

# Japan's Single Stock Options Markets Primed for Revitalization after Regulatory Improvements

OSE

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The recent upturn in Japanese stock markets has drawn attention from domestic and overseas investors to Single Stock Options (SSO) . Originally listed in 1997 on both the Osaka Exchange (OSE) and the Tokyo Stock Exchange (TSE), SSO became part of OSE products after the 2014 merger to JPX. Together with Nikkei 225 and TOPIX derivatives, SSO has become one of the most significant equity derivatives in Japan.

## INCREASING TRADING VOLUME

Chart 1 below shows the annual ADV (average daily volume) of SSO since 1997, with 2023 being the highest on record.

< chart 1 >SSO Trading Volume

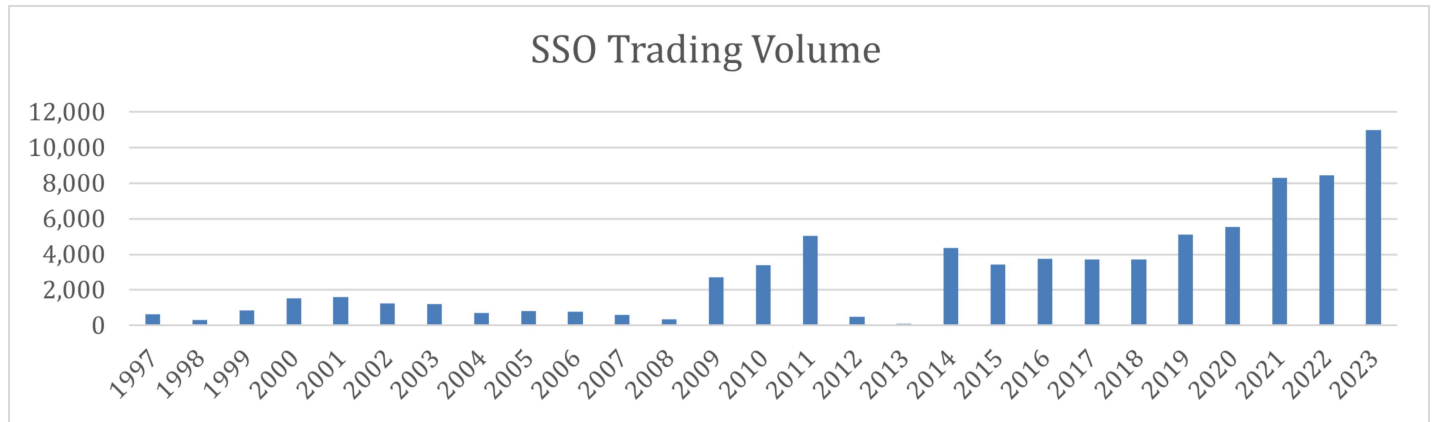
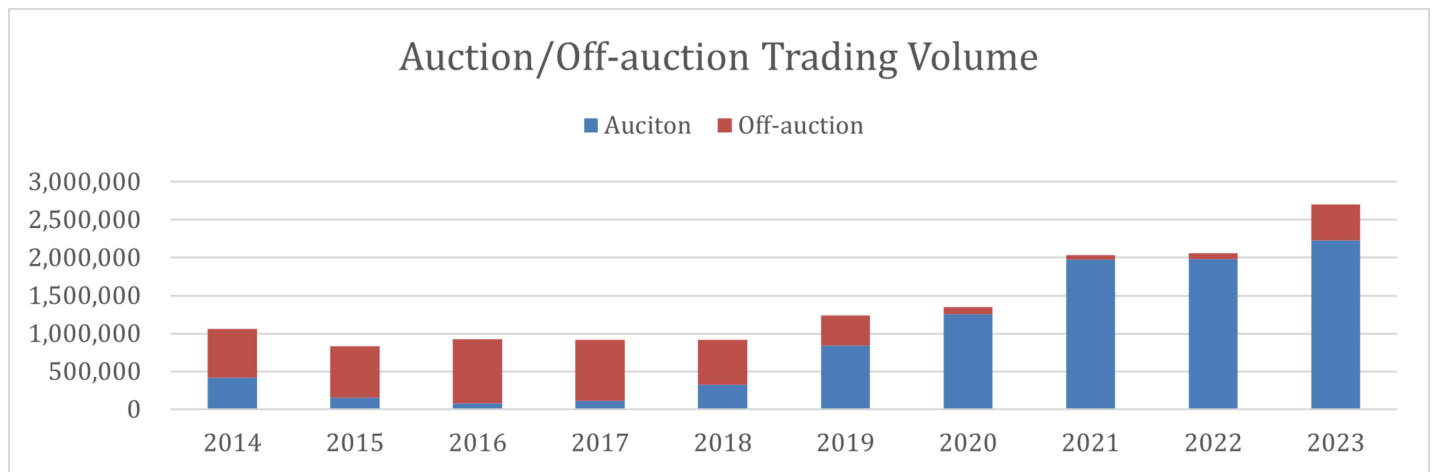


Chart 2 identifies trends in SSO transactions over the last 10 years. Off-auction transactions accounted for the majority of transactions 10 years ago, while auction transactions have dominated since 2019.

< chart 2 >Auction/Off-auction Trading Volume



Active trading in SSOs was buoyed by the entry of market makers in 2019 and the availability of quotes for SSO issues, mainly for ETFs, especially among certain individual/retail investors (see the table below).

< chart 3 >Trading Notional Value Ranking over 2023

Rank	Code	Underlying stocks	Market Share
1	1321	NEXT FUNDS Nikkei 225 ETF	50.38%
2	9433	KDDI	12.73%
3	9735	SECOM	10.88%
4	9432	NTT	6.94%
5	6503	Mitsubishi Electric	6.08%
6	8309	SMTB	5.98%
7	2502	Asahi Group Holdings	2.54%
8	8306	MUFG	2.34%
9	3436	SUMCO	0.68%
10	7267	HONDA MOTOR	0.29%

For more information on SSO trading by investment category and the OSE's major initiatives through 2023, see [“Updated Development Plan for Japan’s Single Stock Options Market.”](#)

## REGULATORY IMPROVEMENTS IN 2024

OSE has implemented several regulatory improvements this year in an effort to further boost the SSO market.

### **1. Margin Rules were revised, dedicated SSO accounts were implemented.**

In SSO trades, covered call \* and target buying \*\* transactions generally do not trigger default of debt settlement when the options transaction and the collateral are tied. However, under the Japanese margin rules, additional margin-related charges may be incurred even if the position is based on a covered call or target buying, due to factors such as price fluctuation in the asset underlying the SSO and interest rate conditions.

In the U.S., where individual/retail investors actively trade SSO, additional margin is not required for covered calls and target buying tied to collateral. In June 2024, OSE partially revised the margin rules for SSO between trading participants and customers, implementing dedicated SSO accounts, aiming to

eliminate additional margin under certain conditions for SSO transactions involving covered call or target buying.

\*Covered call: holding the stock + selling call options

\*\*Target buying: selling put options + cash for purchasing the stock

## **2. Underlying assets covered has increased in number.**

Among TSE-listed stocks, ETFs, and REITs, approximately 220 assets are currently eligible for SSO. In July 2024, six stocks (Chart 4) favored by retail investors were added to the list of eligible underlying stocks, enhancing the market's appeal.

< chart 4 > Newly Added Underlying Stocks

Code	Underlying stocks
4385	Mercari, Inc. Stock
6146	DISCO CORPORATION Stock
6526	Socionext Inc. Stock
6920	Lasertec Corporation Stock
7735	SCREEN Holdings Co., Ltd. Stock
9843	Nitori Holdings Co., Ltd. Stock

## **3. A market making environment for SSO issues targeting individual stocks was created.**

As previously noted, market makers have participated in the SSO market since 2019. Until this year, however, SSO trading was mostly limited to quotes for ETF options. As a result, investors who preferred to order book trading (on the board) could practically only trade ETF options, when they were really seeking quotes for SSO on individual stocks.

Following years of discussions with both market makers and securities firms that primarily serve retail investors, OSE developed an environment in which quotes are presented for SSO issues covering

individual stocks. In September 2024, OSE revised Mmarket Maker Program, targeting the following table of 12 SSOs eligible for market making.

< chart 5 >Underlyings for Continuous Quotes as of November 2024.

<b>Underlyings for Continuous Quotes (2 ETFs + 10 Stocks)</b>						
Code	Underlyings	Trading Units	Position Limits	Sectors	Size	Nikkei 225
1306	NEXT FUNDS TOPIX Exchange Traded Fund	10	5,652,500			
1321	NEXT FUNDS Nikkei 225 Exchange Traded Fund	1	2,628,500			
5401	NIPPON STEEL CORPORATION	100	95,000	STEEL & NONFERROUS METALS	TOPIX Large70	*
6920	Lasertec Corporation	100	9,400	ELECTRIC APPLIANCES & PRECISION INSTRUMENTS	TOPIX Large70	*
7203	TOYOTA MOTOR CORPORATION	100	1,631,400	AUTOMOBILES & TRANSPORTATION EQUIPMENT	TOPIX Core30	*
7974	Nintendo Co.,Ltd.	100	129,800	IT & SERVICES, OTHERS	TOPIX Core30	*
8035	Tokyo Electron Limited	100	47,100	ELECTRIC APPLIANCES & PRECISION INSTRUMENTS	TOPIX Core30	*
8058	Mitsubishi Corporation	100	417,900	COMMERCIAL & WHOLESALE TRADE	TOPIX Core30	*
8306	Mitsubishi UFJ Financial Group, Inc.	100	1,233,700	BANKS	TOPIX Core30	*
9101	Nippon Yusen Kabushiki Kaisha	100	51,000	TRANSPORTATION & LOGISTICS	TOPIX Large70	*
9983	FAST RETAILING CO.,LTD.	100	31,800	RETAIL TRADE	TOPIX Core30	*
9984	SoftBank Group Corp.	100	146,900	IT & SERVICES, OTHERS	TOPIX Core30	*

Find more information on the [Market Maker Program](#).

Since then, for both puts and calls in the latest two contract months, quotes for specific spread conditions and volumes have been observed for 11 key issues around ATM (at-the-money) range, resulting in increased trading.

< chart 6-1 >Example : 1321 as of Dec 2

### NIKKEI 225 EXCHANGE TRADED FUND Options Quotes

Update Time 2024/12/02 12:55

Related Quotes

	Last	Change	Chg %	HV	Lot
1321 NIKKEI 225 EXCHANGE TRADED FUND	39,750 (12/02 12:55)	+120	+0.30%	17.14%	1

Dec/2024

Jan/2025

Trading Date 2024/12/02 Last Trading Day 2024/12/12

Show Risk Parameters

Hide Risk Parameters

Options Calculator

CALL									PUT								
Settlement	Open	Volume	Ask IV	Ask(Size)	IV	Change	Last	Strike Price	Last	Change	IV	Ask(Size)	Ask IV	Volume	Open	Settlement	
11/29	Interest		Bid IV	Bid(Size)								Bid(Size)	Bid IV		Interest	11/29	
43	32	-	20.94%	42 (5,000)	-	-	-	42,000	-	-	-	2,391 (5,000)	28.89%	-	-	2,409	
			18.78%	25 (5,000)								2,141 (5,000)	-				
87	-	25	20.78%	83 (5,000)	18.36%	-	45	41,500	-	-	-	1,919 (5,000)	26.15%	-	11	1,954	
			19.16%	62 (5,000)			12/02 09:00					1,669 (5,000)	-				
150	198	-	19.91%	141 (5,000)	-	-	-	41,000	-	-	-	1,478 (5,000)	24.23%	-	-	1,516	
			18.18%	110 (5,000)								1,228 (5,000)	-				
151	2,000	-	27.98%	459 (5,000)	-	-	-	40,500	-	-	-	1,073 (5,000)	22.61%	-	3	1,018	
			17.67%	209 (5,000)								823 (5,000)	11.38%				
328	9,005	-	22.72%	510 (1)	-	-	-	40,000	-	-	-	727 (5,000)	21.50%	-	2	694	
			17.56%	370 (5,000)								477 (5,000)	12.22%				
714	-	-	26.07%	847 (5,000)	-	-	-	ATM	-	-	-	455 (5,000)	20.83%	-	412	581	
			16.81%	597 (5,000)								391 (5,000)	18.45%				
1,040	-	-	26.44%	1,157 (5,000)	-	-	-	39,000	-	-	-	273 (5,000)	20.96%	-	2,000	406	
			15.86%	907 (5,000)								224 (5,000)	18.87%				
1,250	-	-	23.33%	1,444 (5,000)	-	-	-	38,500	-	-	-	156 (5,000)	21.36%	-	353	117	
			17.59%	1,341 (5,000)								124 (5,000)	19.59%				
1,742	-	-	30.24%	1,971 (5,000)	-	-	-	38,000	-	-	-	89 (5,000)	22.16%	-	5,010	109	
			-	1,721 (5,000)								69 (5,000)	20.61%				
2,199	-	-	33.80%	2,441 (5,000)	-	-	-	37,500	-	-	-	56 (5,000)	23.69%	-	1	66	
			-	2,191 (5,000)								40 (5,000)	21.92%				
2,679	-	-	37.87%	2,926 (5,000)	-	-	-	37,000	-	-	-	277 (5,000)	44.20%	-	5,000	46	
			-	2,676 (5,000)								27 (5,000)	23.88%				

< chart 6-2 > Example : 7974 as of Dec 2

**NINTENDO Options Quotes** Update Time 2024/12/02 12:52

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Related Quotes

		Last	Change	Chg %	HV	Lot
7974	NINTENDO	8,859 (12/02 12:52)	+49	+0.56%	28.86%	100

Dec/2024
Jan/2025

Trading Date 2024/12/02
Last Trading Day 2024/12/12

Show Risk Parameters
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Options Calculator

CALL										PUT						
Settlement	Open	Volume	Ask IV	Ask(Size)	IV	Change	Last	Strike Price	Last	Change	IV	Ask IV	Ask(Size)	Volume	Open	Settlement
11/29	Interest		Bid IV	Bid(Size)								Bid IV	Bid(Size)		Interest	11/29
5.7	-	1	41.91%	13.7 (30)	38.14%	-	12.7	10,000	-	-	-	1,185 (30)	55.74%	-	-	1,195
			38.14%	8.3 (30)			12/02 09:35					1,135 (30)				
11.9	-	1	39.82%	24.4 (30)	36.10%	-	24.1	9,750	-	-	-	945.5 (30)	50.40%	-	-	951.5
			36.84%	17.6 (30)			12/02 09:35					895.5 (30)	30.17%			
22.8	1	-	37.76%	44.4 (30)	-	-	-	9,500	-	-	-	716.0 (30)	45.92%	-	-	712.0
			35.32%	35.9 (30)								666.0 (30)	32.49%			
69.5	-	-	35.80%	81.5 (30)	-	-	-	9,250	-	-	-	502.5 (30)	42.06%	-	-	508.5
			24.52%	31.5 (30)								452.5 (30)	32.05%			
121.0	5	-	34.43%	150.5 (30)	-	-	-	9,000	-	-	-	319.0 (30)	39.34%	-	-	310.5
			31.91%	135.5 (30)								269.0 (30)	30.98%			
211.5	31	-	33.17%	262.5 (30)	-	-	-	ATM	-	-	-	182.0 (30)	38.28%	-	-	150.5
			24.69%	212.5 (30)				8,750	-	-	-	132.0 (30)	29.88%			
368.5	60	-	39.16%	458.5 (30)	-	-	-	8,500	-	-	-	101.5 (30)	39.96%	-	-	58.0
			28.39%	408.5 (30)								51.5 (30)	29.33%			
596.5	-	-	37.40%	649.0 (30)	-	-	-	8,250	20.0	-	32.75%	22.3 (30)	32.02%	2	100	35.4
			-	599.0 (30)					12/02 09:00			15.3 (30)	29.09%			
815.5	30	-	43.17%	886.0 (30)	-	-	-	8,000	-	-	-	54.0 (30)	53.66%	-	90	4.6
			-	836.0 (30)								4.3 (30)	30.23%			
1,063	-	-	51.10%	1,132 (30)	-	-	-	7,750	-	-	-	51.0 (30)	64.02%	-	1	2.2
			-	1,082 (30)								1.4 (30)	32.59%			
1,312	-	-	62.06%	1,384 (30)	-	-	-	7,500	-	-	-	4.0 (30)	45.46%	-	-	1.2
			-	1,334 (30)								- (-)				

To check SSO quotes, etc., find [derivatives quotes](#).

For vendors codes:

QUICK	Bloomberg	Refinitiv	CQG
Kmmmm.n*K	mmmm JT	0#OPT*.05	-

Nippei Yasuoka, Head of Institutional Sales Japan at Optiver, a global liquidity provider, stated, “The growth potential of Japan’s single stock options market is highly significant, given the current trading conditions in the Japanese stock market. Optiver is fully committed to supporting the development of the Japan SSO market and plans to expand the number of stocks we market make to approximately 30 in the near future.”

#### 4. Rules for strike prices were reviewed.

Investors have long called for improvements in setting strike prices, particularly for ATM options. In response, OSE revised the rules for setting strike prices for the aforementioned 12 underlying assets subject to market making, as shown in the table below.

< chart 8 >

Strike Price (JPY)		Intervals (JPY)	Strike Price (JPY)		Intervals (JPY)
Equal to or more than	Less than		Equal to or more than	Less than	
	1,000	25	5,000	30,000	250
1,000	2,000	50	30,000	50,000	500
2,000	5,000	100	50,000	100,000	1,000

## MORE BROKERAGE FIRMS TO HANDLE SSO

In the United States, individual investors commonly use SSO trading as a standard method of stock investment. A significant factor contributing to this is the ease with which SSO trading can be conducted through major online brokerage firms in the U.S.

In Japan, SSO trading on behalf of individual investors is primarily transacted through Interactive Brokers Securities Japan and The Kosei Securities. Both firms attract mainly affluent retail investors who are already aware of the benefits and value of SSO.

Since November 2024, Moomoo Securities Japan has also embarked on handling SSO trading. The firm's parent company, Futu Holdings Ltd., is listed on NASDAQ in the U.S. Its trading application is highly regarded for its depth of information and ease of use. Shortly after its launch in Japanese stock trading, the application surpassed 1 million downloads in May 2024. With its expertise in developing applications in the U.S. where SSO trading by retail investors is thriving, Moomoo can be a catalyst for market revitalization in Japan.

Japan's SSO market is expected to continue growing, particularly with increased participation from retail investors and the rising number of securities firms offering SSOs, as well as OSE's wide-ranging system improvements. OSE is committed to further revitalizing the SSO market, encouraging investors

in Japanese equities to pay attention to the SSO market and capitalize on its emerging investment opportunities.

## **Related links**

[Securities Options](#)