CHAPTER IV

The Secondary Stock Market

1. Structure of the Secondary Stock Market (1)—Exchange Trading

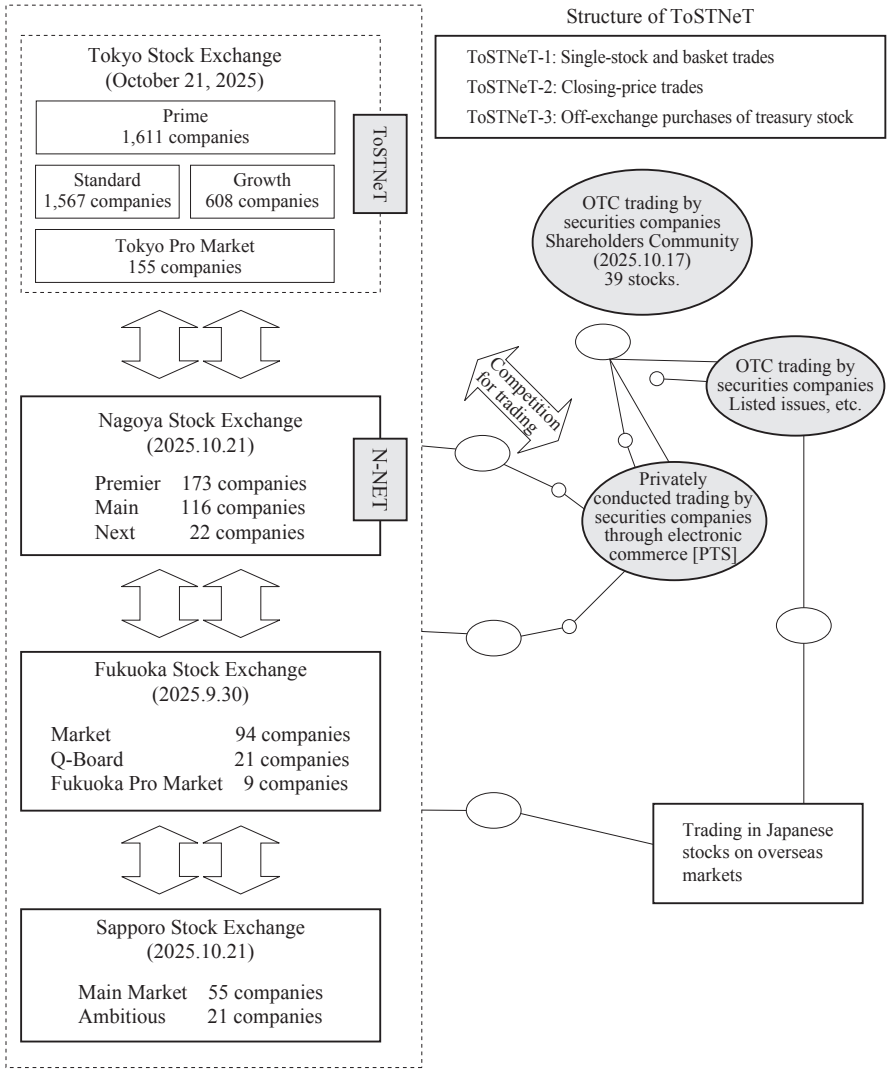
The secondary stock market is where listed shares are traded by investors. The central exchange market is provided by stock exchanges, and there are four stock exchanges in Japan: the Tokyo Stock Exchange, and the Nagoya, Fukuoka and Sapporo exchanges. Following the 2000 amendment to the Securities and Exchange Act, stock exchanges were permitted to operate as stock companies. Today, the Japan Exchange Group, which owns the Tokyo Stock Exchange, and the Nagoya Stock Exchange are corporations.

Shares of listed stocks (1) that meet certain listing requirements are traded on the stock exchange (2) during fixed trading hours (3) by auction, and (4) the stock exchanges manage and supervise the trading process and the business conduct of securities companies as self-regulatory organizations with a view to ensuring that trading is fair.

In January 2013, the Tokyo Stock Exchange and the Osaka Securities Exchange merged to form the Japan Exchange Group. In July 2013, the cash equity market was consolidated into the Tokyo Stock Exchange, and four market segments were opened on the TSE: First Section, Second Section, Mothers, and JASDAQ (“Standard” and “Growth”). However, various issues have been highlighted with this structure. For example (1) the concept of each market segment is ambiguous and is thought to be impractical by many investors, and (2) listed companies do not feel sufficiently motivated to continuously improve their corporate value under this structure. TSE began a review of market segments in autumn 2018. In April 2022, it introduced three new market segments, “Prime,” “Standard,” and “Growth.” The TSE also offers off-floor trading (ToSTNeT) for listed securities.

The stock exchanges are constantly upgrading their trading systems to meet the needs of market participants and changes in methods of buying and selling securities. The Tokyo Stock Exchange introduced “arrowhead”, a world-class, high speed cash trading platform in January 2010, in response to the emerging trend of algorithmic trading. Subsequently, the system was upgraded in September 2015, November 2019, and November 2024 in response

Chart IV-1. Inter-market Competition in Japan



to changes in the stock market environment, such as increased number of orders, increased concentration of orders in short periods of time, and new needs of investors.

2. Structure of the Secondary Stock Market (2)—Off-Exchange Trading

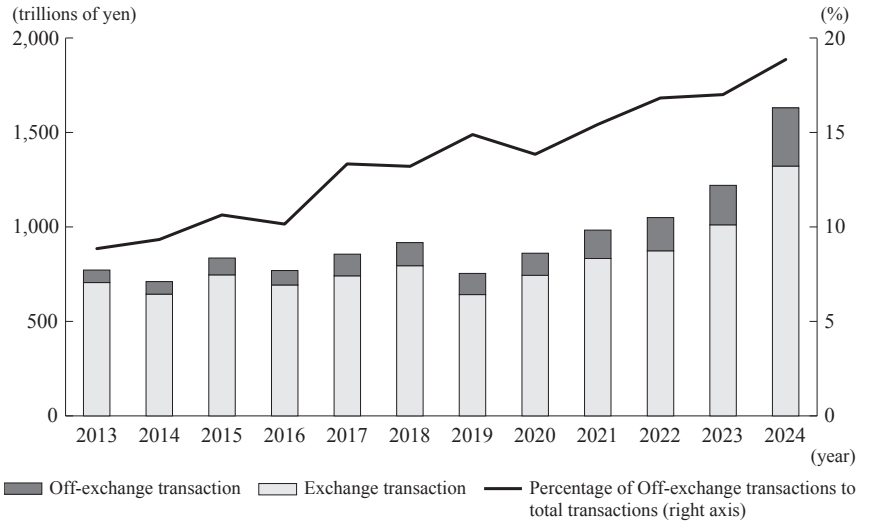
In addition to stock exchange trading, the secondary market includes off-exchange trading, which involves buying and selling outside the stock exchange. This is also called "off-floor trading" or "over-the-counter trading." The basic function of the stock market is to efficiently allocate funds by finding a price at which all demands are matched with the supply available. At a stage when information technology (IT) was not fully developed, there was a need to concentrate securities trading in one place in order to achieve that purpose. However, with the development of information and communication technology, if the elements of securities trading, namely, integration of trading information, transmission and execution of orders, delivery of securities, settlement, and custody, are integrated via computer networks and processed in real time, then equilibrium prices can be found even in decentralized networks with multiple trading platforms. Advances in information and communication technology have spurred the growth of off-exchange trading.

The principal form of off-exchange trading is the Private Trading System (PTS), which was permitted under the 1998 amendment to the Securities and Exchange Act. A computer system operated by a securities company is used to conduct trades without going through an exchange and match orders outside regular exchange hours. In Japan, PTSs have been operated by two companies, Japan Next Securities and Cboe Japan (Cboe Japan ceased PTS operations in August 2025), but in recent years, new entrants have emerged. Osaka Digital Exchange (ODX) entered the market in 2022. In 2024, the Japan Alternative Market (JAX) launched PTS operations.

Meanwhile, with the increasing institutionalization of the securities market, there has been growing demand for trading systems that ensure anonymity and minimize market impact costs. In addition, there has been an increase in special types of transactions, such as large-lot transactions and basket trades. In response to this growing demand for trading, dark pools have become increasingly prevalent. Dark pools match buy and sell orders within a securities company's internal system and then route those orders to the Tokyo Stock Exchange's off-floor trading system (ToSTNeT) to execute the trades.

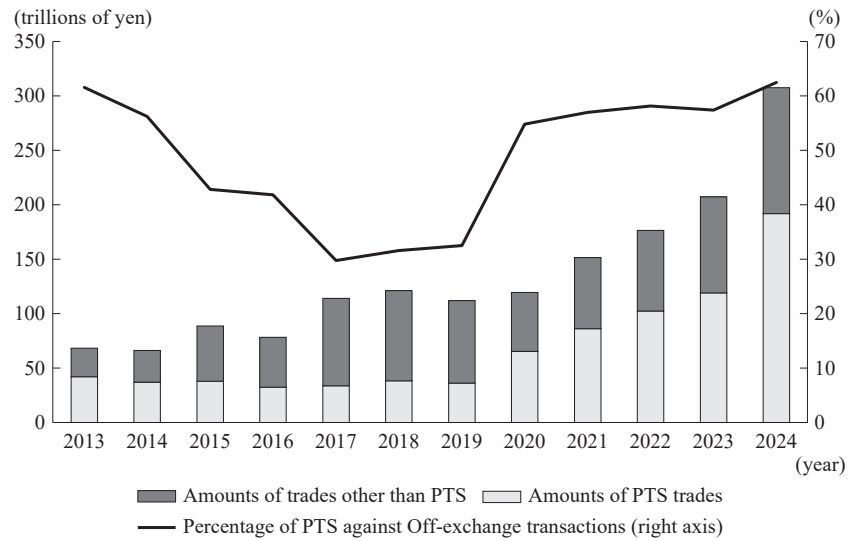
With the emergence of a diverse range of trading markets such as PTS platforms and dark pools in addition to exchanges, there has been growing interest in Smart Order Routing (SOR), a mechanism that routes orders to the market most likely to offer the most favorable terms for buying or selling stocks.

Chart IV-2. Trading Amounts of Exchange Transactions and Off-exchange Transactions



Source: Japan Securities Dealers Association.

Chart IV-3. Breakdowns of Off-exchange transactions



*Source:*Japan Securities Dealers Association.

3. Structure of the Secondary Stock Market (3)—Trading in Unlisted Stocks

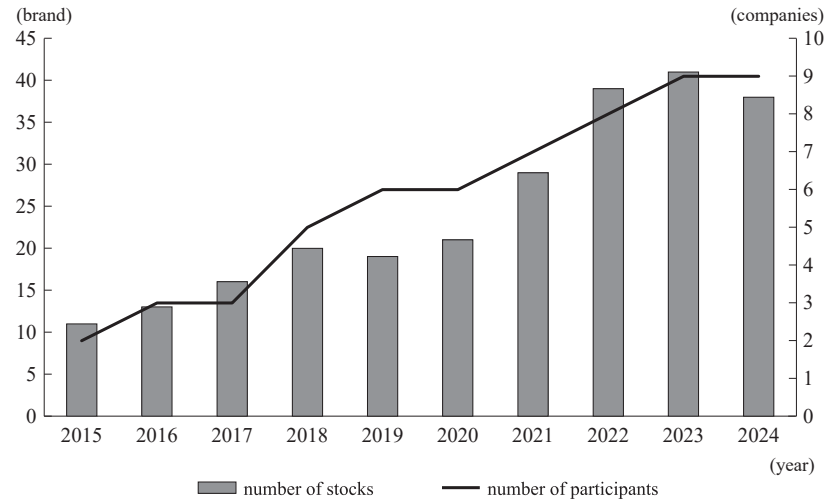
Trading in unlisted stocks is one form of off-exchange trading. Shares of unlisted companies are traded outside stock exchanges, typically in negotiated over-the-counter (OTC) transactions conducted through securities firms. Japan formerly had an OTC Approved Issues System and an OTC Registration System, and trading in unlisted stocks has a long history dating back to the postwar period. The Green Sheet market was established in 1997. Issues meeting certain disclosure requirements were designated as Green Sheet issues, making them eligible for investment solicitation. However, trading activity became sluggish owing to factors such as the imposition of timely disclosure requirements, and the market was abolished at the end of March 2018.

The Shareholders Community system was established in May 2015 as a system for secondary trading of unlisted shares in place of the Green Sheet market. This is a system for the trading of and financing through unlisted shares that was originally set up in May 2015 to facilitate trading and cash-raising for unlisted shares as a way of supporting the financing needs of local businesses. Under this system, securities companies form shareholder communities for individual OTC securities but can only solicit investment from investors who have registered to participate. A securities company wishing to establish and operate a shareholder's community must file prior notification with the JSDA and be designated as an operating member. A key feature of the system is that transactions are exempt from insider trading regulations because trading is limited to members of shareholders communities established and managed by securities companies for individual issues, with liquidity maintained only at a level sufficient to meet a certain degree of trading and liquidity needs. The system is expected to be used by companies whose shares are likely to be traded by investors familiar with the issuer, as well as by start-ups, growth companies, and locally based businesses.

Since then, efforts have been made to promote the use of the system in response to issues such as the fact that securities companies' ability to solicit investment is limited to the shareholders community. In 2022, reforms were implemented to make the system more user-friendly, such as lifting the ban on soliciting specified investors (professional investors with expertise in investment as defined in the Financial Instruments and Exchange Act) for participation in shareholders' communities.

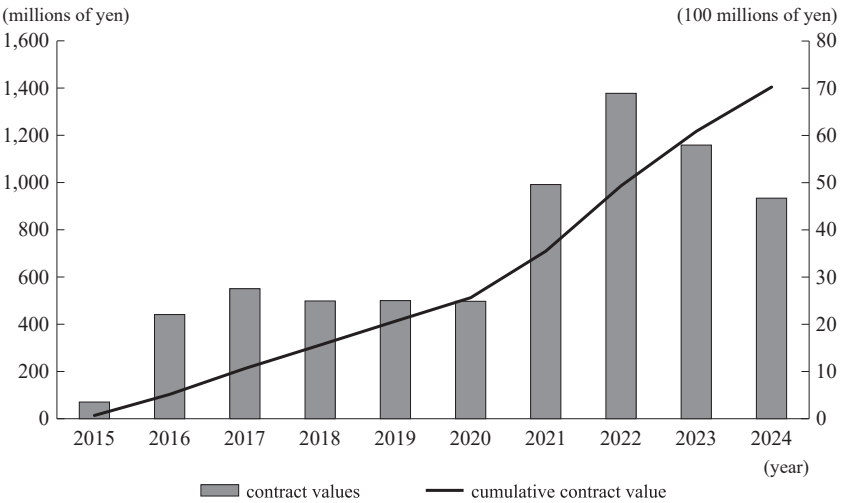
Trading activity under the Shareholders Community system has been increasing. Cumulative trading value exceeded ¥5 billion in February 2023 and has since surpassed ¥7 billion. As of October 24, 2025, there were 39 issues operated under the system and nine operating members.

Chart IV-4. Changes in the number of stocks and participants in the Shareholders Community system



Source: Japan Securities Dealers Association.

Chart IV-5. Changes in contract values and cumulative contract value in the Shareholders Community system



Source: Japan Securities Dealers Association.

4. Transaction Size of the Secondary Stock Market

As of the end of 2024, the number of companies listed on the national exchanges (including multiple listings) stood at 4,070, with 500.8 billion shares listed. The trading volume was 652.7 billion shares, and the trading value totaled ¥1,323 trillion. Of these, the number of listed shares for the 3,969 companies listed on the Tokyo Stock Exchange is 499.4 billion shares, with a trading volume of 652.3 billion shares and a trading value of ¥1,322.8 trillion. The Tokyo Stock Exchange accounts for the majority of listed stocks, and the vast majority of trading volume and value also takes place on the Tokyo Stock Exchange. Thus, exchange trading of shares in Japan is heavily concentrated on the Tokyo Stock Exchange.

Two main factors account for this: (1) the stock market has a hierarchical structure with the TSE Prime Market at the top, and many companies regard listing on the Prime Market as a key management objective; (2) the "order flow externality" means that trading becomes increasingly concentrated in markets with high trading volume and liquidity, since trades can be executed more easily in such markets.

The Prime Market is a market for companies with a focus on constructive dialogue with global investors. As of the end of 2024, it consisted of 1,639 listed stocks with a market capitalization of ¥960 trillion. The trading volume was 513.3 billion shares and the trading value was ¥1,255 trillion. By contrast, the Standard Market was established as a market for companies with sufficient liquidity and governance standards to make them eligible as investments in the public market. The Standard Market had 1,590 listed stocks and a market capitalization of ¥29 trillion as of the end of 2024. The trading volume was 94.6 billion shares and the trading value was ¥34.7 trillion. TSE also has the Growth Market for companies with high growth potential. It consisted of 607 listed stocks with a market capitalization of ¥8 trillion as of the end of 2024; the trading volume was 44.4 billion shares and the trading value was ¥33.5 trillion.

The Nagoya Stock Exchange has three markets: Premier, Main, and Next, with a total of 313 companies listed (as of the end of October 2025). In 2024, the trading volume was 160 million shares, and the trading value was ¥90.5 billion.

The Fukuoka Stock Exchange comprises the Main Market, the Q-Board market for emerging companies, and the Fukuoka PRO Market, a market for professional investors established in May 2024. A total of 124 companies were listed on these markets as of the end of September 2025. In 2024, the trading volume was 15.93 million shares and the trading value was ¥17 billion.

Table IV-1. Trends in TSE Trading Volumes by Each Market Segment

		April 2022	October 2022	April 2023	October 2023	April 2024	October 2024	April 2025
Trading volume (in thousands of shares)	Prime	24,354,567	29,433,788	24,266,922	37,621,612	41,486,632	47,002,273	51,041,519
	Standard	3,962,616	4,753,693	4,830,580	6,832,733	9,449,785	6,742,832	9,114,357
	Growth	2,335,720	2,179,310	2,843,346	2,255,591	2,500,969	4,186,026	4,377,927

Source: Japan Securities Dealers Association, Japan Exchange Group.

Table IV-2. Trends in TSE Trading Value by Each Market Segment

		April 2022	October 2022	April 2023	October 2023	April 2024	October 2024	April 2025
Trading amount (millions of yen)	Prime	57,651,017	71,085,575	59,496,350	88,366,450	106,255,003	105,971,002	111,605,961
	Standard	1,366,865	1,703,020	2,791,520	2,174,659	2,768,711	2,016,362	2,695,032
	Growth	2,878,334	2,632,552	3,549,073	2,169,019	2,618,534	2,302,932	3,501,404

Source: Japan Securities Dealers Association, Japan Exchange Group.

Table IV-3. Trading Volume and Value by Stock Exchanges and Respective Market Share (2024)

Stock Exchanges	Trading Volume (millions of shares)	Market Share %	Trading Value (millions of yen)	Market Share %
Tokyo	652,281	99.932	1,322,793,003	99.984
Nagoya	159	0.024	90,474	0.007
Fukuoka	16	0.002	17,002	0.001
Sapporo	270	0.041	102,453	0.008
Total	652,726	100	1,323,002,932	100

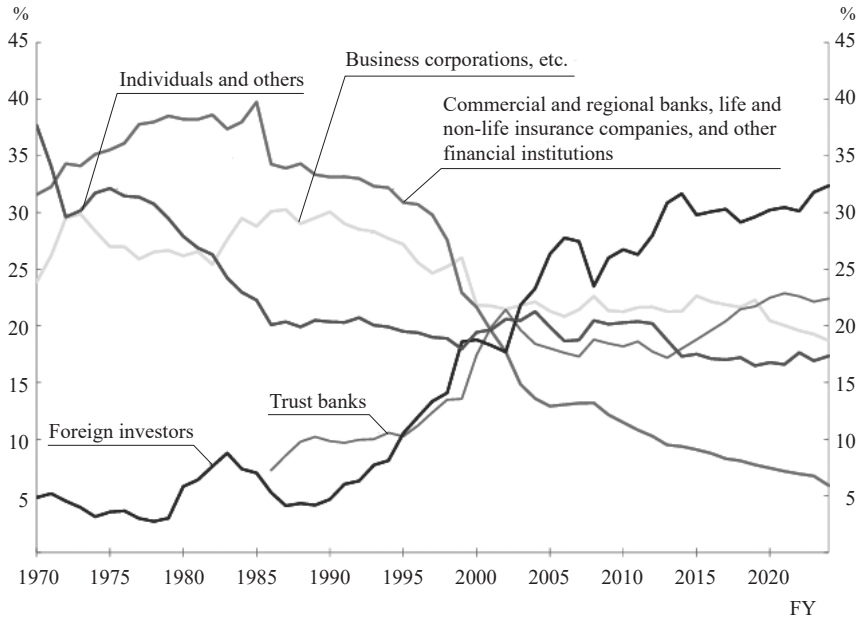
Note: Total percentage may not add up to 100% due to rounding.
Source: Japan Exchange Group.

The Sapporo Securities Exchange has the regular market and the Ambitious market for emerging companies, with a total of 85 companies listed (as of the end of October 2025). In 2024, the trading volume was 270 million shares, and the trading value was ¥102.5 billion.

5. The Structure of Share Ownership

Following the liquidation of the *zaibatsu* (great industrial or financial con-

Chart IV-6. Trends in the Ratio of Shares Held by Different Categories of Investors



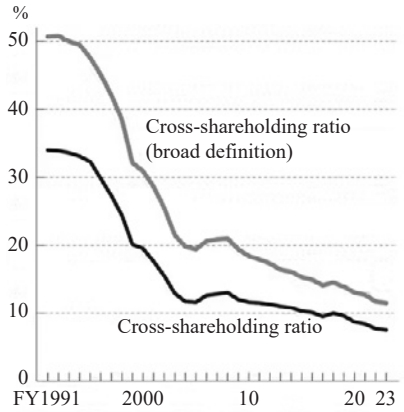
Notes: 1. Results of Trust banks are included in that of Commercial and Regional banks in and before 1985 Survey.
2. Results from FY 2004 to FY 2021 include the portion of companies listed on JASDAQ, and those after FY 2022 include JASDAQ figures within Osaka Securities Exchange or Tokyo Stock Exchange.

Source: 2024 Shareownership Survey.

glomerates or holding companies) after the war, shares held by these companies were released to the stock market for distribution among individual investors. The ratio of shares held by individual shareholders rose to 69.1% in 1949. However, since many of these individual investors could obviously not afford to hold these shares over the long term, they liquidated their holdings soon after acquiring them. As a result, the ratio of individual investors' shareholdings declined rapidly thereafter. Partly due to the fact that certain investors had bought up shares in large quantities, groups of companies that had belonged to the former financial conglomerates (*zaibatsu*) started cross-holding shares of one another to strengthen their group solidarity.

In the 1960s, capital transactions were liberalized following the post-war restoration initiatives. However, in fear of a hostile takeover by foreign firms taking advantage of liberalized capital transactions, Japanese firms sought to build a strong shareholder base, and the ratio of the shareholdings of business

Chart IV-7. Trends in cross-shareholding ratio of listed companies



Note: Based on research by Nomura Capital Markets Research Institute. The cross-shareholding ratio, as broadly defined, includes insurance companies.
Source: Nihon Keizai Shimbun online edition, July 8, 2024.

corporations and financial institutions increased. Subsequently, the system of issuing shares at par value shifted to one of issuing at market price, making it necessary for business corporations to keep their share prices elevated if only for the benefit of raising funds through capital increases. Consequently, the ratio of the shareholdings of business corporations continued to increase in the run up to 1975. Meanwhile, encouraged by the long-lasting bull market, financial institutions also continued to build their equity portfolios and increased the ratio of their stock holdings until the speculative bubble at the end of the 1980s.

This corporate domination of the shareholding structure brought about a material impact on the formation of stock prices. While individuals and institutional investors bought stocks as an investment to earn yields (profit-earning securities), business corporations or financial institutions bought shares on their own proprietary accounts, in many cases, for the purpose of holding shares to strengthen corporate affiliations or business tie-ups as a means of gaining control of the management. Therefore, these corporations were more determined to hold these shares for the long term (management-stake securities) without consideration of yields on investment, and yields on these tended to decline. As a result, the prices of these shares rose to levels that were beyond the reach of individual investors who invested in shares on the basis of yield, and the ratio of stock holdings by individual investors dropped further. In addition, as individual investors had no choice but to look for capital

gains even under such circumstances, they needed to accelerate the rate of turnover of their investments. Against this backdrop, individual investors engaged in highly speculative investment, bringing about the special structure of the stock market in this country.

However, as unrealized capital gains on stock investment shrank sharply due to falls in stock prices after the burst of the speculative bubble, holding shares was no longer an attractive investment even for corporate investors. In recent years, there has been an acceleration in the reduction of cross-shareholdings. Among other factors, this is advocated by the Corporate Governance Code. It is also one of the listing criteria for the Prime Market that the tradable share ratio should be at least 35%. In addition, companies also sold shares due to their need to secure their cash reserves during the COVID-19 pandemic.

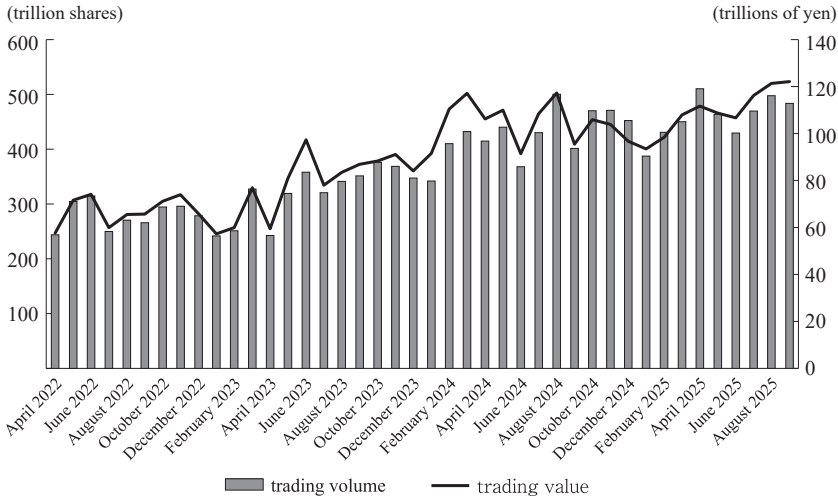
6. Stock Prices and Indicators for Investment (1)

Theoretical prices of assets that generate regular income, such as stocks, can be expressed as dividends by a certain rate of capitalization (interest rate plus risk premium). However, actual asset prices fluctuate according to the investment actions of buyers and sellers depending on their intentions. Investors' activity levels are reflected in the daily changes of trading volumes and trading values.

Only a small portion of listed stocks are actually traded on the stock exchange. Therefore, market capitalization is calculated using the total number of outstanding shares based on the price of completed transactions. For example, on October 31, 2025, the market capitalization of the TSE Prime Market was approximately ¥1,137 trillion, but the value of shares traded was approximately ¥8.6 trillion. This indicates that the total market capitalization of the TSE is computed on the basis of share prices formed through the trading of approximately ¥8.6 trillion worth of shares (In fact, the market capitalization of the entire market represents a sum total of the market valuation of all listed stocks, and the above explanation is intended to simplify the picture).

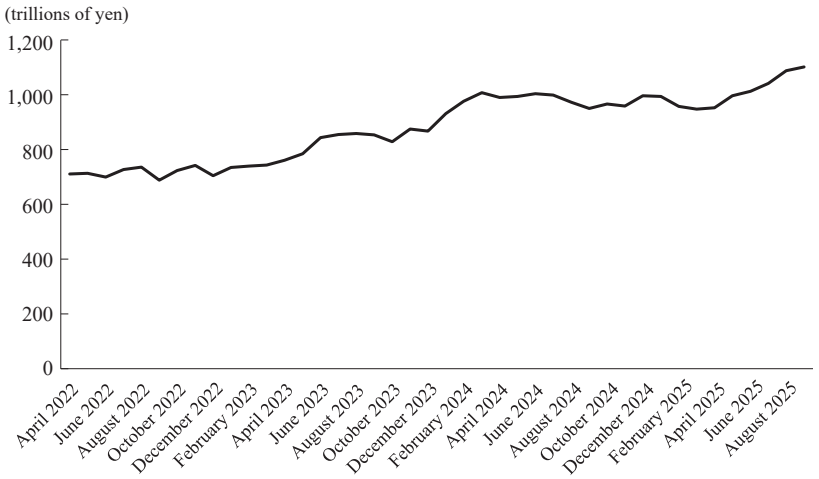
Trends in the secondary stock market are reflected in the movements of stock price indices. The Nikkei Stock Average (Nikkei 225), calculated and published by Nihon Keizai Shimbun (Nikkei Daily), is the most well-known stock price index in Japan. It is calculated by adding up and averaging the share prices of 225 representative stocks in each industry out of all the stocks listed on the Tokyo Stock Exchange (Dow-type adjustment). The divisor is not 225 but is adjusted for corporate events such as stock splits or dividend payments, or else whenever one issue in the index is replaced by another. The current divisor (as of September 30, 2025) is 29.699.

Chart IV-8. Trends in trading volume and trading value in TSE Prime Market



Note: Data on domestic shares. Excludes domestic preferred shares, equity securities and foreign shares.
Source: Japan Exchange Group.

Chart IV-9. Trends in market capitalization on TSE



Note: The total TSE market includes data for the Standard, Growth and TOKYO PRO Market in addition to the Prime Market.
Source: Japan Exchange Group.

The first reason for using a revised divisor is to adjust for the impact of stock splits and stock dividends. For example, a stock split theoretically lowers a stock price, disrupting the continuity of the index. Therefore, an adjustment is made by reducing the divisor. The second reason is to offset the impact of stock replacements. This is because continuity is lost when replacements occur between issues with significantly different stock prices.

Thus, the problem with Dow-type indexes is that they reflect rises or falls in the simple average of stock prices at a scale several times larger than the actual reality. Because these are unweighted average indexes, they can be susceptible to fluctuations in the price of scarce or highly-priced stocks. One way to avoid these drawbacks is to base the index on market capitalization.

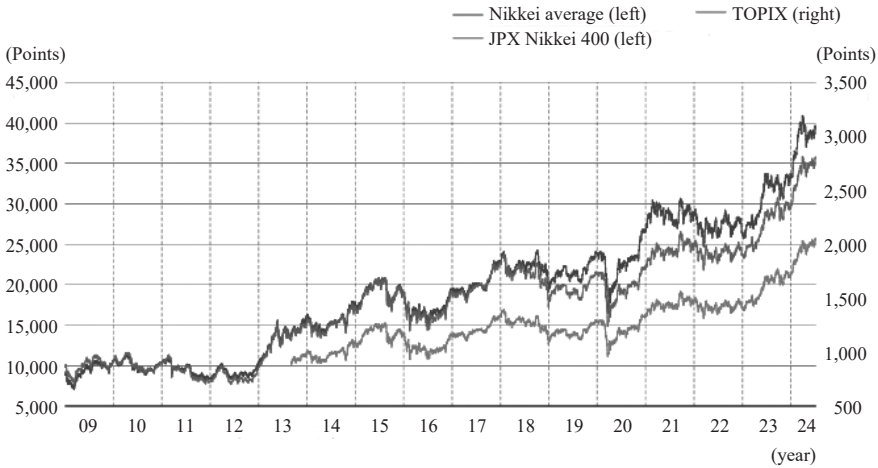
7. Stock Prices and Indicators for Investment (2)

TOPIX (Tokyo Stock Price Index) is another well-known index in Japan. It measures the current market capitalization of the former First Section of the TSE with the market capitalization as of the base date (January 4, 1968) set at 100. It has been calculated and published by the TSE (now JPX Market Innovation & Research, Inc.) since July 1, 1969. TOPIX has the following characteristics: (1) it covers all issues listed on the former First Section of the TSE and therefore reflects changes in the country's industrial structure and market trends, and is not susceptible to potential discontinuity when constituent issues are replaced; (2) it allows easy determination of changes in market size from the perspective of market capitalization; and (3) it is not unduly affected by price fluctuations in thinly traded or high-priced stocks.

Although TOPIX has long played an important role as a benchmark for many institutional investors, it is not seen as a practical investment benchmark because it comprises all the issues in the former First Section. For this reason, TSE has been reviewing TOPIX to improve its functionality as an investment benchmark while ensuring its continuity as an index. While TOPIX component stocks were included in the index regardless of their selected market segment after the new market segmentation came into effect in April 2020, constituents with a tradable share market capitalization of under ¥10 billion were designated as "phased weighting reduction constituents" and their weighting was reduced every quarter in ten (10) stages starting from the end of October 2022 to the end of January 2025.

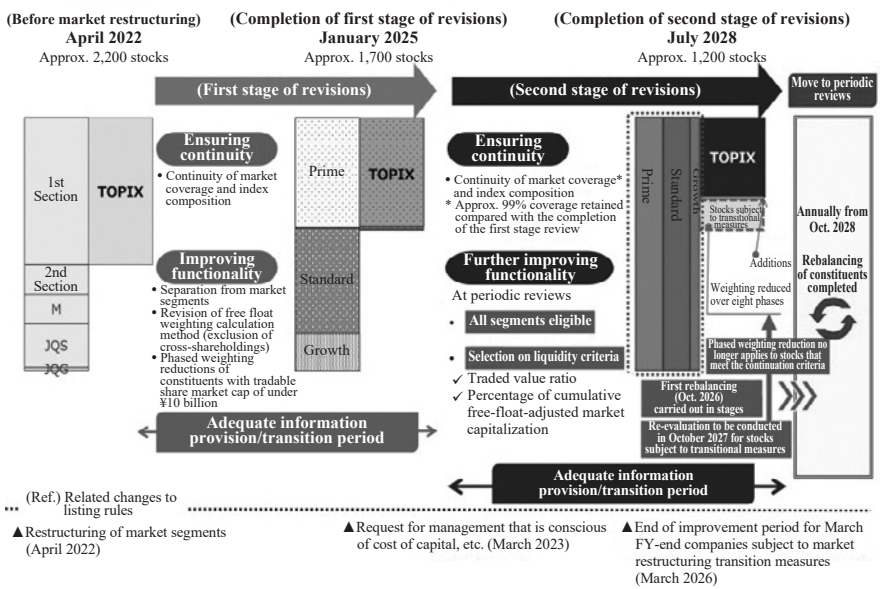
In addition, the method for calculating the free-float weight ratio was changed to better reflect actual market conditions by adding strategic shareholdings to non-free float shares. The revision is being carried out in stages, taking account of the potential market impact from adjustments by passive funds. In addition, initiatives for gathering opinions from market participants,

Chart IV-10. Transitions in Stock Prices



Note: The record date of JPX Nikkei 400 is August 30, 2013 (base value of 10,000 points). As of the end of June 2024.
Source data: Bloomberg.
Source: Japan Securities Dealers Association.

Chart IV-11. Flow of TOPIX Revisions



Source: Japan Exchange Group.

such as Index Consultations and the Index Advisory Panel, have been introduced in order to improve governance of the index.

Following the index consultation conducted from June to August 2024, the review has now entered its second phase. The objective is to further enhance TOPIX's investment functionality as a market benchmark while maintaining its broad market coverage and ensuring index continuity. Key elements include expanding the scope of eligible constituent stocks to include those listed on the Standard and Growth Markets, in addition to the Prime Market, and introducing periodic constituent reviews. The periodic constituent changes will be implemented following a phased transition period from October 2026 to July 2028. The second-stage review is expected to reduce the number of eligible constituent stocks to around 1,200.

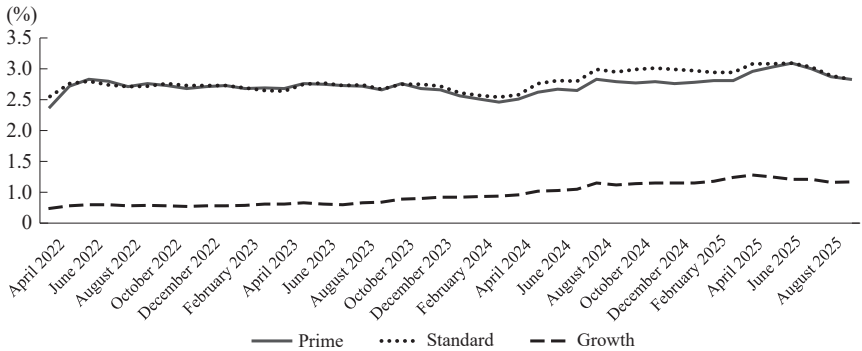
8. Stock Prices and Indicators for Investment (3)

Investors look at various indicators when making decisions to buy or sell. A representative indicator is the dividend yield. It is calculated by dividing the annual dividend by the purchase price of the stock. It is compared with market interest rates, an objective indicator, to assess whether the dividend yield is relatively high or low. However, yield becomes less useful as an investment indicator if many companies adopt a financial policy of not paying dividends and instead retaining and reinvesting their profits. In this case, it is necessary to find a way of relating a company's stock price to its potential for earnings growth.

The price-to-earnings ratio (PER) is a widely used investment indicator. It is calculated by dividing the stock price by the earnings per share and shows the multiple of earnings at which an underlying share is bought and sold. Investors compare the PER of an issue with the industry average or with other issues to determine whether a share is over- or undervalued. Stocks with a high PER reflect market expectations of high future growth potential. However, while dividend yield can be compared with an objective indicator, such as market interest rate, the PER can only be used for relative comparisons.

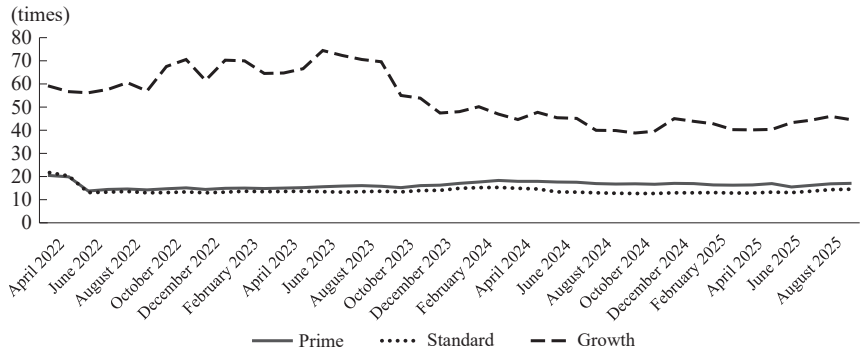
Another commonly used investment indicator is the price-to-book ratio (PBR). PBR is calculated by dividing the stock price by net asset value per share. It is an indicator that compares a company's stock price with its net asset value per share, which is regarded as its liquidation value. If the PBR is below 1, indicating that the stock price is below its liquidation value, the stock is often considered undervalued. However, the usefulness of PBR as an investment indicator depends on book value accurately reflecting the company's actual asset value. If the actual value of its assets is lower than book value because of unrealized losses on land or shareholdings, the stock may not

Chart IV-12. Dividend yield of TSE-listed companies (simple average)



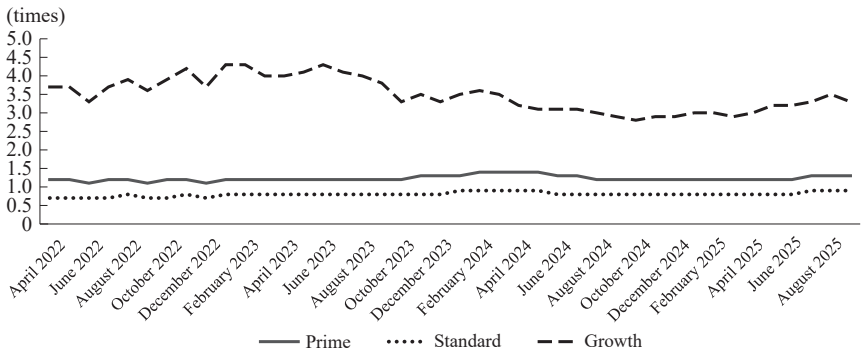
Source: Japan Exchange Group.

Chart IV-13. PER (simple average) of TSE-listed companies (consolidated)



Source: Japan Exchange Group.

Chart IV-14. PBR (simple average) of TSE listed companies (consolidated)



Source: Japan Exchange Group.

be undervalued even if its PBR is below 1. In March 2023, TSE issued a notice requesting listed companies who had PBR below 1x for an extended period of time (on the Prime and Standard Markets) to disclose and implement measures to address this. This initiative is intended to encourage listed companies to be more conscious of the cost of capital and stock prices, and thereby increase the attractiveness of the Tokyo market to investors.

Finally, there is return on invested capital (ROIC). ROIC is calculated by dividing operating income by invested capital (shareholders' equity plus interest-bearing debt). It indicates how efficiently a company generates profits from the capital employed in its business operations. If ROIC exceeds the weighted average cost of capital (WACC), the company is generally considered to be generating returns that exceed investors' required rate of return.

9. The Margin Trading System (1)

(1) Overview of Margin Trading

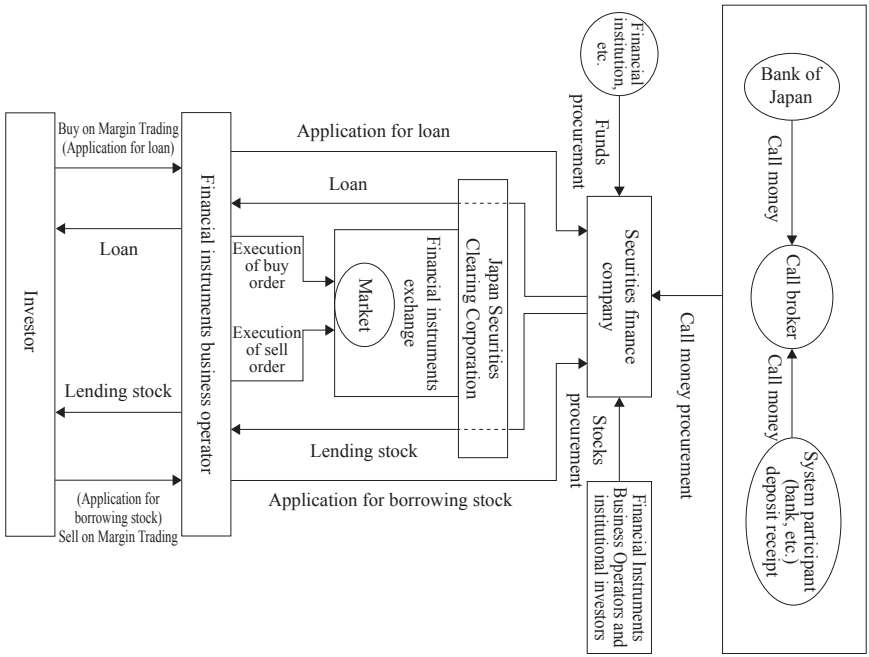
Shinyo torihiki (margin trading) is a system crafted on the model of the margin trading conducted in the United States and was introduced into Japan in June 1951 with a view to stimulating speculative demand for securities trading. Margin trading is a transaction in which an investor receives credit from a Financial Instruments Business Operator (securities company) and can buy a certain number of shares of a stock or sell shares without owning the funds to buy or the shares to sell, provided that they deposit a certain amount of margin money. On the other hand, the Financial Instruments Business Operator who receives such an order must settle the transaction on the settlement day.

(2) A Loan for Margin Transaction

Loan for margin transactions as the money markets and the securities markets in Japan were not fully integrated to begin with, loans for margin transactions were introduced by securities finance companies to help ease the requirement on Financial Instruments Business Operators to provide cash or stock certificates for the settlement of standardized margin trading.

A loan for margin trading is where a securities finance company lends a Financial Instruments Business Operator (a participant in a financial instrument exchange) funds or stock certificates that are needed to settle standardized margin trading through the settlement mechanism of the financial instruments market. The amount of funds and shares required is reduced by first internally offsetting applications for financing against applications for stock loans for the same issue—that is, by lending the proceeds from sales collected as collateral from margin sellers to margin buyers, and the shares pur-

Chart IV-15. Outline of Margin Trading and Loans for Margin Transactions



⦿Standardized margin trading (between a customer and a Financial Instruments Business Operator)
Collateral: Shares bought (or the proceeds from the sale of shares sold)
Margin: 30% or more of the market price of the shares bought (or sold) on margin. (When a substitute security is deposited, such security will have a collateral value of up to 80% or less of its market price.) However, the minimum amount of the margin in all cases is ¥300,000.

⦿Loans for margin transactions (between a Financial Instruments Business Operator and a securities finance company)
Collateral: Shares bought (or the proceeds from the sale of shares sold)
Guarantee deposit: 30% or more of loan balance (or the lending stock balance) (When a substitute security is deposited, such security will have a collateral value of up to 80% of its market price.)

⦿Call money share collateral deposit receipt system (participating in the system are securities finance companies, call money dealers, companies affiliated with the deposit receipt system, financial instruments exchanges, and the Bank of Japan).

Under this system, stock certificates pledged as collateral for a loan for margin transaction received by a securities finance company (only such issues recognized as appropriate by the Bank of Japan) are transferred to the account of a financial instruments exchange opened with the Japan Securities Depository Center and the securities finance company takes in call money by pledging as collateral the deposit receipt issued by the financial instruments exchange based on the aforesaid stock certificates.

In other words, the system enables collateral to be used to procure the funds necessary for the loan transaction, effectively using the stock as collateral. The deposit receipt also serves as collateral when borrowing money from the Bank of Japan through a call money dealer.

Note: The margin rate and the ratio of collateral value above may change based on margin trading regulations.

chased and collected as collateral from margin buyers to margin sellers. Next, for any requirement of funds after offsetting, the securities finance company meets the shortage by borrowing the amount of the shortfall from a bank or by raising funds from the call market, or from the Bank of Japan. For any stock lending requirements, the securities finance company may borrow by inviting bids from Financial Instruments Business Operators and institutional investors (see the chart on the next page). Issues selected by the financial instruments exchange as eligible for standardized margin trading are classified into loanable issues, which are eligible for both financing and stock lending under loans for margin transactions, and financing-only issues, which are eligible only for financing. Loanable issues are selected from the perspective of ensuring liquidity to handle speculative demand based on the number of tradable shares or the number of shareholders.

(3) Securities finance companies

Securities finance companies were established in 1950 as specialized financial institutions in the securities market. They began providing loans for margin transactions with the introduction of the margin trading system in June 1951. Since the role of securities finance companies on the securities market increased as margin trading expanded, to strengthen their function, the government introduced a licensing system from April 1956, requiring securities finance companies to be authorized by the Minister of Finance (currently, the Prime Minister). Since then, there has been significant consolidation among the securities finance companies established on regional stock exchanges. As of today, there is only one such company: Japan Securities Finance Co., Ltd.

10. The Margin Trading System (2)

(4) Types of Margin Trading

Based on the amendments to the Securities and Exchange Act (now the Financial Instruments and Exchange Act) in 1998, Financial Instruments Business Operators were permitted to borrow stocks without going through securities finance companies and to engage in stock lending and borrowing transactions among themselves (the so-called "stock lending market"). At the same time, general margin trading was also permitted, allowing Financial Instruments Business Operators to freely determine stock lending fees, settlement deadlines, and other trading terms with their customers. At this juncture, conventional margin transactions backed by loans for margin transactions came to be called standardized margin trading because the financial instruments exchanges determine stock lending fees, settlement deadlines, and other trading terms (see Table IV-4). Negotiable margin trading be-

Table IV-4. Comparison of Standardized and Negotiable Margin Trading

	Standardized margin trading	Negotiable margin trading
Margin deposit	30% or more of trade contract value	30% or more of trade contract value
Loan rate (negative interest)	Rate set xby the financial instruments exchange	Determined by Financial Instruments Business Operator
Repayment due date	Up to six months	Determined by Financial Instruments Business Operator
Eligible issues	Selected by financial instruments exchanges, etc.	Selected by Financial Instruments Business Operator
Rights processing	Method set by the financial instruments exchange	Method specified by Financial Instruments Business Operator
Financing (loan transaction)	Available	Not available

Source: Compiled from the Japan Exchange Group website and other sources.

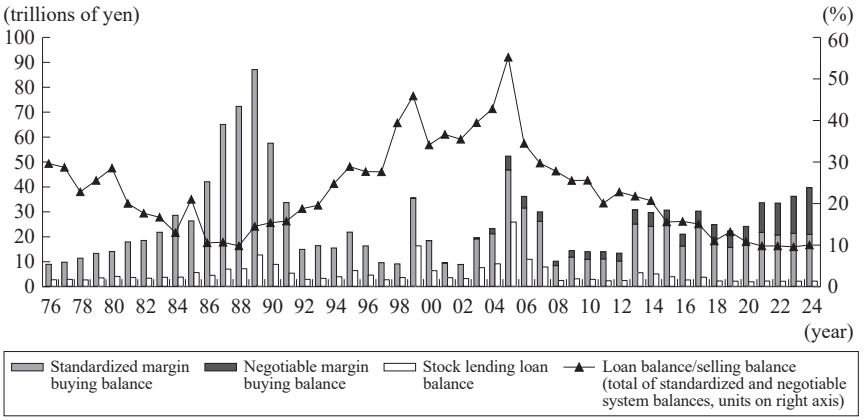
came increasingly popular once internet trading was available in Japan from 2003.

(5) Trends in Outstanding Balances

With regard to the demand for funds and shares by Financial Instruments Business Operators, the ratio of outstanding financing under loans for margin transactions to outstanding purchases under standardized margin trading declined almost continuously until 1988, reflecting, among other factors, the accumulation of internal reserves by Financial Instruments Business Operators. Since 1990, however, the ratio has turned upward owing to the deterioration in their financial strength following the collapse of the asset price bubble, the emergence of online securities companies, and the sharp increase in outstanding margin purchases accompanying the market recovery from 1999 onward. In recent years, however, the dependency on loans for margin transactions has again trended downwards because of the greater diversification of financing sources for Financial Instruments Business Operators. Negotiable margin trading has been increasing, partly because some transactions have no settlement deadline, and now accounts for around 40% of outstanding margin purchases.

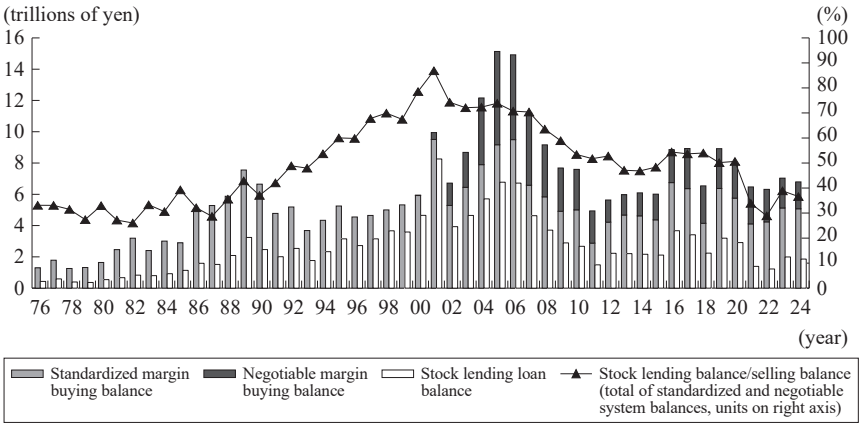
Next, looking at the outstanding balance of stock loans under loans for margin transactions related to the demand for shares, although short selling itself was previously limited, with the increasing institutionalization of the stock market since the late 1990s, Financial Instruments Business Operators have increasingly borrowed shares from securities finance companies to take the opposite side of buy orders on a proprietary basis. In addition, active

Chart IV-16. Margin Buying Balances (standardized and negotiable trading) and Loan/Selling Balances



Note: Previous to 2012, figures included the margin balances of companies listed on the Osaka Securities Exchange.
Source: Compiled from the Japan Exchange Group website and other sources.

Chart IV-17. Margin Selling Balances (standardized and negotiable trading) and Loan/Stock Lending Balances



Note: Previous to 2012, figures included the margin balances of companies listed on the Osaka Securities Exchange.
Source: Compiled from the Japan Exchange Group website and other sources.

short selling by individual investors through online securities companies has contributed to an increase in the outstanding balance (see chart).

(6) Trading markets

Margin trading systems have changed and diversified along with the development of the securities market in Japan. The margin trading system has been expanded on a number of occasions as part of measures to revitalize the market. Margin trading was introduced on the JASDAQ market in October 1997 and on proprietary trading systems (PTSs) in August 2019. Securities finance companies also launched loans for margin transactions for the JASDAQ market in April 2004 and for PTSs in August 2019, respectively. Currently, margin trading and loans for margin transactions are available on the Tokyo Stock Exchange, the Nagoya Stock Exchange, the Sapporo Securities Exchange, the Fukuoka Stock Exchange, and three proprietary trading systems (PTSs) (as of February 28, 2026).