

Foreign Exchange Margin Trading Market in Japan 2008

Research Outline

Yano Research Institute has conducted a study on the foreign exchange margin trading market in Japan with following conditions.

1. Research period: May 2008 to July 2008
2. Research targets: Commodity futures traders, specialized foreign exchange margin traders, securities firms, other entrants from other industries
3. Research methodologies:
Face-to-face interviews with relevant personnel were primarily employed, being supplemented by interviews via telephone and e-mail.

<What is FX margin trading?>

Foreign exchange margin trading is the first financial products of foreign exchange trading in Japan for individual investors that has emerged after the amendment of foreign exchange control law that went into effect in April 1998. The trading is completed as the net settlement of notional principals based on a small amount of margin money that works as collateral.

Key Findings

- ◆ **Market size (in terms of deposit balance) as of the fiscal year ending March 2008, is 696.4 billion Yen, 13.5% increase over the previous year. The rate of growth slowed compared to the year before.**

Although some traders lost fair amount of deposit balance due to sharp appreciation of yen triggered by subprime mortgage loan problems, some companies increased the balance drastically. As a consequence, the market grew by a little over 10%.

- ◆ **The number of accounts as of the end of March 2008 is 1,230 thousands, 91.95% increase from the year before.**

Free service fees, reduced spreads and improved services contributed to increase the number of active users of FX margin trading services. The number of customers still continues to sharply rise.

- ◆ **Forecast for 2009*: 906.0 billion yen of deposit balance and 1,790 thousands of accounts as of March 2009**

The market is expected to be largely expanded again considering the trend of relatively weak yen after April 2008 and expected new participants from Internet banks and other industries.

*The above forecast was done at the time the research was conducted (in May thru July 2008). Actual figures could largely differ depending on exchange rate and economic conditions.

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➤ Research Summary

1. History and background of the market

Ten years have passed since the foreign exchange margin trading was introduced in the market as a financial instrument. Foreign exchange margin trading was originally regulated by “Revised Financial Futures Transaction Law” enacted in July 2005, and thereafter, governed by “Financial Instruments and Exchange Law” that went into effect in September 2007. In accordance with the development of these laws, new entrants have been continuously increasing, including internet banks that already have solid customer base, companies from other industries and dedicated foreign exchange margin traders established by security firms.

On the other hand, a lot of failures of companies, M&As and management integration within corporate groups for reinforcement of the operations were observed in 2007, which were affected by the sharp appreciation of yen and increasingly tough competition in lowering service fees and reducing spreads.

The competition for active users has started in 2007, which, as well as two times yen appreciation in a year, had great impacts on the deposit balance, the number of accounts, volume of transactions and corporate profit.

2. Market overview

The market scale we forecasted at the time we were conducting the researches last year was over 800 billion yen as of the end of March 2008. Actual growth of the market was lower than we had expected due to the sharp appreciation of yen occurred in the fall of 2007 and early spring of 2008, which made lower the asset of investors in foreign currencies.

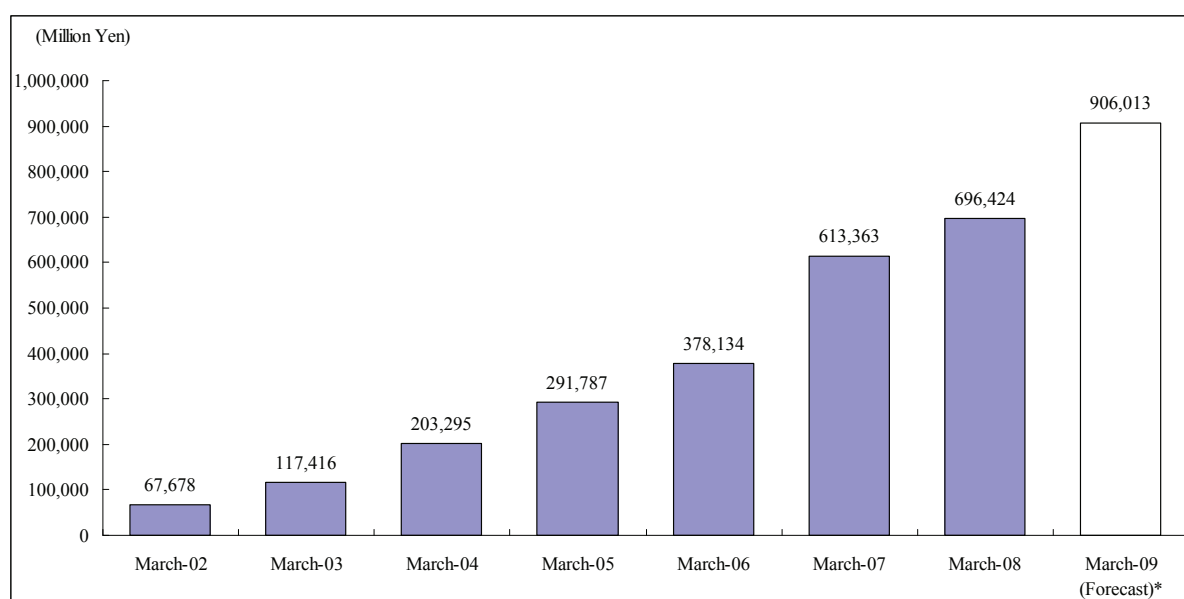
However, there are some service providers who were successful in increasing the deposit balance, some of which doubled the figures, which could indicate that the performance of each trader differ greatly depending on the features of the products and types of customer base. The deposit balance of the total market, after all, was 696 billion and 424 million yen as of the end of March 2008, 13.5% increase from the year before.

The number of accounts has been increasing as the deposit balance has, or it has made even sharper increase than that of the deposit balance. Some service providers have made twice to three time increase and some others have achieved even larger growth. The number of accounts as of March 2008 was estimated to be 1,237 thousands and 319, which is 91.9% year-on-year increase. Major factors that contributed to raise the number of accounts should include holding of seminars, development of customer base by launching sales campaigns, introduction of higher quality products for better investment environment, reduced investment cost, etc., all of which might have enhanced convenience for customers.

3. Market forecast

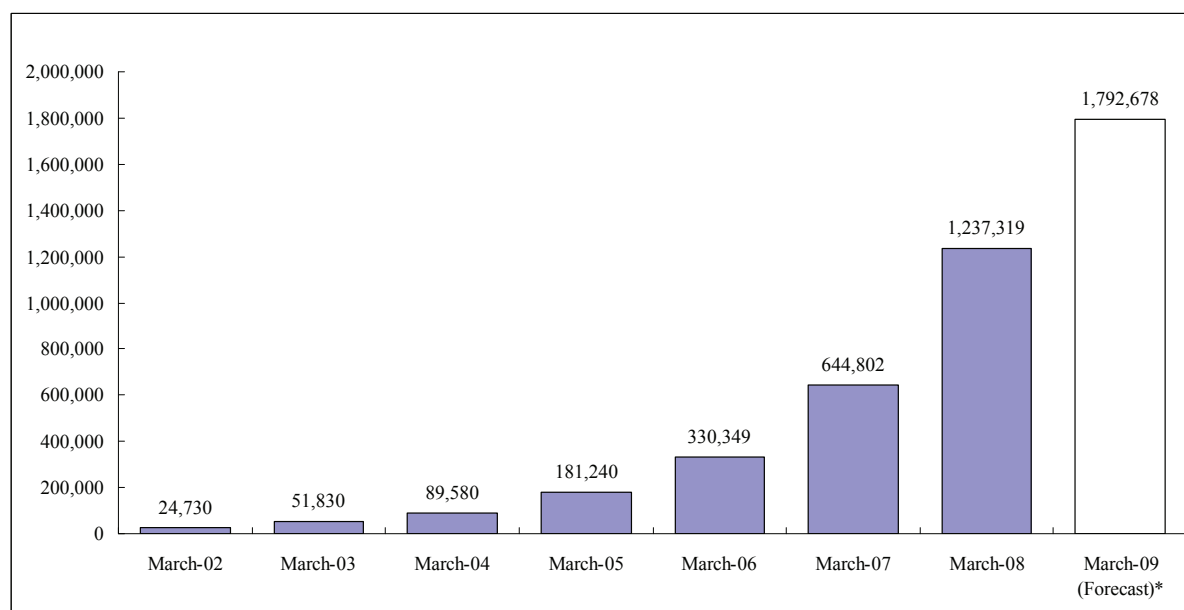
The market could become more active toward the upcoming year of 2009 considering several factors including many voices that the market will recover being supported by gradual weakening of yen after April 2008, renewal of product specifications, entries of Internet banks, establishment of specialized FX margin trading companies mainly for active users, etc., while competition is becoming tougher. Consequently, we have forecasted that the market size reach 906.0 billion yen in terms of the deposit balance and 1,790 thousands in terms of the number of accounts as of the end of March 2009.

[Transition of market size (Deposit balance as of the end of each fiscal year)]



Estimated by Yano Research Institute Ltd.

[Transition of the number of accounts as of the end of each fiscal year]



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