, etc. of orders.