



FUTURES INDUSTRY ASSOCIATION JAPAN CHAPTER

Newsletter

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Editorial Board

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Mitch Fulscher
Saiko Kanamori
Eiichi Kojima
Takanori Kosaka
Motoko Ogawa

CHAIRMAN'S MESSAGE

The Global Financial Crisis Hits Japan

Although Japan had not been a significant participant in the US subprime mortgage debacle, the global financial crisis has hit Japan hard. By late October, the Nikkei stock average fell to a low not seen since before the bubble 26 years ago. The financial sector led the decline which mirrors the experience in the US and the other global markets, notwithstanding the fact that the investment and credit losses have not been as serious. In fact, the Japanese banks as well as major commercial companies are in a stronger capital position compared to US and European institutions. Nevertheless, global investors are liquidating investments and have tightened credit markets to the extreme.

Meanwhile the Yen exchange rate jumped over 20% in less than two months time. The unwinding of the Japanese Yen carry-trade by Japanese helped to push up the rate. The impact of the high Yen exchange rates has a significant negative effect on Japan's exporting companies and earnings forecasts are being reduced.

Although not yet as serious as the devastation being felt in the US and many other major economies, Japan is not immune to the effect of this sweeping global financial crisis.

FIA-Asia Conference in Tokyo

The good news is that we are pleased to report that FIA-Japan welcomed and hosted 400 delegates to the 4th Annual FIA-Asia Conference on September 17-19. This event was a huge success! In spite of the timing of the Lehman bankruptcy and the Merrill Lynch takeover by BOA in the same week as the conference, the turnout was great and we exceeded our targets with relatively few cancellations. There clearly is significant international interest in the Japan futures industry developments!

The Host Exchanges for the conference – OSE, TOCOM, TFX, and TSE – each announced significant plans for advancing their exchanges, including improved trading platforms, remote memberships and other actions that will attract international players to these markets. Both FSA and METI endorsed these efforts which help to lead the way to the creation of a true international financial center.

Regards,

Mitch Fulscher
Chairman, FIA-Japan

FIA-Asia Tokyo Conference – September 17-19

The fourth Asian Derivatives Conference was held in Japan at the Westin Hotel in Ebisu, September 17-19. Total conference registrations were 481 and over 400 people actually attended despite of the financial turmoil which just occurred that week. The program was superb! Particularly, the head of the four major Japanese exchanges sat together as panelists and expressed their candid opinions as well as their views about the Japan Financial Center developments. We heard many positive words from regulators on the direction where the Japanese markets are headed, and this is very encouraging.

FIA Japan collaborated with FIA Washington to organize this event and many FIA-J members were actively involved in it. The extensive Exhibition Hall was utilized not only as a place for showcasing but also as a communication point.

The Japan “host exchanges” – OSE, TOCOM, TFX and TSE played a significant role at the conference and their strong support was key to this success.



Photo right

Exchange leaders gathered at a historic panel session (left to right: Mr. Saito – TSE, Mr. Saito – TFX, Mr. Fulscher – Moderator, Mr. Nangaku – TOCOM, Mr. Yamazawa – OSE)



Photo left

InformationXchange: Japan Commodity Markets (left to right: Mr. Koyama – METI, Mr. Oyama – MAFF, Mr. Onosato – TOCOM, Mr. Yamashita – TGE, Mr. Matsui – C-Com)



Photo right

The (always!) colorful TGE booth in the exhibition hall (right: Ms. Mary Ann Ogasawara – Manager, International Affairs)



Regulatory news

Commodity Exchange Council Discusses Law Changes

The Council (under METI and MAFF) held a series of meetings since early this year. The council has been discussing how to strengthen and reform the structure of the Japanese Commodity market to upgrade its level to the global standard. Recommendations are expected to be drafted by December this year to start the legislative process. The issues discussed by the council include:

Market Enhancements

- Professionals vs. retail investors: to adopt different regulations/rules for professional investors/traders. Lesser restrictions will encourage more professional and commercial participation in the Japanese commodity markets.
- Wrap Account : to allow brokers to offer Wrap Accounts
- Introducing Broker: to allow IBs in Japan.

Investor Protection

- Upgrading the current regulations on overseas commodity futures trading to secure a better protection for investors. The new regulations may require brokers to be registered or licensed to be able to offer access to overseas commodity futures to non-commercial customers.

Exchanges

- Preparing a legal framework to allow capital alliances between commodity and financial exchanges and enabling commodity exchanges and financial exchanges to co-list financial and commodity products.

Clearing

- Upgrading JCCH's function: higher capital requirement for clearing members.

Market Supervision

- Improve communication between the regulators and information sharing with foreign regulators.

People

Interview with Equinix Japan Managing Director: Mr. David Wilkinson

David Wilkinson, Managing Director of Equinix Japan, joined Equinix in July of 2002. Mr. Wilkinson has spent more than 10 years living and working in Japan. Prior to joining Equinix, David Wilkinson served as President of CCC Network Systems K.K. and also worked for the Fujitsu group for more than 10 years, both inside and outside of Japan.

Mr. Wilkinson graduated from Glasgow University, United Kingdom with a First Class Honours Degree in Computing Science, Physics and Mathematics.

Question – Editorial Board: Equinix data centers cover major strategic markets globally. With this background, how do you compare the current level of technology in Japan to the rest of the world, and what particular challenges did you have to overcome in Japan?

There is little doubt that Japan will soon see higher trading volumes and an influx of foreign firms trading without the aid of Japanese sponsors. Our team has spent a great deal of time educating our US and European client base about doing business in Japan. Many of the technology providers in the network and managed service space are not recognized outside Japan. So, I would say that a key challenge is to make connections between these important local providers and their new foreign business prospects.

Question – Editorial Board: Major Japanese exchanges have introduced or are about to introduce new trading platforms and the number of technology-related companies present in Japan has also been increasing. How do you see the technology environment in Japan evolve from here and what are the benefits of this "technological revolution" to market participants, both in Japan and overseas?

We've had a great deal of interest from algorithmic and automated trading firms that would like to do business in Japan. The potential benefits for all participants would be lower trading costs and accelerated products innovation by exchanges and PTS's. Personally, I see an enormous opportunity for Japan to redirect some of the overseas liquidity that has been flowing to more open markets like Singapore and Hong Kong. In the latest Global Financial Cities Index (GFCI), Tokyo moved ahead of Frankfurt and Chicago to take seventh place. With the technology revolution we are witnessing today and our improved regulatory posture, I think we'll move even farther up the rankings in a very short period of time.

Question – Editorial Board: As an FIA-J member, what role do you think this organization should play in reshaping the futures industry in Japan in general, and in developing technology in particular?

The FIA is a well respected organization globally and should take the lead in educating some of our potential remote members about doing business in Japan. For example, Equinix would be willing to help organize and sponsor FIAJ outreach classes or conferences in London, Frankfurt, New York and Chicago. The goal of these events would be to foster relationships between Japanese based exchanges and technology providers with prospective overseas market participants

Future Event

FIA Expo: Record Number of Exhibitors Expected

24th Annual FIA Futures & Options Expo: Nov. 10-12, 2008, Hyatt Regency Chicago

FIA expects a record number of exhibitors on the expanded hall floor this year, with the number already totaling more than 140. Additionally, there will be 30 sessions in five tracks: Industry Issues; Markets; Trading Technology; Equity Options; and Give-Up Workshops--plus a number of networking and social events. This year's conference concludes with a separate charity reception and dinner, "FIA Futures Cares," benefitting the Greater Chicago Food Depository. For more information about FIA Expo and the charity dinner, visit <http://www.futuresindustry.org/expo-2007.asp>

OSE, TFX, TGE, TOCOM and TSE will be exhibiting at the expo to represent the Japanese futures industry.

Exchange News

Remote Membership in Japan

Major exchanges in Japan have already introduced or are about to introduce remote membership schemes for the benefit of overseas market participants, including US firms.

TFX introduced its scheme in April 2008. Remote members must designate an existing clearing member and also need to designate someone in Japan to serve as a point of contact. Other requirements include registration with the relevant authorities in Japan and overseas, and a minimum capital of 10 million yen.

TSE already announced its decision to introduce a "Remote Trading Participant System" scheduled to be launched next month (i.e: December '08). This system will enable overseas financial firms without branches in Japan to directly access the TSE market.

OSE and TOCOM also have their own plans to introduce remote membership next year, the details of which are still under consideration.



OSE:

Co-location Service

OSE has announced the launch of a co-location hosting service for its market participants and their customers, which will facilitate DMA (direct market access) and algorithmic trading strategies, as well as minimize overall latency. It is anticipated that the OSE co-location service will start in the beginning of this month (November '08). The co-location hosting will allow OSE participants to place their trading equipments in an OSE data center located close to the trading engine. This service will allow for high speed market data transmission and trade execution with nearly zero network latency between the participants' systems and OSE's trading engine. OSE will be the first Japanese securities exchange to offer co-location service.

Extension of the Evening Session

On October 14th OSE has extended its trading hours for the evening session until 20:00 JST. The trading hours were extended due to the increased demand both from Japanese retail customers as well as from the international trading community.

Launched Covered Warrants Market

Covered warrants are hybrid products, which can be traded through customers' brokerage securities accounts but have pay-offs of options. The first warrants were issued on the Nikkei 225, Hong Kong's Hang-Seng Index as well as on various Japanese cash stocks and launched successfully on September 26th.

TFX:

Establishment of Strategy Group on OTC Clearing

Tokyo Financial Exchange (TFX) established a strategy group who will be looking at OTC clearing for interest rate swaps and credit default swaps. The members of the group are composed of 21 major financial institutions, external knowledgeable persons and related organizations.

Granted CFTC Part 30.10 Exemption

TFX was granted an Order issued by the CFTC pursuant to CFTC Regulation Part 30.10 on October 14, 2008. This Order allows designated Trading Members of TFX to offer and sell Interest Rate Futures contracts on TFX directly to U.S. customers, provided the members comply with the conditions set out in the CFTC exemption order.

Change to Price-Time Priority Matching Algorithm

On November 4, 2008, TFX will change the matching algorithm for Euroyen futures and other interest rate futures and options from the current Pro-Rata algorithm to the Price-Time priority algorithm (FIFO). This change is made to meet strong requests to reduce the back-office burden and to offer a fairer system to small orders.

Launched Successfully New Trading System for FX Margin Contracts

The new trading system for FX Margin Contracts started to operate as planned on October 27, 2008. With the launch of this new platform, market participants will benefit from significant increases in both the speed of trading and system capacity. Sixteen additional currency pairs have been listed and more financial institutions have become market makers.

TGE:

Modified Soybean Trading Unit and Trading Hours

From Oct. 16, 2008 the contract unit from the Aug, 2009 contract month and onwards has changed from 50,000 kg to 10,000 kg Also, the trading sessions for the soybean futures contract has changed. Please see http://www.tge.or.jp/english/whats/news/pdf/kikaku/SB_October%202008.pdf for more information.

TOCOM:

(Please visit our website for full details at: <http://www.tocom.or.jp>)

To Launch Platinum Mini Contract in November

TOCOM will introduce a cash-settled Platinum Mini contract on November 10th, 2008. The contract unit of the Platinum Mini contract is 100 grams, which is one-fifth of the standard contract. As is the case with all the other commodity futures contracts listed at TOCOM, customers will also have the option to use the "Loss Cut" system with the Platinum Mini contract.



To Launch Co-location Service in May

TOCOM will provide a co-location service to coincide with the launch of its next generation system (scheduled on May 7, 2009). Since this co-location service will offer market participants the ability to install their trading servers on-site with, or closer to, the exchange's system, the transmission speed of trade-related information (i.e: orders, market data, etc.) will increase.

The current co-location Service Vendors are KVH and NTT Data.

Japanese Oil Companies to Use TOCOM Futures Prices

In September, major oil companies in Japan, including Nippon Oil Corporation and Idemitsu Kosan Co, Ltd, officially made public their decision to base their weekly wholesale prices on the TOCOM futures prices, for oil products distributed on and after October.

Next Generation System (NGS) Trading Room Completed

To prepare for the launch of the NGS in May 2009, the Exchange modified what used to be the trading floor (used for Rubber trading until the end of 2004) into the trading room for the NGS, where TOCOM's market operations, including market surveillance, are located. Work started on April 12th and was completed on September 30th.

TOCOM and TSE Cooperate on SPDR Gold Shares

TOCOM has added a "physically backed commodity ETF" as a possible physical for EFP transactions at the exchange. The "SPDR(r) Gold Shares" physically backed commodity ETF listed on the TSE, which has a high correlation with the gold spot price, can now be used as a physical for EFP transactions on TOCOM's Gold market.

TSE:

To Launch Mini-JGB Futures

TSE announced its plan today to launch mini-sized cash-settled 10-year JGB futures on March 23, 2009.

The TSE 10-year JGB futures market is a very active market in Japan

Study Group on OTC Derivatives

Japan Securities Clearing Corporation, Japan Securities Depository Center, Inc. and Tokyo Stock Exchange, Inc. have set up a study group to solicit the opinions of a wide variety of market participants in an effort to examine potential post-trade services for OTC derivatives trades such as interest rate swaps and credit derivatives.

TSE Group Signed MoU's with Markit Group and Luxembourg Stock Exchange

On October 28th TSE Group signed an MoU with Markit Group Limited to consider the possibility to promote/distribute jointly valuation services of financial instruments, develop new indices, promote trading of current indices (including Markit indices), distribute information jointly and promote post-trade OTC derivatives operations in Japan.

On October 12th, TSE Group signed an MoU with the Luxembourg Stock Exchange to foster a closer relationship and explore opportunities for exchanging information and working on the development and the listing of financial products.

New ETFs Listed

In September and October, TSE listed the following ETFs: NEXT FUNDS REIT INDEX ETF, MAXIS TOPIX Core30 ETF, Listed Index Fund J-REIT (Tokyo Stock Exchange REIT Index) Bi-Monthly Dividend Payment Type and S&P GSCI™ Total Returns. There are now 58 ETFs listed on TSE.

Please visit our website for details: <http://www.tse.or.jp/rules/etf/meigara.html#jojo-etf>

First Dedicated Japanese REIT ETF Listed on NYSE Arca

Northern Trust Global Investments (NTGI), the asset management arm of Northern Trust Bank, has launched the first dedicated ETF to be based on the Tokyo Stock Exchange REIT Index. NETS™ Tokyo Stock Exchange REIT Index Fund (Japan) commenced trading on the NYSE Arca Exchange, granting U.S. investors the opportunity to invest in the Japanese real estate market via an ETF.



New Member

FIA-J is very pleased to welcome our newest member below.

Deutsche Securities Inc.

The investment banking arm of Deutsche Bank Group in Japan, Deutsche Securities Inc. (formerly, DB Capital Markets (Asia) Limited Tokyo Branch), commenced operations in May 1986. Today, with 1,180 employees, Deutsche Securities Inc provides a full range of investment banking services to corporations and institutional investors, including the sales/trading of equities and bonds, capital/fund raisings, securitisation, risk management, M&A, real estate finance and other advisory services. Offering integrated research and relationship management capabilities focused on its clients needs, Deutsche Securities Inc. provides focused, tailor-made solutions to meet the diverse and complex needs of its clients.



The FIA-Japan Chapter was organized in 1989 as a nonprofit organization by foreign and Japanese futures industry participants. It is the only organization in Japan of its type with a membership drawn from the entire cross section of the futures industry. There are about 60 members representing all of the corporate sectors participating in the futures and options industry in Japan.

Officers

Mitch Fulscher, Chairman	Financial Consultant
Shozo Ohta, President	Tokyo Financial Exchange Inc. (TFX)
Yasuo Mogi, Vice President	Newedge Japan Inc.
Takanori Kosaka, Secretary	HSBC Securities (Japan) Limited
David Wilkinson, Treasurer	Equinix

Board Members

Fumihiko Kimura	Central Japan Commodity Exchange (C-COM)
Yoshio Kuno	CME Group, Tokyo Office
Naoaki Kurumada	Dot Commodity, Inc.
Mitch Fulscher	FIA-J
Michael Ross	GL Trade Japan K.K.
Takanori Kosaka	HSBC Securities (Japan) Limited
Osamu Akita	Japan Commodity Futures Industry Association
Shinjiro Mizuno	Kanetsu Shoji Co., Ltd.
Scott Shenk	Merrill Lynch Japan Securities Co., Ltd.
Julien Le Noble	Newedge Japan Inc.
Yasuo Mogi	Newedge Japan Inc.
Hideki Noda	ORIX Investment Corporation
Mikio Hinoide	Osaka Securities Exchange Co., Ltd. (OSE)
Duncan Symmons	Patsystems Japan K.K.
Koichi Iwanaga	Sumitomo Corporation
Mikio Kawamura	Tama University
Mitsuhiro Onosato	The Tokyo Commodity Exchange (TOCOM)
Hidetoshi Hamada	The Tokyo Grain Exchange (TGE)
Shozo Ohta	Tokyo Financial Exchange Inc. (TFX)
Junnosuke Inoue	Unicom Group Holdings, Inc
Koichiro Ohashi	White & Case LLP

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