Short Selling Rules

Introduction

On August 26, 2013 the Japanese Financial Services Agency (FSA) announced changes to short selling regulation, taking effect from November 5, 2013. This document explains this regulation and the optional price sliding feature of Japannext PTS trading services.

For inquiries please send an email to: ito@japannext.co.jp.

Overview

Short selling regulation imposes a price restriction on a security, in the form of the uptick rule, once its price reaches a certain threshold.

According to the uptick rule short selling is allowed at a price above the last traded price and also at the last traded price on an uptick.

Short sell orders prohibited by the uptick rule will be rejected, unless price sliding is requested.

Trading Service Configuration

In order to enable price sliding participants must submit an application to Japannext.

Price sliding is available for all order entry protocols.

Short Selling Rules

Uptick Rule

A security is on an uptick if the last traded price is higher than the previous distinct price. At the beginning of the day the last traded price is assumed to be the base price.

Short sell orders can only be placed at the last traded price or above on an uptick, or only above otherwise.

Circuit Breaker

A short sell circuit breaker is tripped when the security price falls to or below a threshold at 10% under the base price.

Before the circuit breaker is tripped, there are no price restrictions on short selling above the threshold. Short selling at or below the threshold is prohibited unless it is exempt.

After the circuit breaker is tripped, the uptick rule is put into effect.

If the circuit breaker is tripped during the Nighttime Session, then it stays tripped throughout the following Daytime Session.

At the start of each Nighttime Session, if short selling price restrictions are to be in effect at the primary exchange, then the circuit breaker is immediately tripped.

Price Sliding

Price sliding allows short sell orders prohibited by the uptick rule to be accepted by adjusting the order entry price to the minimum acceptable level.

The order price reported back in the acknowledgment message will reflect any adjustment. Hence

the accepted price may differ from that specified in the request.

This option has no effect on short sell exempt orders.

Market Data

The status of the short selling price restriction for each security is disseminated via the public market data feed in real-time.

The market data protocol specification is available for download from our website: http://en.japannext.co.jp/library.