

OVER-THE-COUNTER BINARY OPTION TRANSACTION WITH INDIVIDUALS BUSINESS CONDUCT RULES

Adopted July 18, 2013

CHAPTER I. GENERAL PROVISIONS

Article 1. – Purposes

The purposes of these Rules shall be, under Article 25-5 of the Financial Futures Business Conduct Rules (hereinafter referred to as "Business Conduct Rules"), to provide for requirements for specifications and other matters required for implementation of Members' business conduct system regarding Members' over-the-counter binary option transactions with an individual customer as the counterparty which have the structure to facilitate continuous and repeated transaction (hereinafter referred to as "over-the-counter binary option transaction with individuals") in order to promote the protection of investors and appropriate business.

Article 2. – Definition

The term referred to in each of the following items, as used in these Rules, shall be defined as provided in such item:

- (1) over-the-counter binary option transaction – an option transaction, as defined in (3) or (4) of Article 2.22 of the Financial Instruments and Exchange Act (hereinafter referred to as "Act"), in which the parties agree that, if the exercise price and judgment price have satisfied a certain predetermined conditions, one of the parties grants to the other party a right to receive a certain amount of money, and the other party pay considerations therefor;
- (2) underlying assets – the following financial instruments or financial indices which are objects of the rights under (3) or (4) of Article 2.22 of the Act:
 - ① a claim, etc. under a money deposit contract (limited to those provided in Article 2.24 (2) of the Act);
 - ② a currency (Article 2.24 (3));
 - ③ an interest rate index (among financial indices (Article 2.25 of the Act), an interest rate, etc. of a claim, etc. under a money deposit contract (Article 2.25 (1) of the Act) or a value computed based on an interest rate, etc. of a claim, etc. under a money deposit contract (Article 2.25 (4) of the Act); limited, however, to an option transaction as defined in Article 2.22 (3) (b));
 - ④ a currency index (among financial indices, the price of a currency (Article 2.25 (1))) or a value computed based on the price of a currency (Article 2.25 (4)).
- (3) price of underlying assets – the price or value of underlying assets;
- (4) exercise price – at the time of the exercise by an acquirer of an over-the-counter binary option traded with individuals, the price of underlying assets determined in advance as a condition for the exercise in order to fix the amount of payout;
- (5) judgment price – the price of underlying assets used for the judgment whether conditions for payout are met after checking with the exercise price;
- (6) payout – payment of money from the grantor of an over-the-counter binary option traded with individuals to the acquirer if conditions for payout determined in advance have been met under the contract of the over-the-counter binary option transaction with individuals;
- (7) payout amount – the amount of money paid for payout;
- (8) trading period – period from the time of the commencement of trading of an over-the-counter binary option transaction with individuals between a Member and a customer until the judgment time.

* 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.

CHAPTER II SPECIFICATIONS FOR TRADING, ETC.

Article 3 – Trading Period

3.1 A Member shall, with respect to an over-the-counter binary option transaction with individuals, determine the base hour for a trading period (hour) and ensure that trading periods for all over-the-counter binary option transactions with individuals shall not be shorter than the base hour.

3.2 A Member shall, if the Member conducts multiple over-the-counter binary option transactions with individuals (limited, however, to transactions with the same underlying assets) with different trading periods, establish the closing time of each trading period for each trade in a time span of at least the base hour under Article 3.1.

Article 4 – Term of Trading

A Member shall, with respect to an over-the-counter binary option transaction with individuals, endeavor to implement the execution system of trading to facilitate responding to a customer's order placement of purchase or sale (including an order for transactions to establish new position) from the commencement time of trading until the judgment time.

Article 5 – Trading Method

A Member shall, with respect to an over-the-counter binary option transaction with individuals, implement the system to trade with a customer by at least one of the following methods:

- (1) the method to provide a customer with an opportunity to conduct purchase transactions to establish new positions and sale transactions to establish new positions simultaneously using over-the-counter binary options traded with individuals with the same underlying assets, trading period and exercise price;
- (2) other method to use the structure of deleting conditions that all customers suffer losses at once and trade with a customers.

Article 6 – Quoting of Trade Price, etc.

6.1 A Member shall, with respect to an over-the-counter binary option transaction with individuals, implement a structure to determine, based on the reasonable ground, the trade price to quote to a customer and conclude a transaction.

6.2 A Member shall implement a structure to facilitate that a customer can confirm simultaneously the purchase price and the sale price quoted by the Member.

6.3 A Member shall implement a structure to fix the amount of payout and quote to a customer trading prices reflecting a change of the value of an over-the-counter binary option traded with individuals during the trading period.

Article 7 – Timing of Determination of Exercise Price

7.1 A Member shall, with respect to an over-the-counter binary option transaction with individuals, determine the exercise price no later than the commencement of a trading period and quote the same exercise price to all customers.

7.2 A Member shall not add an exercise price during a trading period if:

- (1) a transaction can be made with a customer smoothly by any of exercise prices already available for transactions during the remaining hour of the trading period;
- (2) the remaining hour of the trading period is shorter than the base hour provided in Article 3.1 as at the time of adding an exercise price; or
- (3) an explanation to the effect that an exercise price may be added has not been given to a customer in advance.

Article 8 – Establishment of Exercise Prices

8.1 A Member shall, with respect to an over-the-counter binary option transaction with individuals, set up establishment criteria of exercise prices and implement the system to facilitate the determination of exercise prices which do not differ from the price of underlying assets as at

the time of the commencement of a trading period.
8.2 In the case of adding an exercise price, "time of the commencement of a trading period" shall be read as "time of addition of an exercise price".

CHAPTER III Business Control

Article 9 – Publication of Summary of Specifications

9.1 A Member shall, with respect to an over-the-counter binary option transaction with individuals, publish the summary of specifications required to be stated in a trading guide and other matters for a customer to understand in advance in order to conduct transactions appropriately.
9.2 A Member shall inform all customers of explanation of matters published pursuant to Article 9.1 and information to contribute to customers' understanding and endeavor to promote customers' understanding.

Article 10 – Advertisement Examination

10.1 In making an advertisement for an over-the-counter binary option transaction with individuals, the Member shall confirm that such advertisement provides customers with knowledge required for conducting such transaction and that the advertisement is made in a manner to contribute to customers' appropriate investment.
10.2 In using an affiliate advertisement for an over-the-counter binary option transaction with individuals, the Member shall implement the system to confirm fully contents used by the Member based on advertisement examination criteria under Article 10.1 and endeavor to use an affiliate advertisement appropriately.
10.3 A Member shall restrain from an advertisement attitude such as offering premiums to a customer for conducting an over-the-counter binary option transaction with individuals which may cause preventing such customer from making self-controlled investment judgment.

Article 11 – Criteria for Commencement of Trading

11.1. A Member shall include the following matters in criteria for the commencement of trading (which mean criteria provided in Article 7 of the Business Conduct Rules) for customers of over-the-counter binary option transactions with individuals:
(1) years of investment experience regarding derivatives transactions;
(2) knowledge of the customer regarding over-the-counter binary option transactions;
(3) the holding amount of financial assets and revenue;
(4) purpose of investment;
(5) the limit of trade and limit of loss declared by the customer; and
(6) other matters necessary for a Member to judge the suitability of a customer for over-the-counter binary option transactions with individuals.
11.2 A Member shall collect information of a customer referred to in the items of Article 11.1 from each customer who offers the commencement of trading and judge whether it is suitable to commence trading.
11.3 A Member shall establish criteria specifically such as using values for judgment in respect of the matters referred to in the items of Article 11.1, and ensure that the Member shall not conduct transactions with a customer if the customer fails to meet the criteria.
11.4 In confirming the knowledge of a customer as provided in Article 11.1 (2), the Member shall use the specific method of conducting a question-and-answer session with the customer.
11.5 A Member shall include information of a customer referred to in the items of Article 11.1 in a customer card (which means a card provided in Article 6.1 of the Business Conduct Rules).
11.6 A Member shall control information registered in the customer card under Article 11.5 in accordance with the following items:
(1) when a customer demands a change in information registered by the customer, the Member shall accept it as needed and make a change necessary;
(2) the Member shall fix a period to demand a customer to reconfirm the registered information and enforce it.
11.7 A Member shall establish procedures for establishing and amending the criteria related to the items of Article 11.1 and retain the established criteria in writing.

Article 12 – Confirmation of Basic Knowledge

12.1 A Member shall, with respect to an over-the-counter binary option transaction with individuals, establish the following matters and the details thereof specifically as knowledge level of each customer to be confirmed pursuant to the provisions of Article 11.4 and provide the customer with an opportunity to learn such knowledge prior to the customer's placing an order for transactions:

- (1) matters provided in Article 9 and explanation, etc.;
- (2) matters regarding risks associated with an over-the-counter binary option transaction with individuals;
- (3) matters equivalent to basic knowledge of option transactions; and
- (4) matters equivalent to basic knowledge necessary for a customer to conduct an over-the-counter binary option transaction with individuals appropriately.

12.2 A Member shall, if the Member has determined that the customer lacks knowledge or understanding for matters referred to in the items of Article 12.1, not continue the procedures for an order placed by the customer of an over-the-counter binary option transaction with individuals.

Article 13 – Trading Guide

A Member shall, with respect to an over-the-counter binary option transaction with individuals, include the following matters in a trading guide furnished to a customer or materials attached to said guide:

- (1) explanation provided in Article 9.2; and
- (2) explanation regarding matters stated in the acknowledgment as provided in Article 14.1.

Article 14 – Collection of Acknowledgment

14.1 The provisions of Article 8-2.1 of the Business Conduct Rules shall apply to an over-the-counter binary option transaction with individuals: For this purpose, "over-the-counter financial futures transactions" in said Article 8-2.1 shall be read as "over-the-counter binary option transaction with individuals".

14.2 A Member may, with respect to an acknowledgment to be collected from a customer pursuant to the provisions of Article 14.1, keep from collecting an acknowledgment for the same type of transactions conducted with the customer within one year from the day of collecting an acknowledgment.

14.3 A Member shall include the following matters in an acknowledgment collected from a customer pursuant to the provisions of Article 14.1: *Provided*, That matters which do not correspond to an over-the-counter binary option transaction with individuals offered by the Member shall be excluded:

- (1) there is a due date;
- (2) if a customer holds a long position and the prediction goes wrong as of the judgment time, the invested principal amount will become zero value;
- (3) if a customer holds a short position and the prediction goes wrong as of the judgment time, the customer is required to pay the payout amount, and further, such payout amount will exceed the trade price that the customer has received and will cause loss;
- (4) a firm takes, as a source of earnings, the difference between the total amount of all customers' payment and the total amount of all customers' receipt;
- (5) a customer needs professional knowledge such as theoretical ground of option transactions in order to make reasonable investment judgment;
- (6) matters referred to in the items of Article 8-2.1 of the Business Conduct Rules; and
- (7) other matters particularly to be kept in mind.

14.4 A Member shall clarify in an acknowledgment the place in respect of the items of Article 13 where the specific details regarding the matters under Article 14.3 are stated in a trading guide or materials attached to such guide in order to ensure that a customer can easily find them.

Article 15 – Establishment and Control of Criteria for Trading

15.1 A Member shall, with respect to an over-the-counter binary option transaction with individuals, establish criteria under Article 19 of the Business Conduct Rules (hereinafter referred to as "house criteria") specifically.

15.2 A Member shall classify customer attributes based on matters referred to in Article 11.1 and other information regarding customers required for the Member to conduct transactions with the customers and establish criteria under Article 15.1

15.3 Criteria under Article 15.1 shall be established to contribute to the prevention of excessively speculative transaction by customers and excessive loss of customers.

15.4 A Member shall use the amount determined pursuant to the house criteria in the case where the amount declared by a customer pursuant to Article 11.1 (5) (hereinafter referred to as "customer declared amount") is larger than the amount determined pursuant to the house criteria and use the customer declared amount in the case where the customer declared amount is smaller than the amount determined pursuant to the house criteria, and implement the system to control transactions with such customer appropriately.

15.5 A Member shall, if the amount of trading or the amount of loss exceeds the amount used pursuant to Article 15.4, give an alert to such customer regarding trading conditions in a timely manner and implement the system to take measures necessary for the customer protection appropriately such as dissolving transactions if trading conditions of such customer fails to improve.

15.6 An officer, etc. in charge of internal control of a Member shall review whether the control system of transactions with customers under Article 15.5 is implemented appropriately.

Article 16 – Execution of Transactions

16.1 A Member shall not, with respect to an over-the-counter binary option transaction with individuals, suspend or delay transactions with customers without special reasons.

16.2 A Member shall simulate the reason under Article 16.1 and explain the summary thereof to customers in advance.

16.3 In the event of suspension or delay of an over-the-counter binary option transaction with individuals, the Member shall publish the fact and the reason for the occurrence in order to inform all customers concerned in a timely manner and assess the trading conditions as at the occurrence and endeavor to prevent reoccurrence.

16.4 A Member shall retain the result of assessment under Article 16.3 in writing.

16.5 An officer, etc. in charge of internal control of a Member shall implement the system to make assessment under Article 16.3.

16.6 An internal audit division of a Member shall confirm the structure of assessment under Article 16.3 and the appropriateness thereof, and supervise the effort to prevent reoccurrence.

Article 17 – Review of Price, etc.

17.1 A Member shall, with respect to an over-the-counter binary option transaction with individuals, review whether the trade prices quoted to customers and concluded are appropriate under Article 6.1.

17.2 A Member shall review that values distributed in error or fraudulent values as a result of arbitrary manipulation are not used to determine the judgment price of an over-the-counter binary option transaction with individuals

17.3 A Member shall retain the result of review under Articles 17.1 and 17.2 in writing.

17.4 An officer, etc. in charge of internal control of a Member shall implement the system to review pursuant to the provisions of Article 17.1 and 17.2 appropriately.

17.5 An internal audit division of a Member shall confirm the appropriateness of the structure of review under Article 17.1 and 17.2 and the details thereof.

Article 18 – Publication of Trading Result

A Member shall, with respect to an over-the-counter binary option transaction with individuals, endeavor to publish the following matters for each type of an over-the-counter binary option transaction with individuals regarding the overall state of trading with customers conducted within a certain period:

- (1) the ratio of the total amount that customers have received to the total amount that customer have paid;
- (2) the ratio of the number of customers who suffered losses to the number of customers who traded.

CHAPTER IV MISCELLANEOUS PROVISIONS

Article 19 – *Mutatis Mutandis* Application

The provisions of Articles 25-2 to 25-4 of the Business Conduct Rules shall apply to an over-the-counter binary option transaction with individuals: For this purpose, "foreign exchange margin transaction" shall be read as "an over-the-counter binary option transaction with

individuals".

Supplementary Provisions

These Rules shall take effect on August 1, 2013.

Notwithstanding the provisions of these Rules (excluding Articles 9, 10 and 18) , these Rules shall become applicable to a Member who is engaged in business of over-the-counter binary option transactions effectively as of the enforcement of these Rules on and after December 1, 2013.

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