



FUTURES INDUSTRY ASSOCIATION JAPAN CHAPTER

Newsletter

October 2007

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CHAIRMAN'S MESSAGE

FIA-J – Host of Asia Conference in 2008

The FIA-Asia Conference will be hosted in Tokyo next year by FIA-Japan. The selection of Tokyo as the venue for this important annual derivatives conference recognizes the importance of the Tokyo markets as well as the regulatory and exchange developments taking place. We are now forming a committee to begin the planning for this event which will be held in October 2008.

Tokyo Financial Center

As reported earlier in our prior newsletter, we are taking an active role in encouraging political and regulatory leaders in Japan to act now to develop Japan's financial center – before it is too late. Changes in both the Financial and the commodity sectors can help to move Tokyo forward in developing as a regional financial center. We hope that the political changes recently announced do not slow this forward movement which was being led by the Cabinet Office. Developing a clear strategy for the Tokyo Financial Market is the highest priority. Copies of our "white paper" setting forth our recommendations to the government are available from our office.

FIA-J Expanding Activities

Now that we have established our new office and hired an Executive Secretary, our officers and board of directors have focused their attention on important issues and aggressive programming for our members. In particular, the technology committee and the commodity committee are identifying issues which will be addressed by our Chapter and taken to the regulators and exchanges for action.

As to FIA-J programs, we have already lined up an "Open Board Meeting" October 16, when we will host Nick Ronalds who is now leading the development of FIA-Asia. John Damgard, the President of FIA-Washington will also join us for this event. The following month, on November 7, we will host the new Chairman of the US CFTC, Mr. Walt Lukken, who will talk to us about the important international initiatives of the CFTC. Further, we are planning events for our membership in December and January under our new programming schedule. We welcome all members to participate with us as committee members. Please contact Ms. Ogawa, our Executive Secretary if you are interested.

Regards,

Mitch Fulscher
Chairman, FIA-Japan

Exchange News

TOCOM:

Seminar in Seoul

TOCOM will hold a seminar in Seoul, Korea on October 18th to further promote its markets among institutional and retail investors in Korea. The seminar is divided into two parts: for the first part, Mr. Kazuhiko Senzaki, Senior Executive Director of the Exchange will give a brief introduction on TOCOM and its markets; during the second part, Mr. Takayuki Takamori and Mr. Hideyuki Kambayashi of Sumitomo Corporation will talk about the TOCOM Market from a market user's perspective. For further details, please see: <http://www.tocom.or.jp/contact.html>

Trading Hours and Limits Revised

The following changes to trading hours and relaxing the price and positions limits were approved by the Board of Directors on September 19, 2007.

- Price Limits: following the expansion of the Price Limits in the Gold Market as of July 1st, 2007, the Price Limits in the Energy Market were expanded as of October 1st, 2007.
- Position Limits: following the modification of the Position Limits in the Gold Market, which doubled for Members and quadrupled for Commercial Customers as of July 1st, 2007, the Position Limits in the Energy Market applicable to Members and Customers have also been largely eased.
- Trading Hours: a 2-hour extension of trading hours, with a closing time at 17:30 instead of 15:30, will be implemented on and after January 7th, 2008.

For full details, please visit website at: <http://www.tocom.or.jp/news/>

TSE:

ETFs on Physical Gold

The Tokyo Stock Exchange is preparing to launch ETFs on gold. The launch date has not yet been set. The Osaka Securities Exchange already began trading gold related ETFs since August 10. Neither contract will take physical gold delivery. To attract individual investors, TSE will adopt a relatively small trading contract unit. TOCOM recently started to trade Gold Mini futures along with its traditional 1-kilo Gold Standard futures. The Financial Instruments and Exchange Law which was amended in 2006 and will be enacted on September 30th of this year makes it now possible for Japan's financial exchanges to trade securities backed by physical commodities.

TGE:

Coffee and Sugar Seminar

On Sept. 11 and 12, the Tokyo Grain Exchange held several seminar sessions on the coffee and sugar markets including analysis of the markets and prices and understanding the basics of risk management. The speakers were William Buckley who is a portfolio manager at Tower Research Capital and Judith Ganes-Chase who is a renowned soft commodity analyst.

TFX:

Revised Company Name

Along with the enactment of the new Japanese law, the Financial Instruments and Exchange Law, as of September 30th, TFX changed its Japanese company name from “Tokyo Financial Futures Exchange” to “Tokyo Financial Exchange”. Under the new law, as a “Financial Exchange,” they can handle any type of financial products. TFX stated that they will actively develop attractive financial products, and continue to contribute to the growth of the Japanese financial markets as a leading exchange.

Listings of Over-night Interest Rate Futures

Starting December 3, TFX plans to list the following Over-Night Interest Rate Futures to meet the needs of both domestic and overseas investors for Japan’s financial market:

- Over-night Call Rate Futures (Call Rate Futures)
- Spot-Next Repo Rate Futures (Repo Rate Futures)

Briefing in London

TFX held a briefing and reception in London, at Le Méridien Piccadilly, on September 27th. This briefing highlighted the new trading opportunities at TFX. Mr. Watanabe, Japan’s former Vice Minister of Finance for International Affairs, gave a keynote address on “Recent Developments in the Japanese Economy”.

OSE:

Launched Gold ETF

On August 10, Gold-Price-Linked Exchange Traded Fund, the first commodity-price-linked ETF in Japan, started trading at OSE. The total volume for one month (from the start of trading to September 10th) was 1,035,690 shares. This is the first ETF linked to an indicator other than a stock index, and is based on the yen-denominated gold price at Loco London. Japanese regulations do not permit securities investment trust funds to hold gold bullion, therefore it is necessary to incorporate Gold-Linked Bonds whose net asset value correlates to the gold price. OSE plans to continue to improve and expand its Exchange Traded Funds lineup. For more details, visit http://www.ose.or.jp/e/stocks/st_etss.html

CME:

It Was 20 Years Ago

In March 1987 CME opened its Tokyo Office close to the MOF offices in Tokyo. It was the first non-Japanese exchange to have an office in Japan. Subsequently, in May of the same year, the Japanese Government opened the door for Japanese institutions to trade overseas financial futures and options. During that time the CME Tokyo Office was very busy educating users both in their front and back offices. Financial Futures was still a new thing and Interest Rate Swaps (IRS) were hardly heard of on the street. A year later the long awaited Japanese Equity Index futures launched in Osaka and Tokyo and then TIFFE (now TFX) was formed in 1989.

20 years later, CME and CBOT merged into CME Group. A financial institution can not live a single day without using an exchange traded derivatives. IRS, CDS, NDF and many other derivatives are dealt by Japanese institutions. Individual investors are getting very active and are trading both exchange traded and OTC products. ATS made exchanges compete for their systems’ speed in 1/1000 second increments.

Mr. Yoshio Kuno, Managing Director of CME Group Tokyo office, stated that “we are very proud that CME could play a role in these past 20 years in the Japanese market. We thank all of the market participants, industry professionals and FIA-J for their business and support in the past 20 years. We look forward to working with the market for the next 20 years! Last but not least, an early congratulation on FIA-J’s 20 year anniversary in 2008!”



Regulatory News

New METI Rule:

Lowering Liability Reserve Requirements

Good news for internet commodity brokers in Japan!

Due to the enactment of the amended Commodity Exchange Law, the rule that requires commodity futures commission merchants in Japan to put aside funds in accordance with their trading volume (“liability reserves for commodity trading”) will be changed. Liability reserves are funds for FCMs to protect themselves from potential losses that may occur due to disputes with their customers related to their brokerage businesses. FCMs are obligated to accumulate funds to a certain amount to comply with this rule. However this rule did not take into account the specifics of a customer, nor the way in which orders were sent to brokers.

Under the new rule, when an FCM accepts an order from a so-called professional trader, or even from an individual trader sending orders via an internet-based trading system, the liability reserve will be based on a coefficient calculated by multiplying the notional value of the commodity traded by 1/1,000,000, instead of the current 3/100,000. Also, when an FCM accepts orders from individual traders solicited through a traditional channel, the calculation of the above liability reserve will also incorporate a “trouble component” that reflects the FCM’s history in the past 3 years.

New FIA-J Members

FIA-J is very pleased to welcome our newest members, Lehman Brothers, Sumitomo Mitsui Banking Corporation and Realtime Systems, which were approved by the Board of Directors in September.

Lehman Brothers

Lehman Brothers, an innovator in global finance, serves the financial needs of corporations, governments and municipalities, institutional clients, and high net worth individuals worldwide. Founded in 1850, Lehman Brothers maintains leadership positions in equity and fixed income sales, trading and research, investment banking, private investment management, asset management and private equity. The Firm is headquartered in New York, with regional headquarters in London and Tokyo, and operates in a network of offices around the world.

Sumitomo Mitsui Banking Corporation

Sumitomo Mitsui Banking Corporation (SMBC) was established in April 2001 through the merger of two leading banks, The Sakura Bank, Limited and The Sumitomo Bank, Limited. In December 2002, Sumitomo Mitsui Financial Group, Inc. was established through a stock transfer as a holding company, under which SMBC became a wholly owned subsidiary.

SMBC boasts a number of competitive advantages, including a strong customer base, the quick implementation of strategies, and an extensive lineup of financial products that leverage the expertise of strategic Group companies in specialized areas. As a pivotal member of SMFG, SMBC works closely with other Group companies to offer customers highly sophisticated, comprehensive financial services.

RTS Realtime Systems

RTS Realtime Systems is an Independent Software Vendor (ISV) and a pioneer in the design of high performance, multi-asset electronic trading software. Founded in 1992, RTS has nine offices across the world and distribution partners in strategically important regions, amongst them India and Japan. With the recent announcement of its certified partner in Japan, Intersoftkk (www.intersoftkk.com), RTS is now able to serve the Japanese trading industry with its software and connectivity solutions. Through its data and proximity centers, the firm provides high-speed connectivity and state-of-the-art IT infrastructure. RTS provides low latency connectivity to 85+ exchanges, including Osaka Securities Exchange and other Asian venues. Further Japanese exchange connections will be following. See www.rtsgroup.net

Reports of Past Events

FIA-J “Cool-off” Summer Party

FIA-J held a “Cool-off summer party” in the evening of September 5, 2007. Over sixty members and friends gathered at the Diamond Hotel in Hanzomon and had a relaxing time enjoying drinks and variety of food, while networking with friends of FIA-J. We thank you for your participation and we also thank our sponsors for their support.



Right: Mr. Ohta of TFX (center) delivers his welcoming remarks.



FIA Asia

Update by Nick Ronalds:

FIA Asia is a recently launched association which is being supported by the Futures Industry Association Washington, aims to provide useful services for its Asian members and the Asian futures industry in general. Its mission can be summarized as follows: to service its members by providing timely information about Asian listed futures and option markets; to provide members and the industry in general with educational opportunities about listed derivatives products; to promote standardization and best practices among markets to enhance the efficiency and resiliency of the markets to benefit all participants; and to provide industry input to market officials on key issues. Benefits of membership will be guided by the membership itself and will focus on the needs and priorities of the members.



In July, FIA Asia hired Nick Ronalds as Senior Advisor. Nick is a former resident and friend of Japan. He lived in Tokyo seven years in the 1980s and 1990s managing the CME representative office and later the joint Asian rep office of the CME and CBOT. Most recently he was global marketing manager of ABN AMRO Futures and UBS Securities. He has published numerous articles on futures and finance in a wide range of publications, and co-authored a chapter on Chinese commodity markets for *The Intelligent Commodity Investor*, published this past spring by RiskBooks. He says he welcomes feedback and suggestions, and can be contacted at nronalds@fiaasia.org.

FIA Asia published its first newsletter last week, and has a website at www.fiaasi.org.

2007 Taipei Conference

FIA Asia conference will be held at the Shangri-La Far Eastern Plaza Hotel in Taipei on October 10-13, 2007. Speakers at this event will include several FIA-J Directors. Mr. Shozo Ohta of the Tokyo Financial Exchange Inc. and Mr. Mitsuhiro Onosato of The Tokyo Commodity Exchange will be speakers at two different "InformationXchange" sessions on Asian financial markets and commodity markets, which are being moderated by Mr. Yasuo Mogi and Mr. Mitch Fulscher respectively. Mr. Scott Shenk of Merrill Lynch will chair the "Exchange Empires vs. Regional Markets" session and Mr. Julien Le Noble of Societe Generale Securities will speak at a "Tour of Asian Markets" session. Further details are available on the FIA website (www.futuresindustry.org/asia-2007.asp).

Activities Ongoing

FIA-J "Open Board Meeting" & Presentation

We will hold an open board meeting and presentation by Mr. Nick Ronalds at Ark Hills Club on October 16. The title of his presentation is "FIA-Asia: An Association for All Asian Markets".

Mr. Nick Ronalds is working full time in the formation of FIA-Asia which is a new Association covering the entire Asian Region. This new organization will include all of the derivatives Exchanges and markets throughout the Asia Region. Nick is visiting Japan to promote this new Association and we are hosting him at our "Open Board Meeting" in October.

Luncheon with Acting CFTC Chairman Lukken

FIA-J is planning a luncheon event with a presentation by CFTC Chairman Lukken at the Tokyo American Club on November 7. Chairman Lukken and CFTC senior officers will visit Japan to attend the annual IOSCO conference. During their busy schedule in Tokyo, they will share some of their time with FIA-J members. In the presentation Chairman Lukken will cover the CFTC's efforts to cooperate and establish protocols and the like with regulators internationally. A Q&A session will follow the presentation.

OTHERS

Nikkei Index Strikes Back

The Nikkei averages index may strike back in October 2007. The market has been very volatile this year. Historically, years ending with the lucky seven were tough years for investors (e.g.: 1987 and 1997).

This summer, the world stock markets collapsed due to the so-called US Sub Prime issue. But the stock markets, apart from Japan, seem to have recovered their value afterwards. Some say that many investors were disappointed at the performance of the Japanese stock market. The Nikkei index declined almost 5% from the beginning of the year while the NY Dow appreciated over 10%. One of the main reasons that made the Japanese stock markets such bad performers was the sell off of stock by Japan Post worth about JPY 1.1 trillion during the April to July period in 2007. Due to regulatory reasons they had to reduce their equity portfolio ahead of the postal privatization scheduled on October 1, 2007. However, they may now turn to back to being an aggressive buyer. There is only three more months to go until the end of the year, so it will be interesting to observe the performance of the Japanese stock market in Q4 2007. Furthermore, we may see the return of the "Mrs. Watanabes". Their story to follow in the next edition of our Newsletter...

People

Interview with TGE Chairman: Yoshiaki Watanabe

Mr. Watanabe was elected Chairman of the Board of TGE in May of this year. Prior to this time he was Vice Minister of MAFF where he spent most of his career. He later served as Advisor to Prime Minister Koizumi from 2004-2006.

We recently interviewed Mr. Watanabe about his thoughts about the commodity market and TGE.

Question – Editorial Board: Four months have passed since you came into office. What are your thoughts?

Mr. Yoshiaki Watanabe; Chairman of the Tokyo Grain Exchange: I have always been aware of the essential role that futures play in the industry and having taken office has reconfirmed this. I believe that my job is to create an environment where futures will function concretely and I am now thinking of the future while contemplating the present situation of the futures industry.

- What kind of environment must be created?

Mr. Watanabe: For TGE, there are two essential functions- to provide facilities where commercials can hedge their risks, and to provide a price indicator for the future to the general public. However, it is not always functioning sufficiently.

In order for the Exchange to perform risk hedge functions, it is necessary to capture as much liquidity as possible. To raise liquidity, our market must be easily accessible, which means that we must enhance its usefulness. We must also list appealing products that provide risk hedging. At the same time, Japan cannot survive isolated from the world, so the Exchange should acquire a global outlook.

- What is necessary for TGE to attract business from overseas market participants?

Mr. Watanabe: It is important that the Exchange should have a trading platform viable for worldwide participants. The *Itayose* (call market) is a perfected and well-established method, but continuous trading is predominant. As most of our listed products are international, we must migrate many of our contracts quickly and smoothly to continuous trading. But, in terms of asset inflow, we should maintain a balanced inflow of domestic and foreign funds into our market. As an agricultural futures market in Tokyo, the Exchange has to maintain its distinct “local” character in Japan as well as being a global market.

- In order to gain liquidity from worldwide participants, you have to prove to be appealing to global traders. In what ways are you doing so?

Mr. Watanabe: Though not immediately, there are issues on trading hours and listed products. For example, futures prices of corn and soybeans trading at TGE include the dollar-yen exchange rate and freight rate that are not covered in the Chicago market. Another important point is that TGE products are Japanese yen-denominated. As the Exchange develops new futures contracts, these points must be considered carefully. At the moment, wheat, edible meat and so on are being looked at, and I anticipate products in these areas will be launched on TGE’s markets.

The Japanese government imposes a high tariff on imported meat for human consumption such as beef and pork. In addition, domestic edible meat is protected by this high tariff policy on imported edible meat, so that the tariff barriers are still in application. Wheat imports have been under government trade control, however a floating price rate has been implemented this summer and Simultaneous Buy and Sell (SBS) system has been established. With the current trend, we need to examine how futures can function in the matters of wheat, meat etc.

- While you have mentioned specific commodities that could become listed products, what about the possibility of launching rice futures?

Mr. Watanabe: In the future, rice futures would be a crucial risk management tool and provide hedge opportunities and advance price indicators to rice producers, co-ops, distributors and processors in Japan. I believe that the government policy for rice will come to completion only if a rice futures market exists at TGE and is consistent with agricultural income stabilization policy as well as agricultural mutual relief.

Apart from this, as far as managed fund portfolios are concerned, there is a little difference between the composition of Japanese and overseas funds. If rice futures would have a unique price movement different from our existing contracts, overseas managed funds may perceive that it is hard for them to enter the rice futures market until they analyze the market a bit further.

Rice is close to the heart of Japanese retail investors and investor groups. Their active participation will help in making the market promote its functions of risk hedge and price indication. Though we are heading towards the right direction, the Exchange cannot make one wrong move, because rice is a political commodity in some ways and rice can be symbolized by the word of "unique". Consequently, we have no other choice than to "study the situation carefully" before launching a rice futures market at TGE.

In addition to meat, wheat and rice, edible oils, and any items related to bio-fuel as well as bio-ethanol may be perceived as feasible futures contracts.

- There has been a lot of talk on a "Consolidated Exchange" initiated by the financial sector in Japan...

Mr. Watanabe: Judging by the current circumstances, I have a feeling that something is not fitting correctly. In the long term, a consolidated exchange which has various securities and derivative products may make sense because every exchange has their strengths and weaknesses. However, the consolidation of securities and futures exchanges does not always facilitate effectiveness and accessibility to its markets and could become less competitive and cause lower efficiency.

In my opinion, it is good to have competition among well functioning exchanges in Japan. Moreover, it would be desirable that arbitrage trading such as inter-market spreads on different exchanges as well as different time zones takes place under competitive environment. Agricultural futures trading can be settled by physical delivery and there must be people of expertise that could audit the quality and grade of each commodity to fulfill the satisfaction of both the buyers and sellers. It would be quite complicated for exchanges with no experience of managing physical commodities to partake in the dealings of physical delivery procedures.

-Thank you, and we wish you much success!



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.

Board of Directors and Officers

Officers

Mitch Fulscher, Chairman	Financial Consultant
Shozo Ohta, President	Tokyo Financial Exchange Inc. (TFX)
Yasuo Mogi, Vice President	Fimat Japan Inc.
Takanori Kosaka, Secretary	HSBC
Junko Ueno, Treasurer	Societe Generale Securities Tokyo (FIMAT)

Other Board Members

Osamu Akita	Japan Commodity Futures Industry Association
Brian Benus	Bear Stearns (Japan), Ltd.
Thomas J. Dreves	Baker & McKenzie GJBJ Tokyo Aoyama Aoki Koma Law Office
Masanori Hayashi	The Tokyo Grain Exchange (TGE)
Mikio Hinoide	Osaka Securities Exchange Co., Ltd. (OSE)
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Michael Ross	GL Trade Japan K.K.
Scott Shenk	Merrill Lynch Japan Securities Co., Ltd.
Hiroyuki Takai	Sumitomo Corporation
Hideaki Ushijima	Japan CTA Association

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