

2nd discussion group meeting regarding 10-year JGB Futures specifications

Tokyo Stock Exchange, Inc. (TSE) held 2nd discussion group meeting regarding modification of 10-year JGB Futures specifications on March 14th, 2002.

- Consideration on specifications of 10-year JGB Futures: <http://www.tse.or.jp/english/option/jgbf/jgbf12.html>
- Summary of 1st discussion group meeting: http://www.tse.or.jp/english/option/jgbf/e_outline01_a.pdf

<Discussion of the 1st meeting and TSE's standpoint>

In the 2nd meeting, TSE summarized the discussion in the 1st meeting and stated its standpoint as follows:

- Most of the panel members argued that:
 - Maturity of deliverable grades and coupon rate should not be changed since the revision may affect on the liquidity of 10-year JGB Futures and also deprive of the hedging tool for 5-year interest rate, or
 - Current 10-year JGB Futures specifications are satisfactory for the most part. There is no need to revise at this moment.
- In contrast, some members insisted that:
 - Immediate revision is not necessary. However, it should be changed in the future in the light of the increasing issue amount of JGBs and the possibility of interest rate rise.
 - Coupon rate should be lowered to make the futures price movement match with one for newly issued 10-year JGBs.
- TSE stated that it would make a decision in consideration of the general trading convenience for investors.

There was no opinion or objection from the panel members on the summary and the TSE's standpoint.

<Revitalization of 5-year JGB Futures>

As many trading participants expressed misgiving about inferior liquidity of 5-year JGB Futures trading with regard to the revision of 10-year JGB Futures specifications, TSE asked the panel members' opinions on measures to activate 5-year JGB Futures trading. The representative opinions are as shown below:

- There is no problem on the product specifications. As the short/mid-term interest rates are not volatile, the needs for hedging these interest rates are very limited. When the short/mid-term interest rates rise in the future, the needs for trading 5-year JGB Futures may increase.
- 5-year JGBs cash market is active enough and there is not much need for hedging by futures trading.
- There is no specific measure to activate 5-year JGB Futures trading.
- It is difficult to liven up 5-year JGB Futures if 10-year JGB Futures specifications are maintained to reflect price movement of JGBs with maturity of 7 years.
- Specific proposals for the future consideration:
 - Making tick size half
 - Introducing spread trading for 5 year-10 year JGB Futures
 - Introducing market makers system
 - Changing maturity of deliverable bonds from 4 to 4.5 years
 - Introducing cash settlement

<Conclusions>

In consideration of the panel members' opinions, it seems difficult to take effective measures to make 5-year JGB Futures trading active immediately.

TSE will review the above proposals and summarize the panels' discussions as a whole, and then, prepare the draft conclusions for panel members' confirmation. After the confirmation of the members, TSE will report it as the panel's conclusion.

This summary is not a final version. It may be modified later.