



FUTURES INDUSTRY ASSOCIATION JAPAN CHAPTER

Newsletter

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Eiichi Kojima
Takanori Kosaka
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CHAIRMAN'S MESSAGE

2009 - The Year of the Ox

We Need Force and Determination

It's hard to believe or even understand what happened in the past year. The collapse of the financial markets across the globe is beyond the experience of managements, investors and regulators. As bad as 2008 was, many are predicting that it may even get worse before getting better. The injury to families, investors, institutions, and governments will have a lasting impact on an entire generation and it will affect actions for a long time. We all need "force and determination" this year to carry us forward and to succeed.

For the members of FIA-Japan, the collapse had its impact. Some of our members have failed or merged and others have cut back their business. Although futures exchange markets were not the cause, nor even a contributor to the problems, the market players including investment bankers and hedge funds, are reducing their activities and pulling back. The Japan equity markets have declined in line with the global fall of the markets. However, at the same time the Japan futures exchanges are continuing to proceed with plans to modernize and expand. The commodities markets in Japan have historically been slow to modernize and internationalize, but Tocom has taken leadership and is aggressively acting to become a global marketplace. The financial futures exchanges, although more advanced, are moving forward with modernized trading platforms and adopting global standards of operations. These changes are critical to the development of the Japan financial center and we fully support this movement and encourage the exchanges and the regulators to move quickly at this critical time in spite of the events of the past year.

We wish you a Happy New Year and hope that 2009 be brighter. Lets ride the Ox!

Regards,

Mitch Fulscher
Chairman, FIA-Japan



FIA-J RECOMMENDS URGENT IMPROVEMENTS IN COMMODITIES CLEARING

The Board of Directors of FIA-Japan has issued a Report with recommendations for urgent improvements needed in the Japan commodity industry, particularly with respect to the clearinghouse function. This Report was delivered to METI and MAFF and it was also presented and discussed with the “Sankoshin” (regulators' council meeting) on December 18, 2008.

The Report focuses on the most important critical issue for the Regulators: **Action to establish an adequate clearinghouse for the commodities industry.** The Report also discusses improvements in the Law related to OTC commodity markets and other items. The Regulators are now preparing proposed amendments to the CEA which will be submitted to the Diet this Spring.

Please contact the FIA-J Executive Secretary, Ms. Motoko Ogawa for a copy of this report which has also been translated into Japanese language.

Regulatory News

Commodity Exchange Act - Amendments

The Ministry of Economy, Trade and Industry (METI) and the Ministry of Agriculture, Forestry and Fisheries (MAFF), the two Japanese commodity futures market regulatory authorities, concluded a series of special committee meetings to modernize the markets on 18 December. Both METI and MAFF will soon start drawing plans to amend the Commodity Exchange Act and its related rules, which will be presented to the Diet early this year. The Japanese commodity markets are expected to revitalize and help the Japanese industry strengthen its competitiveness in the process.

The three pillars of the amendments, according to the regulators, are to establish commodities markets which are transparent, free of fraud and abuse and easily accessible by professional traders.

The changes will result in the same regulations governing domestic futures markets, designated foreign futures & options markets and foreign commodity OTC markets.

Furthermore, the regulators decided to enhance market accessibility for professional traders by abolishing current restrictions imposed on individual investors, allow the concept of “introducing brokers” (IB's), as well as relax business/stock holding restrictions imposed on exchanges.

Mr. Yoshio Kuno, FIAJ director, took an active role in the meetings and expressed the need for an enhanced clearing function, amendments to OTC commodity market laws and regulations, as well as the need to rationalize reporting requirements by market users to both the regulators and the exchanges.

CFTC, METI & MAFF MoU

METI, MAFF and their U.S. counterparty, the Commodity Futures Trading Commission (CFTC), announced on 30 November that the agencies have agreed to enhance cooperation and collaboration and to consult on a regular basis. These measures are designed to promote investor protection and market integrity, and to enhance the supervision of physical commodity futures trading occurring on a cross-border basis between Japan and the U.S.

This agreement calls for the agencies to identify and exchange information on regulatory policies and practices in the commodity futures markets, particularly on issues that relate to cross-border market access, oversight and surveillance, as well as to enhance the transparency of the markets. Also, the authorities will improve cooperation on the exchange of information that could help detect/prevent cross-border trading violations in order to improve customer protection and market integrity. The regulators also agreed to regularly hold meetings.

This collaboration agreement follows a statement issued at the July 2008 G8 Hokkaido Toyako Summit, which called for the need of increased transparency in the commodity futures markets and encouraged further cooperation between the relevant authorities of the participating countries, following the increase in cross-border trading.

Past Events

FIA Expo in Chicago: Draws Record Number of Attendees

This year's FIA Expo ranked among the most successful ever, with more than 4,400 attendees, two days of information-packed panels, and a host of well-attended networking events. The Expo's show floor was also a smashing success. Nearly 150 companies exhibited their products and services, taking up more space in the Hyatt Regency than ever before.

Highlights of this year's Expo included a charity dinner that raised more than \$300,000 to help feed the needy, a keynote speech by the CFTC chairman, panel discussions on credit derivatives and the collapse of Lehman Brothers, and a discussion of the potential for major changes in the regulatory structure in Washington. This year's Expo also featured several panels on the latest technology trends, including a discussion on the techniques for low latency trading.

Mark your calendars for the 25th annual FIA Expo, which is scheduled for Oct. 21-23, 2009 at the Hilton Chicago (www.futuresindustry.org/expo).

Exchange Leader Participants:

Left to right:

Chair:
Chris Hehmeyer, Chief Executive Officer,
Penson GHCO

John Damgard, President,
Futures Industry Association

Speakers:
Richard Sandor, Chairman and Chief Executive Officer, Chicago Climate Exchange
Hugh Freedberg, Group Executive Vice President and Head of Global Derivatives, NYSE Euronext
Craig Donohue, Chief Executive Officer, CME Group
Jeffrey Sprecher, Chairman and Chief Executive Officer, IntercontinentalExchange
Andreas Preuss, Chief Executive Officer, Eurex



Exhibit Hall:



Future Events

FIA International Futures Industry Conference (Boca)

March 11-14, 2009, Boca Raton, FL

Join senior managers from brokerage firms and exchanges, money managers and international regulators. More than 800 decision makers, innovators and policymakers from more than 30 countries will gather to share information, exchange ideas, discuss trends and network with peers.

Who Attends Boca?

Visit www.futuresindustry.org/boca for more information and to register.

New Year Party

FIA-Japan has its New Year Party at 18:15 on Wednesday, January 14, 2009 at Ark Hills Club in Tameike-sanno. Let's meet your friends of FIA Japan and celebrate the start of the Bull year.

Gold sponsors:



Regular sponsor:



Exchange News

C-Com:

Revised Natural Rubber Index

C-Com revised the components of its Natural Rubber Index to better reflect the movement of the global rubber prices. The newly added components are the prices of Thailand, Malaysia and Shanghai, while the prices of Europe and North America were dropped. The new C-Com Natural Rubber Index began its trading on November 11, 2008 for the May 2009 and on future contract months. For the contract months prior to May 2009, the old Rubber Index continues to be traded.

At the same time, the multiplier was doubled to 20,000 from 10,000 in order to make the trading of the Index more efficient to the market users. The components of the revised C-Com Natural Rubber Index are given in the below;

	RSS				TSR		
Market	C-Com	TOCOM	SICOM	AFET	SICOM	MRB	SHFE
Type	RSS3	RSS3	RSS3	RSS3	TSR20	SMR20	SCR5



OSE:

Rule Amendments for Circuit Breakers on Stock Index Futures

Taking into consideration opinions from investors, and from the viewpoint of enhancing transparency in the rules for Circuit Breakers ("CB") on stock index futures, OSE implemented the following amendments on December 15th, 2008.

Abolishment of the Criteria in Deviation Range from the Fair Value

Addition of New Fluctuation Range (Second-Level Price Range)

The "CB" can be activated during all trading sessions including evening session trading.

For more details please refer to the following file: <http://www.ose.or.jp/e/index.html>

Record Volume in 2008

OSE announced, that Total Futures and Options trading volume for the year 2008 reached a new record high of 163,689,348 units. Nikkei 225 Futures grew 18,2% YOY, Nikkei 225 mini Futures increased 94,4% YOY. Activity in the Nikkei 225 Options was also higher compared to the previous year, volume was up 10,1% YOY.

For more details please refer to the following file: <http://www.ose.or.jp/e/news/0812/081230b.pdf>

Next Generation Trading Platform

OSE announced that it has decided to commence the process to define requirements for its next-generation trading platform for derivative products, toward adopting the trading platform provided by NASDAQ OMX Group. The next generation platform is scheduled to be launched in the first half of 2010.

For more details please refer to the following press release: http://www.ose.or.jp/e/profile/pr_data/pr_081216.pdf

TFX:

TFX to launch New Stock Index Futures

TFX announced the launch of a new stock index futures contract with cash settlement (CFD), which differs from existing stock index futures contracts in Japan. This new product has no expiry date and the carry cost and dividend cash flow for holding a position will be paid or received each day. TFX is planning to list this new product within FY 2009, and the trading unit will be 100 yen multiplied by the value of the Nikkei Stock Average.

New Participants in Remote Membership Program

Last year TFX initiated a remote membership program and collocation services in order to facilitate market access and increase liquidity in its flagship interest rate derivative products. The first 2 trading firms to apply for remote membership are: G.H. Financials Limited (based in London) and Advantage Futures LLC (based in Chicago).

TGE:

Migrates Non-GMO Soybean Futures to Continuous Trading Platform and Extends Trading Hours for Azuki Futures

At TGE's Board of Director's meeting held on November 14, 2008, it was decided to move trading for non-GMO Soybeans futures from the call session (Itayose) to the continuous electronic trading platform beginning from January 5, 2009. In parallel with this migration, TGE will expand the trading hours for Azuki (red bean) futures in order to augment trade opportunities for market participants to a total of six sessions (3 in the morning and 3 in the afternoon).

TOCOM:***New Beginning as Corporation – A First for Japanese Commodities Exchange***

TOCOM was demutualized and transformed itself from a membership organization into a corporation on December 1st, 2008. On that day, Mr. Masaaki Nangaku, the former Chairman of the Exchange, was appointed the first President and CEO at the first board meeting.

Mr. Nangaku expressed his organization's goal as, "We will work to identify needs and demands of shareholders, market participants, operators of relevant markets and other stakeholders, in order to foster a vibrant market. And we will concert our efforts to firmly position ourselves as a primary commodity exchange in Asia, and as one of the world's leading exchanges."

The Board of Directors instituted management principles and a middle-term management policy. The Exchange also developed a "120-Day Kick-Off Program" to give momentum to its demutualization.

A Self-regulatory Committee was newly created to establish effective governance systems in order to ensure the achievement of two goals: promoting public interest and increasing corporate value.

New Members in Oil and Precious Metals Markets

On November 19, 2008, the Board of Directors approved the membership applications of Japan Energy Corporation (Market Trading Participant - Oil Market), Asahi-yugyo Co., Ltd (General Trading Participant - Oil Market) and Nihon Material Co., Ltd. (General Trading Participant - Gold and Platinum Markets).

The three companies have made payment of the fees and acquired membership at the end of the month.

The Exchange expects that the entry of Japan Energy as a TOCOM member will enhance the effectiveness of the benchmark Oil Market prices and increase the reliability of commodity futures market as a whole.

For details on the above news, please visit the TOCOM website: www.tocom.or.jp/

TSE:***Changed Options Trading Rules***

The Tokyo Stock Exchange, Inc. (TSE) has decided to make significant changes to its trading rules for options contracts in conjunction with the implementation of the New Trading System scheduled for July 2009.

- Introduction of market maker system
- Introduction of strategy trading
- Introduction of request for quote

Other revisions were made to the transfer rules to be in line with international standards (i.e: revision of trade execution rules, order variation, introduction of the Dynamic Price Range, etc.).

Co-Location Service Update

TSE has announced the detail contents and pricing of its "Co-Location Service" at the TSE Primary Site.

A user can apply for Co-Location Service during the "initial application period" (January to February 2009) and may start the installation of its devices at the co-location site from May 1, 2009.

http://www.tse.or.jp/english/news/200811/081125_a.html

Changed Circuit Breaker Rule on TSE index futures

The TSE has changed its Circuit Breaker rule on index futures. New fluctuation range has been added on the criteria of Circuit Breaker and the criteria to compare the market price with theoretical price was abolished.

http://www.tse.or.jp/english/news/200811/081125_b.html

Options Seminar for Individual Investors

The TSE has announced that it will hold the "TSE asset management forum 2009" for individual investors with the cooperation of the OIC (The Options Industry Council). This forum will focus on options trading.

12th Jan.: Tokyo / 14th Jan.: Nagoya / 15th Jan.: Osaka

TSE Sets up Market Office

The TSE has newly set up a Market Office since December. The new office is designed to improve the TSE's system for sales and marketing. The office has a structure that is easily recognizable to outside parties in terms of presenting the TSE products and services. It also promotes user-oriented marketing activities across the different services of the Exchange.

Implemented Paperless Share System

The paperless share system has been implemented since January 5, 2009. Accordingly, all shares are electronically-recorded in the securities companies account based on the Act Concerning Book-Entry Transfer of Corporate Bonds, Stocks, and other Securities.

"Arrowhead" Launch Date

The TSE announced that it has decided to launch "Arrowhead" (i.e. the next generation trading system) on January 4, 2010.

http://www.tse.or.jp/english/news/200811/081104_b.html

Others

Futures Trading: Lesson 101

Futures trading lesson 101 tells us that "spread position may be as risky as taking simple long or short positions."

TSE JGB calendar spread market proves that this is true. On December 8th, 2008 TSE JGB futures December08 contract traded between 139.30 -138.55 (75 ticks) hence TSE JGB December08/ March09 spread traded from +0.26 to -0.46(71 ticks). At that time the fair value of that spread was +0.40.

Although there was a strong demand for long position roll at the JGB market, why didn't arbitrage take place at that time? This may be explained by the fact that non-Japanese securities houses, who are well renown as arbitragers, had to be keep a low profile because they could hardly trade JGB futures spread that could affect their balance sheets in the midst of the financial crisis. Also, Hedge Funds Managers could not arbitrage the market because they had funding difficulties.

JCCH to Strengthen Financial Requirements

The Japan Commodity Clearing House, an independent clearing house for four Japanese commodity exchanges, decided to strengthen its rules on the financial requirements for its clearing membership in order to reinforce its credibility. Upon approval by its relevant regulatory authorities, METI and MAFF, the current individual clearing participant will have to satisfy the following minimum asset amounts: 300 million yen in capital, 2 billion yen in liquid assets and 200% of the required net worth ratio by October 2009. Once these requirements are cleared, the individual clearing participant will have to maintain levels of more than 300 million yen in capital, 1000 million yen in liquid assets and 140% of the required net worth ratio.

This decision made by JCCH is linked to the report issued by a special taskforce led by METI and MAFF, which had meetings from February to April of 2008, to strengthen the clearing functions of the Japanese commodity exchanges. The taskforce pointed out that in order for Japanese commodity exchanges to reinforce their competitiveness it is necessary to enhance the credibility of their clearing functions so that both domestic and overseas market participants can trade with confidence. JCCH is currently working on a report regarding the establishment of a stronger financial base and amendments to membership requirements in order to strengthen the credibility of its members.

Because of the unforeseeable low trading volumes experienced by the Japanese commodity futures markets, JCCH also decided to postpone a possible raise in clearing fee until April (the clearinghouse originally planned to raise said fee by one yen in January to JPY 4).



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	Tokyo Commodity Exchange, Inc. (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

Executive Secretary

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