

(ORANGE BOOK 2013 EDITION)

CODE OF CONDUCT

(2013 Edition)

TOKYO FOREIGN EXCHANGE MARKET COMMITTEE

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FOREWORD

Five years after the publication of the previous *2008 Revised Version of Code of Conduct (Orange Book)*, we are now publishing the *2013 Revised Version of Code of Conduct (Orange Book)* on foreign exchange transactions. We commenced revising the *2008 Revised Version of Code of Conduct* in April 2012 mainly with the Subcommittee on Code of Conduct of the Tokyo Foreign Exchange Market Committee. Since the publication of the *2008 Revised Version of Code of Conduct*, the external environment has greatly changed.

Since the Lehman Brothers' bankruptcy in 2008, a proposal to "reinforce a system of international financial regulations" was adopted by the G20 Pittsburgh Summit held in September 2009. After that, many countries and regions reviewed and introduced new financial regulatory systems from various viewpoints. When it comes to foreign exchange markets, maintaining the fairness and transparency of transactions leads to the development of a sound market environment and is in the public's interest. In preparing this revised version, we were aware of the needs to ensure thorough compliance with laws and regulations, the importance of the Code of Conduct, and the needs to manage market transaction business and reinforce the control system, making it stronger than ever before.

Since we have commenced revising the Code of Conduct, a proposal of "Codes of Best Market Practice and Shared Global Principles" was adopted by the global meeting of the Foreign Exchange Market Committee held in 2013, and a decision to establish the Code of Conduct for each region taking the following five points into consideration was shared:

- develop and promote a strong culture of ethical behaviour and standards of conduct;
- promote awareness and use of general trading practices, procedures and conventions;
- ensure accurate and timely pre-trade preparation and trade capture;
- support robust and efficient back office operations including confirmation, netting, payment and settlement; and
- mitigate risk in foreign exchange transactions from the point of execution to settlement.

In such a changing external environment, we confirmed the direction in which this revised version should head and proceeded to prepare it in accordance with the following basic policy:

1. Target
Interbank market participants. Specifically, banks, securities companies, brokerage firms and the like.
2. Purpose
Contributing to the development and maintenance of a sound foreign exchange market.

3. Content

Principles of the code of conduct and code of ethics with which persons involved in foreign exchange transactions should comply. Principles that contribute to the “Purpose” are described in more detail from the viewpoint of the Best Practices.

4. Scope

Not only the front office operation but also the operation of each department such as the back office, middle office and audit department was newly added. In addition, matters concerning E-commerce trading, prime brokers and submission and setting of market prices were added.

5. Global Consistency

In order to prevent this Code of Conduct from being a code of conduct and a code of ethics that are only applicable to the Tokyo market in the environment where foreign exchange business is developing in ways that go across borders of nations, we aim to make this Code of Conduct one that is consistent with the global standard in consideration of “The Model Code Ver. January 2013” published by the ACI The Financial Markets Association.

We hope that this Code of Conduct will be widely acknowledged as containing matters that participants in foreign exchange trading in Japan should comply with, and contribute to further development of the Tokyo foreign exchange market.

Finally, we had cooperation from many people who were involved in the preparation of this revised version. Especially, Mr. Shinichi Tsutsui, Vice Chairperson of the Subcommittee (from Mizuho Bank, Ltd.), Mr. Naoki Mori (from The Bank of Tokyo-Mitsubishi UFJ, Ltd.) and Mr. Riz Lau (from Deutsche Securities, Inc.), who were all involved in the planning and drafting of this Code of Conduct as a working member of the Subcommittee, have devoted a significant amount of time and effort to the preparation of this Code of Conduct. Mr. Yoshihito Saito and Ms. Yuko Kawai from the Bank of Japan have provided a wide range of advice on information collection from the global market committees.

This Code of Conduct was completed with all the efforts of each member of the Subcommittee on Code of Conduct and many other related persons. We would like to express our deep appreciation to them.

December 2013

Akira Hoshino, Chairperson

Tokyo Foreign Exchange Market Committee

Tomoo Onishi, Chairperson

Subcommittee on Code of Conduct

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Note:

This Code of Conduct contains matters and market practices that the Tokyo Foreign Exchange Market Committee currently recommends and deems should be complied with. However, this Code of Conduct does not prevail over the Financial Instruments and Exchange Act, other related laws and regulations or any agreement or arrangement between counterparties.

Each market participant is expected to apply each provision hereof in accordance with the purport of the above “2. Purpose” and “3. Content” in FOREWORD, and develop a policy and internal control system based on each market participant’s specific characteristics.

Expressions such as “must / must not” used in this Code of Conduct indicate the level of strength of recommendation by the Committee. Please refer to the following table for the expressions used in this Code of Conduct and the corresponding level of recommendation.

Expressions used in this Code of Conduct	Level of recommendation
must / must not	Strong
should / should not	↓
it is desirable / it is not desirable	Weak

The terms “banks/other financial institutions” and “brokerage firms” used in this Code of

Conduct denote institutions, and the terms “dealer(s)” and “broker(s)” denote individuals.

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BASIC ISSUES

Article 1 Market Opening and Closing Hours

1. The official recognized opening and closing hours of the interbank market is set from 5 a.m. Sydney time on Monday morning to 5 p.m. New York time on Friday, all year round.

Article 2 Standard for Value Dates

1. The value date for USD/JPY and cross yen transactions shall be the second business day in the Tokyo market after the transaction date. If such a day falls on a U.S. holiday or a holiday of the country concerned, the value date shall be postponed to the next business day on which the Tokyo market and the market of the country concerned are both open. In regard to transactions of the currency pairs other than USD/JPY, U.S. holidays and the holidays of the countries concerned should be taken into account and the value date shall be determined in the same manner as above.
2. In regard to the value date of the forward leg of a regular-term USD/JPY forward transaction, if the value date falls on a holiday in either Tokyo or New York, the value date will be the next business day on which both markets are open. If the spot leg of a forward transaction falls on the last business day of the month, the forward leg value date of the period being quoted should also be the last business day of the relevant month.
3. There are exceptional cases where settlement is carried out on a holiday of the country of the relevant currency. If the value dates for transactions in currency pairs are different, such transactions should be concluded after the counterparties mutually confirmed in advance the settlement of such transactions on holidays.

Article 3 Unscheduled Holidays

1. In the event of a value date falling on any newly declared national bank holiday, unless the bilateral agreements between the parties concerned specifically provide for such situations, the new value date will be the first common business day following such bank holiday. However, if a bank holiday falls on the last business day of a month, the new value date will be the first common business day prior to such bank holiday. Changes in value dates should be carried out without making any alteration to the amount delivered and without any cost adjustments. Value dates in foreign exchange transactions should not be split.

Article 4 Market Disruption

1. In the case where an event of market disruption occurs, interbank market participants should adhere to the instructions issued by related authorities or central banks in such market.
 - 1) In the case where such instructions from the authorities conflict with any provision of an existing written agreement, interbank market participants should consult their local counsel as to the effect of such conflict.
 - 2) If the instructions from the authorities are not mandatory, the counterparties should discuss whether to follow such instructions.
 - 3) If there are no instructions from the authorities or existing written agreements, interbank market participants should refer to the provision set forth in Article 3 above “Unscheduled Holidays.”
 - 4) In the case where adherence to the market standard provisions is impracticable, industry groups may convene a meeting to form a market consensus in certain cases. Interbank market participants should attend these meetings and follow the consensus reached at the meetings in good faith.
 - 5) Interbank market participants should incorporate provisions concerning market disruptions in their agreements for transactions. For transactions in emerging market currencies (including non-deliverable forwards), the definitions relating to market disruptions in the local market should also be provided. As for E-trading, the parties concerned should have in place a written agreement on fair allocation of the risks, costs and burdens.

CHAPTER II CODE OF CONDUCT AND CODE OF ETHICS

Article 5 Observance of This Code of Conduct

1. In order to maintain high ethical standards in relation to honest and fair transactions, those who are engaged in foreign exchange transactions should observe this Code of Conduct.

Article 6 Usage of Correct Market Terminology

1. All interbank market participants should be aware of their responsibility to act professionally at all times, including the necessity of using clear and unambiguous terminology.
2. “Market Terminology and Definitions” is included in Appendix 1 of this Code of Conduct. All interbank market participants must thoroughly familiarize themselves with these terms.

Article 7 Training Personnel

1. Management of interbank market participants should secure a high standard of professionalism among the staff members in order to cope with rapid changes in markets and increasing complexity of financial transactions.
2. Management should ensure that newly assigned staff members are fully aware of the procedures and policies of the institution.
3. Management should clarify the roles, responsibilities and authority of their staff members, and thoroughly explain the procedures, IT systems and business continuity plans. Procedures for risk measurement and reporting should be understood by all involved in trading activities.

Article 8 Drugs, Alcohol and Substances Abuse

1. All interbank market participants should raise their awareness of the detrimental effects of drugs and alcohol abuse on the business of the institution. Management should set out clear guidelines for cases where dealers and brokers are found to have a judgment that is impaired by medicines and alcohol.

Article 9 Trading for Personal Accounts

1. In the case where dealers are trading for their personal accounts in instruments related to those which the dealers trade for their institution, conflicts of interest are likely to arise between the dealers and clients and the institution. Furthermore, in their personal trading activities, dealers are likely to take advantage of information that they have obtained in the course of fulfilling their responsibilities at the institution. Therefore, management should carefully consider whether transactions for personal accounts should be allowed.
2. In the case where trading for personal accounts is allowed, management should establish written policies and operational procedures governing such activity. Management should also establish reporting procedures on the details of personal account trading activities, such as transaction dates, types of transaction, counterparties, amounts, rates and value dates.

Note: Trading for personal accounts refers to any activity in which dealers open accounts for trading under any name, and in which dealers pursue profits.

Article 10 Entertainment and Gifts

1. In order to maintain a fair market environment, prudent and reasonable relationships should be maintained with all counterparties.
2. While having frequent and extensive communications between dealers and clients and between dealers and brokers is helpful in developing client business, enhancing the

functioning of the interbank markets and facilitating brokerage services, it is desirable that providing or receiving entertainment or gifts are treated carefully with a higher level of ethical values.

3. It is desirable to avoid excessively concentrating transactions in a particular brokerage firm in order to maintain appropriate relationships. Inappropriate exchange of information and providing or receiving excessive entertainment or gifts to or from brokerage firms is prohibited.
4. Management should formulate explicit guidelines for offering and accepting entertainment and gifts, and ensure compliance by all staff members. Management should also request, as appropriate, reports on entertainment and gifts from staff members to check the relevant details.
5. Management of banks/other financial institutions may request, when deemed necessary and before or after the fact, reports on the details of entertainment and gifts, from the management of brokerage firms.

Article 11 Prohibition of Questionable Activities

1. Interbank market participants shall not engage in or seek profit for themselves or their clients from the following inappropriate activities:
 - 1) Abusing market practices;
 - 2) Attempting to obtain or obtaining non-public information that may affect market prices from other market participants illegitimately;
 - 3) Exploiting illegitimately obtained information.
2. Interbank market participants should disclose risks involved in transactions to clients in sufficient detail and in such a way as to allow clients to engage in transactions according to their own judgment, without coercive solicitation or advice.

Article 12 Confidentiality

1. Confidentiality of deals is essential for maintaining the reputable and smooth functioning of the interbank markets, and should be duly respected. Parties to a trade should not disclose any information obtained through the trade to a third party, and neither should they ask for such information except for cases where it is essential for conducting transactions, where the consent of the other party is obtained, or where there are justifiable legal grounds. Trading information should not be communicated to any department other than the department to which such information is essential even within an institution.
2. Management should ensure that every staff member has a thorough knowledge of the basic principles concerning confidentiality of deals, and take necessary measures to

- prevent confidential information from being passed to outside parties.
3. Management should ensure that confidentiality is not breached through the use of telecommunications systems. Security measures for these systems should be implemented if necessary.
 4. In the event of any breach of confidentiality of deals, management should act promptly to implement appropriate corrective measures.

CHAPTER III ORGANIZATION AND AGREEMENTS

Article 13 Segregation of Duties and Authority

1. Each duty and reporting line should be segregated between the front office and the middle office and between the front office and the back office.
2. Banks/other financial institutions should establish a structure to comply with laws and regulations and a structure in which a risk management department and an internal audit department can fully exert their functions.
3. Banks/other financial institutions should endeavor to perform fair and rigorous internal audits on a regular basis in accordance with their respective definite rules and ensure honest and fair transactions by promptly taking appropriate measures regarding the results of internal audits, etc.

Article 14 Execution of Master Agreements

1. Prior to conducting a transaction, it is desirable that interbank market participants should exchange signed master agreements to confirm standard terms and conditions of transactions and to reduce credit risks.

CHAPTER IV DEALERS AND DEALING ROOM

Article 15 Obligations of Staff Members Engaged in Foreign Exchange Business

1. All staff members engaged in the foreign exchange business (including middle office staff members and back office staff members) should observe the following standards of behavior:
 - 1) All staff members should carry out their duties in accordance with instructions of their management, within the scope of the authority that has been granted to them.
 - 2) All staff members should immediately report to their management any problems arising during trading operations or any other matters which could seriously affect their business, and follow any instructions they are given.

Article 16 Disputes, Arbitration and Differences

1. In the case where a dispute arises in relation to the transaction and the settlement and handling or other aspects of a transaction with the counterparty or other parties to the transaction, the dispute should be reported to management immediately. Under instructions of management, the staff members in charge of the transaction should make every effort to resolve the situation quickly and in good faith.
2. In the case set forth in the preceding paragraph, if there are any open or unmatched positions, such positions should be squared or neutralized as quickly as possible to eliminate the risk of further losses. It is desirable that such actions are conducted with the agreement of the counterparty. This, however, should not be interpreted as the party concerned acknowledging its own error.

Article 17 After-hours and Off-premises Trading

1. In order to manage after-hours trading in an appropriate manner, banks/other financial institutions should specify their normal trading hours (hereinafter referred to as the “normal trading hours”), and management should establish an appropriate control system for all trading operations conducted inside their dealing room during the normal trading hours.
2. After-hours and off-premises trading including trading at home should only be undertaken with the prior approval of management.
3. Management should issue written guidelines to their staff that had been approved in accordance with the provisions of the preceding paragraph on the extent of transaction limits.
4. Management should put in place a control system that enables prompt recording and verification of transactions conducted after-hours and off-premises.

Article 18 Dealing Room Security

1. Management should strictly control the entry of non-dealing room personnel and visitors (including system maintenance operators, etc.) into a dealing room.
2. Management should define the user authority of the equipment, programs and other facilities inside a dealing room and strictly manage such user authority and the status of use.
3. If any staff member discovers access to a dealing room by unauthorized non-dealing room personnel and visitors, such staff member should promptly report such access to management and management should take proper measures for such access.
4. Any change in facilities and system functionality in a dealing room, etc. should be made by a person who is authorized by management.

Article 19 Recording Conversations, etc.

1. Banks/other financial institutions and brokerage firms should record and retain conversations, etc. (including email messages, chats and the like) with their trading counterparties by tapes or other means (hereinafter the media on which the conversations, etc. are recorded is referred to as “recorded media”). The recorded media should be strictly controlled to prevent their contents from being tampered with. They should be kept for a period long enough to enable the details of any transaction to be confirmed.
2. As calls via mobile phones are not normally recorded, the use of mobile phones inside the dealing room should be avoided except in case of emergencies. Management should clearly set out in writing the rules of the use of any communication device without a recording function (mobile phones) inside a dealing room.

Article 20 Money Laundering and Counterparty Identification

1. Interbank market participants must take all necessary measures, including verification of the identity of clients and other counterparties, and preservation of transaction records, in order to prevent the provision of funds to terrorists and the money laundering involved in certain major crimes.
2. In order to comply with the provision of the preceding paragraph, interbank market participants must familiarize themselves and comply with the relevant Japanese laws and ordinances, which stipulate matters relating to the verification of the identity of counterparties and the creation and storage of such verification records and transaction records.

Article 21 Responsibilities of Management

1. Management of interbank market participants is responsible for controlling the activities of all personnel engaged in interbank market operations. Management is also responsible for clearly setting out in writing and publicizing the authorities and responsibilities of the dealers and brokers. These should include:
 - 1) General trading policy and procedures including reporting procedures;
 - 2) Persons authorized to trade;
 - 3) Instruments to be dealt in;
 - 4) Method of verification of the identity of counterparties and method of the creation and storage of such verification records;
 - 5) Limits on positions and market risks;
 - 6) Credit lines for counterparties;
 - 7) Content of transactions and settlement procedures;

- 8) Relationship with counterparties (banks/other financial institutions, brokerage firms and clients);
- 9) Business continuity planning; and
- 10) Other relevant guidance that is considered appropriate to be explicitly stated.

Article 22 Trading at Non-Current Rates

1. A trade whose transacted price has extremely deviated from an actual market at the time of execution may result in concealment of profit or loss, perpetration of a fraud, or giving an unauthorized extension of credit. Interbank market participants should generally avoid such questionable trades.
2. In cases where banks/other financial institutions intend to use a non-current rate as indicated above, management should carefully consider whether it is appropriate to use the rate from the aspect of credit and fairness. When using such a rate, the cash flow implication should be taken into account in the pricing.

Article 23 Concluding a Trade

1. A price quoted by a dealer or a broker in the interbank markets should be deemed as a valid price (firm price) unless otherwise qualified such as under reference.
2. A dealer quoting a firm price are obliged to agree to trade with counterparty at such price except for credit limit constraints.
3. In the interbank markets, a transaction should only be regarded as concluded when the counterparty to a transaction is specified and the credit is honored.

Article 24 Handling of Orders

1. Whenever banks/other financial institutions receive orders from counterparties, the following items should be verified and recorded in a prescribed form:
 - 1) Currency;
 - 2) Side of trade;
 - 3) Amount;
 - 4) Rate;
 - 5) Value date;
 - 6) Validity period of order; and
 - 7) Notice of transactions
2. In regard to stop-loss orders in particular, the parties should expressly agree on and confirm such intent and the terms under which such orders are accepted. Banks/other financial institutions handling such orders should have adequate methods of communication with counterparties to be used in case of extreme prices or rate

movements or other unusual situations.

3. In accepting such orders, banks/other financial institutions are obliged to make their best efforts to execute the orders at the prices specified by the parties placing the orders. This, however, does not guarantee fixed-price execution.
4. If the banks/other financial institutions ask brokerage firms the trading range, and brokerage firms indicate information on the trading range, the brokerage firms should not assume any responsibility to stick to such trading range.
5. When receiving orders, it is desirable to confirm the validity period of orders, particularly considering practices relating to market opening and closing times.

Article 25 Position Parking

1. Dealers shall not engage in “position parking,” where a dealer in agreement with other market participants concludes a transaction that will be reversed on a future date, with the effect of manipulating the dealer’s position or profit and loss unfairly.

Article 26 Publishing and Setting of Rates

1. Rates publicly published and set by interbank market participants should be defined in good faith in accordance with their respective definitions and procedures.
2. Interbank market participants must pay attention to the management of information in order to avoid any rate published and set by themselves from being used for illicit transactions, etc. In addition, interbank market participants must not directly or indirectly exchange any information with respect to the publishing and setting of rates with other interbank market participants.

CHAPTER V TRADING THROUGH BROKERAGE FIRMS

Article 27 Relationship between Dealers and Brokers

1. Dealers must not request brokers to disclose the name of the counterparty or the amount involved prior to the conclusion of a transaction.
2. Dealers must not request brokers to disclose details of deals between third parties.
3. In cases where conclusion of transactions has been refused due to credit limit problems, dealers must not request brokers to reveal the names of refusing banks/other financial institutions.
4. Dealers must not trade from within a broker’s office. Brokers must not arrange deals from outside their own offices.
5. The disclosure of the names of transaction counterparties might be allowed exceptionally in accordance with the provision of the following items:

- 1) In cases where one of the parties to a trade already concluded requests an increase in the amount of the transaction, the broker may disclose the counterparty's name, but only to the other counterparty of its transaction; and
- 2) Dealers may request brokers to disclose names of the counterparties prior to the conclusion of foreign exchange forward (swap) and currency options transactions.

Article 28 Roles in Concluding a Trade

1. Interbank market participants must be careful not to shift all the responsibility of credit limit disputes to brokerage firms so that they are forced to conclude transactions. At the same time, brokerage firms and counterparties must not abuse credit limit disputes so that they can make invalid those transactions that should have been concluded originally.
2. In cases where a dealer calls "off" at the same time a broker hits a dealer's price as "done," the transaction should be concluded. Conversely, in cases when a broker calls "off" at the same time a dealer hits the broker's price as "yours" or "mine," no transaction should be concluded.
3. In regard to transactions concluded through brokerage firms, dealers quoting firm prices should indicate the trading amount to brokers each time a firm price is quoted or make an arrangement on the normal trading amount in advance.
4. A firm price quoted by a dealer to a brokerage firm shall remain valid until the brokerage firm acknowledges the dealer's intention to withdraw the price. However, in regard to the validity of prices, the broker must endeavor periodically to confirm with the dealer whether the price is still current or not. Particularly in cases where a considerable period of time has elapsed since quotation, the broker must not fail to confirm the validity with the dealer.
5. In regard to transactions concluded through brokerage firms, dealers making a transaction for prices should indicate the trading amount to brokers each time a transaction is made or make an arrangement on the normal trading amount in advance.
6. If several dealers simultaneously demand transactions for a price being quoted by a brokerage firm for a total amount greater than what the price concerned is valid for, it is desirable that the brokerage firm should apportion the amount among banks concerned by proportional division etc.

Article 29 Disputes, Arbitration and Differences

1. In the case where a problem between a dealer and a broker results in any profit or loss, the following guideline should apply:
 - 1) The staff member in charge should record details of the counterparty and an outline of the dispute, including its causes, the difference and the method of settling, and

promptly report the incident of the difference to management. The record should be preserved.

- 2) Management should review the difference and keep track of the frequency of disputes occurring with a specific counterparty.
- 3) Compensation for the difference should be made with a bank check or wire transfer to the bank, or an adjustment in brokerage.
- 4) A dealer must not reject the compensation indicated in the preceding item, and should not request that the transaction be executed at the original price.
- 5) Delivery of the relevant checks should be made by the middle office or back office independent from the front office.

Article 30 Brokerage Charges

1. Management of both banks/other financial institutions and brokerage firms should agree upon brokerage charges. Management of brokerage firms should submit the notice regarding the brokerage charges agreed by both parties in writing to management of banks/other financial institutions. Any revision in brokerage charges should follow the same procedure.
2. Brokerage firms shall quote trading prices to banks/other financial institutions excluding commissions or brokerage charges.

Article 31 Name Substitution

1. In interbank market transactions, if a transaction may not be concluded due to the unavailability of a credit line, name substitution (name switch) may be performed.
2. In a name substitution, banks/other financial institutions that stand between the original counterparties should carefully confirm the details of the transaction and operate within the scope of their general policy guidelines and procedures. Such transaction should be monitored and controlled as a name-switching transaction. If dealers or brokers conduct name substitution, they should obtain the prior approval of management.
3. Management of banks/other financial institutions should provide brokerage firms with names of unacceptable counterparties in advance as much as possible, and try to prevent brokers from having to ask other interbank market participants to perform a name switch.
4. Dealers must not seek nor accept favors from brokerage firms for switching names.

CHAPTER VI CONTROL

Article 32 Trade Surveillance

1. Interbank market participants must establish a policy and system for monitoring

transactions.

2. Interbank market participants should maintain accurate transactions by reconciling their own electronic trading logs with records provided by brokerage firms, clearing firms, or other business partners as soon as practicable. The segregation of the duties and authority of front and back office is the most essential principle in order to prevent any concealment of unauthorized trading activity.
3. The staff engaging in trade surveillance should be adequately trained in detecting the patterns of trading that suggests any inappropriate practices.
4. Procedures should be in place to promptly report to the relevant authorities any trading activity that is discovered to be market manipulation.

Article 33 Internal Review

1. In order to test the risk management, compliance practices and control status, interbank market participants conducting transactions should adopt an internal review function.
2. Interbank market participants must take into account the different laws and ordinances, regulations and risk management requirements in different jurisdictions.
3. Interbank market participants may consider outsourcing this internal review function.
4. The outsourcing of an internal review function must be made through a regular process determined by an institution.

Article 34 Preparation and Communication in Crisis Situations

1. Banks/other financial institutions should anticipate crisis and prepare for the crisis internally.
2. Staff members should understand:
 - 1) The procedures for crisis situations that would affect settlement;
 - 2) Alternative settlement procedures and how they are executed; and
 - 3) Who to inform and how to inform Nostro banks of changes or cancellations in payment instructions.
3. Current Nostro bank staff contact lists containing emergency contact numbers and contact information for each Nostro bank should be in place.
4. Interbank market participants should test crisis situations systematically to ensure that employees are familiar with alternative procedures and can manage them effectively.

Article 35 Business Continuity In The Event of a Large-scale Disaster

1. Interbank market participants should prepare in advance business continuity plans (BCP) to be followed in the event of a large-scale disaster. The effectiveness of such BCP should be secured by clarifying the sharing of responsibilities and duties by internal rules and

through regular drills.

2. Interbank market participants should understand business continuity plans prepared by settlement system operators and properly position them in the participants' own BCP.
3. In the event of a large-scale disaster, interbank market participants should collaborate to maintain and promptly restore the functions of the Tokyo foreign exchange market in cooperation with settlement system operators and, where necessary, through consultations with the relevant authorities. For such purposes, the Tokyo Foreign Exchange Market Committee separately establishes the "Business Continuity Plan for the Tokyo Foreign Exchange Market" as the market-wide BCP.

Article 36 Collaboration in Crisis Situations

1. Interbank market participants should be aware of the existing crisis communication platforms of other market participants. Connection to those platforms should be checked at regular intervals.
2. Interbank market participants should have internal communication procedures in place and clearly define roles and responsibilities.

Article 37 Reconciliations of Transactions

1. Reconciliations of transactions are necessary to detect missing, failed or erroneous entries at an early stage and to provide counterparties or clients with prompt notification of issues.
2. Reconciliations of transactions and balances should be conducted for all accounts.
3. Cash accounts, etc. should be reconciled as soon as an updated account statement is available, usually at the close of the previous day.
4. In the event of any discrepancies being identified through the reconciliation process, an investigation should be initiated by and between the front office, clients, and related institutions, etc. as soon as possible.
5. The department in charge of reconciliations of transactions should have clear escalation procedures in place to minimize potential disruption or delays in the investigations process.

Article 38 Segregation of Duties for Reconciliations of Transactions

1. Appropriate segregation of duties should exist between pre- and post-settlement operations units.
2. Reconciliations should be carried out by staff members who are not involved in processing of transactions with respect to the balances of accounts held with correspondent banks.

Article 39 Mark-to-Market Best Practice

1. Using quoted market prices is the best way to regularly calculate the mark-to market value of trading positions.
2. Procedures should be in place to have an independent department in charge of checking of the mark-to-market positions within a firm, which is completely separate from the front office.
3. When a person in charge of mark-to-market the value of trading positions obtains external data for valuation purposes, such person should verify the relevant price levels, volatilities and other criteria used in the calculations.

CHAPTER VII PRIME-BROKERS

Article 40 Confidentiality with Regard to Prime-Brokers

1. Prime-brokers should endeavor to maintain confidentiality. Management should manage confidential information with respect to clients to avoid any exploitation thereof.
2. Prime-broker's front and back office staff members should understand the confidentiality requirements of each client, and keep information about a client's give-up trading activity confidential except in a case of default.
3. Information regarding a client's orders and management policy should be handled confidentially.
4. Management should ensure that only authorized staff have access to information about a client's give-up trades and positions.

Article 41 Dispute with Prime-Brokers

1. Disputes involving prime-brokers may occur due to events within the pre-trade, trading or post-trade process. All disputes should be managed in accordance with agreements between the parties involved.
2. The prime-broker is obligated to take on a trade only when the terms and conditions of the trade have been agreed upon by the executing dealer and the client.
3. If any dispute occurs in connection with the details of the trade, such dispute should be promptly settled by and between the executing dealer and the client.
4. If a prime-broker rejects a trade because the terms and conditions of the trade submitted by the executing dealer and client do not match, or the limits are being breached, the prime-broker should notify the client and the execution dealer as soon as practicable.
5. If a trade is executed that breaks the prime-broker's trading limit, the execution dealer and the prime-broker must reach an agreement to see if the trade can be accepted.

6. Executing dealers, clients, and prime-brokers should have managers who may resolve any disputes and discrepancies available.

Article 42 Reputational Risk for Prime-Brokers

1. Prime-brokers should perform preliminary due diligence with respect to clients.
2. If a complaint about a client (e.g., engaging in illegal or unethical trading practices) is sent to a prime-broker, the prime-broker should immediately investigate the issue.
3. Prime-brokers should evaluate the risks posed to their reputation from all their clients and decide on the appropriate response.
4. Prime-brokers should ascertain whether the client's trading activity gives rise to any legal or regulatory obligation on the part of the prime-brokers.

Article 43 Operational Risk with Prime-Brokers

1. A give-up agreement (between a prime-broker and an executing dealer) and a prime-broker agreement (between a prime-broker and a client) should specify the permitted transaction types, tenors and credit limits.
2. It is desirable that prime-brokers, executing dealers and clients have internal control systems in place that monitor the permitted transaction types, tenors and credit limits.
3. Prime-brokers, executing dealers and clients should establish procedures to trade with notices of give-ups.
4. Executing dealers and clients both should inform prime-brokers promptly of any trades that they execute for give-up.
5. It is desirable that executing dealers and clients use the electronic trade message systems linked to the prime-broker's electronic matching system.
6. It is desirable that prime-brokers inform executing dealers and clients of any trades they reject as soon as possible.
7. Prime-brokers should not confirm trades prior to receiving matched notices.
8. The matching should include all the relevant terms and conditions.
9. All parties involved in a transaction should exchange confirmations as promptly as they can.
10. Escalation procedures should be established to resolve any discrepancies that may occur.

Article 44 Credit Risk with Prime-Brokers

1. Executing dealers should execute and prime-brokers should accept a transaction only if credit lines have been approved and are available for a client.
2. Prime-brokers should accept a transaction only if the credit line for the give-up trade has been confirmed.

3. Prime-brokers should have systems in place that can promptly recognize a client's credit.

CHAPTER VIII THE BACK OFFICE

Article 45 Basic Issues

1. Management must endeavor to have adequate systems in place to perform business.
2. Management and staff members must have a thorough understanding of business such as settlement of transactions.
3. Management must prepare operation manuals and other similar documents for staff members to perform business and review such operation manuals and other similar documents when necessary.

Article 46 Operational Risk Awareness

1. Management and staff members should fully understand operational risks associated with the performance of business.
2. Management should have a system in place to minimize any operational risk that would occur in association with the performance of business.
3. Management should have a system in place to regularly supervise any operational risk that would occur in association with the performance of business as well as develop countermeasures for material operational risks in advance.

Article 47 Globally Consistent Processing Standards

1. It is desirable that an institution that has back offices in overseas locations as well as domestic back offices for the interbank market business should define institution-wide processing standards.
2. If the back offices in overseas locations are independent institutions such as entrusted contractors, it is desirable that such back offices are supervised and directed to comply with the processing standards of the entrusting institution and share the institution-wide processing standards.

Article 48 Contact Lists

1. Contact lists of counterparties, etc. should be updated as required.
2. Information contained in the contact lists of counterparties, etc. must be strictly managed.

Article 49 Regular Business Partner Meetings

1. It is desirable that the back office endeavor to facilitate business of the back office and mitigate risks such as operational risks by holding regular internal business partner

meetings (e.g., meetings with the front office and the middle office).

Article 50 New Product and New Business

1. Before a new product or business is launched, an institution should set out rules to introduce such product or business through sharing information between related departments and preliminary review for the introduction thereof, and respond to such introduction.

CHAPTER IX POST-TRADE PRACTICES

Article 51 Mitigation of Settlement Risks

1. An institution should exchange a standard settlement instruction (hereinafter referred to as “SSI”) with counterparties in order to simplify office work and mitigate any potential settlement risk.
 - 1) Banks/other financial institutions should have a system in place to develop SSI for the respective counterparty.
 - 2) SSI should clearly indicate a start date. In the case where an update to SSI is to take place, the previous SSI should be deactivated by clearly indicating a new start date.
 - 3) Any SSI provided by the front office should be verified and approved by the back office again.
 - 4) When banks/other financial institutions change SSI, they should notify the respective counterparty of the change of SSI ideally one month prior to the change, but no later than 10 days prior to the change. The banks/other financial institutions should also notify brokerage firms of the change of SSI without delay.
 - 5) When banks/other financial institutions change SSI, it is desirable that they take measures that pay attention to security such as transmitting an authenticated SWIFT message.
 - 6) SSI included in a SWIFT trade confirmation should be referred to as reconciliation information of transactions.
 - 7) All outstanding deals should be settled in accordance with the SSI in force on the value date; provided, however, that any SSI whose change is notified on the spot date shall be effective for transactions whose value dates are on or after the immediately following date of the spot date. If SSI is used for a transaction that is settled on the spot date, a mutual agreement by and between the bank/other financial institution and the counterparty is required.
 - 8) If banks/other financial institutions make any unusual and exceptional change to the settlement procedures and SSI for an individual transaction, they should agree on such change with the counterparty as soon as practicable through having agreement

with the front office and approval of the back office.

2. Banks/other financial institutions should utilize straight through processing (STP) that automatically transmits contracted data and data of delivery of funds to the relevant internal system as much as possible and handle delivery of funds promptly and accurately in order to mitigate operational risks and settlement risks that may occur during the period from agreement of a transaction to its settlement.
3. The settlement system provided by CLS Bank International (see Note) is in operation to mitigate settlement risks arising from foreign exchange transactions.
 - 1) It is desirable to use CLS to mitigate settlement risks.
 - 2) It is desirable that banks/other financial institutions send settlement instructions to CLS within two hours after a transaction has been agreed with the counterparty.
 - 3) If banks/other financial institutions cancel any CLS settlement, they should give a notice of rescission to CLS as promptly as practicable.
 - 4) If banks/other financial institutions change details of a transaction, they should notify the counterparty of such change, then send new settlement instructions to CLS together with a notice of rescission of the original confirmation (settlement instructions) to CLS.
4. In the case where the party receiving the funds is a third party, payment should be made only after the control department performed appropriate authentication control.
5. Brokerage firms shall transmit information on whether CLS settlement or gross settlement is used as the method of settlement and delivery with respect to a transaction. Banks/other financial institutions must cooperate with brokerage firms by notifying their method of receipt of funds without delay.
6. If delivery of funds in Japanese yen and foreign currencies pertaining to foreign exchange transactions is made by bilateral netting, it is desirable to execute an agreement specifying the method of standard delivery of funds and measures for emergency cases with the counterparty in advance.

Article 52 Delay in Settlement, Etc.

1. If interest or other costs accrue due to a delay in settlement, etc., all relevant parties should endeavor to resolve the issue promptly and equitably.
 - 1) Payment of all interest and other costs should be claimed against the counterparty that is responsible for the delay of settlement, etc., in principle, provided that a small amount of payment may be exempted in accordance with an agreement between the parties.
 - 2) The party who has incurred interest and other costs due to delay in settlement, etc. should promptly claim payment of such cost against the counterparty; provided,

however, that such party should make a reasonable claim of payment against the counterparty within 60 days after the settlement of funds was actually made.

- 3) The party who has received a claim should acknowledge the receipt of the claim within five business days via email, SWIFT or other means, then investigate the claim promptly and notify the relevant party whether it will accept or refuse such claim.
- 4) If the claim is refused, the refused party should deliver any counterargument to the refusing party within five business days via email, SWIFT or other means. Then, either party should make any response to counterargument from the other party within a period of five business days on the assumption that such response period is granted to both parties until the dispute is resolved, and if no response is received during this period it may be deemed that such party has accepted the claim.

Supplement Best Practice with Respect to CLS (Continuous Linked Settlement)

1. In the event of a crisis situation with a specific client of a particular CLS member banks, such member bank may request a bulk rescission of transactions from CLS; provided, however, that the type of crisis situation and the consequences of the bulk rescission should be considered very carefully before performing any bulk rescissions.
2. CLS member banks may rescind instructions unilaterally, provided that the rescission messages reach CLS Bank before the 00:00 (midnight) Central European Time (CET) deadline.
3. If the rescission messages reach CLS Bank after the 00:00 (midnight) CET deadline but before the 06:30 CET deadline, CLS member banks may not rescind instructions unilaterally, but may rescind instructions bilaterally.

Supplement Best Practice with Respect to SSIs (Standard Settlement Instructions)

1. It is desirable that banks/other financial institutions clearly define the sharing of roles of management of SSIs in the back office in order to prevent or minimize potential risks such as fraudulent processing.
2. SSIs are to be registered and maintained in a dedicated static data system.
3. Registration of SSIs shall be made by two persons in accordance with a “four eyes principle” to ensure its correctness, its validity and the prevention of fraudulent processing, etc.
4. The system to register SSIs is required to have an audit trail function.
5. Electronic SSI service providers must ensure that secure online user access is available, user access is controlled and regular re-certification is performed.

CHAPTER X PREVENTION OF FRAUD

Article 53 Prevention of Fraud

1. Management and staff members involved in the interbank markets should be especially on guard against the practices listed below, in order to prevent acts of fraud in the interbank markets. When staff members detect any suspicious activities, they must report them to their management without delay:
 - 1) Discovering transactions conducted in a way that means they may not be recorded;
 - 2) Receiving unusual settlement instructions from counterparties;
 - 3) Discovering that the party receiving funds is a third party other than banks/other financial institutions that are the counterparty to the relevant transaction;
 - 4) Being unable to confirm details of transactions after transactions are concluded;
 - 5) Experiencing any anomaly in transactions.
2. Dealers must not accept commissions from brokerage firms or brokers. Dealers or brokers must report to management without delay whenever they receive proposals from brokers or dealers for unusual transactions that deviate from market practices.

CHAPTER XI ELECTRONIC TRADING

Article 54 Basic Issues

1. When conducting electronic trading, interbank market participants must ensure compliance with the following provisions, in addition to the other provisions of this Code of Conduct, by paying attention to changes in the market environments:
 - 1) In circumstances where trading is expanding to a diverse range of clients by virtue of the development of electronic trading, it is desirable that interbank market participants that provide services pertaining to electronic trading to clients should give guidance to and monitor their clients to ensure their clients comply with the market practices and codes of conduct and other rules in light of securing market stabilization and avoiding reputation risks, etc.; and
 - 2) If interbank market participants provide services (including a white label service, etc.) to their clients as prime-brokers, they are required to ensure that their clients comply with the market practices and codes of conduct. Moreover, if interbank market participants are required to reconcile a transaction or handle disputes by the counterparty of interbank trading, they must promptly respond to the transactions executed as prime-brokers as if they have executed the relevant transaction as principal.

Article 55 Responsibilities of Management

1. Management should have adequate knowledge of and sufficient experience in electronic trading systems.
2. Management must ensure that dealers completely understand the internal rules for using electronic trading systems, trading rule books prepared by service providers and other documents and agreements relating to the use of those services.
3. Management should have procedures in place to resolve any error in a transaction as promptly as practicable.
4. Management should set out a business continuity plan for contingencies involving trading systems.
5. To prevent unauthorized access to electronic trading systems, management should impose stringent security procedures, including the authentication of staff members who are authorized to use the systems.

Article 56 Human Oversight

1. Supply of liquidity and management of orders should be overseen by human beings in addition to electronic systems.

Article 57 Contingency

1. In the event of a contingency, management should identify the nature of the issue immediately and take necessary actions through closely exchanging information with the service provider of the system concerned.

Article 58 Security Management

1. All users of electronic trading systems must only use their own user ID and password and must not share IDs and passwords.
2. As electronic trading systems for clients are often developed on an open network where centralized controls do not exist, additional attention should be paid to system security management.

Article 59 Concluding a Trade

1. Prices quoted under electronic trading systems must be tradable unless clearly labeled as “indicative*,” etc.

*“Indicative,” etc. refers to reference prices, not prices for consummation of transactions.

2. Market makers must not take any act that would guarantee spreads to clients.
3. It is desirable that electronic trading systems control price flashing* by setting the shortest effective period for quoted prices, establishing a trade ratio guideline and taking other

measures.

*Flashing means an act of attempting to manipulate prices by entering prices into electronic trading systems without any intention of executing a transaction.

4. A dealer must not take any act that would obtain undue profit from tactical manipulation of electronic trading systems.

Article 60 Response to and Prevention of Issues of Mis-hit, Etc.

1. Any erroneous transaction due to mis-hits or issues on systems must be resolved as soon as possible.
2. Electronic trading systems should maintain at all times an up-to-date database of related parties to a transaction who are in contact with the front and middle offices (e.g., prime brokers, brokerage firms, etc.) in order to resolve problems such as mis-hits as soon as possible.

Article 61 Preservation of Transaction Records

1. In conducting electronic trading, all transaction records including time stamps must be preserved.

Article 62 Development of Operation Manuals

1. In anticipation for an increase in trading volume, manuals for regular system maintenance and backup systems must be developed in order to provide stable electronic trading systems.

Article 63 Development of Preventive Measures

1. The following measures are required to be taken to prevent inappropriate transactions, input errors, malfunction of systems and the like:
 - 1) In conducting trading based on algorithms, a monitoring system over inappropriate transactions and a system to protect the algorithms from market disruptions, etc. must be developed; and
 - 2) In providing services through electronic trading systems, it is desirable to have a function to set risk limits for users, a function to set limits of prices and transaction size for individual transactions, a function to refuse transactions if the transactions are repeated over a certain number of times, a function to cancel all outstanding orders at once and other similar functions.

APPENDIX 1 MARKET TERMINOLOGY AND DEFINITIONS

I. TERMINOLOGY RELATING TO MATURITY DATES

Spot: In general, two business days hence; however, certain currency pairs such as USD/CAD are settled on the next business day of the transaction date.

Overnight, O/N: Value today against next business day.

Tom-Next, T/N: Value next business day against the following business day.

Spot-Next, S/N: Value spot against the following business day.

One Week: Value spot against one week from the spot date.

Regular Dates: Value spot date against standard trading periods: one month, two months, one year, etc.

Spot against end month: Value spot against the last business day of the month.

Market Disruption: Any situation in which settlement cannot be effected according to the standard procedures for rate-setting or settlement, due to disturbances in market functioning induced by unanticipated political developments or other events of force majeure.

Unscheduled holidays: New bank holidays announced by the authorities. Valuation dates and settlement dates will be postponed in accordance with the method separately set forth due to an unscheduled holiday.

II. TERMINOLOGY IN RELATION TO PRICING AND EXECUTION OF DEALS

Bid, Buy: An order to buy the base currency.

Offer, Sell: An order to sell the base currency.

Premium: The far rate is more expensive (dearer) than the near rate of a foreign

exchange forward transaction (swap point is positive). This term has a different meaning in currency options transactions.

Discount: The far rate is less expensive (cheaper) than the near rate of a foreign exchange forward transaction (swap point is negative).

Done: Trade agreed as proposed. The opposite term is “Nothing Done.”

Firm Price: A rate which is valid and can be dealt to conclude a trade. The bank quoting a firm price is obliged to transact at that rate when counterparty deals the price being quoted.

Indication Price: Quotations that are not firm, and are intended to show the market level as reference only.

Mine: Expression of indication that a dealer will buy the base currency at the offer rate being quoted. It can also be expressed as “I buy.”

Yours: Expression of indication that a dealer will sell the base currency at the bid rate being quoted. It can also be expressed as “I sell.”

My Risk: A reply used by a dealer when unable to respond immediately with regards to whether the dealer intends to trade at the price quoted. Therefore, if the dealer desires to conclude the transaction, the dealer must request a fresh price by asking “How now?” or something similar.

Off: Nullification of a rate currently being quoted in the market or cancellation of an order (either a bid or an offer) already placed in the market.

Point, Pips: The smallest unit of an exchange rate, typically:
USD/JPY 1/100th of a yen;
EUR/USD 1/10,000th of a US dollar;
GBP/USD 1/10,000th of a US dollar;
USD/CHF 1/10,000th of a Swiss franc.

In recent years, the smallest units of exchange rates have come to be smaller than the above standard with the spread of electronic trading platforms. It is desirable that trading participants should recognize the

smallest units of exchange rates applied by each electronic platform.

III. TERMINOLOGY RELATED TO CURRENCY OPTIONS TRANSACTIONS

Expiry Date: The date on which the right of the buyer to exercise an option ceases to be of effect.

Cut-Off Time: The time at which the right to exercise ceases to be of effect on the expiry date. For interbank transactions, usually 3 p.m. Tokyo time in the Tokyo market (Tokyo Cut) and 10 a.m. New York time in the European and U.S. markets (New York Cut).

Delivery Date: The date on which delivery of the two currencies involved is conducted based on the exercise of an option. Normally, it is two business days after the expiry date.

Strike Price: The exchange rate applied in the event of an option being exercised on an Expiry Date. For option holders, it is the buying rate for a call option, and selling rate for a put option.

European Option: An option that can be exercised only on an expiry date.

American Option: An option that can be exercised at any time until an expiry date.

Call Option: The right to purchase a specified currency at a strike price.

Put Option: The right to sell a specified currency at a strike price.

At-the-Money: An option is at the money when the market price of the underlying currency is equal to the option's strike price.

In-the-Money: A situation in which exercising an option generates profit.

Out-of-the-Money: A situation in which exercising an option generates no profit.

Premium: The price of an option paid by the option buyer and received by the option seller. Payment and receipt of a premium are normally delivered two

business days after the conclusion of a transaction. However, in interbank trading, a forward premium is applied in general.

Historical Volatility: Volatility calculated based on the past market movements.

Implied Volatility: Volatility calculated based on future expectations and predictions.

Delta: The ratio of the change in the option price compared with change in the price of the currency in question, when all other conditions are fixed.

Delta Hedge: A foreign exchange transaction which squares up the potential foreign exchange position which occurred as a result of an option transaction being concluded. The potential foreign exchange position is calculated by multiplying the option transaction by the delta.

Knock-In Option: A knock-in option is a type of option which automatically appears if a predetermined exchange rate (Knock-In Rate = Trigger) or an exceeding level is dealt in the spot market.

Knock-Out Option: A knock-out option is a type of option which automatically disappears if a predetermined exchange rate (Knock-Out Rate = Trigger) or an exceeding level is dealt in the spot market.

Compound Option: Also referred to as an option's option. With this transaction, the buyer has the right to buy (or sell) an option with the predetermined expiry date, premium and strike price.

Range Binary, Double No Touch: An option where a higher trigger and a lower trigger are set. The predetermined amount will be paid in this option type when the spot market rate does not become either equal to or less than the lower trigger, or equal to or greater than the higher trigger until it expires (the payment of such predetermined amount is referred to as payout).

Average Rate Option: An option where the average value of the foreign exchange reference rate (e.g., publicly released quote, WM rate and such like) for the predetermined observation period becomes the strike price.

Risk Reversal: A combination of a long (short) call option and a short (long) put option,

typically with the same notional amount, the same expiry date and the same absolute value of delta, in principle.

Straddle: A combination where one buys (sells) a call option and a put option typically with the same notional amount, the same expiry date, and the same strike price.

Strangle: A combination where one buys (sells) a call option and a put option typically with the same notional amount, the same expiry date, but with different strike prices.

IV. OTHER TERMS

Non-Deliverable Forward (NDF): A foreign exchange forward transaction that is non-deliverable. Instead of delivering the reference currency (mainly, an emerging market currency) on the settlement date, the settlement is effected by paying/receiving in the settlement currency (usually USD) the difference of the forward settlement exchange rates and settlement rates between the reference currency and the settlement currency.

Prime Broker: Financial institutions, etc., which extend credit to clients in a transaction with other financial institutions, etc. designated in advance and provide comprehensive services such as execution, settlement and reporting of the transaction.

Central Counterparty (CCP): An entity which assumes obligations of delivery of securities and payment and receipt of money (settlement money) and guarantees performance of settlement on behalf of the counterparty of a trade. CCP issues instructions of transfer of securities or money to settlement institutions as counterparty to the settlement.

CLS (Continuous Linked Settlement): A type of settlement to settle two different currencies simultaneously in order to mitigate risks associated with foreign exchange settlement arising from the difference of settlement timing of such two different currencies. CLS is the global standard for foreign exchange settlement, and all of the world's major banks participate in CLS.

Confirmation: A written confirmation specifying various types of information with respect to a transaction. It may also include the terms and conditions of an agreement and settlement information. In general, it is prepared and exchanged by and between the parties to a transaction after the consummation of the transaction.

Master Agreement: A basic agreement executed by and between foreign exchange market participants such as banks, in which the parties agree to the standard terms of transactions prior to conducting foreign exchange transactions. Executing a Master Agreement permits the parties to quickly negotiate future transactions or agreements because they do not need to refer to the matters already agreed to when contracting subsequent transactions or confirming the terms of transactions.

Netting Agreement: An agreement to decide a method of settlement of only the difference after offsetting liabilities against claims with counterparties. It is desirable that banks/other financial institutions execute netting agreements in advance in order to reduce settlement procedures of foreign exchange transactions and money transactions and to mitigate credit risks.

Standard Settlement Instructions (SSI): Settlement instructions for a particular currency issued to the counterparty to transactions in advance. Normally, the parties exchange a list of information with regards to the accounts for each currency they use to settle foreign exchange transactions. Subsequently, unless any change is made, settlements in each currency will be made in accordance with the information on the list.

High Frequency Trading: Short term trading using E-trading. Trading is made frequently in a very short time.

Flash Trading: A form of high frequency trading, involving the placing of orders with very short quote lives into a market. The use of this tactic to influence prices without the intention to trade is highly discouraged.

Front Running: An act intended to acquire undue profit by making a personal trade in advance of the execution of a large trade of a client in anticipation of a movement in the market price following the execution of such trade.

Insider Trading: Trading of shares of a company conducted by an officer or any other person of a corporation who is in a position to access insider information of the company by taking advantage of such special position and acquiring critical information of the company before the publication of such information. Insider trading is prohibited by the Financial Instruments and Exchange Act in order to secure the fairness and soundness of the securities market.

Position Parking: A transaction to unfairly manipulate a position or loss or profit, etc. by setting the contract rate at or near the original contract rate without reflecting any market rate change, based on an agreement with other market participants in advance, usually on the understanding that the contract will be reversed at a specified later date.

Name Switch / Substitution: A case when a bank/other financial institutions is not able to trade with the original counterparty due to credit line issues, and the brokerage firm arranges another counterparty to book the trade with each of the original counterparties.

Reconciliations: An accounting process used to compare the statements received from correspondent banks (Nostro) to the account owning institution's general ledger. This ensures that all incoming and outgoing payments to and from the bank account match the institution's records.

Line Checking: To check the availability of a credit limit and the amount allowed for a trade for the counterparty prior to the conclusion of a trade.

Mis-Hit: When a trader makes an error in the execution of an order through E-trading, in regard to the amount, the rate, the side, etc. (excluding an error made with malicious intent).