

# OSE's new forex market may be game changer for Japan bourses

**Launch comes as exchanges face global competitiveness issues**

**YUKO KAWAMOTO**

*Professor, Waseda University*

**T**he Osaka Securities Exchange will launch a foreign exchange margin trading market on July 21 — part of its drive to become a globally competitive bourse capable of handling a wide range of financial products.

The new entity, dubbed the OSE-FX market, will break down traditional barriers separating stock trades from forex transactions. As such, it will be the first specific case that appears to embody the ideals of the revised Financial Instruments and Exchange Law, which calls on domestic exchanges to handle diverse financial products to enhance investor con-



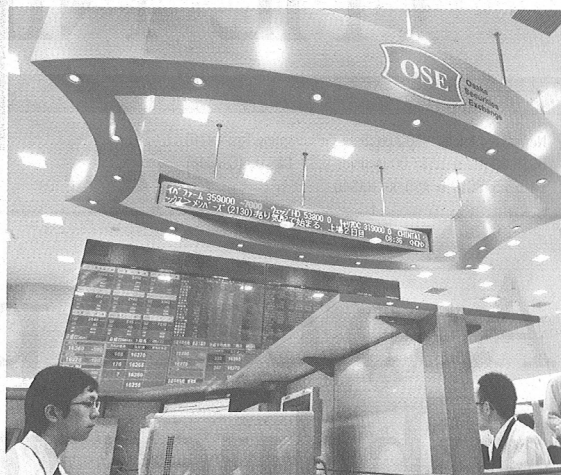
venience and boost their global competitiveness.

Financial products are traded either through exchanges or via person-to-person transactions over the counter. Concern over counterparty risk has risen sharply since major U.S. investment bank Lehman Brothers Holdings Inc. went bankrupt last fall, prompting a growing number of government regulators worldwide to steer trading in diverse financial products away from over-the-counter deals to those executed through exchanges.

The regulators are also discussing the possibility of creating clearing houses for credit default swaps, financial derivatives designed to insure companies against their credit risk.

A large percentage of forex trades are conducted over the counter in Japan, but the share of forex transactions executed on exchanges is expected to rise steadily from now on.

The forex market is supposed to operate around the clock, in principle, so the launch of the OSE-FX market — which will be required to operate almost 24 hours a day



**The launch of the OSE's new forex market appears to embody the ideals of increased diversity and convenience in the revised financial instruments law.**

— looks set to revolutionize the way Japan's stock exchanges are run.

## **Held back**

Japanese exchanges are open for trading only for short hours, judging by global standards. Their daily trading is divided into morning and afternoon sessions with a lunch break in between. Very few exchanges in the rest of the world take a lunch break.

Moreover, domestic exchanges are closed on national holidays — something Japan has more of than many other countries. If stock markets in other countries move sharply during such times, retail investors cannot execute trades, posing substantial risk to them.

Japanese stock exchanges must solve these problems in order to handle global competition, which is expected to intensify in the coming years.