

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

Aug. 29th, 2014

The Financial Futures Association of Japan

The Financial Futures Association of Japan ("Association"), together with the Tokyo Foreign Exchange Market Committee, conducts an annual survey of the actual conditions, including business models, of members that handle over-the-counter retail foreign exchange (FX) margin trading.

Part One: About the 2014 Survey

1. Survey Method

Questionnaires were distributed to members that handled over-the-counter retail FX margin trading as of April 30, 2014. These questionnaires were then collected and tabulated.

2. Questionnaire Collection Status

Members covered by the survey	Responses in 2014 survey	Responses in 2013 survey	New responses in 2014 survey
60	60	59	3

3. Tabulation Results

[Item 1]

(1) Business Models

The Association categorizes the business models of members that conduct over-the-counter retail FX margin trading into six groups¹ based on their characteristics, such as the mechanism of the transactions.

Pattern	Execution decision	Marry	Order of cover transactions	Execution of cover transactions	Transaction price formation method
Model 1	Internal	Yes	Cover transactions carried out after contract with customer	Discretionary	Multiple firms are used for cover transactions, and prices are formulated based on the best rate or the rate of one specific firm
Model 2					One firm is selected for cover transactions, and prices are formulated based on the cover rate for that firm
Model 3		No		Carry out promptly after contract with customer	Multiple firms are used for cover transactions, and prices are formulated based on the best rate or the rate of one specific firm
Model 4					One firm is selected for cover transactions, and prices are formulated based on the cover rate for that firm
Model 5	External (outsourcing contractor)	No	Contract with customer after cover transaction is carried out based on customer's order		Multiple firms are used for cover transactions, and prices are formulated based on the best rate or the rate of one specific firm
Model 6					One firm is selected for cover transactions, and prices are formulated based on the cover rate for that firm

¹ Models 1–4 use an execution decision mechanism known as IE (internal execution), while Models 5 & 6 use a mechanism known as EE (external execution).

(2) Distribution of Business Models

Adopted model	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
2014 survey	24	3	4	6	10	28
2013 survey	24	1	4	6	10	26

* The total number of business models exceeds the number of members that responded to the survey because multiple responses were given by members that offer multiple transaction plans.

For the 57 members for which comparisons with the previous survey are possible, business models have changed as shown in the table below.

Model number	1	2	3	4	5	6
2014 survey	24	3	4	6	10	25
2013 survey	23	1	4	5	10	25
Net Change	1	2	0	1	0	0



Details of change

Model number	1	2	3	4	5	6	Total
Increase	2	2	2	2	4	3	15
Decrease	1	0	2	1	4	3	11

Although there were no major changes in the distribution of business models as a whole (total for each business model) compared to the previous survey, the details of change shows that some members changed their business models or added new business models.

The following table shows the business models of the three members that gave responses as new members handling over-the-counter retail FX margin trading in the 2014 survey.

Model number	1	2	3	4	5	6
Number of new members	0	0	0	0	0	3

The following table shows the business models of the two members that responded to the 2013 survey and then withdrew from the over-the-counter retail FX margin trading business (including discontinuance of business) before the 2014 survey.

Model number	1	2	3	4	5	6
Number of withdrawing members	1	0	0	1	0	1

(3) Ranking of Members Based on Trading Volume and Their Business Models

The Association, with the cooperation of supporting members, tabulates the monthly trading volume of over-the-counter retail FX margin trading that members conduct with their customers, and publicizes the results as Monthly Statistical Bulletin on Over-The-Counter Retail FX Margin Trading.

Of members that responded to both the 2013 and 2014 surveys, 48 members cooperated with the monthly bulletins. These 48 members were divided into tertile groups based on trading volume for April², and the following table shows their business models by group.

² In both the 2013 and 2014 surveys, the top tertile are companies ranked 1st to 16th, the middle tertile are those ranked 17th to 32nd, and the bottom tertile are those ranked 33rd to 48th, based on monthly trading volume in April.

O2014 Survey

Model number	1	2	3	4	5	6
Top tertile	11	1	3	3	6	1
Middle tertile	6	2	0	2	1	7
Bottom tertile	5	0	1	0	1	10

O2013 Survey

Model number	1	2	3	4	5	6
Top tertile	10	1	3	3	4	3
Middle tertile	8	0	1	2	1	5
Bottom tertile	4	0	0	0	4	9

*Movement Between Groups

Possible movements between groups	Number of companies	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Middle→Top	1					1	
Bottom→Middle	2	1					1
Top→Middle	1		1				1
Middle→Bottom	2	2					1

*Reference

Adopted models (48 companies)	Models 1–4 (IE, DI)		Models 5–6 (EE, STP, NDD)	
	2014 Survey	2013 Survey	2014 Survey	2013 Survey
Top tertile	18	17	7	7
Middle tertile	10	11	8	6
Bottom tertile	6	4	11	13

Adopted models (48 companies)	Models 2, 4, 6 (one firm for cover transactions)		Models 1, 3, 5 (multiple firms for cover transactions)	
	2014 Survey	2013 Survey	2014 Survey	2013 Survey
Top tertile	5	7	20	17
Middle tertile	11	7	7	10
Bottom tertile	10	9	7	8

Among members constituting the top tertile, there was an increase in those adopting business models in which multiple firms are used for cover transactions. Meanwhile, among members in the middle and bottom tertiles, there was an increase in those adopting business models in which one firm is used for cover transactions.

(4) Firms Used for Cover Transactions in Models 2, 4, and 6

In the latest survey, we attempted to classify the firms used by members for cover transactions by checking the websites of the 35 members that adopt business models that use one company for cover transactions (Models 2, 4, and 6) to find out the names of firms used for cover transactions.

Number of members (2014 Survey; Models 2, 4, 6)	Valid responses [Note 1]	Number of disclosed firms used for cover transactions [Note 2]	Classification of firms used for cover transactions			
			Within member's group	Outside member's group	Domestic company	Foreign company
35	29	36	16	20	12	24

Note 1: The number of members whose websites listed the firms used for cover transactions, and this information enabled the classification of these firms. (Researched by the Association's Research Department on June 6, 2014)

Note 2: The total number of firms used for cover transactions according to the valid responses. In cases in which members offer multiple transaction plans to customers and each plan has separate firms used for cover transactions, the number of firms used for cover transactions for each plan were added.

Firms used for cover transactions (actual) [Note 1]	Domestic firms used for cover transactions			Foreign firms used for cover transactions		
	Total	Full members [Note 2]	Other than full members	Total	Within member's group	Outside member's group
25	7	6	1	18	9	9

Note 1: The actual number of firms used for cover transactions after excluding overlap among disclosed firms used for cover transactions.

Note 2: Cases in which an over-the-counter retail FX margin trading operator that belongs to the Association is used for cover transactions by another member. Special participants are excluded.

[Item 2] Usage of the Prime Broker (PB)³ System and Usage Amount

Survey month/year [Note 1]	Members using the system	Number of contracted PBs (Total)	Number of PBs (net) [Note 2]	PB usage amount (in million Yen)
April 2014	16	30	7	52,764,799
April 2013	17	30	-	-

Note 1: Compilation of number of PBs (net) and PB usage amount began in the 2014 survey.

Note 2: Of the PBs that members have contracts with, the number that excludes overlaps.

(1) Changes in the Usage of PBs by Members (2013→2014)

Stopped using PB system	Decreased PBs used	Increased PBs used	Started using PB system
2 companies	1 company	3 companies	1 company

(2) Characteristics of PBs

Japanese-affiliated [Note 1]	Foreign business [Note 2]
1	6

Note 1: Belongs to corporate group headquartered in Japan, including overseas subsidiaries, etc.

Note 2: Belongs to corporate group headquartered in a nation (region) other than Japan, including Japanese subsidiaries, etc.

³ A Prime Broker (PB) is a firm that acts as an intermediary between a member and bank used for cover transactions that "gives up," or, under a tri-party agreement, "takes up" a member's position in transactions (settlement) between a member and a financial institution used for cover transactions.

[Item 3] Offering of Automatic Trading Tools

Survey month/year	Members offering automatic trading tools	Ownership of automatic trading tools offered		
		Proprietary	Others (non-proprietary)	Both combined
April 2014	21	3	16	2
April 2013	19	1	16	2

(1) Change in Offering of Automatic Trading Tools (2013→2014)

Withdrew from business	Stopped offering tools	Began offering tools
1 company	3 companies	6 companies

(2) Effect of Automatic Trading Tools

Of the 21 members that offered automatic trading tools as of the April 2014 survey, 15 members cooperate with our monthly over-the-counter bulletins. The following table shows the over-the-counter retail FX margin trading volume (for the month of April) for these 15 members.

(Unit: million Yen, %)

Classification	Trading volume		
	April 2014	April 2013	Increase/decrease
All members cooperating with preliminary monthly reports	238,180,516	442,898,565	-46.2
15 members that offer tools	35,340,750	78,440,889	-54.9

[Item 4] Offering of API⁴ to Customers

Survey month/year	Members offering API	Stopped offering	Started offering
April 2014	7 companies	0 companies	2 companies
April 2013	5 companies	-	-

○ Effect of Offering API

Of the seven members that offer API as of the April 2014 survey, six members cooperate with our monthly over-the-counter bulletins. The following table shows the over-the-counter retail FX margin trading volume (for the month of April) for these six members.

(Unit: million Yen, %)

Classification	Trading volume		
	April 2014	April 2013	Increase/decrease
All members cooperating with preliminary monthly reports	238,180,516	442,898,565	-46.2
6 members that offer API	24,641,685	51,257,345	-51.9

⁴ In this document, API (Application Programming Interface) refers to specifications for interfaces used to exchange data with outside software (mainly trading systems).

[Item 5] Currency Options

The following table shows the status of members handling over-the-counter retail FX margin trading that also handled OTC currency option transactions (limited to transactions subject to the Financial Instruments and Exchange Act) in April of this year and in April of the previous year.

Classification	Members handling OTC currency option transactions	
		of which, BO (binary options) for individuals
April 2014	10 companies	7 companies
April 2013	8 companies	6 companies

4. Reference Information

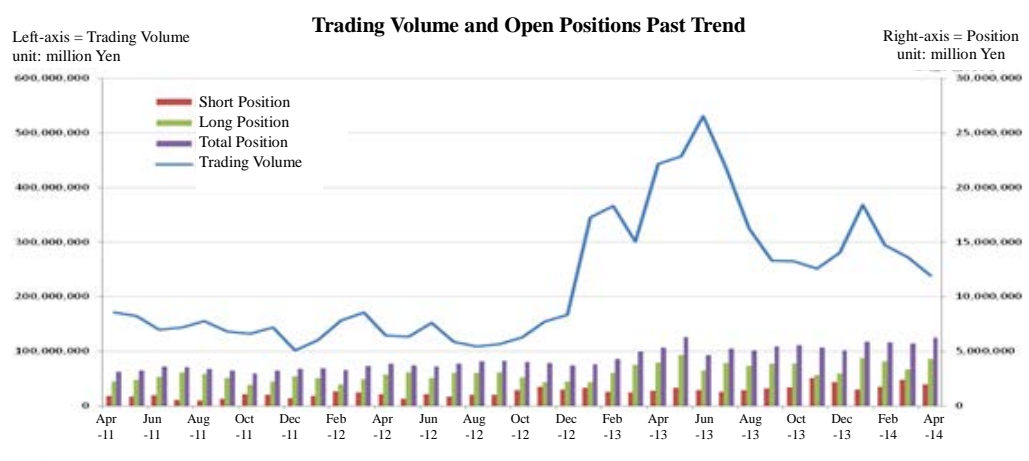
(1) Market Share Distribution for Over-The-Counter Retail FX Margin Trading

(Unit: %)

Tabulation date	Reporting members	Ranking of trading volume of reporting members					
		1-3	4-10	11-20	21-30	31-40	41-
April 2014	51	54.46	28.43	12.88	2.95	1.15	0.13
April 2013	50	47.24	34.42	13.31	3.68	1.30	0.05
April 2012	56	44.45	34.40	13.75	5.27	7.96	0.15

Note: Trading volume for the month of April (in Japanese yen) as reported by members cooperating with our Monthly Statistical Bulletin on Over-The-Counter Retail FX Margin Trading were listed in descending order, and the figure for each group was tabulated and divided by the total trading volume for all reporting members.

(2) Past Trend for Trading Volume for Over-The-Counter Retail FX Margin Trading



* For detailed data used in the table above, please visit http://www.ffaj.or.jp/performance/fx_flash.html

Part Two: Tabulation and Analysis of Data for Cover Transactions for Over-The-Counter Retail FX Margin Trading

The Association collects from its members various data (monitoring data)⁵ that are necessary for conducting surveys of business management trends of members.

In the joint survey by the Association and the Tokyo Foreign Exchange Market Committee conducted every year in April, out of the monitoring data for that month, mostly data related to cover transactions carried out in line with over-the-counter retail FX margin trading by members handling over-the-counter retail FX margin trading were used to tabulate and analyze the classification of firms used for cover transactions, etc.⁶

1. Cover Transactions Tabulated and Classification of Members

(1) Business Category of Members That Handle Over-The-Counter Retail FX Margin Trading

The following table shows the business categories of members that handle over-the-counter retail FX margin trading.

Table 1: Past Trend of Members Handling Over-The-Counter Retail FX Margin Trading by Business Category

Business Category of Member	April 2014	April 2013	April 2012
Registered financial institution	5	3	3
Securities company [Note 1]	31	30	34
Financial futures company, etc. [Note 2]	25	26	27
Total	61	59	64

Note 1: Securities companies are members of the Association that are also members of the Japan Securities Dealers Association (excluding over-the-counter derivative transactions members and special members).

Note 2: Financial futures companies are members of the Association (including commodity traders) other than registered financial institutions and securities companies.

2. Effect of FX Margin Trading In Japan on FX Market

(1) Flow of Transactions

The flow of funds in over-the-counter retail FX margin trading comprises the flow between the customer and over-the-counter trading operator (internal circulation) and the flow between the over-the-counter trading operator and firm used for cover transactions (external circulation). Many transactions that are offset within the over-the-counter trading operator without carrying out cover transactions with an outside firm are categorized as internal circulation.

Furthermore, a look at Tokyo Financial Exchange's Click365, which is used for on-exchange retail FX margin trading in Japan, reveals a framework in which such

⁵ The Association manages monitoring data mainly by requesting (copies of) various reports and materials regularly submitted to financial authorities by members that are financial instruments business operators, etc., and then extracting information necessary for the Association's self-regulatory activities.

⁶ For the "Status of Cover Transactions Related to Over-The-Counter Retail FX Margin Trading" in the 2013 survey, please see the following URL: http://www.ffaj.or.jp/performance/data/cover_reports/cover_report_jp.pdf

trading is matched between investors and market makers, so it has the same characteristics as external circulation in over-the-counter retail FX margin trading. The external circulation of this retail FX margin trading could have an effect on the FX market through firms used for cover transactions (as well as market makers).

The following table shows the external circulation volume for retail FX margin trading.

Table 2: External Circulation Volume for Retail FX Margin Trading

(Unit: hundred million Yen, %)

Survey month/year	Over-the-counter retail FX margin trading				(3) Click365 turnover [Notes 3, 4]	External circulation volume = (2)+(3)
	(1) Turnover [Note 1]	(2) External circulation (Total amount of cover transactions)[Note 2]	(2)/(1) (%)	Internal circulation = (1)-(2)		
April 2014	2,447,350	986,069	40.3%	1,461,281	23,358	1,009,427
April 2013	4,421,193	2,025,760	45.8%	2,395,433	74,806	2,100,566
April 2012	1,278,975	700,288	54.8%	578,687	49,157	749,445

Note 1: Based on monitoring data.

Note 2: Based on monitoring data. Hedge transactions and other transactions are included for members if there is difficulty in differentiating with hedge transactions and other proprietary trading.

Note 3: This figure represents the monthly trading volume disclosed by the Tokyo Financial Exchange multiplied by the month-end settlement price.

Note 4: There were six MM (market makers) as of June 30, 2014 (Commerzbank, Deutsche Securities, Barclays Bank, Goldman Sachs Japan, Nomura Securities, and Bank of Tokyo-Mitsubishi UFJ).

(2) Comparison with the Tokyo FX Market

Table 3: Comparison between Spot Transactions on the Tokyo FX Market and External Circulation Transaction Amounts

(Unit: hundred million Yen, %)

Survey month/year	Survey results disclosed by Tokyo Foreign Exchange Market Committee [Note 1]		(3) External circulation of retail FX margin trading	(3)/(1) (%)	(3)/(2) (%)
	(1) Spot transaction amount	(2) Of which, transactions with non-financial customers [Note 2] (domestic)			
April 2014	2,347,993	764,693	1,009,427	42.99%	132.00%
April 2013	3,077,047	793,050	2,100,566	68.27%	264.87%
April 2012	1,614,486	319,237	749,445	46.42%	234.76%

Note 1: The spot transaction volume listed on "[Annex] <Table 1>" in the Tokyo Foreign Exchange Market Committee's "Results of Turnover Survey of Tokyo Foreign Exchange Market" was multiplied by the USD/JPY exchange rate as of 5:00 p.m. on the last day of April of each year as disclosed by the Bank of Japan (80.74 yen for April 2012, 97.83 yen for April 2013, and 102.51 yen for 2014).

Note 2: The definition of non-financial customers follows the definition given in the Tokyo Foreign Exchange Market Committee's "Results of Turnover Survey of Tokyo Foreign Exchange Market." The explanation in this survey states that transactions with FX margin trading operators are counted as transactions with non-financial customers.

3. Cover Transactions for Over-The-Counter Retail FX Margin Transactions

As shown in Table 3, the external circulation for retail FX margin trading (total cover transaction amount) exceeds the transaction amount with non-financial customers on the Tokyo FX market (domestic).

The details of cover transactions for over-the-counter retail FX margin trading are explained

below.

(1) Classification of Cover Transactions,⁷ Number of Members Using Them, and Number of Firms Used for Cover Transactions

Table 4 shows the classification of firms used for cover transactions by over-the-counter retail FX margin trading operators. Financial institutions that report to the Tokyo Foreign Exchange Market Committee on average have transactions with about 6.5 members handling over-the-counter retail FX margin trading, so compared to other classifications (regions), there are many connections between financial institutions used for cover transactions and retail FX margin trading operators in the Tokyo FX market.

Table 4: Distribution of Firms Used for Cover Transactions for Domestic Over-The-Counter Retail FX Margin Trading and Usage Status

Classification of firms used for cover transactions	Number of firms used for cover transactions by classification			Total number of members handling over-the-counter retail FX margin trading that use firms for cover transactions ^[Note 1]		
	2014	2013	2012	2014	2013	2012
1. Total of (1) to (3)	26	26	20	141	140	141
(1) Financial institutions reporting to the Tokyo Foreign Exchange Market Committee	19	21	15	124	109	110
(2) Other financial institutions reporting to the BOJ (excluding (1))	2	1	2	2	2	9
(3) Other financial institutions reporting to central banks (foreign) (excluding (1) and (2))	5	4	3	15	29	22
2. Other firms used for cover transactions not included in 1. above (total of (4) and (5))	32	30	35	68	63	78
(4) Domestic firms	12	10	13	31	27	30
(5) Foreign firms (total)	20	20	22	37	36	48
U.S.	2	3	7	3	5	21
U.K.	9	9	7	14	13	8
Singapore	4	4	4	15	14	14
Australia	3	1	1	3	1	1
Others ^[Note 2]	2	3	3	2	3	4
Grand total	58	56	55	209	203	219

Note 1: Total number of firms used for cover transactions by members handling over-the-counter retail FX margin trading after grouping them by classification.

Note 2: Malaysia, New Zealand, Ireland, and Belize

⁷ Financial institutions that participate (report) in the "Results of Turnover Survey of Tokyo Foreign Exchange Market" of the Tokyo Foreign Exchange Market Committee are referred to as "Financial institutions reporting to the Tokyo Foreign Exchange Market Committee," financial institutions cooperating with the Bank of Japan's triennial "Central Bank Survey of Foreign Exchange and Derivatives Market Activity" (excluding Financial institutions reporting to the Tokyo Foreign Exchange Market Committee) are referred to as "Other financial institutions reporting to the BOJ," and financial institutions cooperating with foreign exchange and derivatives surveys of central banks of other nations (regions) are referred to as "Other financial institutions reporting to central banks (foreign)." Firms used for cover transactions that do not fall into the above groups are classified by location of offices.

(2) Amount of Cover Transactions by Classification of Firms Used For Cover Transactions

Table 5: Amount of Cover Transactions by Classification of Firms Used For Cover Transactions

(Unit: hundred million Yen, %)

Classification of Firms Used for Cover Transactions	2014		2013		2012	
	Amount of Cover Transactions	Percentage of Total	Amount of Cover Transactions	Percentage of Total	Amount of Cover Transactions	Percentage of Total
1. Financial institutions	562,145	57.0%	872,994	43.1%	334,156	47.7%
(1) Financial institutions reporting to the Tokyo Foreign Exchange Market Committee	546,098	55.4%	537,753	26.5%	312,265	44.6%
(2) Other financial institutions reporting to the BOJ	0	0.0%	0	0.0%	0	0.0%
(3) Other financial institutions reporting to central banks (foreign)	16,047	1.6%	335,241	16.5%	21,890	3.1%
2. Other firms used for cover transactions	423,923	43.0%	1,152,765	56.9%	366,131	52.3%
(4) Domestic firms	347,362	35.2%	929,451	45.9%	234,011	33.4%
(5) Foreign firms	76,560	7.8%	223,314	11.0%	132,120	18.9%
U.S.	9,942	1.0%	18,808	0.9%	65,953	9.4%
U.K.	32,667	3.3%	60,095	3.0%	31,861	4.5%
Singapore	29,775	3.0%	136,950	6.8%	29,604	4.2%
Australia	3,089	0.3%	5,972	0.3%	3,781	0.5%
Others [Note]	1,084	0.1%	1,486	0.1%	918	0.1%
Grand total	986,069	100.0%	2,025,760	100.0%	700,288	100.0%

Note: Malaysia, New Zealand, Ireland, and Belize

Based on the cover transaction amounts in the table above, grouping (1), (2), and (4) together as domestic firms used for cover transactions and grouping (3) and (5) as foreign firms used for cover transactions yields results shown in the following table.

Table 6: Past Trend in Cover Transaction Amounts (Domestic and Foreign)

(Unit: hundred million Yen, %)

Survey date	Total amount of cover transactions	Domestic cover transactions		Foreign cover transactions	
		Transaction amount	Percentage of total	Transaction amount	Percentage of total
April 2014	986,069	893,460	90.6%	92,607	9.4%
April 2013	2,025,760	1,467,204	72.4%	354,049	17.5%
April 2012	700,288	546,276	78.0%	87,843	12.5%

(3) Ranking of Members Based on Over-The-Counter Retail FX Margin Trading Volume and Cover Transaction Amount

Based on the ranking of members by over-the-counter retail FX margin trading volume in the month of the survey every year, the subject members were grouped and their cover transaction amounts were tabulated as shown in the following table.

**Table 7: Over-The-Counter Retail FX Margin Trading Amounts
(By Ranking-Based Groups)**

(Unit: hundred million Yen)

Survey month/year	1st–3rd place	4th–10th place	11th–20th place	21st–30th place	31st–40th place	41st place–	Total (total amount)
April 2014	1,295,357	676,813	369,840	70,017	27,084	8,236	2,447,350
April 2013	2,093,296	1,523,692	586,132	163,396	49,501	5,173	4,416,019
April 2012	559,208	438,497	176,432	71,185	28,150	5,500	1,278,975

* Amounts and rankings in this table are based on monitoring data. As a result, the figures do not match the amounts listed in Part One, 4.–(1)

Table 8: Cover Transaction Amounts (By Ranking-Based Groups)

(Unit: hundred million Yen)

Survey month/year	1st–3rd place	4th–10th place	11th–20th place	21st–30th place	31st–40th place	41st place–	Total (total amount)
April 2014	264,476	354,287	275,918	58,878	24,419	8,089	986,069
April 2013	467,500	863,764	519,334	122,196	47,995	4,969	2,025,760
April 2012	64,558	390,440	144,234	63,204	33,150	4,699	700,288

Table 9: Percentage of Cover Transaction Amount to Over-The-Counter Transaction Amount (By Ranking-Based Groups)

(Unit: %)

Survey month/year	1st–3rd place	4th–10th place	11th–20th place	21st–30th place	31st–40th place	41st place–
April 2014	26.8%	35.9%	28.0%	6.0%	2.5%	0.8%
April 2013	23.1%	42.6%	25.6%	6.0%	2.4%	0.2%
April 2012	9.2%	55.8%	20.6%	9.0%	4.7%	0.7%

Table 10: Percentage of Cover Transaction Amounts by Ranking-Based Groups (Table 8) to Over-The-Counter Retail FX Margin Trading Amounts by Ranking-Based Groups (Table 7)

(Unit: %)

Survey date	1st–3rd place	4th–10th place	11th–20th place	21st–30th place	31st–40th place	41st place–
April 2014	20.4%	52.3%	74.6%	84.1%	90.2%	98.2%
April 2013	22.3%	56.7%	88.6%	74.8%	97.0%	96.1%
April 2012	11.5%	89.0%	81.8%	88.8%	117.8%*	85.4%

Note: There is a case in which the cover transaction amount exceeds the over-the-counter retail FX margin trading amount (the figure is higher than 100%) due to such reasons as transfers of positions due to a change in the firm used for cover transactions and transactions made in error.

Part Three: Conclusion of this Survey (Review)

As can be seen in Chart 1 below, in April 2014, the month covered by the latest survey, the USD/JPY FX market, which makes up a large percentage of FX margin trading, was relatively stable as compared to the periods covered in the past two surveys (April 2012 and April 2013). Both Implied Volatility (orange line and right-axis in Chart 1), which reflects projected market fluctuations by market participants, and Historical Volatility (purple line and left-axis) were at low levels.

Under these low-volatility conditions in the market, over-the-counter retail FX margin trading operators increased the percentage of internal circulation (marry) that incorporates market risks, and as a result, the percentage of external circulation (cover transactions) declined by 5.5 percentage points, from 45.8% last year to 40.3%. Based on interviews and other information collected from companies, the reason for the decrease in external circulation is believed to be over-the-counter retail FX margin trading operators having increased marry transactions to adapt to low volatility, and also because their customers also increased trading techniques that aim for reversing trade in short periods.

However, external circulation (cover transactions) stemming from over-the-counter retail FX margin trading as a percentage of transactions with non-financial customers (domestic) on the Tokyo FX market rose 3.6 percentage points, from 67.81% last year to 71.41%. This figure has remained high, suggesting that external circulation (cover transactions) has a considerable presence in the Tokyo FX market.⁸

Chart 1: USD/JPY Currency Pair Trend Seen Through Currency Option Volatility



Source: Thomson Reuters

⁸ Of external circulation (cover transactions, etc.) generated by over-the-counter retail FX margin trading operators, transactions with financial institutions participating in the Tokyo Foreign Exchange Market Committee's survey accounted for 97.82% of "transactions with non-financial customers (domestic)" disclosed by the Committee in April 2012, 67.81% in April 2013, and 71.41% in April 2014.

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