

[Reference Translation]

## **Proprietary Trading System Written Explanation**

INTERACTIVE BROKERS SECURITIES JAPAN INC.

This written explanation describes the matters necessary for customers to purchase and sale securities through Interactive Brokers Securities Japan Inc. (hereinafter referred to as the "Company") using private trading systems operated by Chi-x Japan limited (hereinafter referred to as "Chi-x") and Japannext (hereinafter referred to as "Japannext"). Please read this written explanation in order to understand the structure and risks of the Proprietary Trading System (hereinafter referred to as "PTS") and do so.

### **1. PTS Trading Overview**

Transactions conducted by PTS operated by Chi-x and Japannext (hereinafter referred to as "PTS transactions") are transactions conducted outside the financial instruments exchange market, subject to the approval of the Financial Services Agency, in accordance with the "Rules on Sales and Purchase, etc. Conducted outside the financial instruments exchange market for Listed Share Certificates, etc." and other rules established by the Japan Securities Dealers Association. In the case of PTS operated by Chi-x and Japannext, if the Customer's limit price on their computer system matches that of other limit prices of the opposite party the Customer's limit price will be used to close the transaction.

### **2. Trading Methods**

We will place Customer's orders received as PTS transactions and the stocks which we designated as the smart stocks by the Company to Chi-x and Japannext, in accordance with our Best Execution Policy. In general, Chi-x and Japannext will execute orders when an order received from the Company or another securities company in conducting PTS transactions match. As a general rule, the Company, Chi-x, or Japannext will not handle any transactions on our basis (however, this shall not be the case where it is deemed necessary from the viewpoint of investor protection in the event of a system failure).

### **3. Determining Trading Price**

The method of determining the price on PTS operated by Chi-x and Japannext shall

be the Method of Matching Customer Price Prescribed in Article 17, item (i) of the Cabinet Office Ordinance on the Definitions Prescribed in Article 2, paragraph (8), item (x) of the Financial Instruments and Exchange Act and Article 2 of the Financial Instruments and Exchange Act. In other words it is based on priority of price and time.

#### **4. Trading Rules**

Please refer to the attached form for the main trading rules.

#### **5. Fees**

There are fees set by the Company for PTS transactions. For details, please refer to the "Fee Guidelines".

#### **6. PTS Trading Risk**

(1) Trading may be suspended or restricted.

In the event of a system failure for PTS trading or due to restrictions by the company that operates PTS, we may stop or restrict PTS trading.

(2) The execution may be canceled.

If a suspension measure of individual stock trading is implemented during PTS trading hours, and the execution is not approved by the Securities Dealers Association of Japan, it may be canceled. In addition, if the stock price displays an abnormal value due to a system failure, the execution may be canceled.

(3) Prices may be very different from the trading prices in exchange transactions.

The base price for the night-time session shall be determined based on the final price at the exchange on the day, and the final bid and ask, and it will be traded within a certain price range. Therefore, prices may be formed beyond the range of trading highs and lows during the day. In addition, the limit range may differ from that of exchange transactions.

(4) Other

a. Information Disclosure and News

Prices may fluctuate greatly due to information disclosure and news during the PTS trading hours.

b. Liquidity and Price Movement

PTS trading is limited to certain participants compared to trades in exchange transactions, which generally results in lower liquidity and greater price movements.

c. Possibility of execution based on the price offered

This PTS is executed when the order conditions for buy and sell orders for those participating in PTS transactions are met. Therefore, if the opposite order corresponding to the order condition by the customer does not exist, the order will not be executed.

## **7. Management Policy for Abnormal Transactions Due to Issues Such as Erroneous Orders**

If an abnormal transaction (malpractice transaction) (note) is established due to an erroneous order, the transaction may be canceled in accordance with the policy of Japannext. In this case, the transaction is deemed to have not been concluded from the beginning.

Note: Abnormal transactions (malpractice transactions, etc.) by erroneous order refer to transactions that have been executed at a price significantly different from the market price, or prices or quantities that are clearly beyond the theoretical range due to the accidental order of the price, quantity, or stock.

## **8. Other Notes**

- (1) In addition to the matters described in this written explanation, we provide details on our website and the Best Execution Policy. Please read these details when trading.
- (2) As part of the PTS operations performed with the authorization of the Financial Services Agency, Chi-x and Japannext are required to conduct trade surveillance to ensure appropriate management of sales and purchase or other transactions of securities and to ensure fair trading, thus they may request a trading participant to report on the transaction details, other information, and materials of the relevant trading participant. In this case, the Company shall cooperate with Chi-x and Japannext in accordance with the necessary cooperation in the preparation and submission of such reports and other documents.

## **9. Changes to This Manual**

The contents of this written explanation may be changed when other necessary matters, such as changes in laws and regulations or orders of supervisory authorities, or other necessities arise. The effect that the change will be made, the contents of the revised provisions, and the time of the effectuation of the change will be informed through the Internet and other appropriate methods by the time the changes come into effect.

End

**Annex: Trading Rules**

Items	Contents	
PTS Market	Chi-x Japan Limited Japannext	
Trading hours	Chi-x Japan Limited	Japannext
	Every business day 8:20 to 16:00 (Daytime Session)	Every business day 8:20 to 16:00 (Daytime Session)  Every business day 16:30 - 23:59 (Nighttime session)
Types of transactions	Physical transactions only	
Available financial products	Those specified by each PTS market from the products listed on the domestic financial instruments exchange.	
Methods and types of orders	<p>We accept orders by buy or sale of stocks, quantity, and price electronically via our system. The order price should be "limit" only. In addition, the expiration date of the order is only "on the day".</p> <p>◆ Japannext Nighttime Session</p> <p>Please tick the check box for “Allow this order to be filled outside of regular trading hours” or “Fill outside RTH” mentioned under “Time in Force” when placing orders if you wish to trade during the nighttime session. Orders will be carried over from the nighttime session to the following daytime session. In addition, please note the following restrictions regarding orders.</p> <ul style="list-style-type: none"> <li>• IB SMART orders provided by us are not available during nighttime session.</li> <li>• Other orders made by selecting conditions that cannot be used during the nighttime session will be rejected.</li> </ul>	
Regulations on orders	In addition to the regulations for each PTS, we may make our own regulations for the orders we accept.	
How to determine trading prices and execution method	The method of determining the sale price on PTS operated by Chi-x and Japannext shall be the Method of Matching Customer Price Prescribed in Article 17, item (i) of the Cabinet Office Ordinance on the Definitions Prescribed in	

	Article 2 of the Financial Instruments and Exchange Act, as well as paragraph (8), item (x) of Article 2 of the Financial Instruments and Exchange Act.
Execution date/ delivery date	<ul style="list-style-type: none"> <li>• The execution date is the same as the transaction date.</li> <li>• The date of delivery will be the third business day from the execution date in the day-time session, and the fourth business day in the nighttime session, which is calculated from the execution date.</li> </ul>
Trading unit	<ul style="list-style-type: none"> <li>• As a general rule, the number of shares specified by the issuing company is the unit of one share if there is no other provision.</li> </ul>
Quotes	<ul style="list-style-type: none"> <li>• When orders are directly placed to PTS, it is the quote specified by each PTS.</li> <li>• When using SMART, it is the quote of the TSE, however when executed with PTS it is the quote of each PTS.</li> </ul>
Limit to Value Range	<ul style="list-style-type: none"> <li>• When ordered directly to PTS, it is the price range at each PTS.</li> <li>• When using SMART, it is the price range of the TSE.</li> </ul>
How to settle buys and sells	As a general rule, the Company adopts the pre-payment system, and the trading funds and securities sold are deposited in advance and settled on the settlement date.
Suspension/restrictions to buying and selling	<ul style="list-style-type: none"> <li>• In the case where the TSE has taken such measures as suspension of trading, and where Chi-x, Japannext and the Company also deem it necessary to suspend trading with PTS, as well as when the Japan Securities Dealers Association has suspended transactions outside the financial instruments exchange market.</li> <li>• When the Company determines that it is not appropriate to continue trading in the event of a problem with operation at each PTS.</li> <li>• Cases where media has reported the "important fact" of the issuing company with regard to applicable products, and where the content of the information is unclear or the content of the information is necessary to be made public, due to which Chi-x, Japannext, or the Company</li> </ul>

	<p>determines that it is inappropriate to continue the sales and purchase.</p> <ul style="list-style-type: none"> <li>• When Chi-x, Japannext, TSE or the Company determines that it is not appropriate to continue trading in the case where there is an abnormality in the trading situation or a possibility of such abnormality.</li> <li>• When the order of transactions and the execution of agreements, the transfer of money and securities are delayed or become impossible due to a cause deemed to be force majeure, such as natural disaster events, political changes, strikes, sudden changes in foreign currency circumstances, closure of foreign exchange markets, or for other reasons considered to be force majeure.</li> <li>• In the case where the judgment of Chi-x, Japannext, Tokyo Stock Exchange or the Company is made in order to secure fairness in transactions.</li> </ul> <p>◆ Handling of orders in the event of suspension of sales and purchase</p> <ul style="list-style-type: none"> <li>• At the time of the implementation of trading suspension measures, if the order that has already been ordered to PTS has not been executed, the order will be revoked as a general rule if the sales and purchase is suspended during PTS trading hours.</li> <li>• At the time of the implementation of trading suspension measures, if the order that has already been ordered to PTS has been executed, such execution will be approved as a general rule, however if the sales and purchase is suspended based on the instructions of the Japan Securities Dealers Association, it will be processed accordingly to their instructions.</li> </ul> <p>◆ Handling after the suspension of sales and purchase</p> <ul style="list-style-type: none"> <li>• If a suspension is implemented during a night-time session on the entire PTS stocks or on a specific stock as the night-time session will not be resumed.</li> </ul>
Disclosure of price	With regard to PTS price information, in accordance with

information	the provisions of the Japan Securities Dealers Association, the quotation price and execution information of Chi-x and Japannext are reported to the Japan Securities Dealers Association within a predetermined time limit, and the web operated by the Japan Securities Dealers Association “PTS Information Network will be published on ( <a href="http://pts.offexchange2.jp">http://pts.offexchange2.jp</a> )”.
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