

Summary of Comments on "Revision of Handling of Trading Volume by Trading Participant Information for Futures and Options" and OSE's Responses

June 19, 2023

Osaka Exchange, Inc.

Osaka Exchange, Inc. (OSE) released its proposed revisions to the handling of information relating to trading volume by trading participant for futures and options on October 5, 2022 and sought public comments until November 4, 2022. We appreciate the cooperation of those who have submitted valuable comments in reviewing this matter.

The summary of the comments received and OSE's final response policy are as follows.

I . The summary of the comments received and OSE's responses

No.	Summary of Comments	OSE's Responses
1	<ul style="list-style-type: none"> • I support the proposal to revise the information and publish the combined value of selling and buying volume, for the following reasons. <ul style="list-style-type: none"> ① As I recall, the reason why this information was first disclosed 30 years ago was related to the theory that the futures market was escalating losses in the equity market - supposedly because of arbitrage trading conducted on the proprietary accounts of foreign securities firms. Trading information regarding cash equities was already being shared among TSE member trading firms, but I assume it was thought that disclosing the same information regarding OSE 225 futures would increase the transparency of supply and demand for the Nikkei 225 component issues that were being used for 	<ul style="list-style-type: none"> • Osaka Securities Exchange, Co., Ltd. (the former OSE) began publishing trading volume by trading participant for futures and options in February 1992 as an independent initiative by the exchange, based on the market conditions at the time and other factors. • Since then, in Japan, the share of proprietary trading by securities firms, which accounted for the majority of trading when the publication of this information began, has declined to about 10% for Nikkei 225 Futures trading. Meanwhile, since the 2000s, there has been a trend towards non-disclosure of trading information in major markets both in Japan and abroad, in line with the shift from manual trading on the physical trading floor to automated execution. So, the market environment has changed considerably since the publication

No.	Summary of Comments	OSE's Responses
	<p>arbitrage trading. In other words, while ostensibly it was improving the transparency of OSE derivatives, I believe that the real purpose was to improve the transparency of TSE cash equities.</p> <p>② Thirty years have passed since then; trading has become automated, the share of proprietary accounts has dropped, and the characteristics of market participants have changed. The concerns from that time are no longer relevant. On the other hand, it is natural for institutional investors to be concerned that their trading methods will be leaked.</p> <p>③ However, it would also be irresponsible to suddenly discontinue the publication of all such information. If information on supply and demand, which has been taken for granted, was suddenly eliminated, market participants would have no reference for market liquidity. I believe that disclosing the combined selling and buying volume is a solution to this issue that can avoid concerning investors.</p>	<p>of this information started. In this context, we have received comments from some market participants that, for instance, this information has become an obstacle to market participation and trading.</p> <ul style="list-style-type: none"> • Given these changes in the market environment, consistency with other markets, and concerns that certain investor groups and final beneficiaries of funds (e.g., individual investors) are unfairly disadvantaged due to the information that we currently publish, we believe that we should change how we disclose such information. • Still, the information on trading volume by trading participant is used as reference for market trends. In light of this fact, among other things, we have considered how to continue to provide this information without impeding anonymity in trading intentions (inclinations to buy or sell), and as a result, have decided to change the information we disclose to the combined value of selling and buying volume. • There are no plans to revise the publication of open interest by trading participant.
2	<ul style="list-style-type: none"> • I agree with this revision. • Ensuring market transparency and fair market operations are both important issues. I appreciate this revision as it aims for both of these things. 	<p>Reference: Open Interest by Trading Participant https://www.jpx.co.jp/english/markets/derivatives/open-interest/index.html</p>
3	<ul style="list-style-type: none"> • We consider this revision of the handling of information on trading volume by trading participant for futures and options to be a positive step forward in terms of investor protection. 	

No.	Summary of Comments	OSE's Responses
	<ul style="list-style-type: none"> • On the other hand, as major overseas exchanges consider ensuring anonymous trading to be best practice, the vast majority of them do not disclose or have discontinued disclosing trading information by trading participant. In order to improve market integration and functionality and to provide fair trading opportunities to more investors, we see it as preferable to keep such information undisclosed. • Japanese laws and regulations, in general, protect financial privacy rights to the extent that they are not restricted by other laws and regulations or by public welfare. Given that there are no specific laws and regulations that would require the disclosure of the names of trading participants, we would prefer that OSE respects each trading participant's right to financial privacy. 	
4	<ul style="list-style-type: none"> • The daily publication of trading information for futures should be discontinued. The reasons for this are as follows: <ul style="list-style-type: none"> ① There is no point in allowing public scrutiny, due in part to the introduction of the give-up system, which allows orders to be placed through multiple brokers. ② As such, the publication of information may cause market participants to speculate unnecessarily, which may have a negative impact on investor protection. ③ The cash equity market has already stopped publishing this information. In order to provide consistency in cash equities and futures, the disclosure of information for futures should 	

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	<p>also be discontinued.</p> <ul style="list-style-type: none"> • On the other hand, the weekly publication of open interest is useful and appropriate as a target for scrutiny as it provides information on which clearing house is accumulating open interest, even with the give-up system. 	
5	<ul style="list-style-type: none"> • The current information disclosure should be continued for the following reasons: <ul style="list-style-type: none"> ✓ This revision to combine the value of selling and buying volume is undesirable as it will cause a setback for information disclosure and maintenance of market transparency. ✓ Not publishing the information for futures and options is inconsistent with a healthy stock market. ✓ Given the fact that there is demand for the proactive disclosure of information, it is not good for the exchange itself to reverse this trend. ✓ I think not disclosing the most important element of securities trading, i.e., selling and buying, will not only not accomplish the original purpose of doing so, but also undermine the fairness of the exchange itself. ✓ The problem would be if it were only OSE not disclosing this information. You should consider this revision after looking at how overseas exchanges and others handle such information. 	<ul style="list-style-type: none"> • As the size of trades and the amount of information used in trading may differ depending on investor attributes, we believe that broad and equal disclosure of information is important from the perspective of ensuring market transparency. • However, some have raised concerns that the current disclosure of selling and buying information separately is forcing certain investors to pull back on trades, so from the perspective of ensuring fair market participation, it is now difficult for us to say that the current information disclosure is appropriate. In addition, we have had comments that other markets in Japan and abroad, in general, do not disclose this information to ensure anonymity in trading intentions, and we also believe this to be the case. On the other hand, we recognize that others see information on trading volume by trading participant serving as a reference for market trends. • In light of these circumstances, the revision is aimed at continuing to disclose the information to the extent that it does not undermine the anonymity of trading intentions as described above, while ensuring fairness among investors when participating in our market. It is not intended to prioritize any particular investor group or to benefit any
6	<ul style="list-style-type: none"> • I oppose this revision for the following reasons: <ul style="list-style-type: none"> ✓ It can only be said that this revision is simply prioritizing the 	

No.	Summary of Comments	OSE's Responses
	<p>interests of large investors, institutional investors, and overseas investors who have superior financial resources, more information, and so on, and will ignore or put individual investors at a disadvantage.</p> <ul style="list-style-type: none"> ✓ I am concerned that a major change in the form of disclosure may create a mechanism in which a few large investors, such as the aforementioned market participants, will monopolize profits. ✓ Since large investors (institutional investors) who have access to a large amount of information are able to obtain individual investors' trading information, while individual investors can only rely on limited publicly available information—including that in question—this review may lead to further inequality among investors. ✓ Considering the impact large investors have by trading on the market, their information should be disclosed as much as it is now, or perhaps even more. ✓ I feel that investors who trade large quantities of futures in the market are trying to rack up their profits by causing commotion and building up unnecessary anxiety in the market. So, there is no need to revise the rules to accommodate these investors. ✓ The revision is unacceptable because it will conceal and/or sanction market manipulation or control by large investors and 	<p>particular investor.</p> <ul style="list-style-type: none"> • Some also indicate that in the current market environment, where the share of proprietary trading by securities firms has declined, the current information which discloses the names of trading participants based on selling and buying for each issue can be easily misunderstood and is therefore not appropriate as investment reference information. This is another reason why we do not consider it appropriate to continue the current disclosure. • We will continue to make efforts to expand the dissemination of information to ensure and improve the transparency of the market. At the same time, from the perspective of conducting fair and impartial market operations, we will continue to make improvements where necessary, including in our response to this revision. • In addition, Japan Exchange Regulation under Japan Exchange Group, Inc. (JPX) has been strictly monitoring transactions in both the equity and derivatives markets to make sure that there is no irregular activity such as market manipulation. In recent years, there has been an increasing demand for information sharing among major international markets due to the occurrence of unfair trading and systemic risk that affects multiple countries, such as the collapse of Bearings, and information sharing among supervisory authorities and market operators is progressing, such as with the Intermarket Surveillance Group (ISG), of which JPX is also a member. We are

No.	Summary of Comments	OSE's Responses
	institutional investors, AI-based trading, and large cross trades.	sharing information regarding suspected fraud and bankruptcy risks with the parties concerned and taking measures as necessary.
7	<ul style="list-style-type: none"> • When Bearings went bankrupt, their trading information had been catching people's attention and had been a hot topic even before they collapsed. Disclosing trading information is effective in terms of detecting these kinds of anomalies. • In addition, this information needs to be disclosed to prevent market manipulation. 	
8	<ul style="list-style-type: none"> • You claim that information disclosure has become an obstacle to market participation and trading, and that investors' earnings may be unfairly impaired by others using trading information to trade earlier, but it is unclear what this means in practice. I wonder if this is just speculation. • If a trading firm cannot be profitable when their trading information is being published, there must be a problem with how they are managing their funds. 	<ul style="list-style-type: none"> • Specifically, we have received reports from multiple market participants that when a firm attempts to execute a trade over several days, because their trading information is made public, other market participants can spot this and trade based on speculation, and as a result, the firm is forced to pull back on the trade because it is concerned about an increase in market impact (and therefore execution costs). Other reports say that some trading opportunities (profits) that would otherwise be available are being lost because of the publication of the information by the exchange. • In light of these comments, in order to ensure fairness among investors, we recognize the need to revise the way we currently disclose information as it has become a disincentive for certain investors to participate in the market.
9	<ul style="list-style-type: none"> • Despite the Nikkei 225 increasing in value, the range of strike prices of Nikkei 225 Options for which the information is disclosed has not changed. As such, the scope of disclosure has been reduced in a 	<ul style="list-style-type: none"> • Since the current information disclosure has raised concerns about the anonymity of investors' trading intentions, expanding the scope of information disclosure to include options trading with relatively

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	<p>relative sense. Therefore, I would like OSE to keep disclosing the current information while also expanding the scope of information disclosure.</p>	<p>low liquidity could lead to even more concerns.</p> <ul style="list-style-type: none"> In addition, depending on the volume of trading by investors, the kind of situations that investors are worried about may occur regardless of the liquidity of the issue, and the current information disclosure itself is undesirable from the perspective of ensuring anonymity in trading intentions, regardless of whether the information concerns futures or options trading.
10	<ul style="list-style-type: none"> If the problem lies with information regarding specific securities firms being targeted, why not publish the names of those firms as Company A and Company B so that they cannot be identified? 	<ul style="list-style-type: none"> Thank you for your valuable opinion. We have also received comments that the information on trading volume by trading participant (with company name and business type) is helpful for market trends. In light of these opinions and comments from market participants, we consider it appropriate to continue disclosing the names of trading participants while revising the way information is handled by publishing the combined value of selling and buying volume in order to ensure anonymity in trading intentions.
11	<ul style="list-style-type: none"> The change in the publication of information will require system modifications. Since there will be a series of major revisions next year, such as the addition of new products in May and a new margin calculation method (VaR) in November, system modification costs would be incurred separately. Therefore, we would like OSE to reconsider the timing and implement these changes in May when the new products are released. 	<ul style="list-style-type: none"> Thank you for your valuable opinions. Based on this feedback, we have decided to schedule the implementation date for November 6, 2023.
12	<ul style="list-style-type: none"> I'm not sure what you mean by the combined value of selling and 	<ul style="list-style-type: none"> For example, if the volumes of Nikkei 225 Futures contracts (the

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	<p>buying. I would think that for every sale there is a purchase, so these would cancel each other out. Are you going to publish only the total trading value without company names?</p>	<p>nearest contract month) traded by Securities Company A during the day session are 100 contracts sold and 200 contracts bought, the information for Nikkei 225 Futures contracts (the nearest contract month) traded by Securities Company A during the day session of that day will be published as follows:</p> <p>(Before revision) Selling volume: 100 contracts (X), Buying volume: 200 contracts (Y)</p> <p>(After revision) Trading volume: 300 contracts (Z)</p> <p>Note: "X", "Y", and "Z" indicate ranking among the top 20 companies in terms of trading volume.</p>
13	<ul style="list-style-type: none"> Please disclose why and how you initially deemed it appropriate to disclose gross information. Also, how much do you expect the trading volume to change after this revision? 	<ul style="list-style-type: none"> Back then, outstanding arbitrage trading of futures selling and cash equities buying had piled up, and there was a theory around the market that selling of cash equities to clear the accumulated arbitrage trades might be a factor in the decline in stock prices. In light of such factors, we decided to publish the trading volume for selling and buying separately. Considering comments that the current handling of information is a deterrent for market participation, we expect this revision to promote market participation in a fair market environment.
14	<ul style="list-style-type: none"> Securities firms can obtain this information by asking other securities firms, either one-way or through exchange. In this case, the information would be concentrated with securities companies, which would hinder fairness among market participants. In order 	<ul style="list-style-type: none"> We do not think this review will have any particular impact on how information is managed by trading participants. Information is not published in accordance with laws and regulations or the rules and regulations of the exchange, and is not a material fact under the laws

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	to ensure fairness, will this information be treated as insider information, and will securities firms be prohibited from gathering such information from others in the future?	and regulations.

Comment Nos. 1, 2, 4 to 10, and 12 to 14 are from individuals; No. 3 is from FIA Japan; and No. 11 is from Rakuten Securities, Inc.

II . Our response policy

Daily disclosure will be revised as proposed, while for index futures and index options, based on the feedback, OSE will start publishing monthly selling and buying volumes in the following month.

(The details of new publication operation are as follows.)

III . Implementation date

Based on the feedback, we have decided to schedule the implementation date for November 6, 2023.

New Publication Operation

Disclosure		Target Products	Sell and Buy	Regular Market and J-NET Trading	Day and Night Session	Number of Participant
Index Futures	Daily	<ul style="list-style-type: none"> • Nikkei 225 Futures (Nearest 2 contract months) • Nikkei 225 mini (Nearest 3 contract months) • TOPIX Futures (Nearest 2 contract months) 	• combined	• separately	• separately	• Top 20 participant
	Monthly (*)(**)	<ul style="list-style-type: none"> • Nikkei 225 Futures (Nearest 3 contract months as of the beginning of the month) • Nikkei 225 mini (Nearest 3 contract months as of the beginning of the month) • TOPIX Futures (Nearest 3 contract months as of the beginning of the month) 	• separately	• separately	• combined	• Top 20 participant
Index Options	Daily	<ul style="list-style-type: none"> • Nikkei 225 Options (Most recently contract -1 ATM contract+2 ITM contracts+8 OTM contracts) 	• combined	• separately	• separately	• Top 20 participant
	Monthly (*)(***)	<ul style="list-style-type: none"> • Nikkei 225 Options (Most recently contract as of the end of the month -1 ATM contract+2 ITM contracts+8 OTM contracts) 	• separately	• separately	• combined	• Top 20 participant
Securities Options	Daily	<ul style="list-style-type: none"> • All underlying -Top 20 contracts 	• combined	• separately	• Day session only	• Top 20 participant

(*) The monthly disclosure will only be published on our website on the fifth business day of the following month.

(**) For the June disclosure (TOPIX Futures), OSE publishes trading volume of June September and December contract.

(***) For the June disclosure, OSE publishes trading volume of July.