

Note: This English translation is for reference purposes only. In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail. The Financial Futures Association of Japan assumes no responsibility for this translation or for direct, indirect or any other form of damage arising from the translation.

Results of the Actual Conditions Survey of Over-The-Counter Retail Foreign Exchange Margin Trading

August 31, 2016

Research Department, The Financial Futures Association of Japan

Introduction

The Financial Futures Association of Japan (hereinafter referred to as the “Association”), in cooperation with the Tokyo Foreign Exchange Market Committee, conducts in every April a survey of business model and other actual conditions of over-the-counter (OTC) retail foreign exchange (FX) margin trading conducted by members that handle OTC retail FX margin trading.

The Association also collects from Association members various data that are necessary for examining the management condition of each member company of the Association (hereinafter referred to as the “Monitoring Data” in this report¹) on a regular basis.

The results of the survey of actual conditions mentioned above are aggregated and analyzed while taking the Monitoring Data into account, and are summarized as follows:

Part 1: Survey of Actual Conditions of Over-The-Counter Retail Foreign Exchange Margin Trading in April 2016

1. Survey Method

We conducted the survey by distributing questionnaires (please refer to the material separately attached) to all the members that handled OTC retail FX margin trading as of April 30, 2016 (excluding members that only provide intermediary services) and asking them to answer the questions on the questionnaires.

2. Number of Members Subject to the Survey

The number of members subject to the survey (unless otherwise specifically provided, hereinafter referred to as the “Members”)² was 51, which was down by five companies compared with the last survey.

Exhibit 1: Change in Number of Members Subject to the Survey

(Unit: Company (Member))

Survey Month and Year	No. of Members Subject to the Survey	Year-on-Year Change
April 2013	59	-4
April 2014	61	2
April 2015	56	-5
April 2016	51	-5

¹ Trading volume of over-the-counter-retail FX margin trading with customers uses a figure aggregated based on the monitoring survey that is reported by each member to the financial regulatory authority, a copy of which is to be submitted to the Association. Therefore, please note that the figures do not completely match those publicly announced by the Association on the monthly flash report on OTC FX transactions.

² Unless otherwise specifically explained, the “members subject to the survey” shall be referred to as the “Members” in this report. As all members that handle OTC retail FX margin trading are the “members subject to the survey,” the meaning of the “members that handle OTC retail FX margin trading” is the same as that of the “members subject to the survey.” However, please understand that both expressions are used in this report, depending on the context or for making the report easier to understand.

3. Collected Results

<Item 1>

(1) Business Model

The Association focused on the flow of executing a transaction of OTC retail FX margin trading, and categorized the flows into 24 groups indicated in the “Table of Business Model Category” below (the total number of model numbers indicated in the table below (“model No.” on the Exhibit)) as a business model depending on the characteristics of the flow:

Table of Business Model Category

Model No. of Each Business Model (model No.)	White Label [Note 1]	No. of Firms Used for Cover Transactions to Formulate Prices [Note 2]	Marry (During Trading Hours) [Note 3]	Timing of Execution with Customers and Cover Transaction [Note 4]
1	Not Applicable	Single	Yes	Discretionary
2				After
3				Before
4			No	Discretionary
5				After
6				Before
7		Several	Yes	Discretionary
8				After
9				Before
10			No	Discretionary
11				After
12				Before
13	Applicable	Single	Yes	Discretionary
14				After
15				Before
16			No	Discretionary
17				After
18				Before
19		Several	Yes	Discretionary
20				After
21				Before
22			No	Discretionary
23				After
24				Before

Note 1: White label means a transaction form where a Member executes a transaction with a customer under its own name using a pricing/execution system managed by another foreign exchange broker (including FX operator). This includes a case where a Member uses a system provided by its parent company.

Note 2: This means the number of firms that provide a cover rate used for formulating the price, not the number of firms who actually conduct cover transactions. In a normal condition, if a trading price with customers is formulated based on the rate provided by a specific single firm that is used for cover transaction, it is described as “Single,” while if the rate is selected or synthesized from those provided by several firms that are used for cover transactions every time the price for customers is formulated, it is described as “Several.”

Note 3: During the daytime, if there is a system that controls the price fluctuation risk arising from transactions with customers by using marry, it is described as “Yes,” while if there is no such system, it is described as “No.” Additionally, if cover transactions are made for all the transactions executed with customers during the daytime in principle, it is described as “No,” while if cover

transactions are not made for some of the transactions executed with customers during the daytime, and the price fluctuation risk is offset by open positions created by transactions with other customers that match against the original transactions, it is described as “Yes.”

Note 4: In a normal condition, if a cover transaction is made after executing a transaction with a customer, it is described as “After,” while if a transaction with a customer is executed only after a cover transaction is completed, it is described as “Before.” If a cover transaction can be made either before or after executing a transaction with a customer, it is described as “Discretionary.” Also, if a Member holds its own position by making a cover transaction before receiving a customer order and can match its own position against the customer’s order, it is described as “Discretionary.” If a transaction with a customer can be completed at the same time when a cover transaction is made under a system such as STP, it is described as “Before.” In the case of white label, “Discretionary,” “After,” or “Before” is determined depending on the timing of cover transaction made by the outsourcing contractor. It is not necessary to consider response at the time of emergency.

(2) Distribution of Business Models

Exhibit 2 shows the number of Members subject to the survey (51 companies in total) that adopt a certain business model (model No.) shown in the Table of Business Model Category in Part 1, Section 3, <Item 1>-(1). The total number of responses was 65, which exceeded the total number of the Members subject to the survey, as some Members adopted several business models (model No.).

When we look at the breakdown of each business model (model No.), 24 members (accounting for about 37% of the total responses) adopted at least one of Models No. 7 to 9 (the business model that is not a white label form, uses several firms for cover transactions, and can conduct marry transactions), out of which the number of Members that adopted Model No. 8 (the business model that is not a white label form, uses several firms for cover transactions, can conduct marry transactions, and conducts a cover transaction after carrying out contract with a customer) was 17 (accounting for approximately 26% of the total responses).

Exhibit 3 shows the number of Members subject to the survey (51 in total) that adopted either “Single (one)” or “Several (two, or three or more)” business models (Model No.).

Exhibit 2: Total Number of Members that Adopt Each Model Number in Part 1, 3-(1)

(Unit: Company (Member))

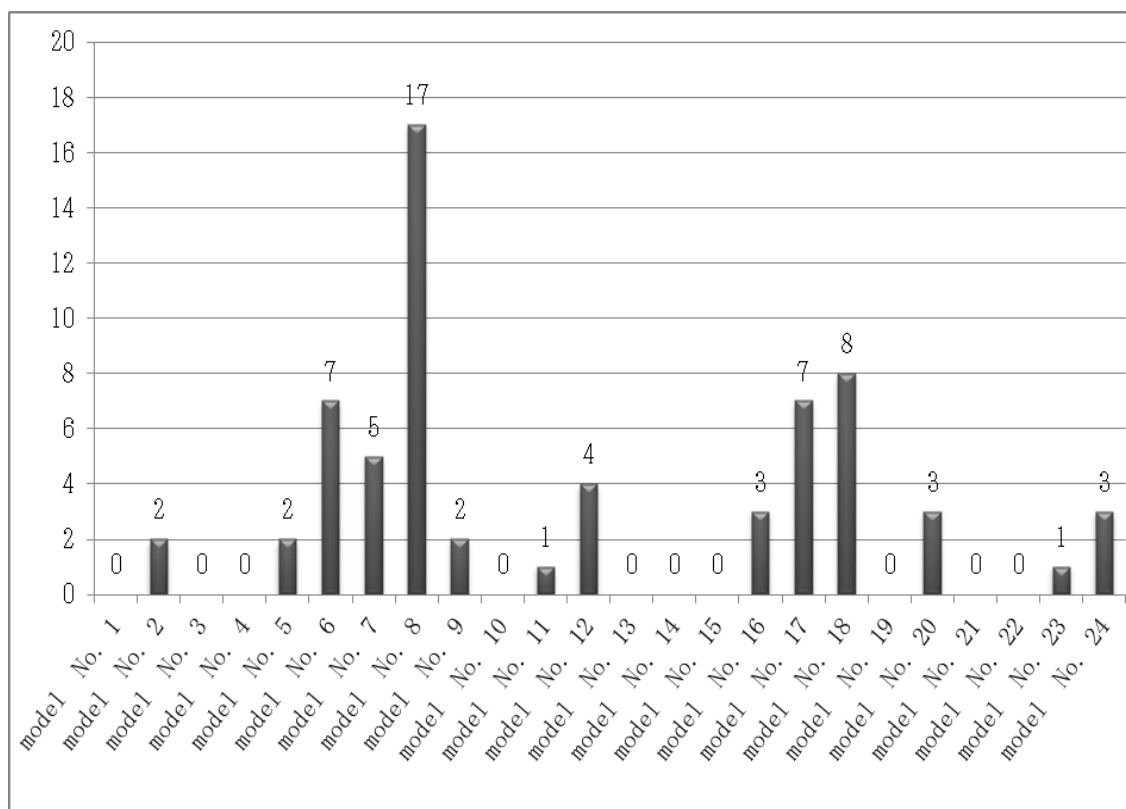


Exhibit 3: Breakdown of Members by Number of Business Models Adopted

(Unit: Company (Member))

The number of Members that adopt a single model	The number of Members that adopt several (two) models	The number of Members that adopt several (three or more) models
41	8	2

(3) Ranking of Members Based on Trading Volume of OTC Retail FX Margin Trading with Customers and Business Models Adopted

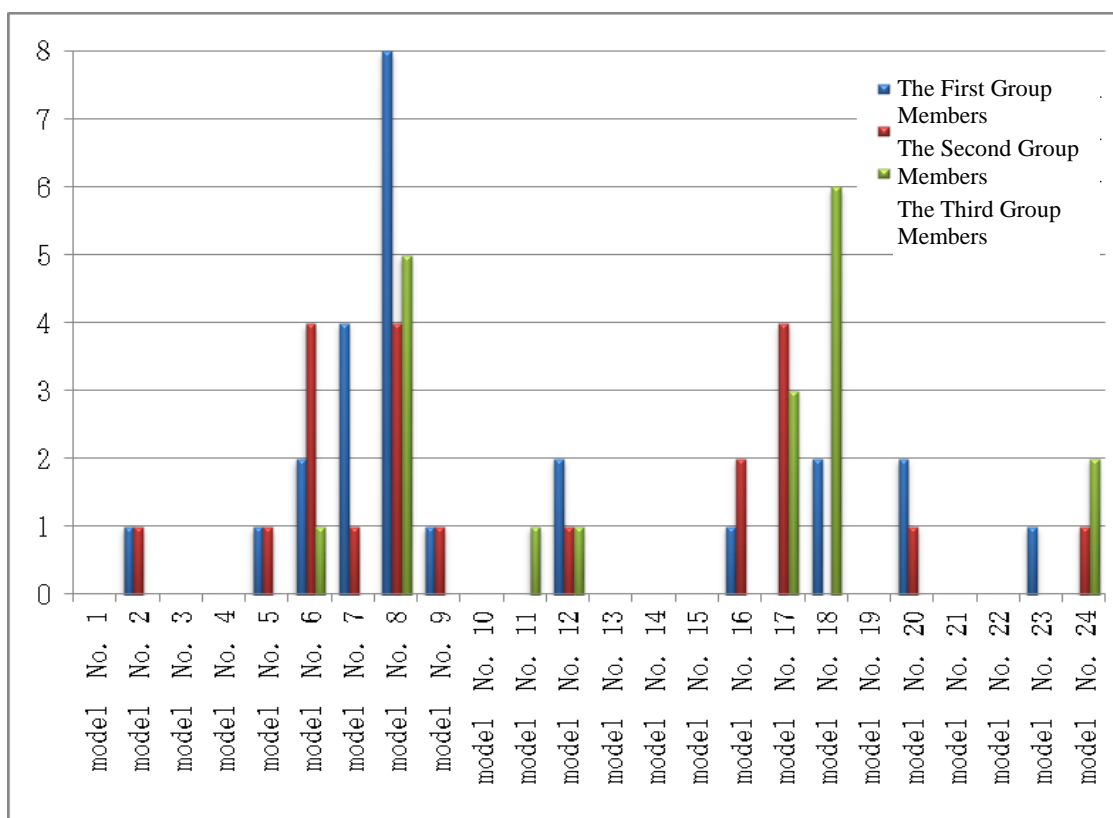
We rank the Members subject to the survey based on the trading volume of OTC retail FX margin trading, and categorize them into three groups³. Exhibit 4 shows the total number of Members by each of three groups that adopted a certain business model (Model No. show in 3-(1)) as in Exhibit 2.

When we look at the breakdown, we found that the most widely adopted models were Model No. 7 and 8 for the First Group, Model No. 6, 8, and 17 for the Second Group, and Model No. 8 and 18 for the Third Group.

³ We ranked the Members subject to the survey by the trading volume of OTC retail FX margin trading in FY ended April 2016, and categorized the top one-third as the First Group (Rank 1st to 17th), the next one-third as the Second Group (Rank 18th to 34th), and the remaining one-third as the Third Group (Rank 35th to 51st).

Exhibit 4: Total Number of Members in Each of Three Groups Based on OTC Retail FX Margin Trading Volume Ranking that Adopted a Certain Model (model No.) Shown in Part 1, 3-(1)

(Unit: Company (Member))



<Item 2> Use of Prime Broker (PB) System⁴ and Volume of Use

(1) Change in the Use of PBs by the Members Subject to the Survey

Exhibit 5 shows the number of Members using the Prime Broker (PB) system, the number of contracts made through the PB system, the number of PBs, and the trading volume of OTC retail FX margin trading with customers under the PB system.

Exhibit 6 shows the number of Members by the use of the Prime Broker (PB) system in terms of Newly started, Ceased (terminated), Increased, and Decreased:

⁴ Prime Broker (PB) means a broker who intermediates a transaction between the Member and a bank that is used for a cover transaction, and takes up the position of the Members based on the give-up instruction or by a tri-party agreement for the settlement between the Member and the financial institution used for the cover transaction.

Exhibit 5: Use of PB system and the Usage Amount

Survey month and year [Note 1]	No. of Members using the PB System	No. of contracts made through the PB system (total)	No. of PBs (Net) [Note 2]	PB usage amount (million yen)
April 2013	17	30	---	---
April 2014	16	30	7	52,764,799
April 2015	17	31	8	99,643,704
April 2016	15	31	9	70,309,960

Note 1: Survey of the number of PBs (net) and the PB usage amount began in April 2014 (The same shall apply in Exhibits 6 and 7).

Note 2: It is the number of PBs that the Members have contracted after deducting the overlapped numbers.

Exhibit 6: Use of PB system (Newly started, Ceased (terminated), Increased, and Decreased)

(Unit: Company (Member))

Survey month and year	No. of Members that ceased using PBs	No. of Members that decreased the number of PBs used	No. of Members that increased the number of PBs used	No. of Members that newly started using PBs
April 2014	2	1	3	1
April 2015 [Note 1, Note 2]	0	3	2	2
April 2016 [Note 1]	3	0	3	1

Note 1: In addition to the figures indicated above, as of April 2015 and April 2016, one Member that used the PB system ceased the business, respectively.

Note 2: As one Member did not start using PBs but added the number of PBs in April 2015, we revised the announced figure for 2015.

(2) Attributes of PBs⁵

As shown in Exhibit 7, the number of PBs used by the Members that handle OTC retail FX margin trading was 10 in 2016. Of these, the attribute of six PBs is the “i. financial institutions subject to reporting to the Tokyo Foreign Exchange Market Committee.”

Exhibit 7: Use of PBs by Attribute

(Unit: Company (PB))

Survey month and year	i. Financial institution subject to reporting to the Tokyo Foreign Exchange Market Committee	ii. Financial institution subject to reporting to the Bank of Japan (excluding those categorized as i)	iii. Financial institution subject to reporting to a central bank (overseas) (excluding those categorized as i or ii)	Domestic PBs other than i to iii	Overseas PBs other than i to iii
April 2014	6	-	1	-	-
April 2015	4	-	2	-	2
April 2016	6	-	2	-	2

<Item 3> Offering of Automatic Trading Tools

(1) Offering of Automatic Trading Tools to Customers

Exhibit 8 shows the number of Members that offered automatic trading tools to customers in April 2013, 2014, 2015, and 2016, and in the case where the automatic tool was offered, the

⁵ Please refer to the footnote in Part 2, 3-(1) for each attribute of PBs.

number of Members that offered a tool that was internally developed, externally developed, or both.

Exhibit 8: Number of Members Offering Automatic Trading Tools and the Attributes of Developers of the Tools

(Unit: Company (Member))

Survey month and year	No. of Members that offered automatic trading tools	Whether the automatic trading tools offered were internally developed, externally developed, or both		
		Internally developed	Externally developed (developed by others)	Both
April 2013	19	1	16	2
April 2014	21	3	16	2
April 2015	23	4	16	3
April 2016	25	7	15	3

(2) Impact of Automatic Trading Tools

Exhibit 9 shows the trading volume of OTC retail FY margin trading with customers executed by all the Members subject to the survey, by the Members that offered automatic trading tools, and by the Members that did not offer automatic trading tools in April 2013, 2014, 2015, and 2016.

Exhibit 10 shows the trading volume of OTC retail FX margin trading with customers executed by the Members that offer automatic trading tools (11 Members) in all the surveys conducted in April 2013, 2014, 2015, and 2016, and by the Members that did not offer automatic trading tools (22 Members) in all the surveys conducted in April 2013, 2014, 2015, and 2016.

Exhibit 9: Trading Volume of OTC Retail FX Margin Trading with Customer

(By all the Members subject to the survey, and Members that offered/did not offer automatic trading tools in each survey conducted in April 2013, 2014, 2015, and 2016)

(Unit: million yen, %)

Survey Month and Year	Trading volume of OTC retail FX margin trading with customers			Change (2016/2015)	Change (2016/2015)	Change (2016/2015)	Change (2016/2013)	Change (2016/2013)	Change (2016/2013)
	Members subject to the Survey	Members that offered automatic trading tools	Members that did not offer automatic trading tools	Members subject to the Survey	Members that offered automatic trading tools	Members that did not offer automatic trading tools	Members subject to the Survey	Members that offered automatic trading tools	Members that did not offer automatic trading tools
April 2013	442,119,319	74,879,925	367,239,394	-	-	-	-	-	-
April 2014	238,252,636	35,660,526	202,592,110	53.9%	47.6%	55.2%	53.9%	47.6%	55.2%
April 2015	453,041,189	36,697,371	416,343,818	190.2%	102.9%	205.5%	102.5%	49.0%	113.4%
April 2016	407,399,182	98,816,141	308,583,041	89.9%	269.3%	74.1%	92.1%	132.0%	84.0%

Exhibit 10: Trading Volume of OTC Retail FX Margin Trading with Customers

(By Members that offered or did not offer automatic trading tools in all the surveys conducted in April 2013, 2014, 2015, and 2016)

(Unit: million yen, %)

Trading Volume of OTC Retail FX Margin Trading with Customers						
Survey Month and Year	Members that have offered automatic trading tools in all the years from April 2013 to 2016 (total of 11 Members)...(A)	Members that have not offered automatic trading tools in all the years from April 2013 to 2016 (total of 22 Members)...(B)	Change in (A) 2016 /2015)	Change in (B) 2016/ 2015)	Change in (A) 2016/ 2013)	Change in (B) 2016/ 2013)
April 2013	22,640,632	302,899,609	-	-	-	-
April 2014	8,220,599	174,135,239	36.31%	57.49%	36.31%	57.49%
April 2015	12,753,463	332,076,229	155.14%	190.70%	56.33%	109.63%
April 2016	12,145,191	305,503,567	95.23%	92.00%	53.64%	100.86%

<Item 4> Offering of API⁶ to Customers

(1) Offering of API to Customers

Exhibit 11 shows the number of Members that offered API in April 2013, 2014, 2015, and 2016.

Exhibit 11: Number of Members that Offered API

(Unit: Company (Member))

Survey month and year	No. of Members that offered API	No. of Members that stopped offering API	No. of Members that started offering API
April 2013	5	–	–
April 2014	7	0	2
April 2015	15	0	8
April 2016	12	3	1

(2) Impact of Application Programming Interface

Exhibit 12 shows the trading volume of OTC retail FX margin trading with customers executed by all the Members subject to the survey, Members that offered Application Programming Interface (API), and Members that did not offer API in each survey conducted in April 2013, 2014, 2015, and 2016.

Exhibit 13 shows the trading volume of OTC retail FX margin trading with customers executed by the Members that have offered API in all the surveys conducted in April 2013, 2014, 2015, and 2016 (four Members) and by the Members that have not offered API in all the surveys conducted in April 2013, 2014, 2015, and 2016 (34 Members).

⁶ In this document, API (Application Programming Interface) means specifications of the interface that is used to exchange data with external software (mainly a system for system trading).

Exhibit 12: Trading Volume of OTC Retail FX Margin Trading with Customers

(By all the Members subject to the survey, and Members that offered/did not offer API in each survey conducted in April 2013, 2014, 2015, and 2016)

(Unit: million yen, %)

Survey Month and Year	Trading Volume of OTC Retail FX Margin Trading with Customers			Change (2016/2015)	Change (2016/2015)	Change (2016/2015)	Change (2016/2013)	Change (2016/2013)	Change (2016/2013)
	All the Members subject to the survey	Members that offered API	Members that did not offer API	All the Members subject to the survey	Members that offered API in each survey month	Members that did not offer API in each survey month	All the Members subject to the survey	Members that offered API in each survey month	Members that did not offer API in each survey month
April 2013	442,119,319	50,594,975	391,524,344	-	-	-	-	-	-
April 2014	238,252,636	24,711,589	213,541,047	53.89%	48.84%	54.54%	53.89%	48.84%	54.54%
April 2015	453,041,189	81,606,353	371,434,836	190.15%	330.24%	173.94%	102.47%	161.29%	94.87%
April 2016	407,399,182	91,996,657	315,402,525	89.93%	112.73%	84.91%	92.15%	181.83%	80.56%

Exhibit 13: Trading Volume of OTC Retail FX Margin Trading With Customers

(By Members that offered/ did not offer API in all the surveys conducted in April 2013, 2014, 2015, and 2016)

(Unit: million yen, %)

Survey Month and Year	Trading Volume of OTC Retail FX Margin Trading with Customers		Change in (A) 2016 /2015)	Change in (B) 2016/ 2015)	Change in (A) 2016/ 2013)	Change in (B) 2016/ 2013)
	Members that have offered API for all the years from April 2013 to 2016 (four Members)...(A)	Members that have not offered API for all the years from April 2013 to 2016 (34 Members)...(B)				
April 2013	46,457,231	335,198,683	-	-	-	-
April 2014	20,488,056	184,142,666	44.10%	54.94%	44.10%	54.94%
April 2015	41,254,377	338,819,569	201.36%	184.00%	88.80%	101.08%
April 2016	32,039,598	310,107,387	77.66%	91.53%	68.97%	92.51%

<Item 5> Currency Options

Exhibit 14 shows the number of Members handling OTC retail FX margin trading that also handled currency option trading (limited to the currency options regulated by the Financial Instruments and Exchange Act) in April 2013, 2014, 2015, and 2016.

Exhibit 14: Number of Members Handling OTC Retail FX Margin Trading that Also Handled OTC Currency Option Trading

(Unit: Company (Member))

Survey Month and Year	Number of Members that handled OTC Currency Options	
		No. of Members that also handled retail BO trading [Note]
April 2013	8	6
April 2014	10	7
April 2015	10	8
April 2016	10	7

Note: Retail BO means currency binary options for retail customers that are defined in the "Business Conduct Rules on Retail OTC Binary Option Trading" published by the Association.

Part 2: Aggregation and Analysis of Cover Transaction Data for Over-The-Counter Retail Foreign Exchange Margin Trading

1. Cover Transactions Subject to Aggregation and Attributes of Members

Table 1 shows the number of Members that handled OTC retail FX margin trading by type of business.

Table 1: Number of Members Handling OTC Retail FX Margin Trading by Type of Business

(Unit: Company (Member))

Attribute of Member (Business Type) Survey Month and Year	Registered Financial Institution	Securities Company [Note 1]	Financial Futures Company, etc.[Note 2]	Total
April 2012	3	34	27	64
April 2013	3	30	26	59
April 2014	5	31	25	61
April 2015	5	30	21	56
April 2016	5	30	16	51

Note 1: Securities Company means a member of the Association that is also a member of the Japan Securities Dealers Association (excluding OTC derivative members and special members).

Note 2: Financial Futures Company, etc. means a member of the Association (including commodity futures trading companies) other than a Registered Financial Institution and Securities Company.

2. Impact of Foreign Exchange Margin Trading in Japan on Foreign Exchange Market

(1) Flow of Transactions

The flow of funds in OTC retail FX margin trading consists of the flow between a customer and a Member that handles OTC retail FX margin trading (internal circulation) and the flow between a Member that handles OTC retail FX margin trading and a firm used for cover transactions (external circulation). Many transactions that are offset within a Member that handles OTC retail FX margin trading without carrying out a cover transaction with an outside firm are categorized as internal circulation.

Furthermore, when we look at the retail FX margin trading in Japan through Tokyo Financial Exchange's Click365 that is regarded as a transaction in a domestic exchange, as it has a framework under which an investor and a market maker are matched for the transaction, we can say that it has similar characteristics to those of the external flow of the OTC retail FX margin trading.

As the trading volume that is regarded as external circulation in retail FX margin trading (external circulation volume) increases, it may impact the FX market through firms used for cover transactions (as well as market makers).

Table 2 below shows the external circulation volume of retail FX margin trading.

Table 2: External Circulation Volume of Retail FX Margin Trading

(Unit: 100 million yen, %)

Survey month and year	OTC Retail FX Margin Trading				(3) Click 365 Trading Volume [Notes 2, 3]	(4) Total External Circulation Volume of Retail FX Margin Trading = (2) + (3)
	(1) Trading Volume with Customers	(2) External Circulation Volume (Total amount of cover transactions) [Note 1]	(2)/(1) (%)	Internal Circulation Volume = (1) - (2)		
April 2012	1,278,975	700,288	54.8%	578,687	49,157	749,445
April 2013	4,421,193	2,025,760	45.8%	2,395,432	74,806	2,100,566
April 2014	2,382,526	986,069	41.4%	1,396,457	23,358	1,009,427
April 2015	4,530,411	1,818,843	40.1%	2,711,568	32,955	1,851,798
April 2016	4,073,991	1,681,387	41.3%	2,392,604	31,728	1,713,115

Note 1: Based on the Monitoring Data. Hedge transactions and other transactions are included for members for which hedge transactions and other proprietary trading are difficult to distinguish from cover transactions.

Note 2: This figure represents the monthly trading volume disclosed by the Tokyo Financial Exchange multiplied by the month-end settlement price.

Note 3: There were six MM (marker makers) as of June 30, 2016 (Commerzbank, Deutsche Securities, Barclays Bank, Goldman Sachs Japan, Nomura Securities, and Bank of Tokyo-Mitsubishi UFJ).

(2) Comparison with the Tokyo Foreign Exchange Market

As shown in Table 3, the total external circulation volume of retail FX margin trading exceeds the spot trading volume by non-financial institution customers (domestic) in the Tokyo foreign exchange market.

Table 3: Comparison between Spot Transactions in the Tokyo Foreign Exchange Market and External Circulation Volume

(Unit: 100 million yen, %)

Survey month and year	Survey Results Announced by the Tokyo Foreign Exchange Market Committee [Note 1]		(3) Total External Circulation Volume of Retail FX Margin Trading (The same as those in (4) in Table 2)	(3)/(1) (%)	(3)/(2) (%)
	(1) Spot Trading Volume	(2) Of which, Transactions with Non-Financial Institution Customers (domestic) [Note 2]			
April 2012	1,614,486	319,237	749,445	46.4%	234.76%
April 2013	3,077,047	793,050	2,100,566	68.3%	264.87%
April 2014	2,347,993	764,693	1,009,427	43.0%	132.00%
April 2015	3,263,748	1,272,232	1,851,798	56.7%	145.56%
April 2016	2,638,980	588,956	1,713,115	64.9%	290.87%

Note 1: Figures in (1) and (2) of the table above are calculated by multiplying the spot trading volume described in "[Reference Table] <Table 1>" in the "Survey on Foreign Exchange Transaction Volume in Tokyo Foreign Exchange Market" published by the Tokyo Foreign Exchange Market Committee by the yen/dollar spot rate as of 17:00 at the end of every April published by the Bank of Japan (80.74 yen on April 2012, 97.83 yen on April 2013, 102.51 on April 2014, 118.91 yen on April 2015, and 108.401 yen on April 2016).

Note 2: We adopt the same definition of non-financial institution customers as those on the "Survey on Foreign Exchange Transaction Volume in Tokyo Foreign Exchange Market" published by the Tokyo Foreign Exchange Market Committee. In the survey, it is explained that transactions with retail FX margin trading operators should be recorded as transactions with non-financial institution customers. However, it should be noted that such transactions can be classified into a category other than those with non-financial institution customers if the FX margin trading operator is not a specialized FX margin trading operator.

3. Cover Transactions for Over-The-Counter Retail Foreign Exchange Margin Trading

(1) Firms Used for Cover Transactions by Attribute⁷ and Use of Cover Transactions

The number of firms for cover transactions used by the Members handling OTC retail FX margin trading by attribute shown in Table 4 and the total number of Members handling OTC retail FX margin trading that use firms for cover transactions (by attribute) shown in Table 4-2 indicate the attribute of firms used for cover transactions with which Members that handle OTC retail FX margin trading make a cover transaction.

The number of Members handling OTC retail FX margin trading is approximately 3.5 per firm used for cover transactions. When we look at the attributes of firms used for cover transactions, the number of Members handling OTC retail FX margin trading is approximately 7.0 on average per financial institution subject to reporting to the Tokyo Foreign Exchange Market Committee, which is higher than the general average.

Table 4: Number of Firms for Cover Transactions Used by Members Handling OTC Retail FX Margin Trading by Attribute

(Unit: Company (Member))

Attribute of Firms Used for Cover Transactions	1. Total from (1) to (3)					2. Total of firms that are not categorized into any of the above but are used for cover transactions (total of (4) and (5))					Grand Total
	(1) Financial institutions subject to reporting to the Tokyo Foreign Exchange Market Committee	(2) Financial institutions subject to reporting to the Bank of Japan (excluding (1))	(3) Other financial institutions subject to reporting to a central bank (overseas) (excluding (1) and (2))	(4) Domestic Operators	(5) Overseas Operators Total	U.S.	U.K.	Singapore	Australia	Others [Note]	
Survey month and year	(1)	(2)	(3)	(4)	(5)	U.S.	U.K.	Singapore	Australia	Others [Note]	Grand Total
April 2012	15	2	3	13	22	7	7	4	1	3	55
April 2013	21	1	4	10	20	3	9	4	1	3	56
April 2014	19	1	5	12	20	2	9	4	3	2	57
April 2015	17	1	4	11	24	3	9	4	5	3	57
April 2016	17	1	4	13	24	4	8	4	4	4	59

Note: Malaysia, New Zealand, Ireland, Belize, Cyprus, and UAE.

⁷ When we determine the attribute, financial institutions that participate in (report to) the “Survey on Foreign Exchange Transaction Volume in Tokyo Foreign Exchange Market” are categorized into “Financial institutions subject to reporting to the Tokyo Foreign Exchange Market Committee”; financial institutions that cooperate with the “Central Bank Survey on Foreign Exchange and Derivatives (FX and Derivatives Survey)” conducted once in three years by the Bank of Japan (excluding those categorized into the financial institutions subject to reporting to the Tokyo Foreign Exchange Market Committee) are categorized as “Financial institutions subject to reporting to the Bank of Japan”; and financial institutions that cooperate with the “FX and Derivatives Survey” conducted by a central bank other than in Japan are categorized into “Other financial institutions subject to reporting to a central bank (overseas).”

Table 4-2: Total Number of Members Handling OTC Retail FX Margin Trading that Use Firms for Cover Transactions (by Attribute) [Note 1]

(Unit: Company (Member))

Attribute of Firms Used for Cover Transactions	1. Total from (1) to (3)				2. Total of firms that are not categorized into any of the above but are used for cover transactions (total of (4) and (5))	(4) Domestic Operators	(5) Overseas Operators Total	U.S.	U.K.	Singapore	Australia	Others [Note 2]	Grand Total
	(1) Financial institutions subject to reporting to the Tokyo Foreign Exchange Market Committee	(2) Financial institutions subject to reporting to the Bank of Japan (excluding (1))	(3) Other financial institutions subject to reporting to a central bank (overseas) (excluding (1) and (2))										
Survey month and year													
April 2012	141	110	9	22	78	30	48	21	8	14	1	4	219
April 2013	140	109	2	29	63	27	36	5	13	14	1	3	203
April 2014	141	124	2	15	68	31	37	3	14	15	3	2	209
April 2015	128	114	1	13	68	24	44	4	16	16	5	3	196
April 2016	136	119	1	16	68	24	44	9	11	15	4	5	204

Note 1: This is a total aggregated figure after categorizing firms for cover transactions used by Members handling OTC retail FX margin trading by attribute.

Note 2: Malaysia, New Zealand, Ireland, Belize, Cyprus, and UAE.

(2) Trading Volume of Cover Transactions by Attribute of Firms Used for Cover Transactions

As in Table 4 and Table 4-2, Table 5 and Table 5-2 show the trading volume of cover transactions executed between Members that handle OTC retail FX margin trading and firms used for cover transactions after categorizing firms used for cover transactions by attribute. When we look at the data by attribute, financial institutions subject to reporting to the Tokyo Foreign Exchange Market Committee accounted for 47.1% of all cover transactions.

Table 6 shows the aggregated result by categorizing data in (1), (2), and (4) of the attributes of firms used for cover transactions as shown in Table 5 as domestic cover transactions, and data in (3) and (5) as overseas cover transactions.

Table 5: Trading Volume of Cover Transactions by Attribute of Firms Used for Cover Transactions

(Unit: 100 million yen)

Attribute of Firms Used for Cover Transaction	1. Financial Institutions (financial institutions included in category (1) to (3))				2. Other Firms Used for Cover Transactions (Other than 1.)	(4) Domestic Operators	(5) Overseas Operators Total	U.S.	U.K.	Singapore	Australia	Others [Note]	Grand Total
	(1) Financial institutions subject to reporting to the Tokyo Foreign Exchange Market Committee	(2) Financial institutions subject to reporting to the Bank of Japan (excluding (1))	(3) Financial institutions subject to reporting to a central bank (overseas) (excluding (1) and (2))										
Survey month and year													
April 2012	334,156	312,265	0	21,890	366,131	234,011	132,120	65,953	31,861	29,604	3,781	918	700,288
April 2013	872,994	537,753	0	335,241	1,152,765	929,451	223,314	18,808	60,095	136,950	5,972	1,486	2,025,760
April 2014	562,145	546,098	0	16,047	423,923	347,362	76,560	9,942	32,667	29,775	3,089	1,084	986,069
April 2015	1,066,640	1,043,167	0	23,472	752,202	636,729	115,473	38,953	36,862	18,156	20,976	525	1,818,843
April 2016	841,822	792,164	0	49,658	839,564	750,293	89,270	36,825	18,381	19,973	10,196	3,893	1,681,387

Note: Malaysia, New Zealand, Ireland, Belize, Cyprus, and UAE.

Table 5-2: Trading Volume of Cover Transactions by Attribute of Firms Used for Cover Transactions (As a Percentage of Grand Total in Each Month by Attribute)

(Unit: %)

Attribute of Firms Used for Cover Transaction	1. Financial Institutions (financial institutions included in category (1) to (3))				2. Other Firms Used for Cover Transactions (Other than 1.)	(4) Domestic Operators	(5) Overseas Operators Total	U.S.	U.K.	Singapore	Australia	Others [Note]	Grand Total
	(1) Financial institutions subject to reporting to the Tokyo Foreign Exchange Market Committee	(2) Financial institutions subject to reporting to the Bank of Japan (excluding (1))	(3) Financial institutions subject to reporting to a central bank (overseas) (excluding (1) and (2))										
Survey month and year													
April 2012	47.7%	44.6%	0.0%	3.1%	52.3%	33.4%	18.9%	9.4%	4.5%	4.2%	0.5%	0.1%	100.0%
April 2013	43.1%	26.5%	0.0%	16.5%	56.9%	45.9%	11.0%	0.9%	3.0%	6.8%	0.3%	0.1%	100.0%
April 2014	57.0%	55.4%	0.0%	1.6%	43.0%	35.2%	7.8%	1.0%	3.3%	3.0%	0.3%	0.1%	100.0%
April 2015	58.6%	57.4%	0.0%	1.3%	41.4%	35.0%	6.3%	2.1%	2.0%	1.0%	1.2%	0.0%	100.0%
April 2016	50.1%	47.1%	0.0%	3.0%	49.9%	44.6%	5.3%	2.2%	1.1%	1.2%	0.6%	0.2%	100.0%

Note: Malaysia, New Zealand, Ireland, Belize, Cyprus, and UAE.

Table 6: Change of Trading Volume of Cover Transactions (Domestic and Overseas)

(Unit: 100 million yen, %)

Survey month and year	Trading Volume of Cover Transactions (Total)	Domestic Cover Transactions		Overseas Cover Transactions	
		Trading Volume	Percentage of Total	Trading Volume	Percentage of Total
April 2012 [Note]	700,288	546,276	78.0%	154,010	22.0%
April 2013 [Note]	2,025,760	1,467,204	72.4%	558,555	27.6%
April 2014	986,069	893,461	90.6%	92,607	9.4%
April 2015	1,818,843	1,679,896	92.4%	138,946	7.6%
April 2016	1,681,387	1,542,458	91.7%	138,929	8.3%

Note: We corrected some errors found in the previously published data that exist in percentage of total (%) for overseas cover transactions for April 2012 and 2013 data.

(3) Trading Volume of Cover Transactions Based on the Trading Volume of OTC Retail FX Margin Trading

In order to show the trading volume of cover transactions in connection with the trading volume of OTC retail FX margin trading (with customers), we firstly rank Members that handle OTC retail FX margin trading by their trading volume of OTC retail FX margin trading (with customers) in each survey year and month, and then categorize them into six groups (e.g. from the first to the third). Tables 7 to 10 show data of OTC retail FX margin trading categorized by the above six groups.

**Table 7: Trading Volume of OTC Retail FX Margin Trading (with Customers)
(by ranking group based on the trading volume with customers)**

(Unit: 100 million yen)

Survey month and year	1st to 3rd place	4th to 10th place	11th to 20th place	21st to 30th place	31st to 40th place	41st place and more	Total
April 2012	559,208	438,497	176,432	71,185	28,150	5,500	1,278,975
April 2013 [Note]	2,093,296	1,523,692	586,132	163,396	49,501	5,173	4,421,193
April 2014	1,294,840	675,578	306,871	70,005	27,084	8,145	2,382,526
April 2015	2,476,761	1,367,613	497,839	134,886	46,896	6,415	4,530,411
April 2016	2,064,879	1,426,025	457,247	89,271	34,017	2,550	4,073,991

Note: We corrected some errors found in the previously published data that exist in total for April 2013 data.

Table 8: Trading Volume of Cover Transactions by Members Handling OTC Retail FX Margin Trading by Ranking Group Based on the Trading Volume of OTC Retail FX Margin Trading with Customers

(Unit: 100 million yen)

Survey month and year	1st to 3rd place	4th to 10th place	11th to 20th place	21st to 30th place	31st to 40th place	41st place and more	Total
April 2012	64,558	390,440	144,234	63,204	33,150	4,699	700,288
April 2013	467,500	863,764	519,334	122,196	47,995	4,969	2,025,760
April 2014	264,476	354,287	275,918	58,878	24,419	8,089	986,069
April 2015	405,016	902,433	337,143	128,655	39,271	6,323	1,818,843
April 2016	331,651	929,141	301,644	90,703	25,947	2,299	1,681,387

Table 9: Ratio of Trading Volume of Cover Transaction by Ranking Group Based on the Trading Volume of OTC Retail FX Margin Trading to the Total Trading Volume of Cover Transactions

(Unit: %)

Survey month and year	1st to 3rd place	4th to 10th place	11th to 20th place	21st to 30th place	31st to 40th place	41st place and more
April 2012	9.2%	55.8%	20.6%	9.0%	4.7%	0.7%
April 2013	23.1%	42.6%	25.6%	6.0%	2.4%	0.2%
April 2014	26.8%	35.9%	28.0%	6.0%	2.5%	0.8%
April 2015	22.3%	49.6%	18.5%	7.1%	2.2%	0.3%
April 2016	19.7%	55.3%	17.9%	5.4%	1.5%	0.1%

Table 10: Ratio of Trading Volume of Cover Transactions (Table 8) to the Trading Volume of OTC Retail FX Margin Trading (Table 7) (by ranking group based on the trading volume of OTC retail FX margin trading with customers)

(Unit: % [Note])

Survey month and year	1st to 3rd place	4th to 10th place	11th to 20th place	21st to 30th place	31st to 40th place	41st place and more
April 2012	11.5%	89.0%	81.8%	88.8%	117.8%	85.4%
April 2013	22.3%	56.7%	88.6%	74.8%	97.0%	96.1%
April 2014	20.4%	52.4%	89.9%	84.1%	90.2%	99.3%
April 2015	16.4%	66.0%	67.7%	95.4%	83.7%	98.6%
April 2016	16.1%	65.2%	66.0%	101.6%	76.3%	90.1%

Note: It is possible that the trading volume of cover transactions may exceed the trading volume of OTC retail FX margin trading (i.e. over 100%) due to the transfer of open positions following the change of the firm used for cover transactions or transaction errors.

Conclusion (General Comments and Considerations)

The following is a conclusion (general comments and considerations) of the survey:

When we look at the business model for OTC retail FX margin trading that is executed by Members that handle OTC retail FX margin trading, as indicated in last year's report, we found a trend that Members whose trading volume of OTC retail FX margin trading with customers is larger use several firms for cover transactions, and conduct marry transactions. On the other hand, Members whose trading volume of OTC retail FX margin trading is smaller adopt a white label form, use a single firm for cover transactions, and do not conduct marry transactions. The trend of use/non-use of marry transaction mentioned above is also supported by the ratio of trading volume of cover transactions against the trading volume of OTC retail FX margin trading with customers; i.e., Member whose trading volume of OTC retail FX margin trading is smaller tend to have a higher cover transaction ratio. Additionally, when we look at the total number of business models adopted, there is a trend that Members that adopt a white label, use a single firm for cover transactions, and do not conduct marry transactions decreased slightly.

Recently, more and more OTC retail FX margin trading operators have provided automatic trading tools and the trading volume of OTC retail FX margin trading with customers executed by the Members that have provided automatic trading tools accounts for approximately 24% (8% in 2015) of the total trading volume of OTC retail FX margin trading operators with customers that were subject to the survey. However, when we look at Members that have continuously provided automatic trading tools since FY 2013, the ratio of their trading volume with customers to the total trading volume of OTC retail FX margin trading with customers is approximately 3% (3% in FY 2015), which suggests that, as indicated in last year's report, provision of automatic trading tools has scarcely contributed to the increase of trading volume of OTC retail FX margin trading with customers executed by the Members.

When we look at API, although the number of Members that handle OTC retail FX margin trading and have provided API has slightly decreased, the trading volume of OTC retail FX margin trading with customers executed by the Members that have provided API was approximately 23% (18% in FY 2015) of the total trading volume of OTC retail FX margin trading operators with customers that were subject to the survey. The trading volume of OTC retail FX margin trading with customers executed by Members that have continuously provided API since FY 2013 accounted for approximately 8% (9% in 2015), which suggests that, as indicated in last year's report, provision of API has scarcely contributed to the increase of trading volume of OTC retail FX margin trading with customers executed by the Members.

When we look at the impact of OTC retail FX margin trading on the foreign exchange market compared with 263 trillion yen of spot trading indicated by the Tokyo Foreign Exchange Market Committee survey, we can generally say that although there are actually some impacts supported by the decrease in transactions by non-financial institution customers (domestic) into which transactions by Members that handle OTC retail FX margin trading seem to be categorized, the external circulation of OTC retail FX margin trading that reached approximately 168 trillion yen gave a certain impact on the trading volume of transactions by such non-financial institution customers (domestic), as shown in last year's report.

As for firms used for cover transactions by attribute as well as usage and trading volume of cover transactions, this year's survey also confirmed a trend that the ratio of financial

institutions that participate in (report to) the “Survey on Foreign Exchange Transaction Volume in Tokyo Foreign Exchange Market” is higher compared with firms belonging to other attributes. This indicates that the business relationship has continuously been established between Members that handle OTC retail FX margin trading and financial institutions that participate in (report to) the “Survey on Foreign Exchange Transaction Volume in Tokyo Foreign Exchange Market” through cover transactions.

(Written by Kurakata at Research Department of FFAJ)

- The Financial Futures Association of Japan does not guarantee that data and information provide in this document are accurate, correct, and/or up-to-date although it has made every effort to ensure such accuracy, correctness, and timeliness.
- All of the information contained in this document (text, charts, tables, etc.) is subject to copyright, and is protected by the applicable copyright laws and international treaties. The Financial Futures Association of Japan does not assume any liability for and has no obligation to compensate for any loss or damage caused by or arising from data and information contained herein, including any errors, omissions, or reliance on this information.

Copyright © The Financial Futures Association of Japan All Rights Reserved.