

Foreign Exchange Margin Trading Market in Japan 2007

➤ **Research Outline**

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.

This financial instrument has been regulated under the revised financial instruments and future exchange law that went into effect on July 1, 2005, and will be governed by financial instrument and exchange law that will go into effect in September 2007. While the laws and legal systems related to this financial instrument are developing, many securities companies and other types of companies from different industries have kept entering the market one after another. In addition, it drew a lot of attention that a company specialized in foreign exchange margin trading was listed on the stock market for the first time in June 2007.

The research is focused on sales strategies of the major players that have started attempting to acquire day traders as their new customer base with the background that the competition in lowering service fees are becoming more and more fierce. In addition, how they are trying to expand the market, coping with such urgent issues as improvement of compliance systems and establishment of internal management systems required by development of the related laws, was also emphasized in conducting the research.

The research was targeted for 125 companies including commodity futures companies, companies specialized in foreign exchange margin trading, securities companies and new entrants from other industries. Among them, 66 companies have provided us with information or data useful for calculating market size, and 20 companies with information on market trends and their own strategies. The research was conducted between April 2007 and June 2007, and face-to-face interviews with key players in the industry were employed.

➤ **Key Findings**

- **Continuously growing market - The market size has grown to 613.3 billion yen for FY2006 (ended in March 2007), 62.2% increase over the previous year**
~ There are now more than 10 major players with 10 billion yen of the annual sales (total amount of deposited margin money) ~
- **The number of accounts established in FY2006 (ended in March 2007) was 664,802, 95.2 % increase over the previous year**
~ Increase of the products with free service fees, diversification of leverage ratio and increased number of customers due to improvement of service quality, major companies specialized in the foreign exchange margin trading and security firms has gained a big strides ~
- **Disparity among the operators in the market is becoming more and more apparent in terms of profitability, transaction volume and the number of new customers gained.**

Summary of the Research

- A new financial instrument called foreign exchange margin trading was introduced in the Japanese market in the summer of 1998 backed by the amendment of foreign exchange control laws. The recognition of this financial product has been steadily increasing and the size of the market has kept growing accordingly. In particular, the market size has started to burgeon since around March 2001 when the online trading started to be widely introduced. Due to the increase of smaller transactions and of the market entries by securities companies, the number of accounts established by inexperienced investors has been increased. The number of day traders has been increasing due to increase of products with free service fees and diversification of leverage ratio, and consequently, the foreign exchange margin trading is becoming more and more familiar to us.
- As of June 2007, 125 companies are acting in the market and the number of specialized companies and securities companies is prominently increasing year by year. The percentage breakdown shows 51.2% for specialized companies, 35.2% for securities companies, 12.8% for commodity future companies and 0.8% for others types of companies.
- Revised financial futures transaction law, the relevant law to regulate the foreign exchange margin trading business, went into effect in July 1, 2005. Consequently, such behavior control and financial requirement as “registration system”, “capital requirement”, “regulatory capital ratio” and “prohibition of uninvited inducement” that prohibits cold calls and call sale were established. Accordingly, each company in the industry attempts to refrain from sales activities regulated by financial instrument exchange law, to make more effort in capital and financial-related measurements and to improve their compliance systems and internal management systems.
- Furthermore, those companies in the industry have been promoting some other measures to improve investment environment, customers’ convenience and reliabilities including handling of high-interest rate currencies, introduction of free transaction fees, diversification of leverage ratio and stable operation of computer systems, etc. As a result, the market has been getting more and more competitive, and disparity among the operators has started to be apparent in terms of profitability, transaction volume and the number of new customers obtained.
- The market size (amount of the margin money deposited) in FY2006 (ended in March 2007) is estimated to be 613 billion and 363 million yen and the number of accounts established in the same year to be 644,802 based on the survey responses from 66 service companies out of 125 research target companies, and other information and data provided by the key persons in the industry.
- The market size of FY2007 (ended in March 2008) is projected to be 831.4 billion yen in terms of amount of deposited margin money and to be over 1 million in terms of the number of accounts, considering the fact that there has been the first specialized company that successfully listed on the stock market in June 2007, and on the expectation that the general recognition of this financial product should be further improved.

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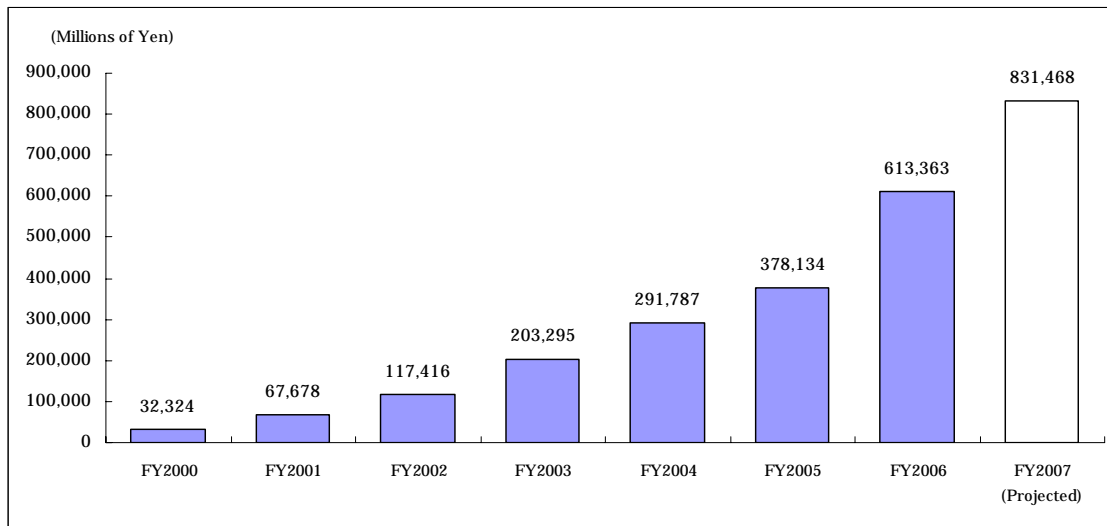
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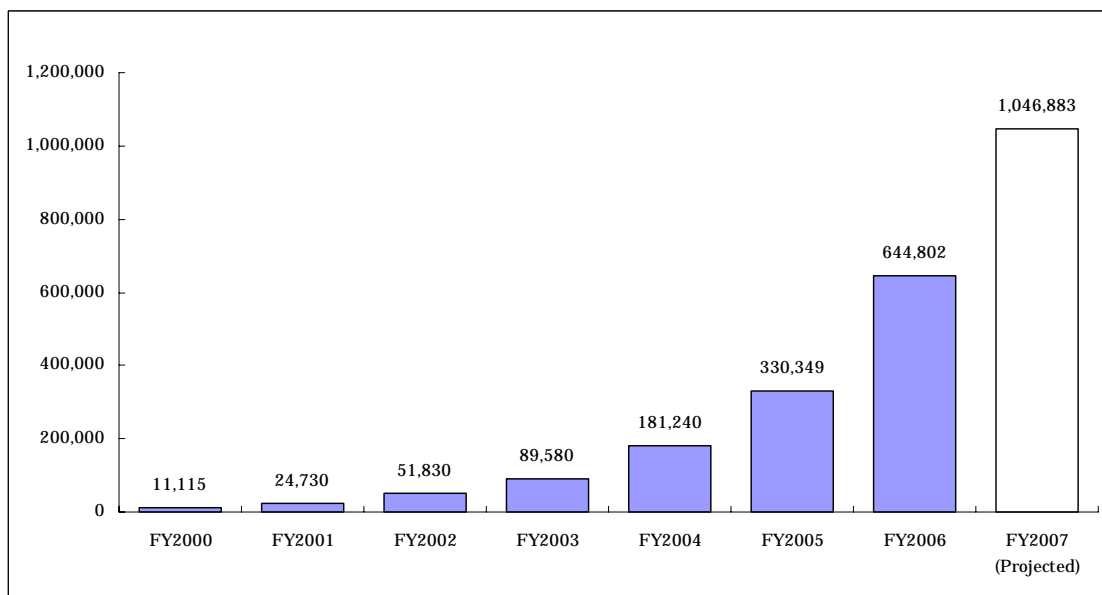
[Transition of market size (the total margin money deposited each year)]



Estimated by Yano Research Institute Ltd.

*Each fiscal year ends in March of the following year. (i.e. FY2000 ends in March 2001.)

[Transition of the number of accounts established each year]



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