

Introduction of Compression Trade Rules in Market Derivatives Trading

June 16, 2021

Osaka Exchange Inc.

I. Purpose

In response to the increased need for reducing costs associated with managing outstanding positions in accordance with leverage ratio requirements, etc., Osaka Exchange, Inc. (OSE) will introduce trades that will allow market participants to reduce outstanding positions while controlling the change in risk exposure within a certain range by simultaneously matching the positions they want to trade.

II. Outline of Compression Trades

| Item | Description | Remarks |
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| 1. Compression Trades | <ul style="list-style-type: none">For the purpose of allowing the reduction of positions held by trading participants or their customers, OSE will introduce trades to reduce positions within a range of tolerable risk, which shall combine issues (or contract months in the case of futures contracts; the same shall apply hereinafter) specified by OSE and their volumes based on applications from trading participants (hereinafter referred to as "compression trade(s)").Compression trades will be available in the J-NET market, which is independent of the auction market. | |
| 2. Eligible Issues | <ul style="list-style-type: none">The eligible issues for compression trades will be Nikkei 225 futures contracts and Nikkei 225 options contracts. | <ul style="list-style-type: none">Flexible contract months will not be eligible for compression trades.Only Nikkei 225 options contracts will be eligible for the time being. |

| Item | Description | Remarks |
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| 3. Applications and Bids & Offers | <ul style="list-style-type: none"> • The trading participants who want to conduct a compression trade (hereinafter referred to as "compression trading participant(s)") shall each make an application that includes all the issues and their volumes for the compression trade as well as the tolerable risk caused by the compression trade in the manner specified by OSE. • Based on the applications from the compression trading participants, OSE will provide each compression trading participant with a combination of the issues and their volumes available for the compression trade (hereinafter referred to as the "compression terms"). • The compression trading participants shall confirm the compression terms provided by OSE and make the bids and offers for the compression trade based on acceptance of the terms of the trade. • The bids and offers for the compression trade shall be made for each issue at the price specified in each of the following classifications. <ul style="list-style-type: none"> a. Index futures contracts The settlement price (meaning a numerical value determined by Japan Securities Clearing Corporation (hereinafter referred to as "JSCC") as the settlement price of index futures contracts) of the relevant contract month on the trading day prior to the trading day on which the compression trade is to be made b. Index options contracts The settlement price (meaning a price determined by JSCC as the settlement price of index options contracts) of the relevant issue on the trading day prior to the trading day on which the compression trade is to be made | <ul style="list-style-type: none"> • Applications for compression trades may be made on days specified by OSE. As a general rule, these will be the day (to be moved up in order if it is the last business day of the week to which it belongs) that is two business days prior to the last business day of each month. • A new position could be established by a compression trade. • The compression terms cannot be partially accepted. • See "Appendix: Flow of a Compression Trade" for an illustration of the flow of a compression trade. |

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| 4. Method of Conclusion of Trading Contract | <ul style="list-style-type: none"> The compression trade will be executed between such bids and offers when all the bids and offers made by compression trading participants match. | <ul style="list-style-type: none"> The compression trade will not be executed if there is any compression trading participant who does not make the bids and/or offers by the time specified by OSE. Outstanding positions may be reduced by reporting the close-out quantity, etc. after the trade is executed. |
| 5. Trading Method | <ul style="list-style-type: none"> Trading will be conducted by means other than trading through the trading system. | |
| 6. Notifications | <ul style="list-style-type: none"> When a compression trade is executed, OSE will notify the compression trading participants of the details of such trade. | |
| 7. Suspension of Trading and Temporary Trading Halts | <ul style="list-style-type: none"> OSE will suspend compression trades in cases where it is deemed necessary. Temporary trading halts based on the circuit breaker rules will not be applicable to compression trades. | |
| 8. Trading Fees | <ul style="list-style-type: none"> Trading fees will be the same as those for other J-NET trading. | |

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| 9. Publication of OHLC Price Data, etc. | <ul style="list-style-type: none"> • Open/high/low/close price data, etc. will be published under J-NET trading. | <ul style="list-style-type: none"> • Individual trades will not be published. |
| 10. Trading by Trading Participant | <ul style="list-style-type: none"> • Compression trades will not be included in information on trading by trading participant. | |
| 11. Trading by Type of Investors | <ul style="list-style-type: none"> • Information on trading by type of investors will be published under J-NET trading. | |
| 12. Others | <ul style="list-style-type: none"> • Other necessary revisions will be made. | |

III. Implementation Date (tentative)

These revisions are scheduled to be implemented in October 2021.