



総合取引市場アンケート結果

## **Integrated Market Survey Results**

フューチャーズ・インダストリー・アソシエーションジャパン

**FUTURES INDUSTRY ASSOCIATION JAPAN**

January 2019

## **Integrated Market Survey – Summary 統合市場調査結果 - 要約**

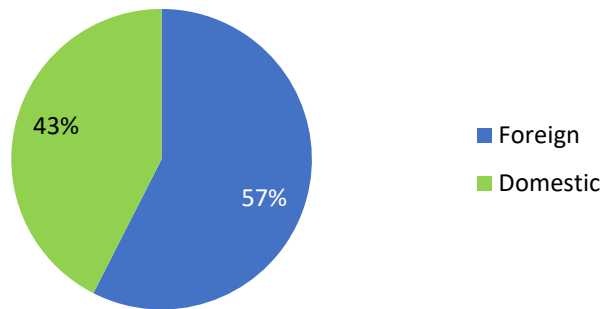
The Integrated Market Survey was conducted from November 3<sup>rd</sup> December 2018 through to 21<sup>st</sup> Dec 2018. The survey enquired on the following areas:

- Which products you trade/offer now, and which you would trade/offer in an integrated market
- The Clearing House, Depository and Trading Venue
- The future organizational structure of companies that comprise the integrated market
- The regulatory environment and market membership structure
- The execution and clearing IT set up
- The benefits of an integrated market

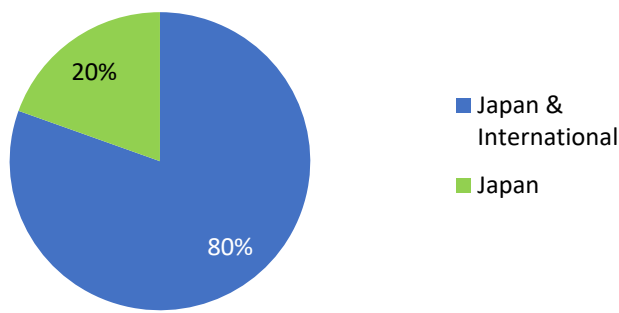
The survey was distributed to over 150 market participants representing a full cross section of the market place including brokers, investors, and other types of entities. Responses were received from 41 entities. Respondents also represented entities based in and those based outside of Japan. A breakdown of responding entities is presented below.

## A1) Survey Respondents – Demographics 回答各社：所在地、属性

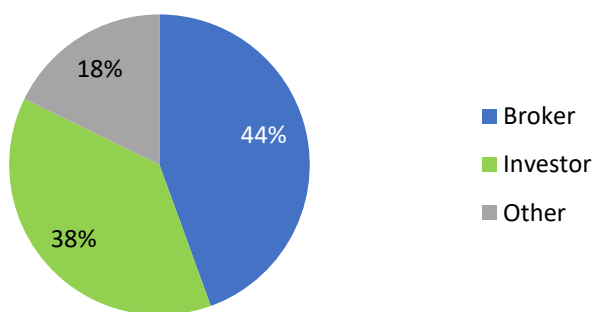
### Survey Respondents - Parent Entity



### Survey Respondents - Location



### Survey Respondents - Type



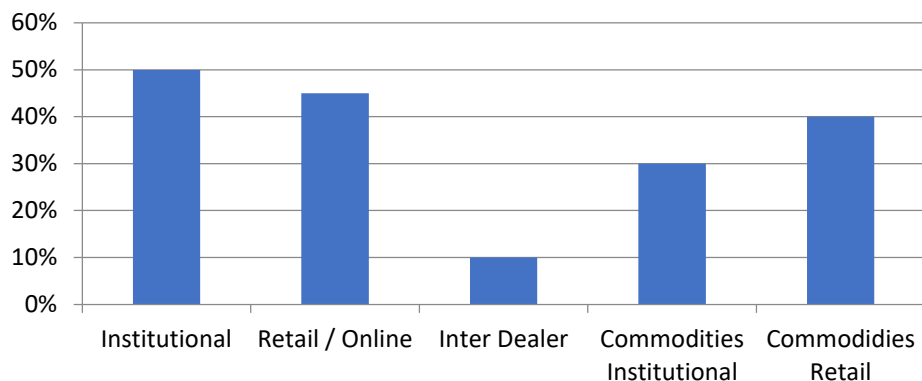
**Analysis:** The survey respondents were broadly evenly split between domestic and foreign respondents. Most of the respondents were active internationally as well as locally. There was an approximate balance of respondents between Brokers, Investors and Other types of respondent.

## A2) Survey Respondents by Type

### Further Breakdown of Brokers, Investors, and Other Entities

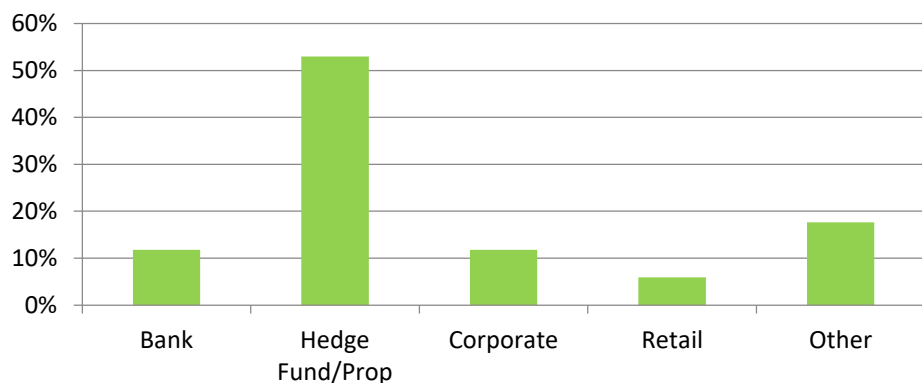
回答者の属性：ブローカー、投資家、その他

#### Survey Respondents - Brokers

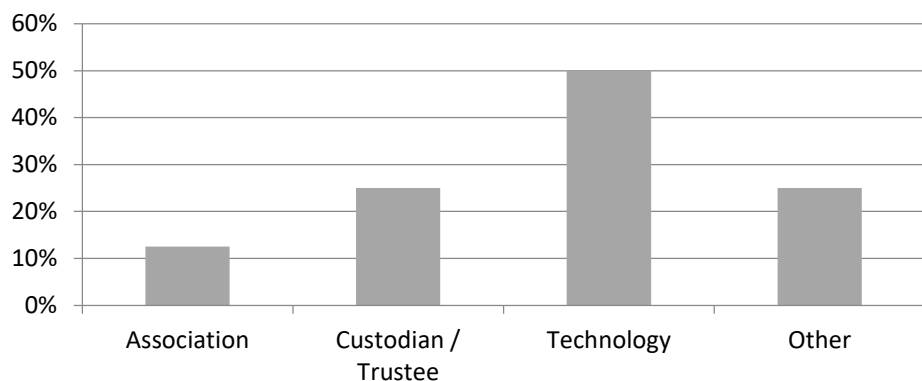


**Analysis:** The statistical count of responses from Brokers adds up to more than 100% of the survey respondents because Brokers captured all their activities in their self-classification. For example, and large Broker who is active as both an Inter-Dealer, as well as Commodity Broker, would have provided 2 self-classifications. Where-as Investors and Other respondents (below) only responded with a single self-classification.

#### Survey Respondents - Investors



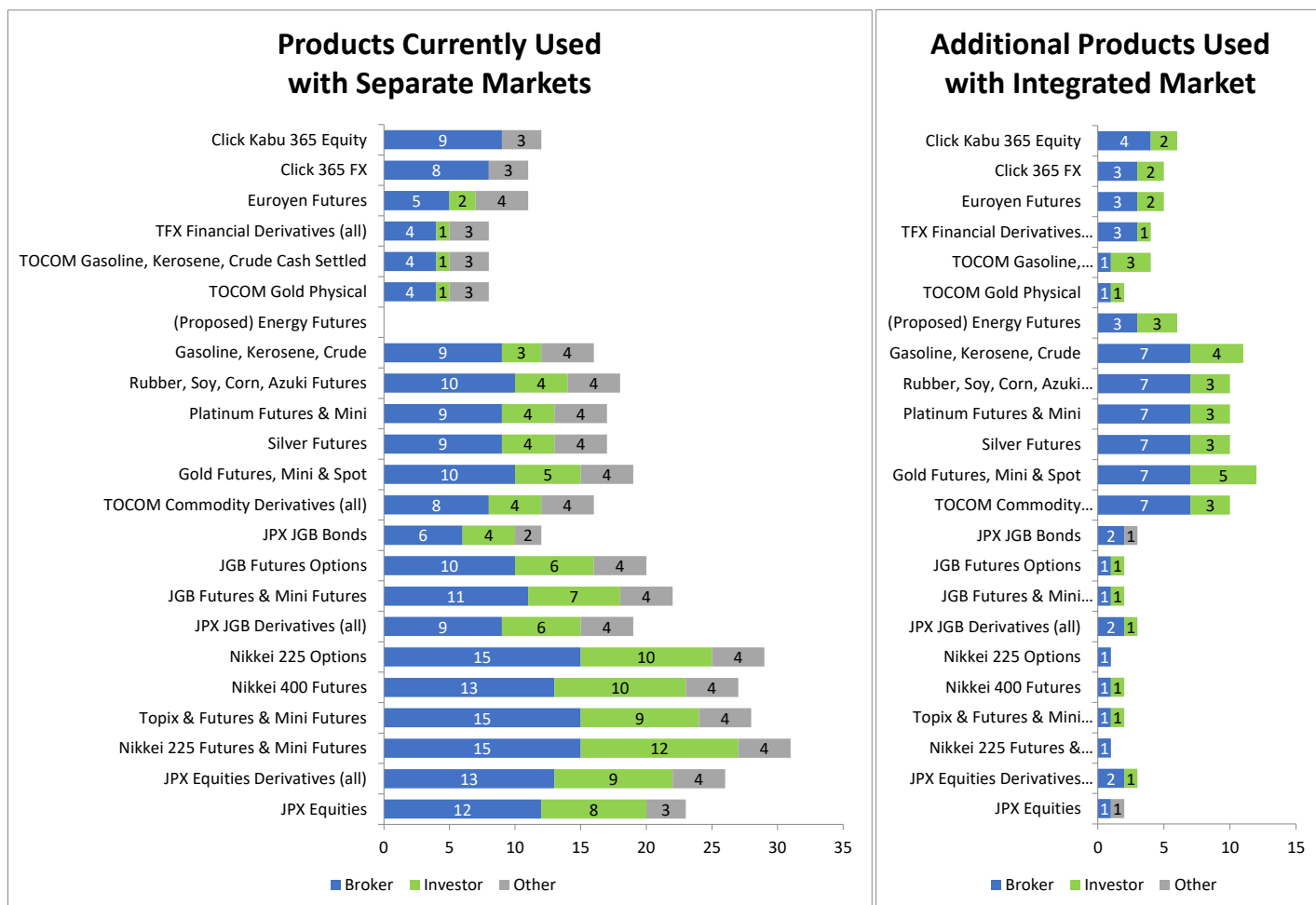
#### Survey Respondents - Other



# Q1. Products 商品について

Q1A: Which products are you currently involved with? If there were one integrated market that provided all these products, which additional products would you be involved with?

現在取引されているプロダクトは？ 総合取引市場になれば取引する可能性があるプロダクトは？



**Analysis:** The left-hand column describes that..

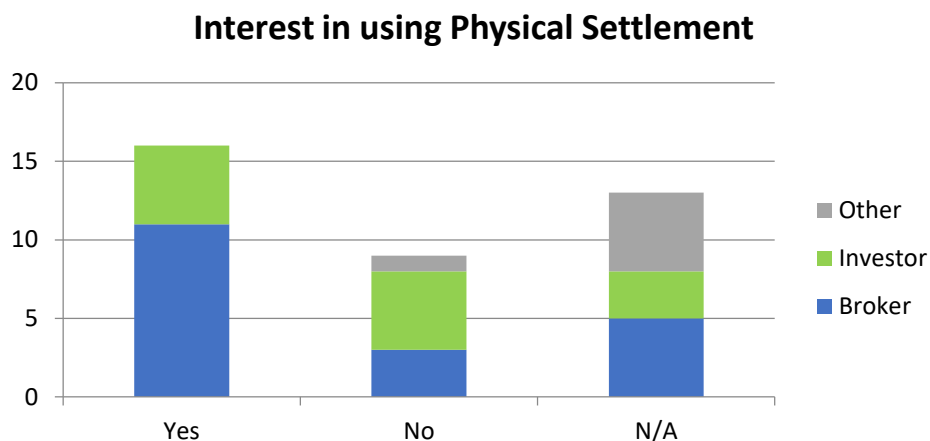
- Relatively few of the respondents are currently active in Financial Index products for wholesale investors.
- More respondents are currently active in Commodity products.
- The largest number of respondents are active in Equity and Fixed Income products.

The right-hand column describes

- The largest number of respondents, who are not currently active in Commodity products, would additionally trade Commodity product in an integrated market.
- Some respondents, who are not currently active in Financial Index products, would additionally trade Financial Index products in an integrated market.
- The smallest number of respondents, who are not currently active in Equity and Fixed Income products, would additionally trade Equity and Fixed Income products in an integrated market.

Further, in an integrated market there would be as many respondents trading commodity products as there are currently trading equity products.

Q1B: After an integrated exchange is formed and if you use commodity futures, could you consider to use the physical settlement feature provided by the exchange?



**Analysis:** 16 respondents replied 'Yes', 9 respondents replied 'No', 13 respondents replied "N/A" and 3 respondents did not complete the question.

Of the respondent, when considering 'N/A' to be equivalent to 'No', 42% of respondents are interested in a physical settlement feature provide by the exchange/clearing house.

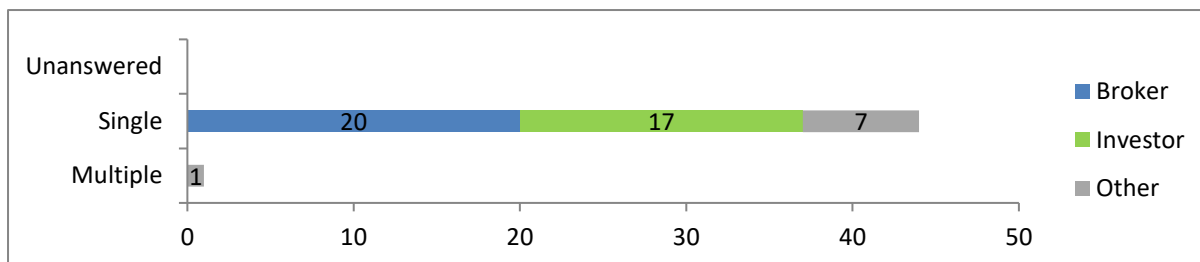
## Q2. Clearing House & Depository 清算機構・保管機構について

Question: In the future, would you prefer..

将来どのような清算機構が好ましいですか？

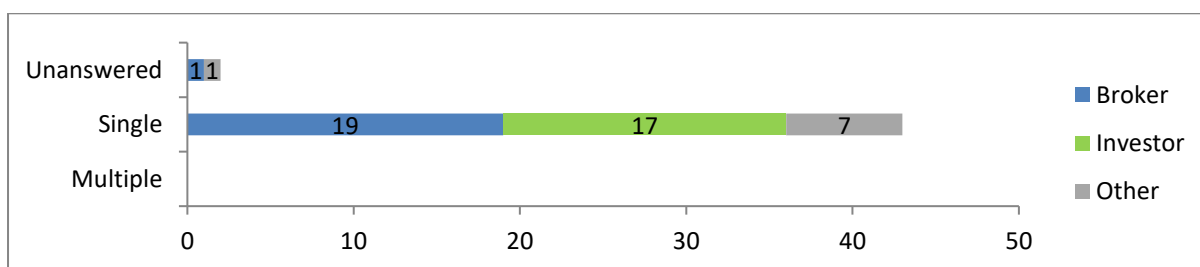
**..Multiple, different clearing houses for each product? or a Single clearing house for all products?**

プロダクト毎に違う清算機構を利用し清算したいですか？ もしくはすべてのプロダクトの取引を一つの清算機構で清算したいですか？



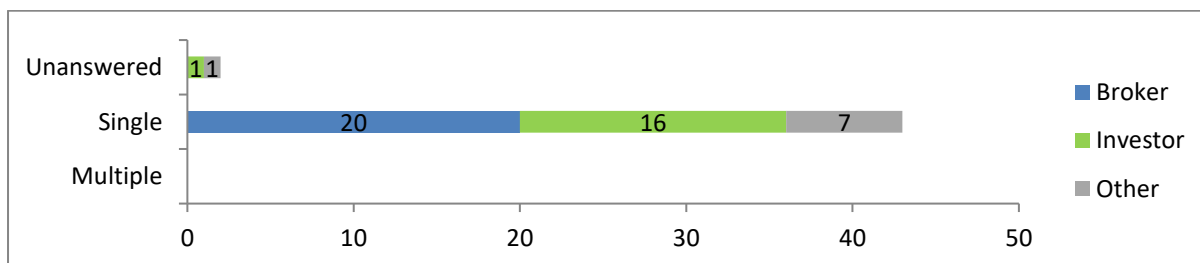
**..Multiple, different securities depositories for the safe keeping of each product separately? or a Single securities depositories for the safe keeping of all products together?**

複数の証券保管振替機構を利用したいですか？ もしくは一つの証券保管振替機構を利用したいですか？



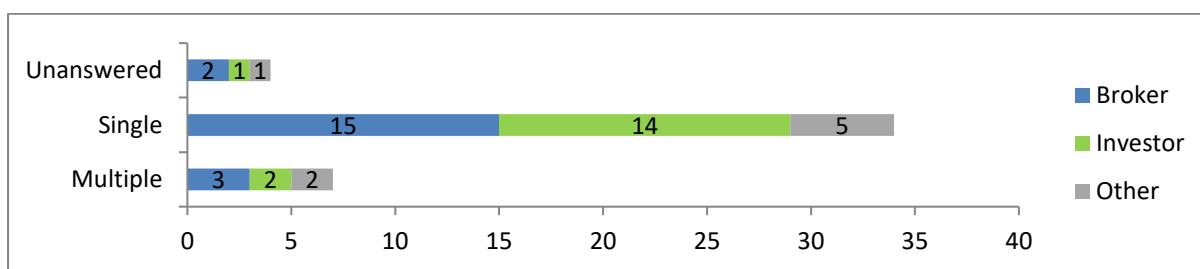
**..Multiple, different margin calls for each product separately? or a Single, risk netted margin call for all products together?**

取引種目毎にそれぞれ別途にマージンを徴求したいですか？ もしくは取引種目毎にマージンの計算を行い、ネットティングを行いたいですか？



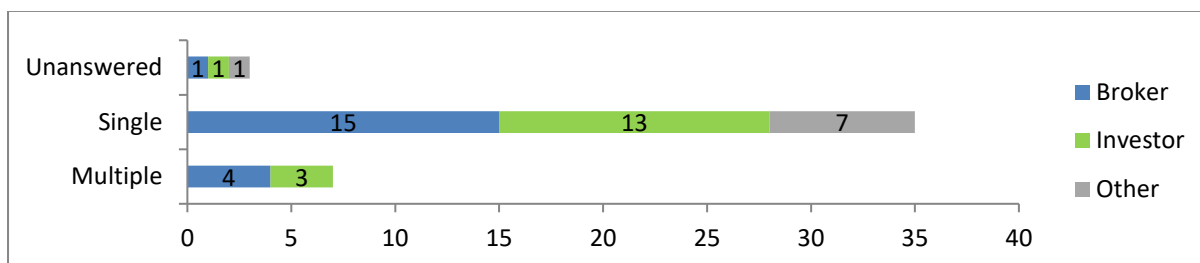
**..Multiple, different default funds for each product separately? or a Single default fund for all products**

プロダクト毎に保護ファンドを作り、リスクをカバーしたいですか？ もしくは一つの保護ファンドでリスクをカバーしたいですか？



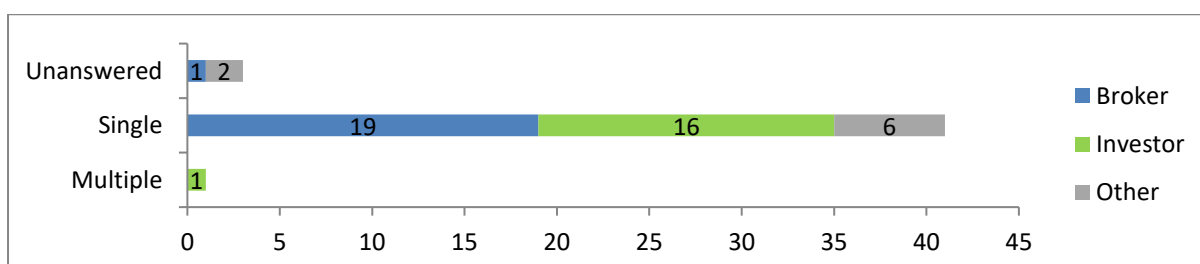
**..Multiple, different securities settlement procedures for each product separately? or a Single set of settlement procedures for all (similar) products together?**

プロダクト毎にプロダクトの品決済方法を設けるほうがいいですか？ もしくは、すべての取引もしくは類似取引を行った場合同じプロダクトの決済方法を設けるほうがいいですか？



**..Multiple, different banking payment procedures for each product separately? or a Single banking payment procedures for all products together?**

銀行送金手続はプロダクト毎に設けるほうがいいですか？ もしくは銀行送金手続は一つのみ設けるほうがいいですか？



**Analysis:** Almost all respondents wish to have a single clearing house, single securities repository, single margin call, single default fund, single settlement procedure and single banking payment procedures.

**Summation Of Narrative comments from respondents:**

It should be noted that achieving an integrated market is not defined as ‘merger of clearing houses’. It means improvements to market integrity, market efficiency and benefits for investors are achieved via various initiatives of market rationalisation, harmonisation and simplification.

The majority of respondents agree that cross margining (aka risk/portfolio netting), consolidated risk management and a single default fund will be a significant material benefit to come from a more integrated market in clearing and



custody. That benefit would directly accrue to investors in the form of lower funding costs. And to participants and to general market integrity in the form of improved risk management and efficiency of operation.

If an integrated market specifically involved the consolidation of the clearing houses, there would be a corresponding increase in counterparty concentration risk. Respondents hope that such a concentration of risk would be balanced by a corresponding improvement that should occur in the number of, diversity of and quality of participants of the clearing house. And should result in an increase in the size of the default fund due to more participants contributing to the fund.

Respondents noted that an 'integrated market' can be achieved through many incremental rationalisation and harmonisation changes to the market. For example, default fund rules and margin netting rules of each current clearing house can be harmonised without any mergers occurring between the clearing houses.

Respondents also hope that harmonisation will involve a review of existing risk management approaches of all clearing houses. For example, whether the current margin methodologies adequately represent the current market risk.

Respondents note that improvements in the capital quality and integrity of the clearing houses and depositories should be a benefit of any consolidation of entities. And that such an improvement will lead to more participants becoming members because existing concerns about the credit quality of clearing houses would be alleviated.

Respondents hoped that an integrated market should not only consider integration between commodity and non-commodity industries, but also within the non-commodity futures industry. For example, currently there are separate clearing houses for equity plus fixed income futures and interest rate futures. If there were integration between these 2 clearing houses, then significant benefits would accrue to investors.

Respondents note that there is relatively little increase in 'anti-competitive' behaviour associated with an integration of clearing houses because the clearing houses for commodity futures, equity plus fixed income futures and interest rate futures don't in fact compete with each other (do not offer the others' products) today.

Respondents hoped that any future integration would result in improvements to efficiency, for example more 'straight through processing' of clearing, settlements and payments.

Respondents hoped to see 'cash settlement' of all commodity futures products, that would result in significantly increase market participation and liquidity. Respondents would also like to see 'in-kind' settlement of deliverable commodity futures, as this would significantly improve flexibility and result in more liquidity in the commodity market.

Respondents wished to see changes to the default fund rules, more in line with international standards, for example, limiting the liability of default funds. Other respondents wished to see changes in rules for collateral, for example, increasing the range of acceptable securities as collateral, or adopting tri-partite agreements (e.g. Euroclear Tri-Party). One respondent wished that an integrated market would include potential changes/improvements to the National Futures Protection Fund.

Respondent wished to see changes to the settlements arrangements, for example, participants to be able to make once net margin and settlement payment, because the existing rules which require participants to pay margin and payment for purchases, before receiving margin and receiving payment for sales is a significant burden for participants and increases costs for investors. That the existing netting rules could be replaced with a single payment that achieved the same risk benefits for the clearing house, without the burden to the participants.

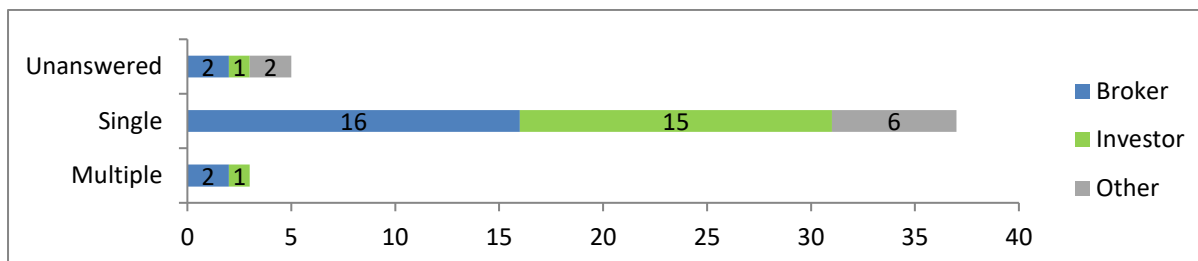
### Q3. Trading Venue 取引環境について

Question: In the future, would you prefer..

将来どのような環境で取引を行いたいですか

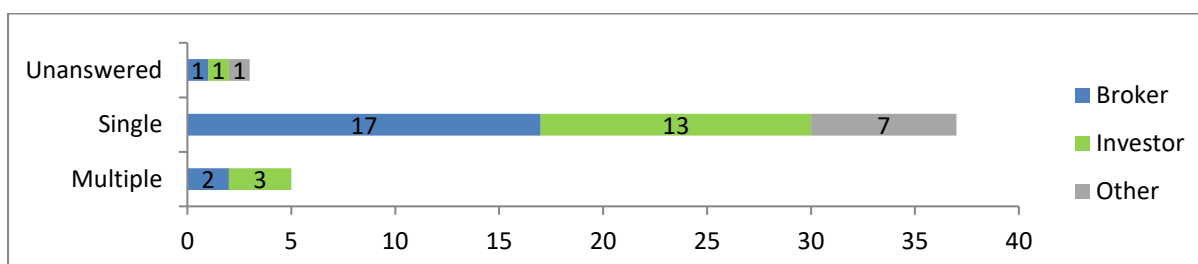
..Multiple, different trading venues for each product? or a Single trading venue for all products?

複数の取引所で各プロダクトの取引を行いたいですか？複数の取引所で各プロダクトの取引を行いたいですか？



..Multiple, different trading rules for each product separately? or a Single set of trading rules for all (similar) products together?

プロダクト毎に違う取引ルールで取引したいですか？それとも一つの取引ルールに基づいて取引をすべてのプロダクトで行いたいですか？



**Analysis:** Almost all respondents wish to have a single trading venue with a single set of trading rules.

#### Summation of Narrative comments from respondents

It should be noted that achieving an integrated market is not defined as 'merger of exchanges'. It means improvements to market integrity, market efficiency and benefits for investors are achieved via various initiatives of market rationalisation, harmonisation and simplification.

The majority of respondents noted that transactions costs would be lowered by being able to transact all products at a single venue. However, it should be noted that many of the benefits of "single exchanges" are in fact benefits accruing from adoption of single set of laws, trading rules and practices that affect the efficiency of trading, and that those benefits can be achieved for investors without a merger of venues.

Respondents note that if an integration involved a merger of venues but did not involve a rationalisation and harmonisation of the laws, trading rules and practices of commodities and non-commodity futures, then very few benefits would accrue to investors and participants, and the broad goals of the integrated market could not be realised.

It was noted that it will be costly and time consuming to achieve market integration, however, such a cost should be weighed against the long term benefits that accrue from any integration.

*Many respondents noted the differences in trading rules between venues and that these could and should be rationalised and harmonised without consideration to merging venues. Such a change would improve market efficiency and integrity at low cost to investors and participants.*

*Many respondents noted that the current differences in trading rules between venues should be harmonised in order that similar products can be traded fairly and equally between the existing venues, without regard to a merger of venues.*

*Respondents noted that TOCOM and JPX share the same type of platform, and that has lowered the barriers to entry for 'trading Japan'. However, the existence of separate (albeit the same type of) platforms between TOCOM and JPX means that investors bear higher costs to trade similar products. Also, that the existence of separate platforms disadvantages TOCOM which is smaller in volume, and so the cost vs reward investor decision for TOCOM is less favourable than for JPX which has more volume. If commodity and non-commodity products were traded on the same platform, then the current barrier to entry for commodity products would be eliminated.*

*Almost all respondents note that the current low liquidity of the commodity market is directly linked to inefficiencies and barriers created by those commodity venues being treated with a separate law, trading rules and practices than is applied to the non-commodity markets.*

*Respondents note that each of the current venues employ different pre-trade risk control standards, and different technical standards for connectivity and trading. And that such a lack of harmonisation means that like products cannot be trade fairly/equally in the market. Harmonisation of things like pre-trade risk control standards would improve market integrity. It would also enable more brokers to offer more products to more investors and so improve competition among brokers, and result in better services and lower costs for investors.*

*Respondents noted that in the current environment of separate laws, regulations and trading practices create a significant burden for investors and participants for compliance and monitoring. If laws, regulations and trading practices were rationalised and harmonised, improve compliance with laws and regulations. It should be noted that not all products in the market are the same with regards to laws, and some divergence is to be expected. However, it should also be noted that currently the commodity market is significantly burden by trading and solicitation rules that the non-commodity market is not burdened by.*

*Respondents noted that if an integrated market specifically involved the consolidation of the venues, there could be a corresponding decrease in competition and an increase in monopolistic pricing. However, other respondents note that currently the venues in Japan don't in fact compete with each other (don't offer each others' products) and there would not be an increase in anti-competitive or monopolistic behaviour above that which already exists today.*

*Respondents wished to see widespread practical improvements to the market including, being able to open a single account into which all listed products could settle. This would significantly decrease the burden on investors and improve risk management by the participants. Similarly, respondents would like to see rationalisation of trading hours across all existing venues. And also change laws and regulations to make the listing process more efficient, and easier. Also respondents wished that listing was allowed to be conducted freely/easily conducted at all venues; this would benefit investors, and issuers. And would improve competition among the venues.*

*Respondents wished that laws and regulations could be made to better encourage the establishment of new venues, and to allow all existing venues to freely list all/any products without needing approval from specific regulators. Such changes to laws and regulations would significantly improve competition among venues and provide choice and opportunity for the venues themselves.*

## Q4. Migration to an Integrated Market 総合取引市場への移行について

Question To achieve an integrated market, would you prefer (please choose one only)..?

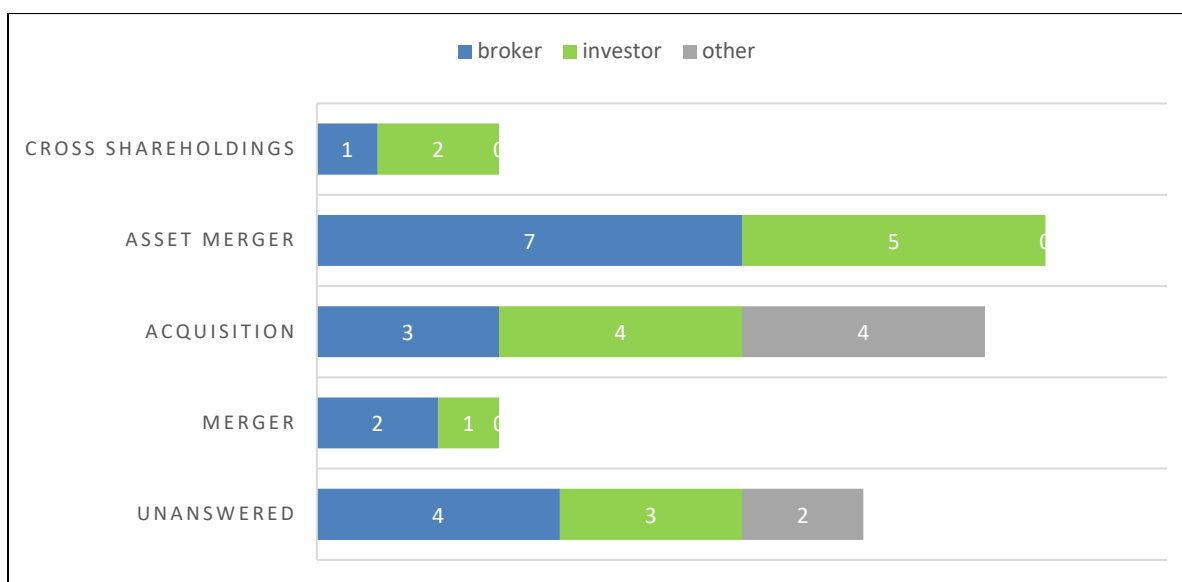
総合取引市場の実現するために、どのような組織編制が好ましいですか？一つだけ選んでください。

A *merger* of the exchange entities / clearing houses, where all exchange entities / clearing houses continue after the merger? 取引所・清算機構は合併されるものの、現行形式のまま運用される方法

An *acquisition* where one 'remaining' exchange / clearing house buys the other(s)? 一つの取引所・清算機構が他の取引所・清算機構を吸収して運用される方法

An *asset merger*, where only the products are migrated to the 'remaining' exchange/clearing house and the other exchanges/clearing houses are closed? 一つの取引所・清算機構がすべての商品・銘柄を上場し、その他の取引所・清算機構は解散する方法

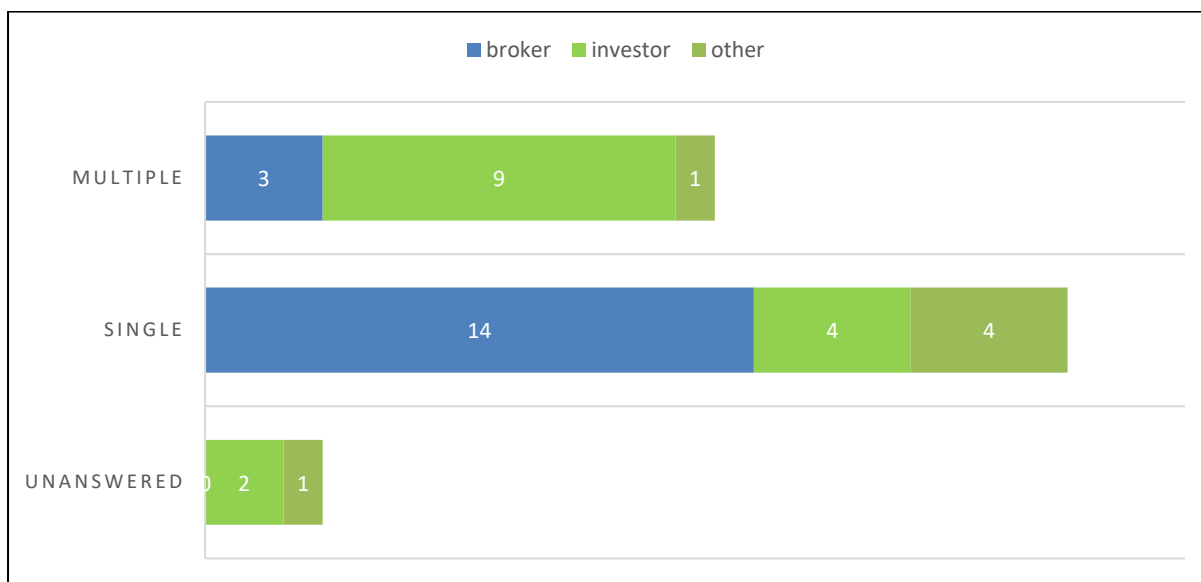
A cross shareholding of shares by each other firm (exchange or clearing house), but each firm exists independently? 各取引所・清算機構は資本提携のみを行い、現行のまま独立して運営を続ける方法



**Analysis:** Of the respondents who answered the question, 42% of respondents preferred an asset merger where only the products migrated to a remaining exchange/clearing house. 38% of respondents preferred an acquisition where the remaining exchange/clearing house buys the other(s). 10% of respondents prefer a merger where all entities continue after the merger and 10% of respondents prefer a cross shareholding arrangement.

Within a future integrated market organization, to have multiple different internal departments for each product? e.g. A separate Business Development department for each of Equities, Equity Derivatives, Financial Derivatives and Commodities? or Within a future integrated market organization, to have single internal department(s) for all products?e.g. A single Business Development department covering all products?

将来の総合取引所・清算機構は商品毎に異なる部門・部署を作り、商品開発・市場営業・会計業務などを行う。もしくは、将来の総合取引所・清算機構は全商品を管掌する統一された商品開発・市場営業・会計業務などの部門・部署を持つ。



**Analysis:** 63% of respondents prefer to have a single set of departments to interact with in a future integrated organisation, 37% of respondents prefer to interact with multiple departments.

**Summation of Narrative comments from respondents**

It should be noted that achieving an integrated market is not defined as any specific future corporate structure. but that improvements to market integrity, market efficiency and benefits for investors are achieved via various initiatives of market rationalisation, harmonisation and simplification.

In terms of respondent comments, this question relative to all others in the survey, produced far less consistency in the responses from the respondents. Respondents collectively note that there are currently many unanswered questions about how a future integrated market might look, and those variables greatly affect, in the minds of the respondents, what is the preferred shape of a future integrated market.

Respondents note that they have a general desire to encourage competition between exchanges and suppliers of services in financial markets. However, it is also noted that currently there is very little competition for products and services because the venues, clearing houses and depositories currently don't in fact compete (don't offer each others' products).

A respondent noted that TSE and OSE under FIEL practically act as independent firms, and that maybe a similar model could be adopted for future further integration. However it should be noted that the 'merger' of TSE and OSE did result in the rationalisation of equity (into TSE) and derivatives (into OSE) products, plus integration of clearing into JSCC and JASDEC. Further, that such integration produced significant benefits for all participants in the market.

*Many respondents noted that without clear direction in terms of how FIEL and Commodity Futures Act could be integrated, it is hard to contemplate what corporate form a future integrated market might take. Respondents also noted that many of the benefits of an integrated market originate from integration of laws and regulations and that the actual corporate form of a future integrated market is a secondary (albeit important) consideration.*

*Some respondents noted that they did not have a preference for the future form of an integrated market. Other respondents wished to have complete and full integration of laws, venues, clearing houses and depositories. One respondent wished to have no integration at all. Other respondents noted that perhaps clearing houses should be forced to merge to provide a 'utility' service, but that venues should remain separate to allow competition (assuming venues were allowed to list each other's products).*

*Respondents noted that however an integrated market is achieved, it should result in more participation in the markets and increase in liquidity, particularly for commodities. Also that without the integration of operations and reduction in costs, any corporate reorganisation would be irrelevant.*

*Respondents noted that consolidation into a single venue, clearing house and custody corporate entity would increase counterparty credit and concentration risk. However, this should be balanced with the fact that in the current fragmented market the credit quality of the multiple venues, clearing houses and depositories is lower than the credit quality that might be achieved through consolidation.*

*Respondents noted that forced mergers in Japan typically don't benefit the market in because the healthier pre-merger partner will dominate, but efficiencies (headcount/cost reduction) cannot be easily achieved. This results in a high cost structure, which investors eventually pay for. The individual business operators should be allowed to decide the corporate form of any integration by themselves, and not forced to merge.*

*Respondents that the TSE and OSE merger, which achieved considerable benefits to the market regarding consolidation of derivatives products into OSE, and migration to OSE's single platform, and migration of clearing, settlement and risk/margin into one clearing house, should be viewed as an example of how other successful integrations should be achieved in the future.*

*A respondent noted that if the current markets were standardised to global markets (regardless of integration within Japan), then Japan can expect more participation by a broader set of participants, and that will improve the health of the Japanese financial markets and be more sustainable.*

*All respondents wished that, regardless of the corporate form of an integrated market, that the benefits of an integrated market could be achieved. All the respondents wished to achieve practical benefits (e.g. netting of risk, simplified systems and processing, reduction in transaction costs) regardless of the corporate form of an integrated market.*

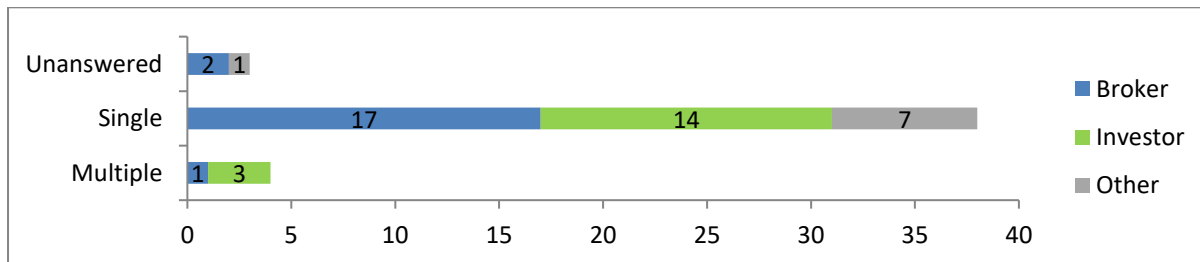
## Q5. Regulatory Environment 規制環境について

Question: In the future, would you prefer..?

将来どのような環境になることを望みますか？

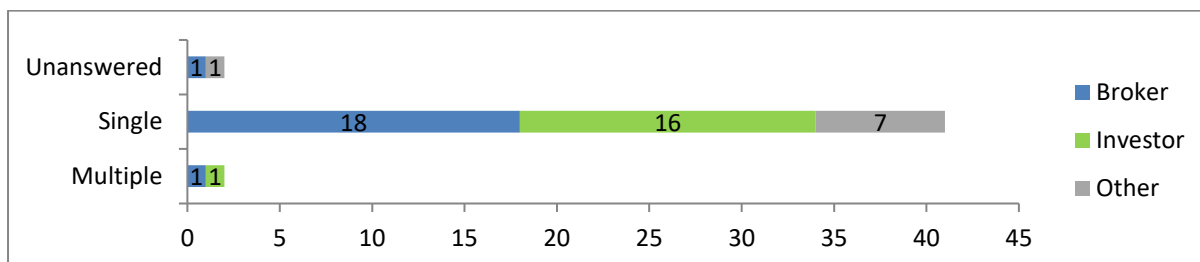
**..Multiple, different laws and regulatory regimes for each product separately? or a Single set of laws and regulatory regimes for all products?**

個々のプロダクトごとに複数の異なる法律・規制が適用されることを望みますか？または、全てのプロダクトについて、単一の法律・規制が適用されることを望みますか？



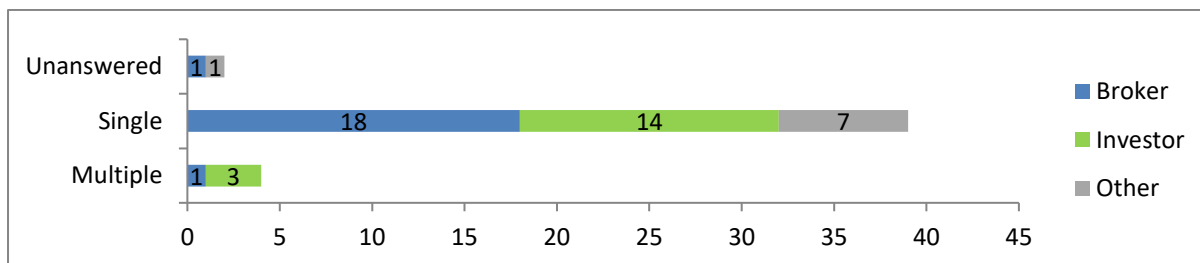
**..Multiple, different surveillance and inspection frameworks for each product separately? or a Single surveillance and inspection framework for all products together?**

複数の異なる監視・監査基準をプロダクト毎に適用することを望みますか？または、統一した監視・監査基準を全プロダクトに適用することを望みますか？



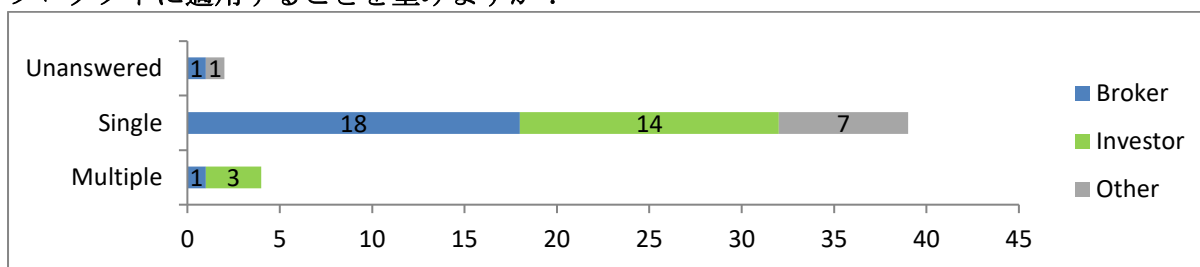
**..Multiple, different regulatory reporting frameworks for each product separately? or a Single regulatory reporting framework for all products together?**

複数の異なる報告ルールをプロダクト毎適用することを望みますか？統一した報告ルールを全プロダクトに適用することを望みますか？



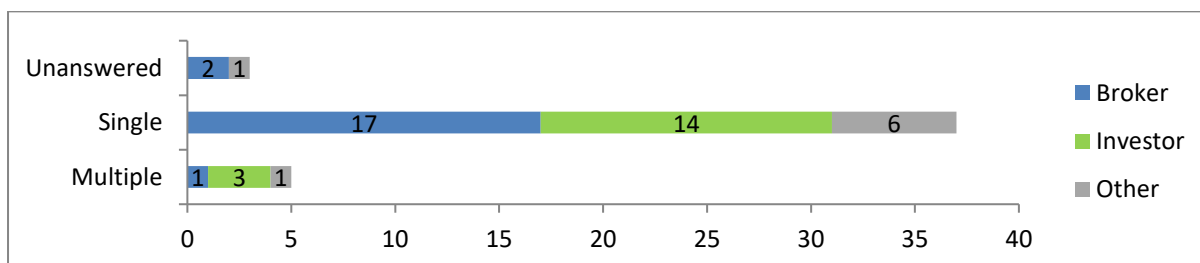
**..Multiple, different solicitation rules for each product separately? or a Single, consistent set of solicitation rules for all products together?**

複数の異なる顧客勧誘ルールをプロダクト毎に適用することを望みますか？統一した顧客勧誘ルールを全プロダクトに適用することを望みますか？



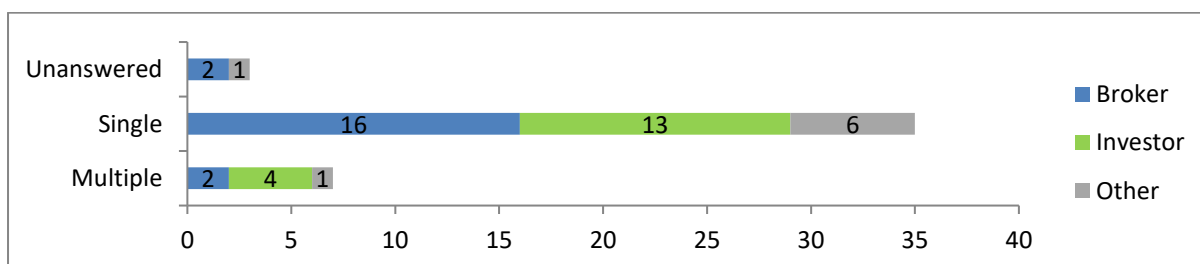
**..Multiple, different margin rules for each product separately? or a Single, consistent set of margin rules for all products together?**

複数の異なる証拠金計算ルールをプロダクト毎に適用することを望みますか？または統一した証拠金計算ルールを全プロダクトに適用することを望みますか？



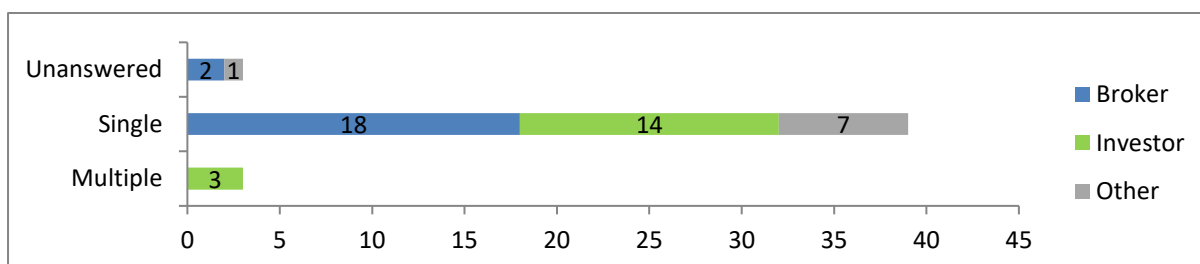
**..Multiple, different give up rules for each product separately? or a Single, consistent set of give up rules for all products together?**

複数の異なるギブアップルールをプロダクト毎に適用することを望みますか？または統一したギブアップルールを全プロダクトに適用することを望みますか？



**..Multiple, different taxation rules for each product separately? or a Single, consistent set of taxation rules for all products together?**

複数の異なる課税ルールをプロダクト毎に適用することを望みますか？または統一した課税ルールを全プロダクトに適用することを望みますか？





**Analysis:** Almost all respondents wish to have a single law, with a single surveillance and regulatory framework, with a single set of solicitation rules, with a single set of margin rules, with a single set of margin rules, with a single set of give up rules and a single set of taxation rules for all products.

#### **Summation of Narrative comments from respondents**

It should be noted that achieving an integrated market is not defined as any specific legal and regulatory structure. Instead it means that improvements to market integrity, market efficiency and benefits for investors are achieved via various initiatives of market rationalisation, harmonisation and simplification.

In general respondents favour a more integrated legal, regulatory and tax framework in Japan. Although some respondents note the differences between commodity and the non-commodity products, other respondents note that differences exist between, for example, fixed income, equity and interest rate products, and yet these 'different' products are easily and adequately supported under the single FIEL law. Respondents in general agree that some specific product elements of existing laws (e.g. commodity position limits) should be incorporated into any future integrated laws. Other respondents note that other broadly beneficial rules (e.g. allowing give up and position transfer) should be afforded equally to all products under a future integrated law.

The majority of respondents favour designating commodity futures as 'financial products' governed under the same laws and regulations as non-commodity futures.

It was noted that migration to a single legal/regulatory framework will take time and money. However, such a cost should be weighed against the long term benefits that accrue from any integration. A respondent noted that migration to an integrated market should take care to not disrupt the markets, but other respondents note that the priority should be to assist the growth of the commodity markets which currently experiences some challenges.

It was noted that overall compliance with laws will improve, and costs to ensure compliance with laws will be reduced if there was integration of laws and regulations.

Respondents noted that it is difficult to meaningfully achieve benefits of an integrated market if the regulatory environment for commodity and non-commodity futures were to remain separate. The majority of respondents note the differences in rules between commodity and non-commodity futures, and that the commodity futures industry is not given the same benefits as the non-commodity futures industry. Also, that the inequality of rules hinders growth in the commodity futures market, evidenced by the relatively poor performance of the commodity industry compared to the non-commodity futures industry.

Some respondents note that some investors do not wish to trade cross product and therefore do not have a need for an integrated market. However, other respondents note that a very large number of investors do wish to trade multi asset class but are currently unable to do so in the current fragmented market. And that many Japanese investors trade all asset classes but are forced to trade commodities outside of Japan because of the current fragmented markets. Other respondents note that many commodity brokers are unfairly prevented from expanding into non-commodity markets because their operations, determined by commodity specific laws, cannot easily or cost efficiently be adapted to non-commodity markets in Japan.

Respondents wished that tax treatment of underlying securities could be the same as tax treatment for derivatives of those underlying securities. And that the tax treatment of foreign securities was the same as the tax treatment of domestic securities. Such rationalisation would align the economic decision model of an underlying product to its derivative risk management counterpart.

Regardless of integration of laws and regulations, respondents wish to see a rationalisation by venues of contract specifications and trading rules/procedures for like products, so that similar products may benefit from increasing volume that different specifications and trading rules would otherwise prohibit. Also, in order that similar products can be traded fairly and easily by investors across all venues.

*Respondents also wished to see margin rules and methodologies harmonised (to the extent where risk methodologies allow) across all similar products.*

*Respondents would like to see commodity and non-commodity futures monitored and supervised by the same regulatory inspectors, so that similar products can be surveilled consistently across all products.*

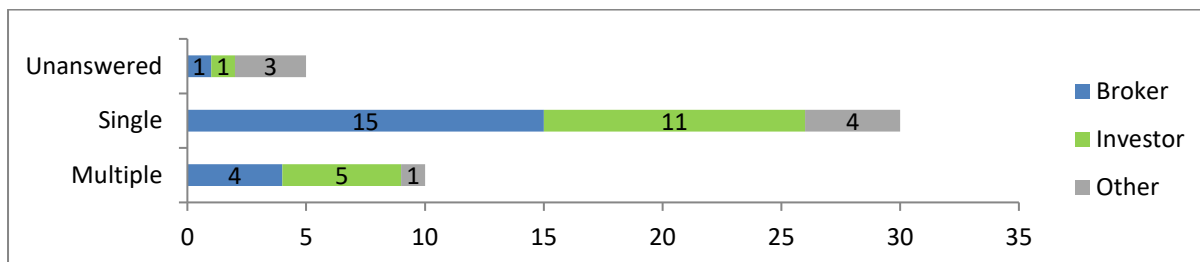
## Q6. Market Membership Structure 市場参加者構成について

Question: In the future, would you prefer..?

将来どのような市場参加者の構成を望みますか..?

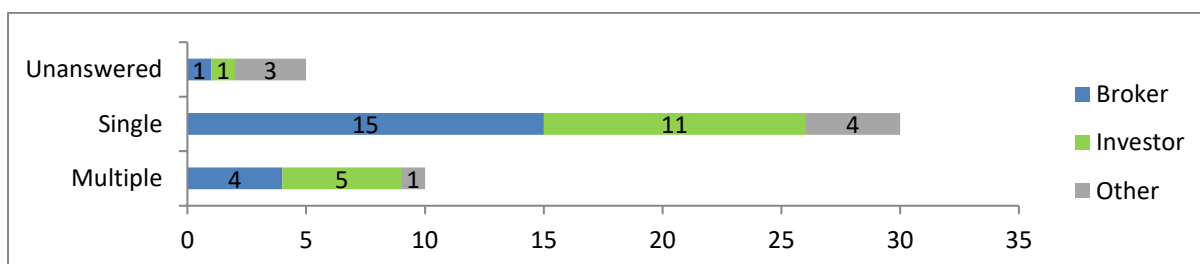
**..Multiple, different membership structures for each product separately? e.g. different default waterfall rules, different obligations and rights, etc. or Single, consistent membership structure for all products?**

プロダクト毎に異なる市場参加者構成を設定することを望みますか？例えば、異なる破綻処理方法や、異なる権利義務等、もしくは全てのプロダクトについて統一した市場参加者構成を設定することを望みますか？



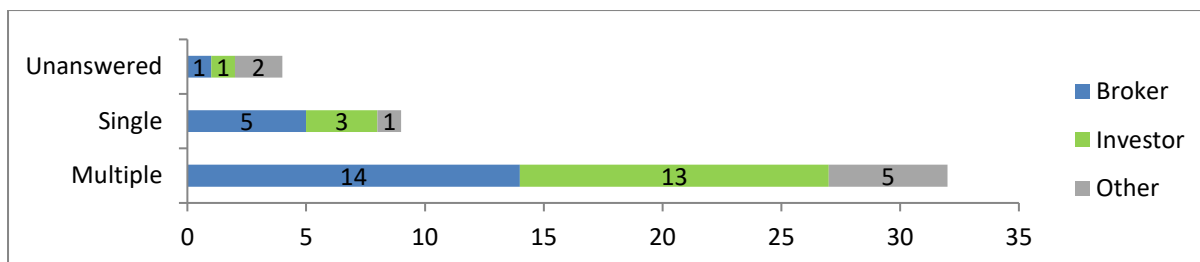
**..Multiple, different membership requirements for brokers to be a member. E.g. different capitalization rules. or a Single, consistent set of membership requirements for all brokers to be a member.**

市場参加者となるブローカーに例えば、資本要件等、異なる会員資格要件を設けることを望みますか？または、統一した市場参加者会員資格要件を設けることを望みますか？



**..Only one type of members participating? i.e. full service brokers participating or Different types of members participating? e.g. Execution only members, Remote members, Full Service members, General Clearing members.**

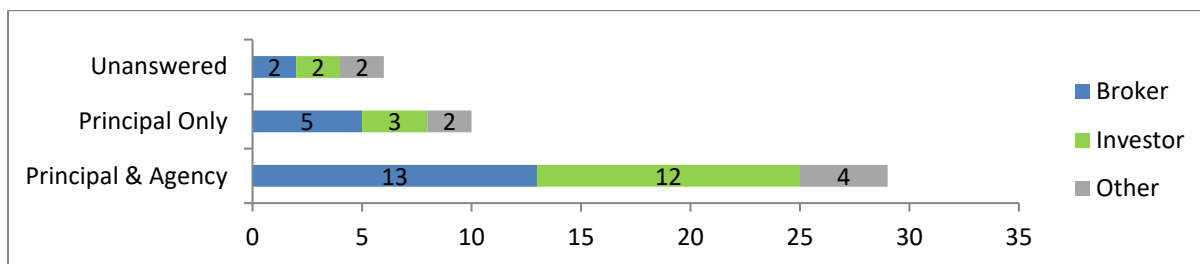
単一の市場参加者会員資格を望みますか？すなわち、市場会員は全プロダクトラインを提供することになります。取引会員、清算会員、隔地者取引会員及び清算会員など複数の会員資格を設けることを望みますか？



**..Direct participation is only allowed for member brokers? i.e. investors can only trade through a broker's membership; so called 'Principal Model' or Direct participation to trade widely opened to non-member participants? i.e. investors may directly participate in execution, with the member broker fully guaranteeing the investor's trades; so called 'Agency Model'**

取引参加者は取引所会員資格保有者に限ることを望みますか？すなわち、投資家は、あくまで市場会員ブローカーを通してのみ取引できるとすることを望みますか？—プリンシパルモデル

もしくは、取引参加者は、取引所会員でない者にも直接取引に参加できるようにすることを望みますか？すなわち、非会員取引参加者は、直接取引所取引に参加できますが、会員（清算）ブローカーが、そのような非会員取引参加者の取引を保証する形式です。—エージェンシーモデル



**Analysis:** The majority of respondents wish to see a single consistent membership structure and single set of membership requirements that applies to all members of venues.

The majority of respondents wish to see multiple, different types of members with direct participation at venues, and the adoption of the 'agency' model of clearing for those members.

#### Summation of Narrative comments from respondents

Overall, all respondents supported some degree of liberalisation of the membership structure of the market, but much caution was advised.

A respondent noted that, whilst membership structure reform is welcome, it is a secondary priority to regulatory consolidation and reform. And that without regulatory consolidation and reform, that practical membership structure reform is not achievable.

Many respondents remain concerned about the need to carefully assess the capability and credit quality of existing, and new members, in a future integrated market. Also, respondents are concerned that the rules and qualification criteria for all members should be harmonised in a future integrated market, so that every member is sufficiently financially able to ensure the integrity of the whole market. Such harmonisation would also help to reduce the risk of systemic failures and operational risk. A respondent noted that it would be healthy to require HST members to be regulated, either in their home country or within Japan.

Respondents noted that different products have different characteristics and require different capabilities of the broker. Having multiple membership types would enable 'specialist' members to focus on single products whilst also allowing 'universal' members to offer as many products as they wished.

Respondents noted that having many membership types also encourages new entrants because it lowers barriers to entry by allowing 'less than total' membership capability. However, allowing multiple membership types should not allow for lower standards for capability, or lower relative contribution (e.g. default funds). Having multiple membership types would also enable smaller brokers to expand incrementally.

The majority of respondents supported allowing the 'agency' model, rather than limiting the market to the 'principal only' model. However, it should be noted that the agency model carries a different set of risks than the principal model. The agency model increases the clearing members risk by removing a degree of control from the clearing broker over trades executed that the clearing broker must guarantee. However, it also lowers the clearing member's risk by removing many reputational and regulatory risks associated with execution. It should also be considered that the

*different risk profile of the Agency model is balanced with the positive affect of allowing more numbers of, and more diversity of, direct participation in the market. The Agency model also improves competition and provides much more choice to investors. It also reduces monopolistic pricing behaviour of brokers.*

*Many respondents believe that increasing membership types and flexibility of membership structure will benefit exchanges will lower volume because it lowers the barriers for new participants to become members.*

*Respondents would like member types to be product specific so that it was easier for 'specialist' members to continue to compete (based on their expertise); if membership types are limited to a single 'general membership' then only larger firms could afford to participate. Such product specific membership types would increase competition and encourage new (smaller) entrants to the market. One respondent would like to see a common, uniform 'base' trading license across commodity and non-commodity markets, that allows a selection of product class that would differentiate participation rather than the license itself differentiating participation. Another respondent wished that if multiple venues exist, that flexible 'cross venue' memberships should exist to facilitate investors and brokers to participate in all exchanges; this would increase competition and lower barriers to entry.*

*Many respondents noted that the current membership structures discourage new entrants to the market. Also that the current silo'd nature of membership unfairly hinders smaller brokers from expanding into other markets and products. Also, overseas investors would like to see a complete overhaul of the current remote membership structure because, as demonstrated by the lack to take up of this membership type, it is not currently workable.*

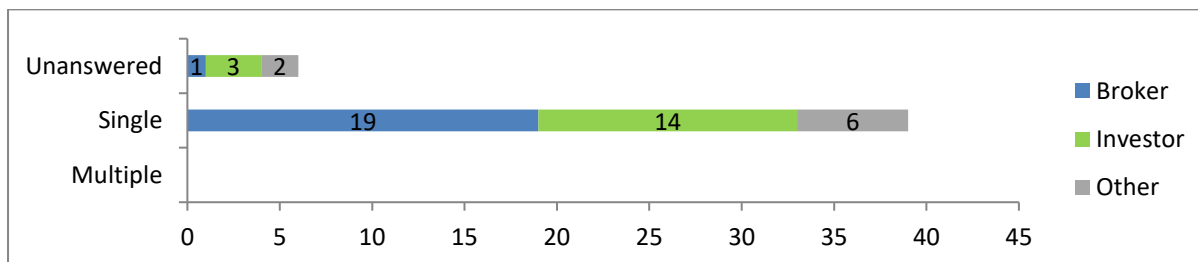
## Q7. Execution Technical Set Up 注文執行に関する技術的セットアップについて

Question: In the future, would you prefer..?

将来どのようなセットアップをお望みですか？

**..when accessing each market, a Different colocation site or proximity site must be used for each market separately? or When accessing any market, the same colocation site or proximity site can be used for any market?**

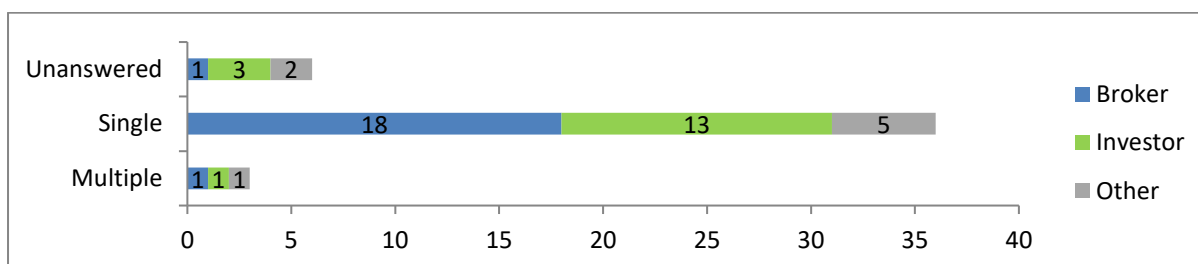
個別の市場に対しては各別のコロケーションサイト・プロキシミティサイトを利用してアクセスすることを望みますか？ もしくはどの市場にアクセスするにしても、単一のコロケーションサイトもしくはプロキシミティサイトを利用してアクセスすることを望みますか？



**..Multiple, different networks over which to connect to trade each product separately? or a Single network over which to connect to trade all products together?**

個別市場にアクセスするには各別のネットワーク経由でアクセスすることを望みますか？

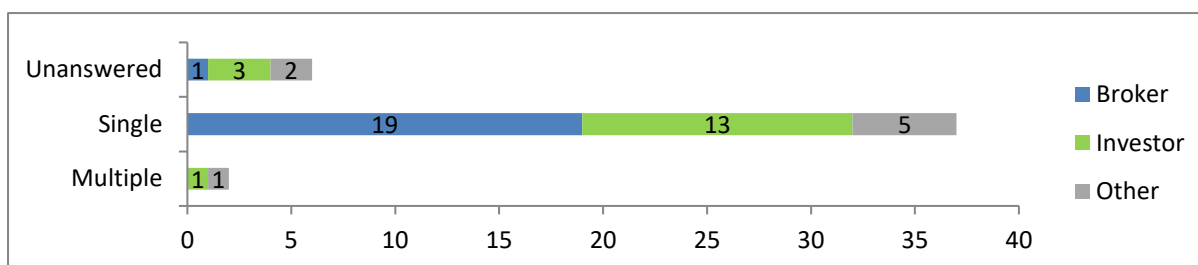
もしくはすべてのプロダクトを取引するに共通の単一のネットワークにつなげることを望みますか？



**..Multiple, different trading APIs to connect to, in order to trade each product separately? or a Single trading API to connect to, in order to trade all products together?**

複数の異なるAPIにより接続することにより、各プロダクトを別途取引することを望みますか？

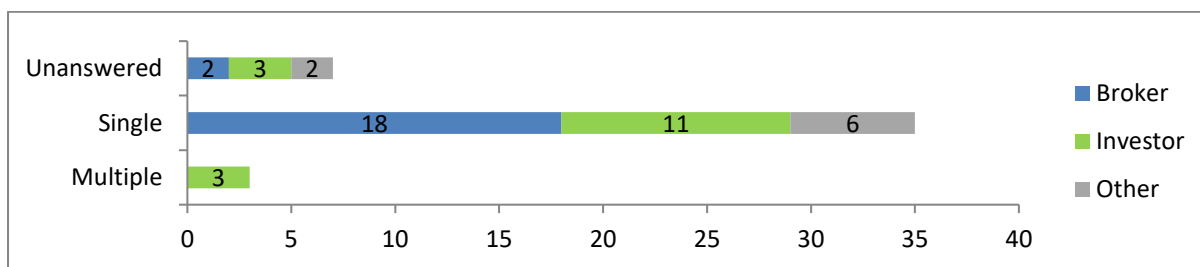
もしくは単一のAPIにより接続することにより、すべてのプロダクトを同時に取引することを望みますか？



**..Multiple, different trading engines on which to trade each product separately? or a Single trading engines on**

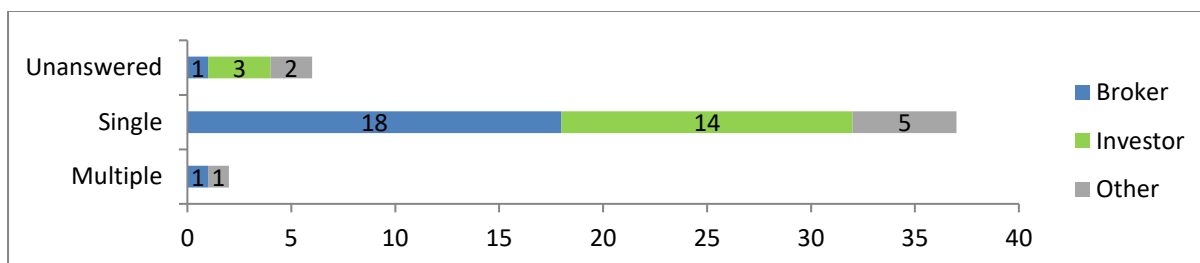
**which to trade all products together?**

複数の取引システムを個別の市場ごとに設けることを望みますか？または単一の取引システムですべての製品の取引を同時に行うことを望みますか？



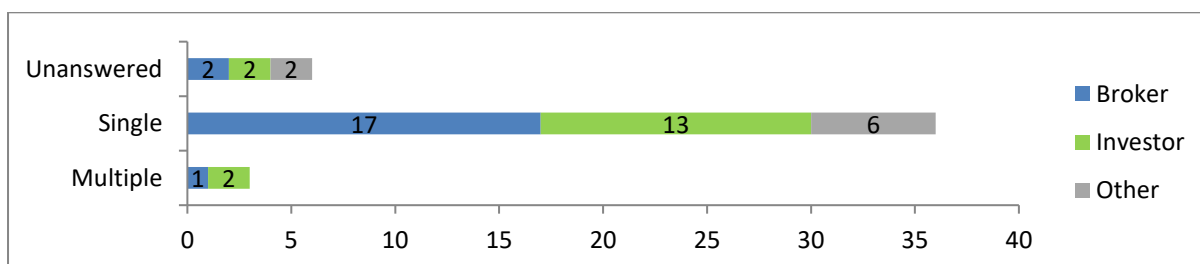
**..Multiple, different technical identifier structures and application processes (Trading Participant, Member ID, User ID...) in order to trade each product separately or a Single technical identifier structures and application processes used to trade all products.**

複数の識別子及びアプリケーションプロセス（取引参加者 ID、会員 ID、ユーザー ID 等）を個別市場ごとに設定することを望みますか？または単一の識別子及びアプリケーションプロセスを設け、すべての製品の取引に使えることを望みますか？



**..Multiple, different Pre Trade Risk Controls for each product individually. or a Single, consistent Pre Trade Risk Control layer for all products.**

製品毎にプリトレードリスクコントロールを設定することを望みますか？または全製品に共通の単一のプリトレードリスクコントロールを設定することを望みますか？



**Analysis:** Almost all of the respondents wish to trade from a single colocation site, connected by a single network, through a single API, to a single trading engine, with a single technical identifier and through a single Pre-Trade Risk control layer.

## **Summation of Narrative comments from respondents**

*Respondents noted the many benefits of having a single system; including reduced costs, lowering barriers to entry to the market, providing an environment that is easier to monitor/support and provides the ability to harmonise disaster recovery solutions and business continuity solutions. However, many respondents also noted that having multiple systems reduces the risk of systemic and/or market wide system failures, provides a mechanism to manage system and network capacity. Although other respondents note that the structural benefits of multiple systems can be accommodated within a single system that has an appropriate multiple redundant and load balanced architecture and/or network.*

*All of that said, other respondents note that having a single provider of systems reduces competition and increases the pricing power of the provider and restricts choice. However, it should be noted that there is no competition currently in the fragmented futures market and the venues maintain monopoly pricing power already, because currently the derivatives venues don't compete with each other (don't offer each others' products).*

*Respondents note the cost and time it takes to migrate to systems, although this should be balanced with the longer term benefits of a single system. Plus it should be noted that market participants would anyway bear the cost of new systems when, for example, a venue decided to upgrade to newer systems as part of their normal system development cycle.*

*A respondent noted that a future 'single' pre-trade risk control layer should be flexible enough to incorporate the different risk characteristics of different products, and another respondent noted that the pre-trade risk control layer for similar products should (regardless of integration) be standardised so that similar products could be traded fairly across venues, and all participants would apply the same risk control standards for similar products on the same venue. Another respondent noted that standardising pre-trade risk control layers would 'level the playing field' and increase competition and investor choice. Although another respondent noted that different pre-trade risk control standards provides an opportunity for venues to differentiate themselves and thus increases competition.*

*Many respondents wished that trading rules such as 'legal tickets' be updated to reflect the nature of modern, technology based, electronic trading. And other respondents wished that venues would update their trading IT System Risk Governance and Business Continuity Plans to cope with technology failure, cyber failure and the different risks presented by high speed trading.*



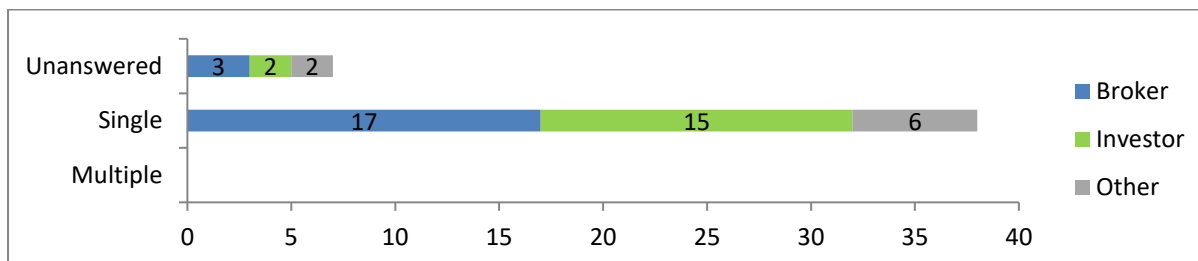
## Q8. Clearing Technical Set Up 清算に関する技術的セットアップについて

Question: In the future, would you prefer..?

将来どのような清算手続きをお望みですか？

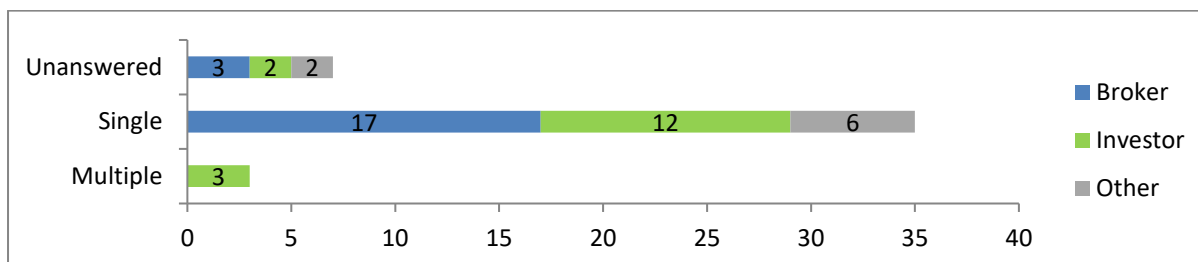
**..Multiple, different clearing APIs to clear each product separately? or a Single clearing API to clear all products together?**

プロダクト毎に別の清算 API を利用することを望みますか？ または単一の API によりすべてのプロダクトを同時に清算することを望みますか？



**..Multiple, different settlement mechanisms to settle each product separately? or a Single settlement mechanisms to settle all products together?**

プロダクト毎に別個の清算手続きを設けることを望みますか？ または単一の清算手続きによりすべてのプロダクトを同時に清算することを望みますか？



**Analysis:** Almost all of the respondents wish use a single clearing API and a single settlement mechanism to settle products.

**Summation of the Narrative comments from respondents:**

Respondents noted the many benefits of having a single systems; including reduced costs, lowering barriers to entry to the market, providing an environment that is easier to monitor/support and provides the ability to harmonise disaster recovery solutions and business continuity solutions.

## Q9. Benefits And Disadvantages Of An Integrated Market 総合取引市場のメリット・デメリット

*Respondents noted various benefits to an integrated market: lowering barriers to entry, increasing participation by new and existing participants, increasing liquidity, reducing transaction costs, improved risk management, improving compliance with rules and strengthening enforcement of compliance with rules, etc.*

*Many respondents believe that the whole financial market will have better financial base, and Japan will be able to compete internationally if an integrated market is achieved. Many respondents note that Japanese investors trade commodities in large volume today, but do not trade them within Japan because of the current fragmented nature of the markets.*

*Many respondents believe that the decline in the commodities industry could be reversed if an integrated market were achieved. However, the growth of the commodities market could only be achieved if a meaningful and effective integrated market was created (rather than just notional integration where there is no actual change).*

*However it is noted that many benefits are hard to define, and harder to realize especially since there are no concrete proposals for how the underlying FIEL and Commodity Futures Trading Law might be integrated. It is also noted that some benefits of an integrated market could be achieved without an integrated market. That said, it is clear from the survey results and respondents' comments that the majority of respondents believe that significant benefits can be realized if an integrated market become reality.*

*Even though the majority of the respondents believed significant benefits will accrue from an integrated market, the respondents noted that some disadvantages would occur:*

*Respondents noted that the integrated market has disadvantages in terms of creating monopoly service providers with too strong pricing and policy making power. Respondents also note strong concerns about concentration and system risk.*

*Respondents also note that moving to an integrated market may cause weaker participants, who cannot afford to migrate, to exit the market. However, this should be balanced against other current concerns that such weaker players weaken the integrity of the financial system today and should exit the market.*

*A respondent noted that unless the laws governing commodity and non-commodity products were regionalized, that an integrated market might actually become more expensive because all participants would be governed by all regulators and need to be in compliance with all regulations.*

*Some concerns have been raised by respondents about whether the physical market and futures market might become disconnected by an integrated market. However, it was noted by several respondents that, given that the majority of Japanese investors currently trade commodities only outside of Japan, there is no meaningful link in Japan to be broken.*

*Similarly, a respondent noted that, given that the majority of Japanese investors currently trade commodities only outside of Japan, that it is not certain that an integrated market would lead to a reinvigoration of commodities trading within Japan. However, this should be balanced by the significant interest by many participants and investors (see question A1 above) who have declared that they would participate in commodities if they integrated with non-commodity products.*