

Summary of Comments on the "Introduction of Derivatives Holiday Trading" and the Exchange's Responses

October 29, 2021

Osaka Exchange, Inc.

Tokyo Commodity Exchange, Inc.

Osaka Exchange, Inc. (OSE) and Tokyo Commodity Exchange, Inc. (TOCOM) (hereinafter collectively referred to as the "Exchange") released the outline of the "Introduction of Derivatives Holiday Trading" scheme on June 15, 2021, and sought broad public comments until July 15, 2021. We appreciate the cooperation of those who have submitted comments in reviewing this matter.

The summary of the received comments and the Exchange's responses are as follows<sup>i</sup>:

No.	Summary of Comments	The Exchange's Responses
1	<p><b>Handling of GTC/GTD Orders<sup>ii</sup></b></p> <ul style="list-style-type: none"> <li>- We are in favor of the introduction of the holiday trading scheme as it will expand trading opportunities.</li> <li>- Whereas, we understand the handling in that GTC/GTD orders (long orders) placed by trading participants who choose not to participate in holiday trading will expire before the start of holiday trading to prevent</li> </ul>	<ul style="list-style-type: none"> <li>- From the perspective of risk management, GTC/GTD orders placed by trading participants who choose not to participate in holiday trading shall expire before the start of holiday trading.</li> <li>- Also, based on discussions in the "Working Group on Derivatives Holiday Trading" <sup>iii</sup>, GTC/GTD orders placed by trading</li> </ul>

<sup>i</sup> For the introduction of derivatives holiday trading, Japan Securities Clearing Corporation (JSCC) also released "Outlines related to Risk Management Framework associated with Introduction of Derivatives Holiday Trading" and sought public comments. The comments received and JSCC's responses are released on the following link:

**Outlines related to Risk Management Framework associated with Introduction of Derivatives Holiday Trading**

<https://www.jpx.co.jp/jsc/en/public.html>

<sup>ii</sup> GTC (Good till Cancel) (valid until the cancellation) and GTD (Good till Date) (valid until the end of the day session on the date the specified period ends) are orders with such conditions. (So called "Long Order")

<sup>iii</sup> As described in the outline, OSE established a "Working Group on Derivatives Holiday Trading" consisting of market participants to discuss the implementation of derivatives holiday trading in further detail and published a summary of said Working Group's discussions in the form of a report in June 2020 as follow.

**Publication of Report of the Working Group on Derivatives Holiday Trading**

<https://www.jpx.co.jp/english/corporate/news/news-releases/0060/20200630-01.html>

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	<p>such orders from being executed during the holidays. However, letting expire the GTC/GTD orders placed by those who participate in holiday trading after the end of holiday trading will undermine the benefits of long orders. Therefore, we would like the Exchange to consider not letting expire the GTC/GTD or long orders placed by trading participants who participate in holiday trading.</p>	<p>participants who participate in holiday trading shall also expire after the end of holiday trading to be fair to the handling of bids/offers between trading participants whether they participate or not in holiday trading.</p> <ul style="list-style-type: none"> <li>- If many trading participants take part in holiday trading after implementing the holiday trading scheme, the handling of GTC/GTD orders may be revised.</li> </ul>
2	<ul style="list-style-type: none"> <li>- The outline for the scheme indicates that GTC/GTD orders placed by holiday trading participants will expire between the end of the holiday trading day and the start of the day session on the following business day. However, it is impractical operation-wise to resend orders after the regular day session starts on the following business day. Therefore, we would like the Exchange to keep the GTC/GTD orders valid when the holiday trading day ends.</li> </ul>	
3	<p><b>Method of Participation</b></p> <ul style="list-style-type: none"> <li>- Will the application for participation in holiday trading be accepted and processed on the same day? Please explain the procedures from making an application to acceptance and the number of days required for the entire process to be completed.</li> </ul>	<ul style="list-style-type: none"> <li>- Applications for participating in holiday trading will be accepted on a trading participant basis of the Exchange. Trading participants who participate in holiday trading may specify certain holidays they will not participate in by submitting an application in advance.</li> <li>- For risk management at the Exchange and JSCC, we are currently considering that submission of the application be required for non-participation in holiday trading on specified holidays before a specified time period preceding the holiday trading day (assuming five to ten business days before a holiday trading day)</li> </ul>

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		<p>through our online application system (arrowface). Details will be announced to trading participants by the end of FY2021.</p> <ul style="list-style-type: none"> <li>- Please note that submission of an application for participation or non-participation in holiday trading on a per-customer basis of trading participants to the Exchange is not required (investors who are interested in participating in holiday trading are required to consult with their trading participants (securities companies, etc.).)</li> </ul>
4	<p><b>Eligible Holidays and Holiday Trading Days</b></p> <ul style="list-style-type: none"> <li>- The Exchange indicates that, in principle, all current non-business days, excluding Saturdays, Sundays, and January 1, will be eligible for holiday trading. However, for the time being, at least until enough trading data and knowledge are accumulated from holiday trading, implementation of holiday trading should be limited to two consecutive holiday trading days (we recommend limiting holiday trading days to two consecutive days maximum) for the following reasons: <ul style="list-style-type: none"> <li>✓ The ratio for calculating preliminary initial margin add-on amount is fixed. In addition, collateral can only be deposited through overseas settlement institutions during holidays.</li> <li>✓ The amount of holiday trading reserves has not been clarified.</li> <li>✓ While fewer participants with lower liquidity are expected to participate in holiday trading, compared to weekdays, there is a high risk of unexpected market fluctuations.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- JSCC plans to introduce a monitoring system to control the excessive accumulation of exposures in day trading during consecutive holiday trading days and the Exchange plans to enforce price regulation rules specifically for holidays (the details to be described later) aimed at properly managing risks, including unexpected price fluctuations during holidays.</li> <li>- There are holiday periods during which holiday trading may be conducted over three or more consecutive days such as the New Year holidays from the end of the year to the beginning of a new year and during Japan's Golden Week.</li> <li>- Concerning the New Year holidays, the Exchange will exclude December 31 and January 2 from the holiday trading scheme for the time being, in light of trading participants' viewpoint of personnel and risk management (such as financing).</li> <li>- OSE and TOCOM will make contributions of JPY 5 billion and</li> </ul>

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		<p>JPY 500 million, respectively, to holiday trading reserves when compensation is required from the reserves.</p> <ul style="list-style-type: none"> <li>- For holiday-specific price regulation rules mentioned above, the duration of trading halts after the Dynamic Circuit Breaker (DCB) is triggered will be twice that on weekdays (the duration on weekdays is, as a rule, 30 seconds for futures and 15 seconds for options).</li> </ul>
5	<p><b>Management Systems of Trading Participant during Holidays</b></p> <ul style="list-style-type: none"> <li>- We would like the holiday trading scheme to be further clarified to allow support to be obtained from overseas affiliate companies during holiday trading when salespersons and other staff in Japan are taking holidays.</li> </ul>	<ul style="list-style-type: none"> <li>- We do not have a plan to formulate specific guidelines or principles in terms of management systems for trading participants during holidays. Still, trading participants, including overseas affiliates, should establish the necessary management systems based on the form of trading for their customers, their trading volume, brokerage method, among others.</li> </ul>
6	<p><b>Eligible Products for Holiday Trading</b></p> <ul style="list-style-type: none"> <li>- If positions are not marked to market during the holidays, options should be excluded from eligible products for holiday trading.</li> </ul>	<ul style="list-style-type: none"> <li>- From the perspective of convenience for market participants, all index futures and index options, commodity futures, and options on commodity futures will be considered eligible products for holiday trading. JSCC will introduce a risk management framework for the positions not marked to market to deal with expansion of exposures which might occur in the holiday trading.</li> </ul>
7	<p><b>Market Maker Program</b></p> <ul style="list-style-type: none"> <li>- We need more clarification on the Market Maker Programs for holiday</li> </ul>	<ul style="list-style-type: none"> <li>- To secure and increase liquidity during holidays, the Exchange</li> </ul>

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	trading.	will introduce the Market Maker Programs for holiday trading for trading participants (and their end customers) who participate in the holiday trading. Details will be announced later to the trading participants.
8	<p><b>Benefits of Introducing Derivatives Holiday Trading</b></p> <ul style="list-style-type: none"> <li>- I am against the introduction of the holiday trading scheme because expansion of trading time may even reduce the day session's trading volume.</li> </ul>	<ul style="list-style-type: none"> <li>- We understand that there are various opinions to introducing the derivatives holiday trading scheme among market participants.</li> <li>- The Exchange will introduce the scheme to enhance investor convenience by providing hedging opportunities during national holidays while minimizing the impact on investors who do not participate in holiday trading.</li> </ul>

Comments No. 1 is from Hardworking Technology Limited; No. 2 from JPMorgan Securities Japan Co., Ltd.; No. 3 from The Investment Trusts Association, Japan; No. 4 from Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.; No. 5 from Société General Securities Japan Limited; No. 6 & 7 from FIA; and No. 8 from an individual