

Summary of Public Comments on “Change in Derivatives Market Trading Hours in Connection with Extension of Trading Hours at TSE” and OSE’s Responses

September 22, 2023  
Osaka Exchange, Inc.

Osaka Exchange, Inc. (OSE) released the outline of the "Change in Derivatives Market Trading Hours in Connection with Extension of Trading Hours at Tokyo Stock Exchange Inc. (TSE)" on May 11, 2023 and sought broad public comments until June 10, 2023. We appreciate the cooperation of those who have submitted valuable comments in reviewing this matter.

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

Number	Summary of Comments	OSE’s Responses
1	<p>[Preface]</p> <ul style="list-style-type: none"> <li>• The Investment Trusts Association, Japan (JITA) is a "certified financial instruments firms association" established in July 1957 for the purpose of protecting investors and promoting the sound development of investment trusts. As of May 31, 2023, JITA has 205 members, including investment trust and REIT managers, and 39 supporting members such as securities companies and trust banks.</li> <li>• In response to the request for public comments, one member company has submitted its comments to JITA as follows:</li> </ul> <p>[Opinions]</p>	<ul style="list-style-type: none"> <li>• As you pointed out, if the closing auction is abolished and the calculation method of the settlement price is revised, to coincide the closing time of the day session with that of TSE would have a positive effect from a valuation perspective. However, this will have a negative effect in terms of trading opportunities because after the TSE market closes, there is wide range of trading based on the cash equity closing prices, including hedging. Taking these two conflicting effects into consideration, we consider it appropriate to set a 15-minute trading period after the closing time of the TSE market.</li> <li>• Closing auctions are conducted in order to fully incorporate supply and demand of a wide variety of investors and to form transparent</li> </ul>

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	<p>(1) The closing time for the regular session should be set at 15:30 (JST) to coincide with that of the Tokyo Stock Exchange (TSE) market.</p> <p>(2) Daily settlement values should be VWAP from 15:29:30 to 15:30:00 (JST). (When there is no value, the existing rules should apply.) Note: VWAP from 15:29:00 for one minute may be possible.</p> <p>(3) Closing auctions should be abolished.</p> <p>[Reasons]</p> <p>(1) Under the current proposal, the closing time of futures and cash equities differ by 15 minutes. However, in October 2020, CME and other exchanges changed the timing for calculating the settlement value of futures to coincide with the closing time of cash equities. If OSE sets the time for valuation of futures to the same time for that for cash equities through adoption of (2) and (3), this could be expected to reduce the difference from index prices and improve the connectivity to futures. For settlement at the theoretical value at the end of quarter, if the closing time is set to the same time for cash equities, valuation at the market price should be possible.</p> <p>(2) We think the need for closing auctions is low because high-liquidity issues have sufficient liquidity to be traded stably.</p> <p>(3) VWAP for a given time can be easily calculated due to improvements in server capabilities.</p>	<p>closing prices. As there are many expiration dates and strike prices for futures and options, and the liquidity can easily vary, we consider that this mechanism is essential for stable closing price formation and that it is appropriate to continue providing it.</p> <ul style="list-style-type: none"> <li>• The calculation method of settlement prices is specified by Japan Securities Clearing Corporation. However, as we recognize it as one of the important elements that support the futures and options market, we value your comment and will use it in our future market operations.</li> </ul>

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2	<ul style="list-style-type: none"> <li>▪ We agree with your decision to extend trading hours in line with the extension of trading hours at TSE.</li> <li>▪ On the other hand, where this will affect subsequent operations, apparently there were no discussions at the official working group or any other meetings about handling of operations such as communications between investment trust management companies/investment advisory companies and securities companies regarding allocation of trades executed at OSE and execution, such as pre-confirmations, as well as transmission of trade report data to Japan Securities Depository Center, and communications regarding margin. These operations, in some cases, need to be processed almost manually, and it will be necessary to revise the established unofficial practices to allow them to be conducted without delay even after the trading hours are extended (specifically, the established cutoff times will need to be pushed back).</li> <li>▪ We want OSE, investment trust management companies, investment advisory companies, and self-regulatory organizations to consider subsequent operations after the closing time as well as the above matters.</li> <li>▪ In addition, we believe that this extension of trading hours will affect</li> </ul>	<ul style="list-style-type: none"> <li>▪ We understand that the various cutoff times for operations between securities companies and institutional investors after the close of the afternoon session have been agreed upon by individual companies based on past practices and established conventions, and we think it would be difficult for us to intervene to establish such unofficial practices.</li> <li>▪ We will continue to provide information to market related parties including securities companies and institutional investors to facilitate further consideration within each industry for smooth implementation of the rules.</li> <li>▪ We will also share your comments with the respective self-regulatory organizations.</li> </ul>

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	<p>not only investment trust management companies and similar companies but all investors who conduct trading on the listed derivatives market, so after having included the above matters in consideration, we request that OSE endeavors to inform related parties that the unofficial established cutoff times are pushed back.</p>	
3	<ul style="list-style-type: none"> <li>• We understand that the trading hours of the TSE market and the derivatives market at OSE will be extended on the same day.</li> <li>• In order to spread out the risks arising from system migration and the resources needed at the time of the implementation, we would like you to consider implementing the extensions of each market trading hours on two separate dates.</li> </ul>	<ul style="list-style-type: none"> <li>• Since the proposed change is based on the extension of trading hours at TSE, we consider it appropriate to extend and change the trading hours on the cash equities market and derivatives market at the same time. In addition, we think it is desirable to implement them simultaneously from the perspective of minimizing the impact on the establishment of business and operational structures for all market participants.</li> </ul>

Submitters: No. 1 is The Investment Trusts Association, Japan (JITA); No. 2 is International Bankers Association of Japan; and No. 3 is Rakuten Securities, Inc.