

# HAND BOOK



**TFX** TOKYO  
FINANCIAL  
EXCHANGE

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## Introduction

This HAND BOOK is designed to provide the basic information about TFX. The **blue-marked words** in this HAND BOOK are explained in the Glossary at the end of this HAND BOOK.

For any questions, comments, or requests for further information, please contact the following.

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### Corporate Planning Office

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# What is TFX ?

## About TFX

Tokyo Financial Exchange Inc. (TFX) is a unique financial derivatives exchange in Japan which offers various products: Three-month Euroyen Futures and Options, Six-month Euroyen LIBOR Futures, Over-night Call Rate Futures, and Exchange FX Margin Contracts, Exchange Equity Index Margin Contracts.

In April 1989, TFX was established as a membership organization with the capital provided by large sized financial institutions from around the globe, and in April 2004, was demutualized and incorporated in order to strengthen corporate governance as well as to enhance convenience and transparency of the market. In addition, because the Financial Futures Trading Law was abolished and the Financial Instruments and Exchange Law, which was revised with the Securities and Exchange Law, was enforced in September 2007, TFX transformed from a "Financial Futures Exchange" that handles only financial futures, into a more comprehensive "Financial Exchange" that handles any kind of financial products.

## Financial Derivatives Transactions and Inception of TFX

A futures contract is an agreement to buy or sell the specified asset of a specific volume at the predetermined price on a specific future date. Futures transactions were introduced to the financial market with a background where adoption of floating rate system for US dollar and interest-rate liberalization had triggered great fluctuations of interest rates and currencies. To avoid or minimize such market risks ([hedge](#)), financial futures instruments have been developed as risk-hedge tools, which was the start of financial derivatives.

Due to the series of interest-rate liberalization in Japan since 1980s, great demands of risk-hedge for Yen-based assets took place. To meet such demands, TFX was established in 1989 as a specialized exchange for financial derivative products.

## Milestones at TFX

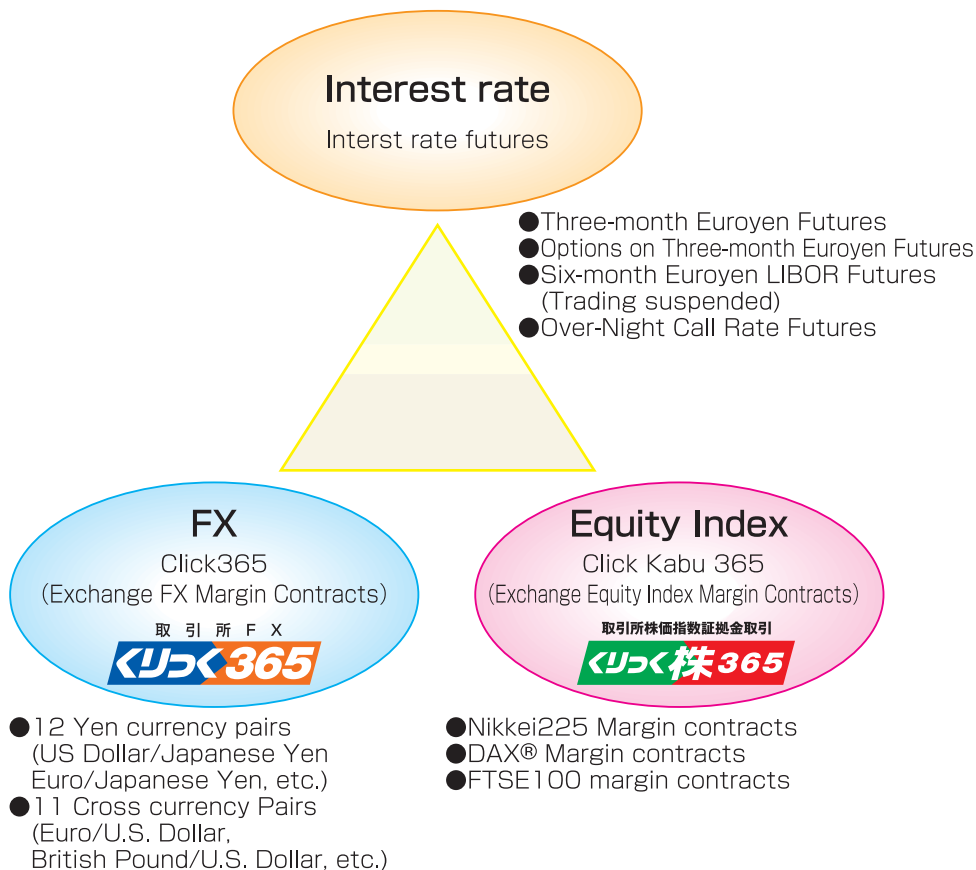
'89	Mar	The Financial Futures Trading Law enforced.
	Apr	Tokyo International Financial Futures Exchange established.
	Jun	Exchange trades started.
'91	Feb	Fully automated computer trading system started.
	Jul	Options on Three-month Euroyen futures listed.
'96	Apr	Three-month Euroyen futures listed on LIFFE. TFX tied up with LIFFE (L-T Link). SPAN® margin system introduced.
'98	Nov	Segregation of customer funds introduced.
'99	Jan	API (Application Program Interface) introduced.
	Oct	Give-up and half-tick pricing (for Three-month Euroyen futures and Options) introduced.
'01	Apr	ITA Wave introduced.
'03	Apr	Strategy trades and block trades started.
'04	Apr	TFX demutualization.
'05	Jul	Company name was changed to Tokyo Financial Exchange. Exchange FX Margin contracts (Click 365) listed.
'07	Feb	Trading hours for Three-month Euroyen futures and Options lengthen.
	Apr	TFX funded a chair course at Keio University.
	Sep	The Financial Instruments and Exchange Law enforced.
'08	Apr	Upgraded LIFFE CONNECT® Introduced Remote Membership Program
	Oct	16 currency pairs were added to Exchange FX Margin Contracts
'09	Jun	Moved the office to Marunouchi
'10	Nov	Exchange Equity Index Margin contracts (Kabu 365) listed
'12	Jan	Listed Euroyen LIBOR
'13	Oct	Upgraded Margin contract system
'14	Feb	Launched TFX Interest-rate System2014

# Engagement of TFX

- ① TFX, as a financial instruments exchange, establishes a financial instruments market, provides facilities for the market, publishes market prices, and is engaged in other operations related to the establishment of a financial instruments market.
- ② TFX, as a clearing organization for transactions of financial instruments, is engaged in the financial instruments obligation assumption business associated with market derivatives transactions carried out in the market established by TFX.



## A Comprehensive Exchange for financial derivatives

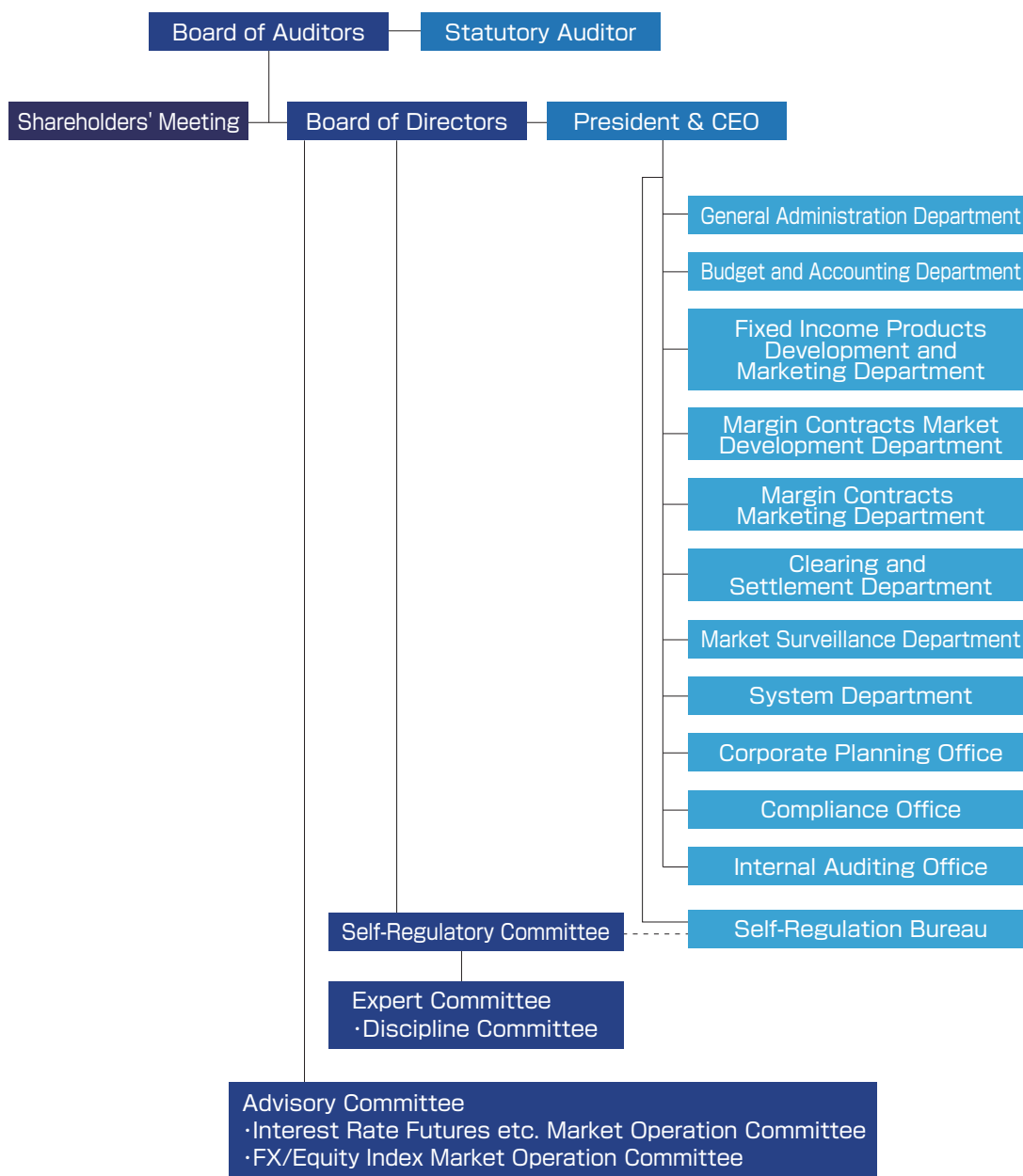


DAX® is a registered trademark of Deutsche Börse

# Corporate Profile

**Name:** Tokyo Financial Exchange Inc.  
**Founded:** April 1989  
**Address:** Marunouchi Park Building 15th Floor 2-6-1 Marunouchi,  
 Chiyoda-ku, Tokyo 100-6915  
**Capital:** ¥5,844,650,000  
**No. of Employees:** 106 (as of March 31, 2014)  
**Fiscal Term:** March 31  
**Management:** Shozo Ohta, President & CEO

## Organizational Chart (as of September 1, 2014)



URL: <http://www.tfx.co.jp/en>

# Interest Rate Futures Contracts at TFX

## (1) Listed Products

	Three-month Euroyen Futures		Options on Three-month Euroyen Futures
Underlying asset	Three-month Euroyen JBA TIBOR <sup>※1</sup>	Underlying asset	Three-month Euroyen Futures
Trading unit	¥100,000,000 (Notional principal amount)	Trading unit	One unit of Three-month Euroyen Futures ("Euroyen Futures") ¥100,000,000 (Notional principal amount)
Price quotation	100 minus rate of interest	Price quotation	Quoted in Euroyen Futures points (0.005)
Tick Size	0.005(0.005%)	Tick size	0.005
Tick Value	¥1,250	Tick value	¥1,250
		Strike price intervals	0.125
Contract months	20 quarterly months (March, June, September, December) and 2 serial months <sup>※2</sup>	Contract months	5 contract quarterly months (March, June, September, December)
Last trading day	Two business days prior to the third Wednesday of the contract month	Last trading day	Two business days prior to the third Wednesday of the contract month
Final settlement day	The first business day following the last trading day	Final settlement day	The first business day following the last trading day
Final settlement	Cash Settlement	Exercise style	American type
Final settlement price	The final settlement price is calculated to the third decimal place. To calculate, round up the figure on the fourth decimal place if it is five or over and round off if it is less than five. For example, if TIBOR is 0.12786%, the final settlement price is 99.872(100 minus 0.128).		
Trading hours (JST)	8:30 ~ 8:45 Pre-open period (Order entry without execution)	Trading hours (JST)	8:30 ~ 8:45 Pre-open period
	8:45 ~ 11:30 Day session (Cleared as today's trade)		8:45 ~ 11:30 Day session
	11:30 ~ 12:30 Restricted period (Cancel and volume cutback only)		11:30 ~ 12:30 Restricted period
	12:30 ~ 15:30 Day session (Cleared as today's trade)		12:30 ~ 15:30 Day session
	15:30 ~ 20:00 Evening session (Cleared as the next day's trade)		15:30 ~ 20:00 Evening session
Trading hours for the contract on its last trading day (JST)	8:30 ~ 8:45 Pre-open period	Trading hours for the contract on its last trading day (JST)	8:30 ~ 8:45 Pre-open period
	8:45 ~ 11:00 Day session		8:45 ~ 11:00 Day session

※1:TIBOR(Tokyo InterBank Offered Rate) is determined by JBA TIBOR Administration (JBATA) at 11:00 a.m. Tokyo time.

※2:Serial months are the months other than March, June, September and December.

For example, as of April 1, the serial months to be listed are April and May, as of May 1, May and July, as of June 1, July and August.

	Six-month Euroyen LIBOR Futures (Tradig suspended) <sup>※5</sup>		Over-Night Call Rate Futures (Call Rate Futures)
Underlying asset	Six-month Euroyen ICE LIBOR	Underlying asset	Average Uncollateralized Over-Night Call Rate (Final results) released by Bank Of Japan (BOJ) over the interval between the BOJ Monetary Policy Meetings (MPMs) <sup>※4</sup>
Trading unit	¥100,000,000 (Notional principal amount)	Trading unit	¥ 300,000,000 (Notional principal amount)
Price quotation	100 minus rate of interest	Price quotation	100 minus rate of interest
Tick size	0.0025	Tick size	0.005
Tick value	¥1,250	Tick value	¥1,250
Contract months	20 quarterly months (March, June, September, December) and 2 serial months <sup>※2</sup>	Contract months	First 6 months
Last trading day	Two London Business days prior to the third Wednesday of the contract month	Last trading day	The last day of the BOJ MPM
Final settlement day	The second business day after the last trading day	Final settlement day	The second business day following the last trading day
Final settlement	Cash settlement	Final settlement	Cash Settlement
Final settlement price	The final settlement price is calculated to the fourth decimal place. To calculate, round up the figure on the fifth decimal place if it is five or over and round off if it is less than five. For example, if LIBOR is 0.12786%, the final settlement price is 99.8721 (100 minus 0.1279).	Final settlement price	100 minus the average Uncollateralized Over-Night Call Rate (final results) in the contract month published by BOJ over the interval between the BOJ MPMs, rounded to the nearest 3 <sup>rd</sup> decimal place
Trading hours (JST)	8:30 ~ 8:45 Pre-open period	Trading hours (JST)	8:30 ~ 8:45 Pre-open
	8:45 ~ 11:30 Day session		8:45 ~ 11:30 Day session
	11:30 ~ 12:30 Restricted period		11:30 ~ 12:30 Restricted period
	12:30 ~ 15:30 Day session		12:30 ~ 15:30 Day session
	15:30 ~ 20:00 Evening session		15:30 ~ 20:00 Evening session
Trading hours for the contract on its last trading day (JST)	8:30 ~ 8:45 Pre-open period	Trading hours for the contract on its last trading day (JST)	8:30 ~ 8:45 Pre-open
	8:45 ~ 11:30 Day session		8:45 ~ 11:30 Day session
	11:30 ~ 12:30 Restricted period		11:30 ~ 12:30 Restricted period
	12:30 ~ 15:30 Day session		12:30 ~ 15:30 Day session
	15:30 ~ 20:00 Evening session <sup>※3</sup>		

※3: During the time when Daylight Saving time is applied in British, evening session last at 19:00.

※4: This means the period from the business day following the last day of a certain BOJ MPM designated by TFX to the last day of the next BOJ MPM. BOJ MPM does not contain the second MPMs which are held in April and October, and unscheduled MPMs.

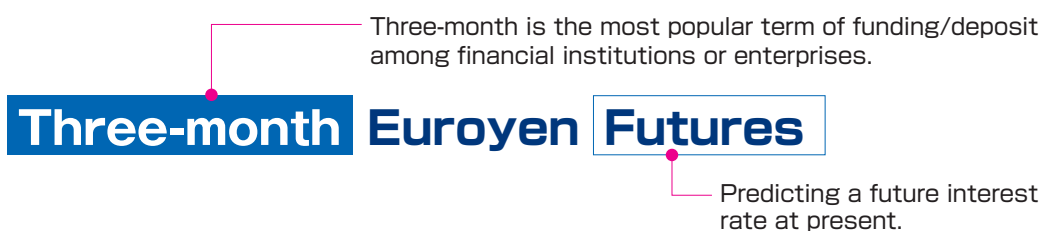
※5: Trading of Six-month Euroyen LIBOR Futures has been suspended since the evening session of June 30th 2014.

## (2) Product Overview

### Three-month Euroyen Futures

A Three-month Euroyen Futures contract is an agreement to buy or sell a specific volume of the predetermined rate of Euroyen three-month deposit commencing on a specific future date. Euroyen Futures are effective tools to reduce risk of interest-rate fluctuation, by fixing the future interest rate beforehand. The price of Euroyen Futures indicates an expected interest rate at the future point defined by a [contract month](#).

For example, a price of the contract month September 20XX is indicative of Three-month Euroyen TIBOR (Tokyo InterBank Offered Rate) rate in September 20XX.



The price for Three-month Euroyen Futures is structured as below:

$$100 - \text{Interest rate (\%)}$$

Therefore the following correlation is found between an interest rate and a futures price:



**Example** When an interest rate of Euroyen Three-month is 1.200%, its price will be displayed as:  $100 - 1.200 = 98.800$

## Practical Use of Three-month Euroyen Futures

### As an Indicator of a Future Interest Rate

A price of Three-month Euroyen Futures can be used to estimate a trend of the interest rate.

**Example** Prices on June 1, 20XX

- Spot Three-month Euroyen TIBOR: ▶ 0.70%
- September 20XX Three-month Euroyen Futures price: ▶ 99.000 (1.00%)
- December 20XX Three-month Euroyen Futures price: ▶ 98.800 (1.20%)

In this case, it is expected that short-term interest rates will rise gradually for next 6 months.



## As Risk-hedge Tool

Three-month Euroyen Futures can be used to efficiently hedge interest-rate fluctuation risk. Hedge means taking a position opposite to the existing cash position.

### To hedge the increase of interest rate

Bearing risk of interest rate appreciation in the future =  
Carrying risk of Euroyen Futures depreciation

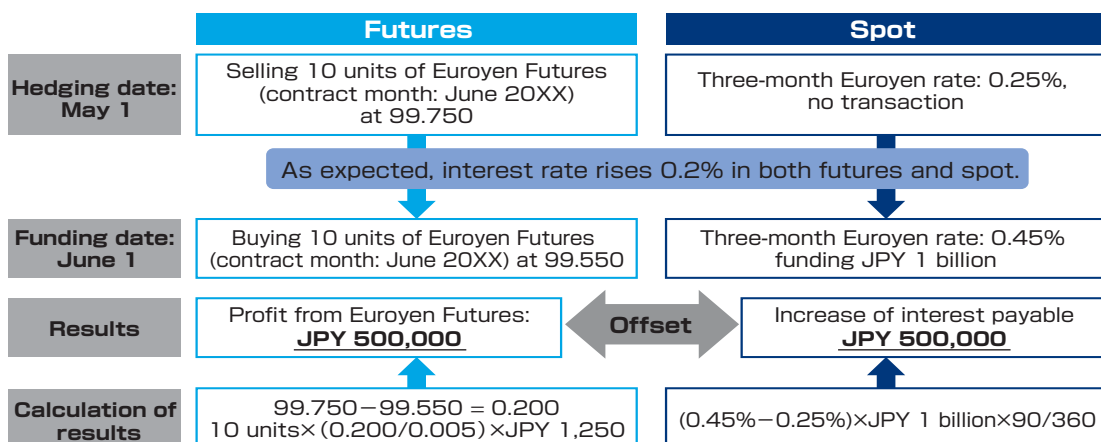
Selling Euroyen Futures  
for a hedge purpose

### To hedge the decrease of interest rate

Bearing risk of interest rate depreciation in the future =  
Carrying risk of Euroyen Futures appreciation

Buying Euroyen Futures  
for a hedge purpose

**Example** On May 1, 20XX, Company A has a plan of borrowing JPY 1 billion for three months, starting from June 1. Company A is afraid that an interest rate may rise towards June 1 and intends to hedge the risk of interest-rate appreciation.



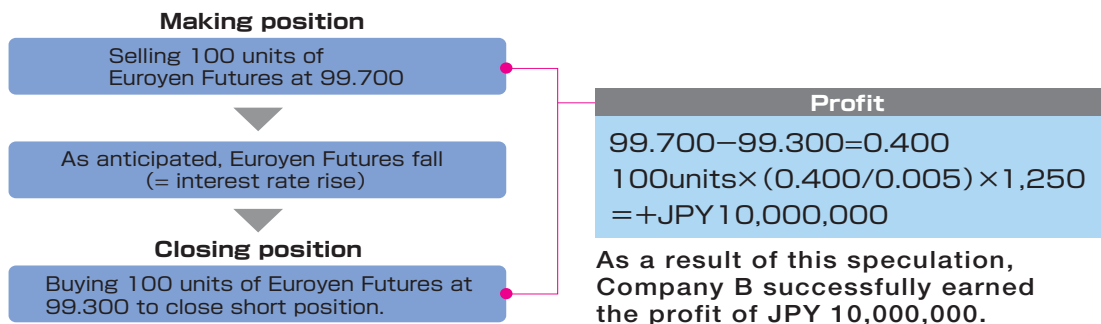
As a result, Company A hedged the risk of interest-rate appreciation successfully by using the Three-month Euroyen Futures.

## As a Speculation

**Speculation** is a trade to take a position based on the speculator's own market perspective, to pursue profits generated by price fluctuation.

[Example] In December 20XX, Company B is anticipating the depreciation of Three-month Euroyen Futures (interest-rate appreciation).

**Example** In December 20XX, Company B is anticipating the depreciation of Three-month Euroyen Futures (interest-rate appreciation).



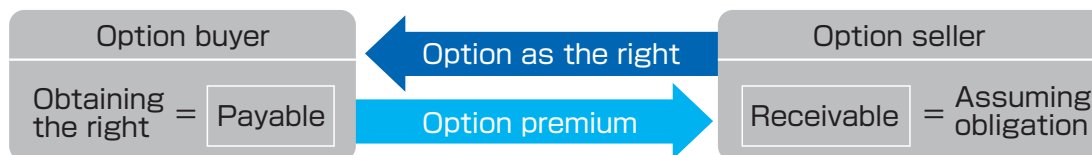
### Six-month Euroyen LIBOR Futures

The features of Six-month Euroyen LIBOR Futures are the same as those of Three-month Euroyen Futures except that underlying asset is Six-month Euroyen ICE LIBOR. As for details, please refer to the above outline of Three-month Euroyen Futures.

## Options on Three-month Euroyen Futures

Options on Three-month Euroyen Futures are the right to enable the Option buyer to buy or sell a certain volume of Three-month Euroyen Futures contracts at a pre-determined price (the “**strike price**”). As needs for Three-month Euroyen Futures have been increasing, demands for options also have been arising to apply various investment strategies based on diversified market perspectives.

### Structure of option trading



The option buyer obtains the right by paying option premium to the option seller, and in consideration of the option premium, the option seller assumes the obligation to let the option buyer exercise the right (“**exercise**” or “option exercise”). In option trades, the option premium is dealt.

The option price is influenced by the futures price of **underlying assets** and other factors.

### Calculation of option premium

$$\text{JPY1,250} \times (\text{option price}/0.005) \times \text{contract volume}$$

### Option Types

There are two types of option products, i.e., put options and call options.

**Put** : Options that give a buyer the right to sell Euroyen Futures at a **strike price**.

**Call** : Options that give a buyer the right to buy Euroyen Futures at a **strike price**.

Option	Put option	Buyer	Entitled to exercise the right to sell at a strike price
		Seller	Obligated to buy at a strike price
	Call option	Buyer	Entitled to exercise the right to buy at a strike price
		Seller	Obligated to sell at a strike price

Options products provided by TFX are of American type, giving an option buyer the right to exercise anytime prior to the expiry date. An option buyer may close the option trade by reselling a position in the market, instead of option exercise, and an option seller may close the position trade by covering a position. The buyer’s right will be exercised automatically at the expiry date if the option exercise would produce a profit (In The Money) on the expiry date. On the other hand, the buyer’s right will be extinguished automatically at the expiry date if the option exercise would produce no profit (At The Money/Out of The Money) on the expiry date.

# Over-Night Call Rate Futures

## Over-Night Call Rate Futures

- Over-Night Call Rate Futures is a futures contract, which quotes index indicated as 100 minus the average Uncollateralized Over-Night Call Rate (final results) in the contract month released by BoJ over the interval between the BoJ MPMs.

\* In trading Uncollateralized Over-Night Call Rate, financial institutions borrow short-term funds without collateral from the call market and pay back those funds on the following day.

## Methods of Utilizing Over-Night Call Rate Futures Trading

### 1. As a Future Interest Rate Index

Over-Night Call Rate Futures can be used as an index for forecasting future monetary policy.

**Example:** Assume MPMs in July, August and September 20XX are scheduled on July 14·15, August 9·10 and September 6·7, and at this time the market quotes the following prices;  
 ( Contract month: August (from July 16 to August 10) 99.675(Displayed interest rate: 0.325%)  
 Contract month: September (from August 11 to September 7) 99.500(Displayed interest rate: 0.500%)

The above price suggests that market participants are forecasting an interest rate rise as a result of change in the policy interest rate at the MPM in August.

### 2. As a Risk-Hedge Tool

Over-Night Call Rate Futures can be used efficiently for a hedge against the risks of interest rate fluctuations.

**Example:** On June 1, 20XX, Company A plans to borrow funds for 28 days (from August 11 to September 7) from the Overnight Call money market rolling over daily. The average funding amount during this period is estimated to be 30 billion yen. Company A anticipates increase in the policy interest rate at the MPM on August 10 and intends to hedge the risk of interest rate rise.

	Futures	Spot
Hedging date June 1	Selling 100 contracts (Contract month: September) at 99.500	Over-Night Call rate; around 0.500% no transaction
As expected, the interest rate rises by 0.25% in both futures and spot.		
	The contract month of September Falls to 99.250	Over-Night Call rate increases to 0.750%
Funding	Buying 100 contracts (contract month: September) at 99.250	Over-Night Call rate from Aug.11 to Sep7(28days): 0.750% average Average funding amount: JPY 30 billion
Results	Calculation $(99.500 - 99.250) / 0.005 \times 100 \text{ contracts} \times \text{JPY}1,250$	Calculation $(0.500\% - 0.750\%) \times \text{JPY}30 \text{ billion} \times 28/365$
	Profit from Over-Night Call Rate Futures JPY 6,250,000	Increase of interest payable: Approximately JPY 5,750,000

### 3. As a Speculation

**Example:** On June 1, 20XX, Company B expects the price of Over-Night Call Rate Futures(contract month: September) to fall (=interest-rate increase)

June 1	Selling 100 contracts of Over-Night Call Rate Futures (contract month: September) at 99.500	Making position	} Profit $(99.500 - 99.250) / 0.005 = 50$ $50 \times \text{JPY}1,250 \times 100 \text{ contracts} =$ JPY 6,250,000
As anticipated, Over-Night Call Rate Futures fall (= interest rate rise)			
August 10	Buying 100 contracts of Over-Night Call Rate Futures at 99.250	Closing position	

\* The above examples are shown for illustrative purposes only.

### (3) Features of the Trading

<b>Trading Member</b>	<b>Trading Member</b> is an enterprise who participates in the TFX market directly. In order to ensure fair and efficient financial futures transactions at the TFX market, Trading Members are required to meet financial and other membership criteria prescribed by TFX and maintain proper credit capability. Trading Members cover a broad range of financial sectors such as banks, securities companies, credit associations, futures brokers, foreign financial institutions, representing the openness of the TFX market.
<b>High liquidity</b>	All TFX products have the standardized terms in respect of trading unit, settlement date and price indication method, etc. Such standardization facilitates participation by many investors in the TFX market and produces high liquidity at the TFX market.
<b>Fair market price</b>	The prices of all contracts executed at the TFX market are determined and made public in a fair, equitable and efficient manner. Orders are matched on the basis of the principle of “ <b>price and time priority</b> ”. Not only Trading Members but also non-member investors can access the real-time market data, including market depths, through information service vendors.
<b>Clearing service</b>	TFX acts as a counter party to each contract as a clearinghouse and undertakes clearing of all trades at the TFX market, which ensure settlement of all such trades. In this way, market participants are shielded from exposure to counter party risk.
<b>Margin system</b>	Margin system requires market participants to deposit cash or cash equivalents as collateral securities with the exchange, aiming to secure trading performance. Each Trading Members’ position is revaluated based on the <b>daily settlement price (mark-to-market)</b> . If the margin amount then deposited by the Trading Member becomes insufficient as a result of mark-to-market, an additional margin must be deposited (the margin system). These procedures prevent accumulation of losses.
<b>Customers protection</b>	Under the segregation scheme, each Trading Member must segregate its customer’s margin from the Trading Members’ own margin and deposit them with TFX. Similarly, TFX segregates each Trading Members’ margin and its respective customer’s margin and manages them separately.
<b>Trading System</b>	TFX’s trading system has a great flexibility and scalability, allowing Trading Members to access the TFX market in diverse ways. With its sophisticated functionalities, Trading Members are able to trade on the TFX market for their various needs.

# (4) Features of the Trading System

## 1. Separation of trading and clearing systems

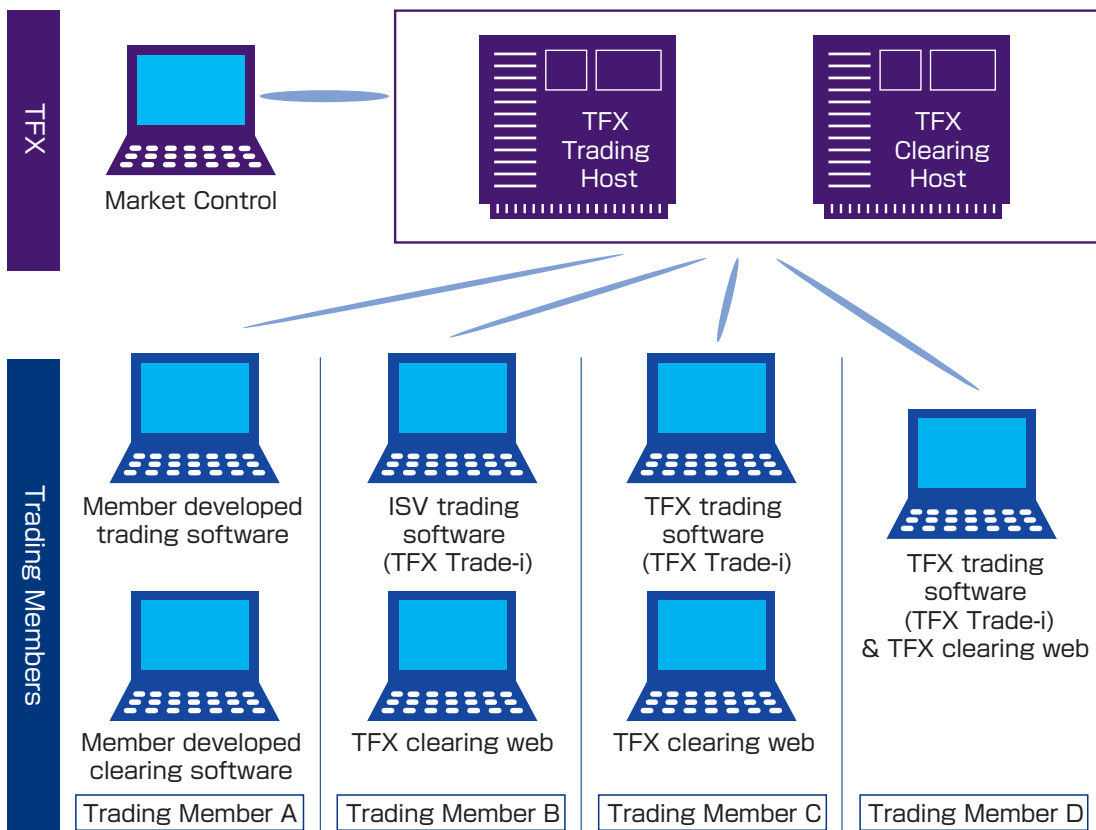
As the trading system and the clearing system are operated by separate software, users are able to make back office operations independent from order execution.

## 2. Order methods and strategy trades

Strategy trading (calendar Spread) and Various modifiers which can be added to a limit /market order are available for use.

## 3. Block trading

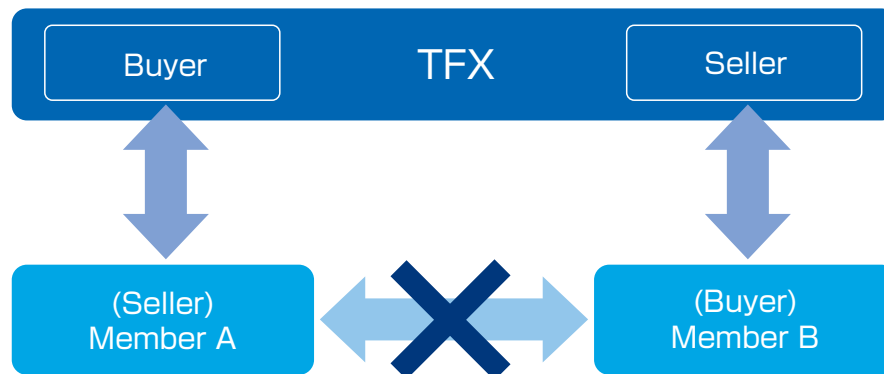
Subject to the applicable conditions, block trading is available within one member as a cross trade or between two members as a bilateral trade, not on an auction basis.



## (5) Clearing at TFX

### Clearing Service

TFX has an in-house clearing function. In all transactions made at the TFX market, TFX (as a clearinghouse) acts as a counter party and ensures the performance of the obligations by the other party. TFX (as a clearinghouse) collects margins from market participants to secure the reliability of trading and undertakes clearing of all the contracts made at the TFX market.



There is no direct trading relationship between [Trading Member A](#) and [Trading Member B](#). Therefore, either [Trading Member A](#) or [Trading Member B](#) does not have to take the counter party risk.

### Margin System

Interest Rate Futures transactions are usually liquidated by [cash settlement](#). To ensure such liquidation, market participants are required to deposit cash or cash equivalents with TFX as collateral securities. Mark-to-market is daily revaluation of futures positions of each market participant, using daily settlement prices, to determine and settle profits or losses on a day-to-day basis. If there arises deficiency in the margin actually deposited as a result of mark-to-market, an additional margin will be collected.

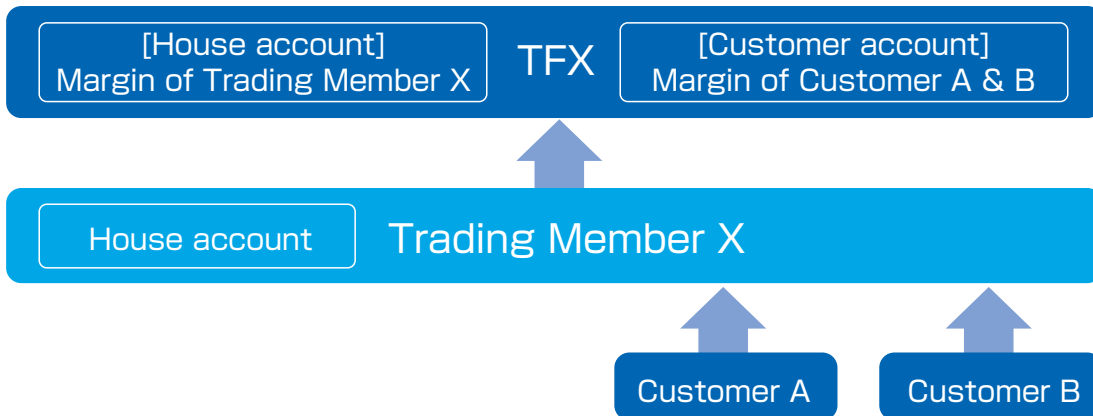
For calculation of margin amounts, TFX adopts SPAN<sup>®</sup>, standing for Standard Portfolio Analysis of Risk (SPAN), developed by CME (Chicago Mercantile Exchange Inc.) in the US .

In the method of SPAN<sup>®</sup>, margin amount is calculated based on each market participant's position, i.e., the risk inherent in the overall portfolio of that market participant. SPAN<sup>®</sup> is adopted by leading exchanges worldwide.

※SPAN<sup>®</sup> used herein is a registered trademark of Chicago Mercantile Exchange Inc. and used herein under license. Chicago Mercantile Exchange Inc. assumes no liability in connection with the use of SPAN<sup>®</sup> by any person or entity.

## Segregation of Customer Funds

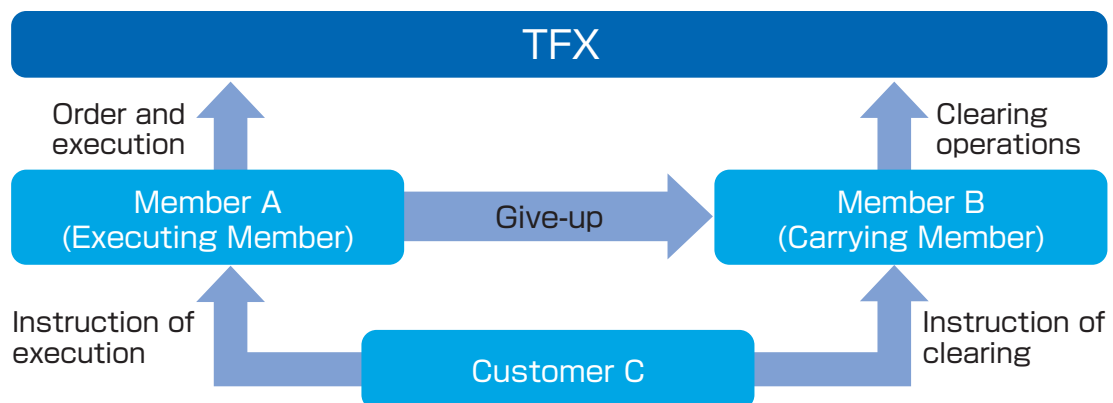
TFX adopts a segregation scheme of customer funds for protection of customers. Under this scheme, each Trading Member deposits its customers' margins with TFX, separately from the Trading Member's own margin. On this basis, TFX takes custody of each Trading Member's customers' margins and Trading Member's proprietary margins separately.



## Give-Up

Give-up is a mechanism that a certain Interest Rate Futures Contract is executed by one Trading Member and clearing (including handling of margins and profit/loss) of the said contract is undertaken by another Trading Member.

A Trading Member who is instructed by a customer to execute a contract for give-up is called an **Executing Member**, and a Trading Member who is instructed by the customer to clear and settle the contract is called a **Carrying Member**. By utilizing give-up, a customer can concentrate clearing of its contracts to a specific Trading Member, assign execution and clearing functions to the different members respectively, or diversify its positions to multiple members.



# Exchange FX Margin Contracts at TFX

## (1) Listed Products

Exchange FX Margin Contracts (Click 365)					
Currency pair	US Dollar, Euro, British Pound, Australian Dollar, Swiss Franc, Canadian Dollar, New Zealand Dollar, South Africa Rand, Norwegian Krone, Swedish Krona, Hong Kong Dollar, Polish Złoty,			Japanese Yen	
	Euro/US Dollar, British Pound/US Dollar, Australian Dollar/US Dollar, New Zealand Dollar/US Dollar, US Dollar/Canadian Dollar, British Pound/Swiss Franc, US Dollar/Swiss Franc, Euro/Swiss Franc, Euro/Australian Dollar, British Pound/Australian Dollar, Euro/British Pound				
Trading Unit	Cross currency pairs & Yen pairs (excluding South Africa Rand, Norwegian Krone, Swedish Krona, Hong Kong Dollar)		South Africa Rand, Norwegian Krone, Swedish Krona, Hong Kong Dollar (Yen Pairs)		
	10,000 currency units		100,000 currency units		
Price Quotation	Yen pairs		Cross Currency pairs		
	Yen equivalent to 1 currency		Term currency equivalent to 1 base currency		
Tick Size	US Dollar, Euro, Australian Dollar (Yen Pairs)*	British Pound, Swiss Franc, Canadian Dollar, New Zealand Dollar, Polish Złoty (Yen Pairs)	South Africa Rand, Hong Kong Dollar, Norwegian Krone, Swedish Krona (Yen Pairs)	Cross Currency pairs	
	0.005	0.01	0.005	0.0001	
Tick Value	US Dollar, Euro, Australian Dollar (Yen Pairs)	British Pound, Swiss Franc, Canadian Dollar, New Zealand Dollar, Polish Złoty (Yen Pairs)	South Africa Rand, Hong Kong Dollar, Norwegian Krone, Swedish Krona (Yen Pairs)	Cross Currency pairs	
	¥50	¥100	¥500	1 term currency	
Settlement	Cash Settlement				
Swap Point	Single Price (¥ denominated)				

\*In October 2012, the tick size of the following currency pairs is supposed to be changed from 0.01 to 0.005.  
US Dollar/Japanese Yen, Euro/Japanese Yen, Australian Dollar/Japanese Yen.



## (2) Trading Hours

### (1) Yen Currency Pairs

Days of Week	<Non-period of summer time in New York>		<The period of summer time in New York>	
	Open	Closing	Open	Closing
Monday	7:10AM	Next day 6:55AM	7:10AM	Next day 5:55AM
Tuesday-Thursday	7:55AM		Next day 6:00AM	
Friday				

### (2) Cross Currency Pairs

Days of Week	<Non-period of summer time in New York>		<The period of summer time in New York>	
	Open	Closing	Open	Closing
Monday	7:10AM	Next day 6:25AM	7:10AM	Next day 5:25AM
Tuesday-Thursday	7:55AM		Next day 5:30AM	
Friday				

※ There will be a 10 minute Pre-Open period prior to the commencement of each session except a 1 hour Pre-Open period for Yen Currency Pairs and Cross Currency Pairs on the first trading day of every week.

During Pre-Open, order submission is permitted yet no trades take place.

※ Any change in trading hours will be announced in advance on TFX Exchange FX Margin Contracts Website.

### (3) What is an Exchange FX Margin Contracts ?

We can see TV report about foreign exchange transactions on a routine basis. Professionals of foreign exchange dealers at banks or security firms are main players dealing with such transactions in the inter-bank market. The transactions happen in the global inter-bank market including Tokyo, Europe and USA beyond the time-zone difference and around the clock.

The Exchange FX Margin contracts in TFX bases the above inter-bank foreign exchange transaction. TFX introduced the contract to allow end-users such as individual investors to make transactions in fair and transparent manner. It allows larger amount of business than deposited margin (so called “leverage effect”). Therefore, investment efficiency is higher compared with foreign currency deposit.

### (4) Features of Exchange FX Margin Contracts

#### 1 Competitiveness

##### The way that TFX offers the Most Competitive Price

TFX provides the most competitive price for investors among prices offered by leading financial institutions called Market Makers. Not only prices but also information on tradable volume is made available to investors, which allows for transparent trading.

##### Swap point

In the OTC market, brokers occasionally differentiate receipt and payment of a swap point, which adds to their profit margin. At TFX, a swap point is fixed to be a single price regardless of receipt or payment, thereby making it impossible for TFX or [Trading Members](#) to retain a profit margin from a swap point. The transparency of swap points is highly assured.

※The above does not necessarily mean that receipt or payment of a swap point by TFX is at all relevant times more favorable to investors than trading in the OTC market.

## 2 Safety

### Protection of customer margin

Trading Members are obliged to deposit all amount of the customer margins to TFX. If Trading Members should go bankrupt, all customer margins deposited to TFX would be returned to investors in principle.

### Satisfying the qualification criteria

**Trading Members**, are meeting high standard of the necessary qualification under Financial Instruments and Exchange Act and TFX rules.

### No credit risk

As TFX becomes the counter-party to all trades, investors need not consider the credit risk of the counter-party.

## 3 Income tax treatment for trading in TFX

After the tax system revision in the fiscal year 2005, trading in TFX have the income tax treatment of “separate self-assessment taxation”, “carry over of loss relief over three years” and “aggregation of profit and loss for security futures and commodity futures”.

※The tax system is subject to change over time.

## 4 Commission - free trading program

TFX has introduced a unique and dynamic incentive program which allows trading members to reduce their commission fees to zero since October 2013.

# Exchange Equity Index Margin Contracts at TFX

## (1) Listed Products

Exchange Equity Index Margin Contracts (Click Kabu 365)			
Listed Products	Nikkei 225 Margin contracts DAX® Margin contracts FTSE 100 Margin contracts		
Trading Units	Index × 100		
Tick Sizes (Tick Values)	1 point (100yen)		
Settlement	Cash Settlement(¥)		
Interest	Buyer pays/Seller receives Applied rate is Uncollateralized Overnight Call Rate (average)		
Dividend	Buyer receives/Seller pays (except DAX® margin contracts)		
Trading Hours		Opening※ 1	Closing
Nikkei 225 Margin contracts	Standard Time/NY, U.S.A	8:30AM	Next day 6:00AM
	Summer Time/NY, U.S.A. ※2		Next day 5:00AM
DAX® Margin contracts	Standard Time/NY, U.S.A & Standard Time/Europe	4:00PM	Next day 6:00AM
	Summer Time/NY, U.S.A. ※2 & Standard Time/Europe	3:00PM	Next day 5:00AM
	Summer Time/NY, U.S.A. ※2 & Summer Time/Europe ※3		
FTSE 100 Margin contracts	Standard Time/NY, U.S.A & Standard Time/Europe	5:00PM	Next day 6:00AM
	Summer Time/NY, U.S.A. ※2 & Standard Time/Europe	4:00PM	Next day 5:00AM
	Summer Time/NY, U.S.A. ※2 & Summer Time/Europe※3		
Non-trading day			
Nikkei 225 Margin contracts	Saturday, Sunday, New Year's Day and January 2nd when New Year's Day falls on Sunday.		
Others	Saturday, Sunday, and holidays of the exchanges where stocks comprising the indexes of each contract are listed.		

※ 1. There will be a 10 minute Pre-Open period prior to the commencement of each session, except a 30 minute Pre-Open period for Nikkei 225 Margin contracts on the first trading day of every week. (During Pre-Open, order submission is permitted yet no trades take place.)

※ 2. Summer Time/NY, U.S.A. refers to the period of time from the second Sunday in March to the First Sunday in November

※ 3. Summer Time/Europe refers to the period of time from the last Sunday in March to the last Sunday in October.

Trading hours are subject to change according to market holidays. etc. Any change in trading hours will be announced in advance on TFX Website.

## (2) What is an Exchange Equity Index Margin Contracts (Click Kabu 365) ?

Click 365 (Exchange FX Margin transaction/contract) has grown steadily at TFX since its listing, and Click Kabu 365 (Exchange Equity Index Margin transaction/contract) was successively listed in November 2010. This new listing of the equity index signaled

another investment choice for investors trading foreign exchange contracts using Click 365. With the new listing, the TFX aims to further improve user convenience. Unlike existing equity index futures, there are no contract periods for Click Kabu 365, and it allows investors to trade overseas equity indices in contract prices denominated in yen, and Nikkei 225 Margin contracts can be traded nearly any time, 24 hours a day.



## (3) Features of Click Kabu 365

### 1 Equity index – a familiar instrument

#### Stock prices regularly displayed on news ticker

Television stations typically report that the Nikkei 225 closed at a certain yen amount on a given day. The Nikkei Stock Average (Nikkei 225) represents trends in the Japanese economy and is the best-known equity index in Japan.

Since there are no contract periods under Click Kabu 365 for Nikkei 225 Margin contracts, investors can settle contracts at any time. With this instrument, investors can enjoy trading on the Nikkei 225 with information seen on newscasts and in newspapers.

#### Trading overseas equity index in contract prices denominated in yen

Click Kabu 365 offers investors the opportunity to not only trade on the Nikkei 225, but also on other major global indices such as the UK's FTSE 100 as well as Germany's DAX®. Click Kabu 365 allows investors to directly invest in the countries that interest them.

When investing in countries with different currencies, investors need to keep currency conversion rates in mind. This process can be confusing and lead some investors to think overseas investing is difficult.

Click Kabu 365 offers a highly user-friendly trading structure that allows trading of overseas equity indices in contract prices denominated in yen, without the need to deal with currency conversion rates.

## 2 Easily accessible anywhere, anytime

### Sophisticated trading tools

Click Kabu 365 is accessible through mobile terminals, such as cell phones, as well as through home computers. As long as the online environment is secured, investors can easily access Click Kabu 365 trading screens at any time, from home or any other location.

### Enter Nikkei 225 Margin contracts nearly any time, 24 hours a day

Click Kabu 365 investors can enter Nikkei 225 Margin contracts at nearly any time of the day. Even at night, while Japanese markets are closed, investors can monitor movements of Nikkei 225 prices caused by trends in major overseas equity markets, and can trade in real-time.

#### Nikkei Stock Average (Nikkei225):

The Nikkei Stock Average is a copyrighted index calculated by a method independently developed by Nikkei Inc. Nikkei Inc holds the copyright, the intellectual property rights, and all other rights associated with the Nikkei Stock Average itself and the method of calculating Nikkei Stock Average. Business of Equity Index Margin contracts, the underlying assets of which are the Nikkei Stock Average ("Nikkei 225 Margin contracts"), and the enforcement of trading regulations for such contracts shall be managed under the responsibilities of Tokyo Financial Exchange Inc. ("TFX") and its Trading Members, and Nikkei Inc shall not assume any obligations or responsibilities thereof. In operating Nikkei 225 Margin contracts, TFX is responsible for calculating and publishing the ex-dividend prices of stocks used in the Nikkei Stock Average, which are required for Nikkei 225 Margin contracts. Nikkei Inc has the right to change component stocks in the Nikkei Stock Average, the method of calculation, and other details of the Nikkei Stock Average, and to discontinue the publication of the Nikkei Stock Average. Nikkei Inc shall not be obligated to continuously publish the Nikkei Stock Average, and shall not be liable for any errors, delay or discontinuation of publication.

#### DAX®:

DAX® is a registered trademark of Deutsche Börse AG. This financial instrument is neither sponsored nor promoted, distributed or in any other manner supported by Deutsche Börse AG (the "Licensor"). The Licensor does not give any explicit or implicit warranty or representation, neither regarding the results deriving from the use of the Index and/or the Index Trademark nor regarding the Index value at a certain point in time or on a certain date nor in any other respect. The Index is calculated and published by the Licensor. Nevertheless, as far as admissible under statutory law the Licensor will not be liable vis-à-vis third parties for errors in the Index. Moreover, there is no obligation for the Licensor vis-à-vis third parties, including investors, to point out potential in the Index. Neither the publication of the Index by the Licensor nor the granting of a license regarding the Index as well as the Index Trademark for the utilization in connection with the financial instrument or other securities or financial products, which derived from the Index, represents a recommendation by the Licensor for a capital investment or contains in any manner a warranty or opinion by the Licensor with respect to the attractiveness on an investment in this product. In its capacity as sole owner of all rights to the Index and the Index Trademark the Licensor has solely licensed to the issuer of the financial instrument the utilization of the Index and the Index Trademark as well as any reference to the Index and the Index Trademark in connection with the financial instrument."

#### The FTSE100 Index:

The FTSE100 Margin contract is not in any way sponsored, endorsed, sold or promoted by FTSE International Limited ("FTSE") or the London Stock Exchange Group companies ("LSEG") (together the "Licensor Parties") and none of the Licensor Parties make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to (i) the results to be obtained from the use of the FTSE100 (the "Index") (upon which the FTSE100 Margin contract is based), (ii) the figure at which the Index is said to stand at any particular time on any particular day or otherwise, or (iii) the suitability of the Index for the purpose to which it is being put in connection with the FTSE100 Margin contract. None of the Licensor Parties have provided or will provide any financial or investment advice or recommendation in relation to the Index to Tokyo Financial Exchange Inc. or to its clients. The Index is calculated by FTSE or its agent. None of the Licensor Parties shall be (a) liable (whether in negligence or otherwise) to any person for any error in the Index or (b) under any obligation to advise any person of any error therein. All rights in the Index vest in FTSE. "FTSE®" is a trademark of LSEG and is used by FTSE under licence.

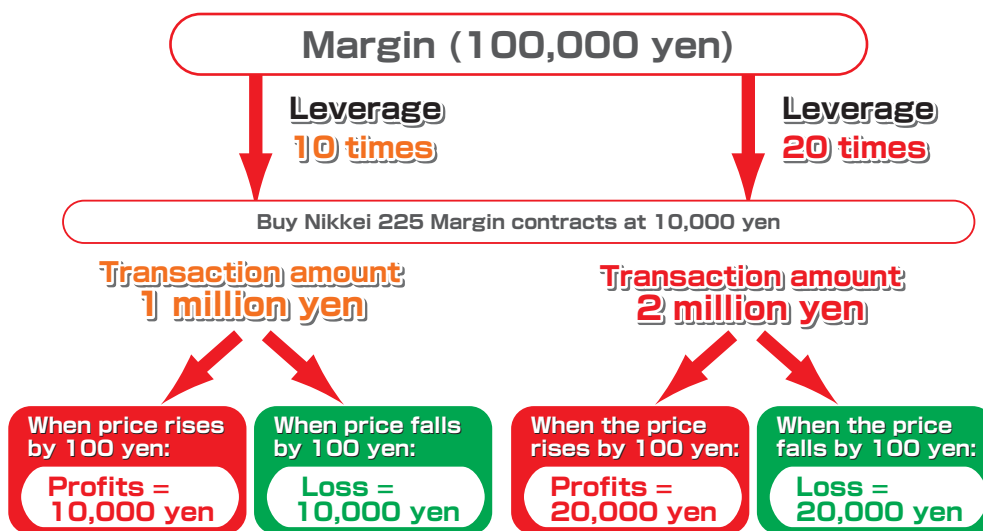
### 3 Investments can be started with a small amount

#### Click Kabu 365 offers opportunities even with small investments

By using deposited margins as collateral, investors can trade amounts 100 times the listed equity indices, such as the Nikkei Stock Average (Nikkei 225). For a current Nikkei 225 price of 10,000 yen, for example, the minimum trading amount will be 1 million yen; 100 times the current price.

Moreover, by using this leverage effect, investors can trade contracts that are several times, or several tens of times larger than the amount of their deposited margins.

This style of trading is considered an efficient use of funds since it enables investors to trade financial instruments with values exceeding their funds (margins). Investors can expect significant profits by making use of the leverage effect. On the other hand, they must also remain aware of the risks that this is a financial instrument that could cause losses.



#### Appropriate review in accordance with price fluctuations

To promptly respond to price fluctuations in each equity index market, each week Click Kabu 365 reviews and announces the amount of the deposited margin required for each contract – the minimum trading unit.

When price fluctuations in the market are large, the leverage falls, and when fluctuations are small, it rises. The leverage generally reaches 20-30 times under normal conditions.

# Trading System of Margin Contracts

## 1. Accessible via the Internet

Via “Trading Member’s website”, investors are able to make data inquiries, submit orders and make instructions for deposits and withdrawals from personal computer, cell-phone or smartphone etc. To access the TFX market, there is no need to build special system or network.

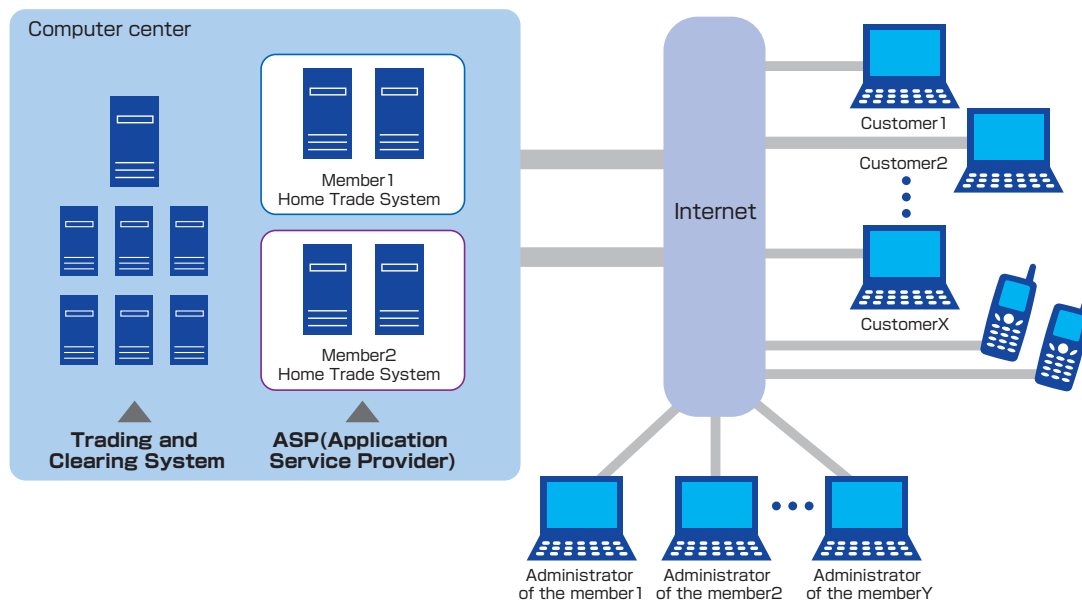
## 2. Information on real time basis

During trading hours, market information regarding the TFX margin contracts is provided on a real time basis. Market Makers (financial institutions) are making offers and bids reflecting the movement in inter-bank foreign exchange market. And market information includes best prices provided by such Market Makers.

## Accessibility to Computer center

TFX has introduced ASP (Application Service Provider) for the TFX margin contracts trading system. ASP represents a scheme for Trading Members to use the joint center (system to provide the Internet trading services) established by TFX. Trading Members need to pay part of the operational costs as commission (expense).

Trading Members who opt not to use the joint center are required to develop bespoke system to connect it directly to the trading and clearing system. (API will be released accordingly).

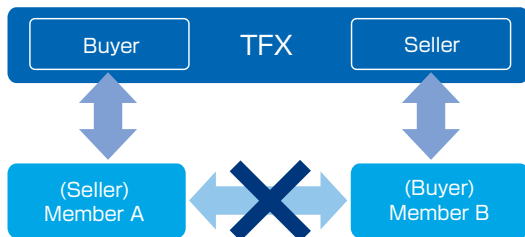




# Clearing of Margin Contracts

## Clearing Service

TFX has an in-house clearing function. In all transactions made at the TFX market, TFX as a clearinghouse acts as a counter party and ensure the performance of the obligations by the other party. TFX as a clearinghouse collects margins from Trading Member or investors to secure the reliability of trading and undertakes clearing of all the contracts made at the TFX market.



Either Buyer or Seller should be a Market Maker. The other side should be an Trading Member.

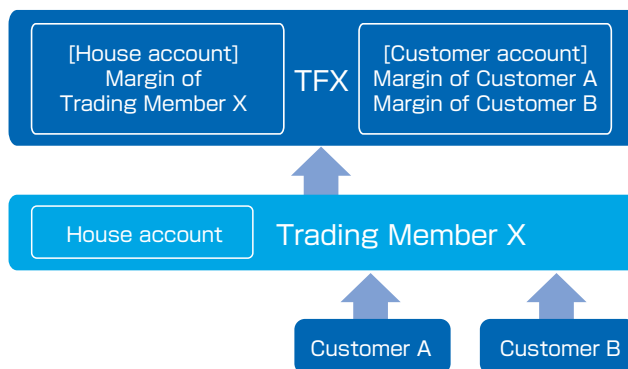
- ① **Trading Members** (i.e. Exchange FX Margin contracts brokers) receive orders from their customers to submit the orders to TFX.(Regarding order processing flow, please refer to the previous page.)
- ② Market Makers always offer prices. Orders submitted by Trading Members match with orders by Market Makers.
- ③ On matching, the trade is replaced by trade of "TFX vs Market Makers" and "TFX vs Trading Members" .

## Margin System

The TFX margin contracts are usually liquidated by **cash settlement**. To ensure such liquidation, Trading Members or investors are required to deposit cash with TFX as margin.

Required Margin amount for the TFX margin contract is calculated as follows: "The amount necessary to keep open interest of one unit (set by TFX)" × open interest of the client ± P/L from transaction ± swap points. In addition, Trading Members are able to request their customers to deposit margin for orders before their customers make order instructions.

## Segregation of Customer Funds



TFX adopts a segregation scheme of customer funds for protection of customers. Under this scheme, each Trading Member deposits its customers' margins with TFX, separately from the Trading Member's own margin. On this basis, TFX takes custody of each Trading Member's customers' margins and the Trading Member's proprietary margins separately.

# Trading Risk at TFX

## Common Risks Applicable to Both Types of Contracts

### Price Fluctuation Risk

Fluctuations in interest rates, currency rates or prices of equity indices may cause a loss. Since the transaction amount is much larger than the deposited exchange margin, these fluctuations may cause a loss exceeding the deposited exchange margin, depending on market conditions. Click Kabu 365 prices also do not reflect the actual equity index prices. The difference in these two prices can expand due to factors such as supply and demand balance and market conditions. Therefore, investors may incur losses when they are unable to trade contracts at prices they expect based on actual equity index prices.

### Credit Risk

TFX has introduced the clearing system under which it acts as a counterparty to a TFX Trading Member in each contract and TFX segregates all exchange margins deposited by Customer; therefore, all deposited margins are in principle protected. Provided, however, that non-payments by a TFX Trading Member etc., due to changes in credit status or bankruptcy by a TFX Trading Member etc., may cause delays in completing refund procedures or unexpected loss.

### System Failure Risk

If a failure occurs in the system of TFX or a TFX Trading Member, or network system among Customers, TFX Trading Members and TFX, delivery of market information, etc, placement of order or execution thereof may be delayed or become impossible, and as a result, an unexpected loss may be caused.

### Risks of changes in tax systems, laws, etc.

Changes in tax systems, laws or their future interpretation may cause unfavorable results.

## Risks of Margin Contracts

### Interest Rate Fluctuation Risk

Fluctuations in the interest rate of Japanese Yen or that of the currency underlying the relevant transaction may decrease the interest of Click Kabu 365 or the swap point of Click 365 to be received, or increase the same to be paid. With Click 365, if the interest rate levels of two countries comprising a position are reversed, the party holding the position to receive swap points may be required to make payments under such transaction. As to certain currency underlying the relevant transaction, various factors such as correlation between supply and demand of such currency in the foreign exchange market may also increase or decrease swap points or may cause the reversal of receipt or payment of swap points, notwithstanding the fluctuation of interest rates. There could even be a case where an investor has a long position in a currency with a higher interest rate but is required to pay swap points.

### Liquidity Risk

Click 365 and Click Kabu 365 introduced the Market-Making Method for Exchange FX Margin contracts, in which Market Maker offers ask and bid prices at which Customers may execute a transaction. It may become difficult or impossible for Market Maker to provide the ask and bid prices in a stable and sustainable manner, depending on certain conditions such as acts of God, war, political change or change in foreign exchange policies or in laws and rules of the relevant country, system changes at the exchanges on which the issues that comprise the relevant equity indices are listed, delay or suspension in the distribution of information about relevant indices, sharp fluctuations in the currency market, etc., and as a result, Customers may not be able to trade at expected prices and suffer an unexpected loss therefrom.

Transactions involving a certain currency in Click 365 may not regularly be traded on a day on which the market in a country of such currency is closed for business. Further, trading of transactions involving certain currency pairs may become impossible, where any abnormal circumstances occur, such as where foreign exchanges adopt certain measures or policies or where the relevant country implements restrictions for the cessation of currency exchanges or closure of foreign exchange markets.

In addition, even under normal conditions, transactions in the currencies or equity indices with lower liquidity may cause a loss to Customer due to causes such that Customer is not able to execute a transaction at the desired price.

## Risk of Exchange FX Margin Contracts

### Currency Conversion Risk

Since Cross Currency Pairs transaction (foreign currency pairs trading) is not settled in the relevant foreign currency but in Japanese Yen, it entails an exchange rate risk not only against the relevant foreign currency but also against Japanese Yen at the time of settlement (the “Currency Conversion Risk”).

## Risks of Exchange Equity Index Margin Contracts

### Foreign Exchange Risk

When trading overseas equity index margin contracts, Equity Index Margin Customer does not carry foreign exchange risks. However, Equity Index Market Maker takes into account foreign exchange risks when providing bids and offers and as a result, the spreads may become large in accordance with the foreign exchange market conditions and Equity Index Margin Customer may not be able to trade at prices they expect and subsequently incur an unexpected loss.

### Risks related to forecast of dividends

TFX calculates the dividend amount as the theoretical amount that will impact the equity index in the future based on the forecast of dividends as of the last cum-rights date. The amount equivalent to the dividends calculated by TFX is resultantly different from that calculated based on actual dividend payments, or forecast of dividends or actual dividends for the actual shares that comprise the index.

# Glossary

## A

### API (Application Program Interface)

“API” is a system that enables Trading Member to place orders and receive trading information through their in-house network systems located in their branches. API enhances both transaction speed and users’ convenience.

## C

### Carrying Member

A “carrying member” is a Trading Member who undertakes and manages clearing operations for financial futures contracts created by give-up.

### Cash settlement

“Cash settlement” is a method of final settlement of a futures or options contract where the finally determined profit or loss is paid between the contract parties, without actual delivery of the product or asset. In contrast, a method of settlement by actual delivery is called “delivery settlement”.

### Clearing member

A “clearing member” is a Trading Member who can clear and settle financial futures contracts by themselves. A general member entrusts its clearing operations to a clearing member.

### Contract month

A “contract month” is a month in which the final settlement of a financial futures contract occurs. At the TFX market, the quarterly contract months, i.e., March, June, September and December are listed for Interest Rate etc. Financial Futures contracts, and the contract months other than quarterly months (“serial months”) are listed for Three-month Euroyen Futures and Six-month Euroyen LIBOR Futures. A contract month is also referred to as a “delivery month”.

## D

### Daily settlement price

A “daily settlement price” is a price used for mark-to-market and other clearing operations and is determined by TFX after the day session of each business day (except Exchange FX Margin contracts and Exchange Equity Index Margin contracts).

### Derivatives

“Derivatives” are futures, options, swaps or other financial products based on and derivative from their underlying financial assets. Derivatives consist of exchange listed derivatives and OTC (over-the-counter) derivatives.

## E

### Euroyen

“Euroyen” is the Japanese Yen deposited or funded in foreign banks or overseas branches of Japanese Banks located outside of Japan. Euroyen is traded in off-shore accounts also in Tokyo.

### Evening session

“Evening session” is a trading session from 15:30 to 20:00 (Tokyo Time) of each business day, and all trades made during an evening session are regard-

ed as the trades on the next business day for the purpose of clearing (including calculation of margins and except Exchange FX Margin contracts and Exchange Equity Index Margin contracts). A trade made between 15:30 and 20:00 on April 1 is treated as the trade on April 2. In the TFX trading system, the day session and the evening session are indicated as “1” and “2” respectively.

### Exercise

“Exercise” is the process by which an option buyer (holder) exercises his/her right to sell or buy the asset underlying the option contract at a strike price. For example, if an option buyer exercises its call option at the strike price of ¥100, the option buyer can buy the underlying asset at ¥100, regardless of the then market price.

## ITA Wave

“ITA Wave” is the information providing service to make available full market depth and daily price data to the members and non-member investors either directly by TFX or through information vendors.

## M

### Margin

“Margin” is the amount of cash or cash equivalents deposited with TFX as collateral securities for performance of obligations under financial futures contracts. TFX adopts SPAN® to calculate the requisite margin amounts (except Exchange FX Margin contracts and Exchange Equity Index Margin contracts).

### Mark-to-market

All positions are revaluated based on daily settlement prices prescribed by TFX, according to the then market values, and the profit or loss calculated by such revaluation is paid between TFX and the concerned member. Daily mark-to-market contributes to preventing accumulation of losses.

## P

### Price and time priority

This is a rule that the highest bid and the lowest offer are given a priority for matching. If more than one order are placed at the same price, the earlier order is given a priority.

## S

### Speculation

“Speculation” is a trading style that an investor dares to take position at its own risk based on its own market perspective, in order to seek the profit generated by price fluctuation.

### Strike price

A “strike price” is a price at which an option buyer (holder) has the right to sell or buy a specified volume of the underlying asset. For example, if an option buyer exercises a call option at the strike price of ¥100, the option buyer can purchase the underlying asset at ¥100, regardless of the market price.

### T

#### Trading Member

A “Trading Member” is a TFX market participant that has been approved Trading Qualifications from TFX, and trades financial futures contracts on the TFX market. Trading Members can directly trade on TFX without the brokerage of another party.

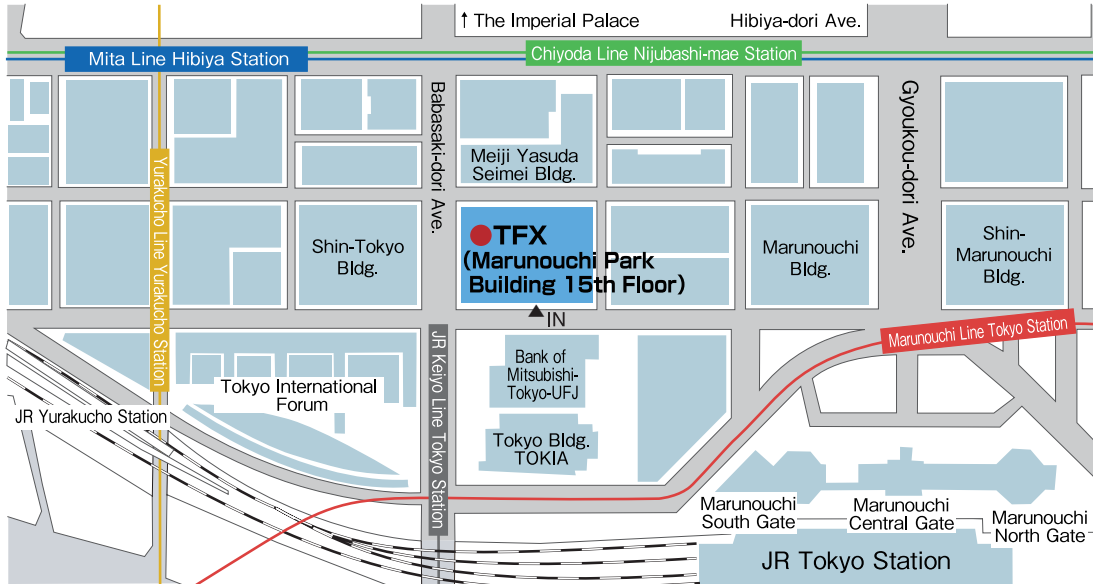
### U

#### Underlying asset

“Underlying asset” is the asset on which an options or futures contract is based. In the case of Option on Three-month Euroyen Futures, for example, the underlying asset is one Three-month Euroyen Futures contract.



# Address



- Five minutes walk from Tokyo Station.
- Two minutes walk from Nijubashi-mae Station.

## Tokyo Financial Exchange Inc.

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