

Summary of Public Comments on “Revisions to Trading Rules in Connection with Launch of J-GATE3.0” and Exchange's Responses

July 16, 2020

Osaka Exchange, Inc.

Osaka Exchange, Inc. (OSE) published a draft outline “Revisions to Trading Rules in Connection with Launch of J-GATE3.0” on May 13, 2020 and broadly sought comments from the public until June 13, 2020. The OSE received many comments and deeply appreciate the cooperation from market participants for deliberations on this issue.

The following is a summary of the comments received and OSE's responses thereto:

Number	Summary of Comments	OSE’s Responses to the Comments
1	<p>Extension of the night session</p> <ul style="list-style-type: none"> <li>The closing time of the night session shall be changed from the current 5:30 a.m. to 6:00 a.m., but I think the night session should be extended to 6:15 a.m. I think that the night session exists so as not to miss trading opportunities from market fluctuations in Europe and the United States after the end of the day session in Japan. If that is correct, it would be preferable to cover the most important whole day session of the U.S. stock index futures trading (ES, NQ, YM, etc.). Although the closing time for the U.S. stock index futures trading is 5:15 a.m. (in Summer, JST), it is 6:15 a.m. (in Winter, JST) and ends 15 minutes after the end of the night session in Japan, so even if the night session gets extended to 6:00 a.m. I sincerely hope that it can be extended for another 15</li> </ul>	<ul style="list-style-type: none"> <li>Thank you for your valuable comments. We will continue to take your opinions into consideration for future reference.</li> </ul>

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	minutes.	
2	<p>Review of the number of contract months in the Rubber Market</p> <ul style="list-style-type: none"> <li>• Regarding the policy of increasing the number of natural rubber futures contract months from the current 6 contract months to 12 contract months, I disagree with the policy for the following reasons:</li> </ul> <p>1) When commodity futures are actively traded, in addition to the degree of interest among market participants coming from the economic environment, the active trading itself has a self-action effect, which can inspire further trading. As the number of contract months increases, liquidity spreads and then trading activity loses momentum. Increasing the number of contract months under the recent low liquidity market environment is likely to have a negative impact on liquidity.</p> <p>TOCOM trading volume as before, tends to concentrate mostly on the farthest contract month. If the 12 contract months system is adopted, it's possible that the majority of transactions would be concentrated in the 12th-contract month. Where in the world would there be such a futures market?</p>	<ul style="list-style-type: none"> <li>• Thank you for providing your valuable opinions and information.</li> </ul> <p>1) As you pointed out, trading volume for the rubber futures market has been on a declining trend, and in order to secure liquidity going forward, it is essential to increase the number of overseas participants. In the major overseas rubber futures markets, the contract month system which covers hedging needs up to one year in advance is the mainstream, and in the RSS, which has a high percentage of participants from overseas markets, the introduction of a 12 contract months system to improve the convenience of arbitrage trading with the SGX and Shanghai rubber markets is considered meaningful for maintaining and revitalizing the market for the future.</p> <p>With the introduction of the 12 contract months system, we plan to introduce appropriate measures, including the market maker system, to prevent a decline in liquidity and to maintain convenience for investors.</p>

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	<p>2) According to hearsay, the reason for increasing the number of contract months this time is that some market participants are requesting arbitrage trading.</p> <p>What we can imagine at this point is the expectation that short-term manipulative transactions will result in a follow up of the Shanghai market from price manipulation in the TOCOM market with few market participants.</p> <p>An Exchange should not encourage such an attempt.</p> <p>Furthermore, I think it is necessary to properly manage the market without allowing excessive arbitrage transactions and/or malicious operations under the pretext of arbitrage.</p> <p>3) Natural rubber is an agricultural product produced with the hard work and sweat of more than 10 million small-scale farmers in Southeast Asian countries.</p> <p>It differs greatly from the crude oil mining industry supported by governments of large countries with huge capital.</p> <p>No matter what the background is, there can be no economic reason to allow price movements of JPY 30 - 40 per day (even if it is up or down).</p> <p>Circuit breakers are not the right choice in today's financial economic futures markets.</p> <p>Circuit breakers are now not a means of risk aversion, but the objective of some market participants. Occasionally, trading starts for circuit</p>	<p>2) Regarding the pricing manipulation and other concerns mentioned, we will ensure that our daily trading supervision is thoroughly carried out and work with Japan Exchange Regulation, which is responsible for the OSE's self-regulatory functions after the product transfer and address these issues as part of our efforts to prevent unfair trading.</p> <p>3) Regarding the circuit breaker system (daily price limits) related to RSS3, we plan to continue with the same system as the current TOCOM (price limit is JPY 20) after the products transfer to OSE. At the moment, when J-GATE3.0 is launched and the respective restricted price limits are reached, we do not assume the daily price limits will extend further.</p>

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	<p>breakers to kick in and that more likely gets you to another circuit breaker .</p>	
3	<ul style="list-style-type: none"> <li>• I personally disagree with the current review of the number of contract months in the rubber market.</li> </ul> <p>Although global standards such as SICOM have a 12 contract months system, the months they are actually active are often only 6 contract months.</p> <p>I do not think that the 12 contract months system will increase trading volume, and from the viewpoint of parties who actually buy rubber products, I expect it will be even harder to predict the future. Therefore, there is a possibility that we may keep our distance from the futures market for commodities.</p>	<ul style="list-style-type: none"> <li>• Thank you for your valuable opinion.</li> </ul> <p>As you pointed out, the market for rubber futures has been on a declining trend, and in order to secure liquidity going forward, it is essential to increase the number of overseas participants. In the major overseas rubber futures markets, the contract month system which covers hedging needs up to one year in advance is the mainstream, and in the RSS, which has a high percentage of participants from overseas markets, the introduction of the 12 contract months system is to improve the convenience of arbitrage trading with the SGX and Shanghai rubber markets and considered meaningful for maintaining and revitalizing the market for the future.</p> <p>With the introduction of the 12 contract months system, we plan to introduce appropriate measures, including the market maker system, to prevent a decline in liquidity and maintain convenience for investors.</p>
4	<ul style="list-style-type: none"> <li>• I strongly disagree with the plan to change the rubber market from a 6 contract months system to a 12 contract months system.</li> </ul> <p>It is evident that if the policy for increasing the number of contract</p>	<ul style="list-style-type: none"> <li>• Thank you for your valuable opinion.</li> </ul> <p>The market for rubber futures has been on a declining trend, and in order to secure liquidity going forward, it is essential to increase</p>

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	<p>months is carried out in the current rubber market, trading will be slow, quiet and light, leading to a "market death." TOCOM's track record (past irregular 12 contract months and recent TSR20 listing) and histories of the New York and London-based rubber markets tell the story.</p> <p>Rubber futures, like financial instruments such as stocks and bonds, also have a cash market for corporations and government bonds. The futures market is designed to adjust to the actual cash market situation (scale, characteristics of trading participants, necessity, etc.). However, if you increase the contract months when there is no demand in the market, popularity will be dispersed and diluted, becoming slack and then just fade away. Concentration of trading popularity is key to maintaining and expanding trading volume.</p> <p>Actually, the fact that such a proposal (although I don't know what discussions were held or not ) is requesting public comments itself is a big problem.</p> <p>In actuality, in spite of the opposition of many market participants, listing TSR20 went ahead and for the same reason was not only in a state of being open but not doing business , but also invited distrust in the global rubber industry due to poor market designs and operations. And consequently, it even cut down trading volume and activity in the RSS3 futures market.</p> <p>Unlike other markets, the "overseas photo quotes plus exchange rate,"</p>	<p>the number of overseas participants. In the major overseas rubber futures markets, the contract month system which covers hedging needs up to one year in advance is the mainstream, and in the RSS, which has a high percentage of participants from overseas markets, the introduction of a 12 contract months system to improve the convenience of arbitrage trading with the SGX and Shanghai rubber markets is considered meaningful for maintaining and revitalizing the market for the future.</p> <p>With the introduction of the 12 contract months system, we plan to introduce appropriate measures, including the market maker system, to prevent a decline in liquidity and maintain convenience for investors.</p>

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	<p>rubber market is a unique market and Japan has become the world's leading indicator. (Recently, there's signs of decline due to poor market management and operations .)</p> <p>Overseas market participants now account for about 70% of the trading volume and open interest in the rubber market. It is also a problem that there are no public comment requests to those overseas customers in the entitled "proposal".</p> <p>Before “making the market more reliable and convenient” in “I. Purpose”, it is necessary to reform the framework of the present rubber market. At least a Rubber Market Management Committee made up of people with expertise in the global rubber market and industry is needed. It is also necessary to review the business rules and detailed rules.</p> <p>In response to recent changes in the trading environment (particularly globalization), we believe that we need to revise the rules and detailed rules that are inconsistent with general law.</p> <p>I would be grateful if we could discuss these points again at another opportunity.</p> <p>Taking advantage of the transfer of TOCOM rubber market to JPX, I ardently hope for the Japanese rubber market to regain the brilliance of the past.</p>	<p>Note that for the public comment procedures in OSE, the outline of the English version was published on JPX's English website and the procedures for soliciting opinions, including overseas investors were carried out broadly.</p> <p>In addition, important matters concerning trading rules, etc. of OSE listed products which include transferred products will be examined at a prescribed meeting body such as a Market Operating Committee .</p>

Submitter: 1 = Hardworking Technology Limited, 2-3 = Individuals, 4=Southland Rubber Co., Ltd.

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