



CHI-X JAPAN

2012 WRAP-UP

Dear Trading Participants,

Over the past two years, Chi-X Japan has established a reputation for driving innovation, promoting regulatory reform, increasing transparency, lowering the cost of trading, and always placing the interests of its clients first.

Since our launch, Chi-X Japan has influenced four transformative market structure changes to the Japanese equity market: the Japan Securities Clearing Corporation's (JSCC) decision to open its facility to Proprietary Trading Systems (PTS), the Japan Securities Dealers Association's (JSDA) authorization of short-sell orders on PTSs, the JSDA agreement to allow PTS to maintain operations during an exchange outage and the Financial Services Agency (FSA) granting of Take Over Bid (TOB) Rule exemptions to qualifying PTS.

CHI-X JAPAN MARKET HIGHLIGHTS

	Chi-X Japan Value	Chi-X Japan Volume	Active Symbols	TSE Value
Dec 2011	455,629,418,505	697,839,975	957	20,301,697,000,000
Dec 2012	804,168,610,304 +76.5%	1,303,044,344 +86.7%	1019 +6.5%	30,754,288,000,000 +51.5%

	Chi-X Japan Value	Chi-X Japan Volume	Active Symbols	TSE Value
Q4 2011	1,453,273,885,106	2,189,717,386	1,073	65,611,457,000,000
Q4 2012	2,025,373,217,818 +39.4%	3,489,941,301 +59.4%	1,109 +3.4%	83,014,397,000,000 +26.5%

Data source: Chi-X Japan & TSE website

BREAKING NEW GROUND

The PTS impact can no longer be ignored; on December 11, 2012, PTS market share reached 10.3%, Chi-X Japan capturing 4.7% of the Nikkei 225. 2013 is already off to an exciting start for Chi-X Japan, on January 8th, it set a new record in value traded of 60 Billion Yen and traded 964 symbols on January 17th. Chi-X Japan's top symbols traded for January include:

Symbol	Name	Value	Volume	Avg PI	Market Share* By Value
7203	TOYOTA MOTOR	16,914,260,500	4,014,400	4.23	3.4%
8306	MITSUB UFJ FG	16,391,667,380	34,531,000	8.18	3.1%
8316	SMFG	10,879,577,330	3,337,100	3.92	3.9%
8411	MIZUHO FINANCIAL	10,147,279,920	61,164,300	25.42	2.3%
7267	HONDA MOTOR	9,843,838,950	2,974,800	3.41	3.5%

Period January 2 – 18, 2013
*Market Share vs. TSE

As a result, trading participants are now assessing PTS in a new light and in many cases are actively discussing changing their existing best execution policies accordingly. The industry understands that evolving policies are key to improving offerings to their clients and providing them with new trading opportunities.

BEST EXECUTION - MORE THAN MEETS THE EYE

As it stands today, existing laws and regulations provide limited guidance on Best Execution responsibilities and the factors to be considered. The industry has an opportunity to differentiate and keep ahead of the regulatory curve. In the past, the best execution policy for many brokerage firms was to route to the venue with the most liquidity. In recent years, we have seen broker dealers revisit their best execution policy to also consider price improvement, transaction costs and market centre reliability when evaluating how to achieve the best possible results for clients.

DON'T GET LEFT BEHIND

The rise of PTS and their ability to effectively compete with the incumbent exchange has propelled the Japanese market to new heights for of innovation and efficiency. This is evident when considering the TSE's developments regarding of Arrowhead and the introduction of co-location services. However, regulatory roadblocks in the Japanese market remain, making it difficult for PTS to compete on equal footing with the TSE. In order to protect the positive progress in market structure that we as an industry have worked to establish, it's now more important than ever to make sure that PTS are allowed to compete fairly and equally with the exchange following the TSE/ OSE merger.

Our vision for Japan's equity market is one that promotes an environment where participants can access the best price regardless of venue and a framework that positions Japan as an attractive destination for domestic and global investors. To achieve this we must adopt a structure that enables the Japanese market to embrace the spirit and goals of best execution along with fair and equal access for all participants.

Yours truly,

Chi-X Japan

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