

Summary of Comments on "Introduction of Nikkei 225 micro Futures and mini Options" and OSE's Responses

August 26, 2022  
Osaka Exchange, Inc.

Osaka Exchange, Inc. (OSE) released an outline of the introduction of Nikkei 225 micro Futures and mini Options on June 17, 2022, and sought broad public comments until July 17, 2022. We appreciate the cooperation of those who have submitted comments in reviewing this matter.

A summary of the received comments and OSE's responses are as follows.

Please note that the implementation date, which was written as "second quarter of 2023" in the specifications, has now been set to May 29, 2023.

| No. | Summary of Comments   | OSE's Responses  |
|-----|---|--|
| 1   | <ul style="list-style-type: none"> <li>- I am very supportive of this revision because I trade Nikkei 225 mini, but the unit is so large that I have to trade CFDs, which can be traded at one tenth.</li> <li>- I would like OSE to create an environment that makes it easier for novice investors to get started, such as by providing demo trading so that they can participate in the market with confidence.</li> </ul>   | <ul style="list-style-type: none"> <li>- With the introduction of Nikkei 225 micro Futures and mini Options, we expect and anticipate the entry of new investors and the expansion of trading by existing investors. Therefore, we would like to further strengthen our efforts for the sound expansion and development of the derivatives market, including existing products, in cooperation with securities companies. In addition, we will continue to strive to improve the convenience of the derivatives market by adding products and reviewing the trading rules in a timely manner to meet the needs of market participants.</li> <li>- OSE provides the "OSE Futures &amp; Options Simulator" on the "Kitahama Investment Academy" section of its official website (both websites only available in Japanese). This simulator is intended to communicate the appropriate uses of derivatives trading to individual</li> </ul> |
| 2   | <ul style="list-style-type: none"> <li>- The introduction of options with a smaller contract unit is welcome news. While it will allow fine-tuning of positions, which makes trading easier, it will also give investors more ideas for strategies. To assist them, we would like OSE to request securities companies to provide a "profit/loss simulator".</li> <li>- In addition, we think it needs to be available to anyone and it would be good for the exchange to first set up a special website with a</li> </ul> |  |

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|     | profit/loss simulator available to anyone.   | investors and others who start derivatives trading for the first time.  |
| 3   | <ul style="list-style-type: none"> <li>- It is good to make the trading unit smaller to make it easier for individuals to trade, but the problem is that there are only a few securities companies that offer securities options and weekly options. So the most important thing is for the exchange and securities companies to work together to promote the use of securities options and other products using this reform as an opportunity.</li> </ul>         | <p>investors and others who start derivatives trading for the first time.</p> <p>"Kitahama Investment Academy"</p> <p><a href="https://www.jpx.co.jp/ose-toshijuku/">https://www.jpx.co.jp/ose-toshijuku/</a></p> <p>"OSE Futures &amp; Options Simulator"</p> <p><a href="https://www.fopstudy.com/main">https://www.fopstudy.com/main</a></p>   |
| 4   | <ul style="list-style-type: none"> <li>- There is no particular objection to the introduction of Nikkei 225 micro Futures and mini Options, as it will meet the specific needs of institutional investors for derivatives products, not to mention individual investors.</li> </ul>  |   |
| 5   | <ul style="list-style-type: none"> <li>- Little progress has been made in tax reform, and derivatives products will not work as hedging instruments without allowing aggregation of profit and loss, such as unification of financial income taxation. This revision will surely add a large number of participants in the derivatives market, so I would like OSE to gather opinions from this large pool of investors to push advances in tax reform.</li> </ul> | <ul style="list-style-type: none"> <li>- With respect to the expansion of the scope of profit/loss offsetting to derivatives trading, we have been repeatedly requesting tax reform as a major priority since FY2013 from the perspective of creating an environment that facilitates investment in a variety of financial instruments. Tax reform proposals published last year by the ruling coalition state that further unification of financial income taxation pertaining to derivatives trading will be reviewed as early as possible, based on the results of past studies on measures to prevent intentional tax avoidance, as part of a comprehensive study on the ideal taxation system. We will continue to work on the realization of the tax reform request in cooperation with all related parties.</li> </ul> |
| 6   | <ul style="list-style-type: none"> <li>- For futures, I think we could do without large and just have mini</li> </ul>  | <ul style="list-style-type: none"> <li>- Our understanding is that market participants select and use different</li> </ul>  |

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|     | <p>and micro. And for options, since current prices per contract are high and from the liquidity point of view, I think it would be better if current products were changed to micro.</p>   | <p>sizes of transactions as appropriate for their purposes, taking into account execution costs, efficiency, and other factors. As pointed out, while limiting the types of transaction size is expected to have the advantage of concentrating liquidity, it may also have the disadvantage of making it less user-friendly in terms of execution costs, efficiency, and other aspects.</p> <ul style="list-style-type: none"> <li>- For futures and options (regular contract months), given that trading is centered on institutional investors, who mainly trade in large lots, we consider offering multiple contract sizes simultaneously to be the best option in terms of liquidity and ease of use. For options (weekly contract months) on the other hand, as a relatively large number of transactions are made by retail investors, we consider that the disadvantage of multiple contract sizes, namely lower liquidity, may outweigh the advantage of ease of use. For this reason, as well as considering the burden on trading participants, we have decided to make the current options (weekly contract months) smaller.</li> </ul> |
| 7   | <ul style="list-style-type: none"> <li>- I am very pleased that mini Options will be listed, but since there is not enough liquidity in strike prices with JPY 125 intervals for Nikkei 225 Options, it would be better to have JPY 125 intervals for Nikkei 225 of below JPY 15,000, JPY 250 intervals for JPY 15,000 or more, JPY 500 intervals for JPY 50,000 or more, and JPY 1,000 intervals for JPY 100,000 or more.</li> </ul> | <ul style="list-style-type: none"> <li>- We believe that there is a certain amount of demand among market participants for strike prices with JPY 125 intervals for Nikkei 225 Options (regular and weekly contract months) as such trading has actually been conducted.</li> <li>- Therefore, from the perspective of smooth trading and appropriate price formation through such trading, we will continue to improve the market maker system and other frameworks to ensure sufficient liquidity, including for the planned Nikkei 225 mini Options.</li> </ul>  |
| 8   | <ul style="list-style-type: none"> <li>- I think with mini Options, liquidity will be higher to some extent if strike prices are set at JPY 250 or 500 intervals than if they are set</li> </ul>  |   |

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|     | at JPY 125 intervals.   |  |
| 9   | <ul style="list-style-type: none"> <li>• Nikkei 225 micro Futures - Looks like standard future and our back-office should support the new product as BAU.</li> <li>• Nikkei 225 mini Options - We would like JPX to set-up the weekly similar to the existing Nikkei 225 weeklies where each week is defined as a separate product. The existing Nikkei 225 weekly options are defined NK225W1 - NK225W5. Similarly, we would like to see Nikkei 225 micro weekly options as a separate symbol.</li> <li>• Will JPX able to set-up the symbol of micro futures and options to have unique first 7 characters? For example, NK225F, NK225E, NK225MF, NK225W1 &amp; so on.</li> </ul> | <ul style="list-style-type: none"> <li>• Please refer to the announcement by Japan Securities Clearing Corporation dated July 29, 2022 for the detail on SPAN codes related to the trading margin for Nikkei 225 micro Futures and mini Options.</li> </ul> <p>"Setting of SPAN Code in Align with 2023 2nd Quarter Projects at Osaka Exchange"</p> <p><a href="https://www.jpx.co.jp/jscc/en/information/news/20220729_3.html">https://www.jpx.co.jp/jscc/en/information/news/20220729_3.html</a></p> |

Comments Nos. 1 to 3 are from individuals; No. 4 is from Nomura Asset Management Co., Ltd; Nos. 5 to 8 are from individuals; and No. 9 is from FIS