

(Reference Translation)

Summary of Comments on "Introduction of 3-Month TONA Futures" and OSE's Responses

November 30, 2022
Osaka Exchange, Inc.

Osaka Exchange, Inc. (OSE) released an outline of the introduction of 3-Month TONA Futures on October 5, 2022, and sought broad public comments until November 4, 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.

Submitters	Summary of Comments	OSE's Responses
Japanese Bankers Association	<ul style="list-style-type: none">With regard to cash-settled short-term interest rate futures ("3-Month TONA Futures") linked to a daily cumulative compounded Tokyo Over-Night Average rate (TONA; published by the Bank of Japan) over a 3-month period, it is expected to receive interest from a wide range of market participants, because (1) further expansion of TONA, which is positioned as one of the alternative interest rate indices to the Japanese Yen LIBOR, the publication of which was permanently suspended at the end of December 2021, is expected and (2) there is a possibility that future changes in the financial environment will lead to greater demand for TONA as a hedging instrument.However, in light of the recent trends in the yen interest rate futures market, which has been extremely illiquid under accommodative financial conditions and the lack of entrenchment of new products related to interest rate futures in the Japanese market, it cannot be denied that there will be uncertainty as to whether ample liquidity will be secured at an early stage after the listing of "3-Month TONA Futures".In addition, Tokyo Financial Exchange (TFX) recently announced its intention to list	<ul style="list-style-type: none">As examples overseas, the handling of similar products by multiple markets may lead to inter-market competition and revitalize the overall market.OSE believes that by handling this product on the same trading and clearing platform as the JGB Futures market ("JGB Futures") that we currently offer, in anticipation of a phase in which interest rates in Japan will move in the future, OSE can create a highly convenient long/short term interest rate market while reducing the burden on market participants.In addition, Japan Securities Clearing

(Reference Translation)

Submitters	Summary of Comments	OSE's Responses
	<p>products (Three-month TONA futures and Three-month TONA futures option) similar to "3-Month TONA Futures" in late March 2023.</p> <p>https://www.tfx.co.jp/en/newsfile/article/20220829-01)</p> <ul style="list-style-type: none">• That is, similar instruments are expected to be listed from 2 exchanges at a time when there is insufficient liquidity.• When such competition among exchanges occurs, it becomes difficult to gauge the overall picture of the market. In addition, there are concerns that the diversification of market participants will considerably decrease liquidity in each product, which will impair convenience, and that the price discovery function, which is also one of the objectives of this effort, may not work properly.• It is desirable that OSE will continue to strive for the sound development of the yen interest rate futures market from a medium-to long-term perspective by appropriately discussing with TFX, taking full account of the intentions of market participants, and considering effective measures to improve liquidity through consultation and cooperation with the authorities as necessary.	<p>Corporation, backed by its high level of risk management systems and robust financial strength, will provide market participants with world-class clearing services, and as the JPX Group, we will seek to introduce unique schemes such as margin offsetting between JGB Futures and this product, and Cross Margining with interest rate swaps already realized for JGB Futures.</p> <ul style="list-style-type: none">• Through these efforts, OSE intends to contribute to the further development of the yen interest rate market by realizing a market with high reliability and capital efficiency• OSE will continue to discuss with market participants regarding the development of the yen interest rate market, and work to implement various measures, such as introducing sales activities and incentive measures at home and abroad, so as to secure a certain level of liquidity.