



FUTURES INDUSTRY ASSOCIATION JAPAN CHAPTER

Newsletter

March 2008

Inside this issue

REGULATORY NEWS

- FSA: Law Amendments
- Seminars in China

ACTIVITIES ONGOING

- Clearing Task Force
- Technology Committee

PEOPLE

- Interview with TOCOM
President: Mr. Nagao

REPORTS OF PAST EVENTS

- FIA-J Shinnen-kai

FUTURE EVENTS

- FIA Asia 08 Tokyo Conf.
- FIA Boca Raton 2008
- FOW London 2008
- FIA-J AGM

EXCHANGE NEWS

- C-Com New HQ
- CME/TGE:
Joint Seminars
- OSE
Signs MoA and MOU
Trading Volume Record
Listing of Foreign ETFs
- TFX
Remote Membership
Membership Criteria
- TOCOM:
Latest Developments
and Strategy

SPECIAL REPORT

*Time to Trade the
Japanese Markets?*

NEW MEMBER

- MultiWave Co., Ltd
- Invast Securities

Editorial Board

Tony Crane – Editor
Mitch Fulscher
Saiko Kanamori
Eiichi Kojima
Takanori Kosaka
Motoko Ogawa

CHAIRMAN'S MESSAGE

“The Tokyo Financial Center” - To be...or not to be? That is the question

It's been talked about for over 20 years--Tokyo becoming an international financial center equal to London and New York. Unfortunately, Japan's version of “big bang” came and went. Regulatory restrictions, high cost, taxation, and slow development of financial product has obstructed the development of the Tokyo financial center.

Japan has the second largest economy in the world, and the largest pool of domestic savings in the world. If an institution is operating in the global marketplace, it must be here. What an enviable position to have in terms of developing a financial marketplace. But the restrictions together with a feeling of “resistance” have caused players to look elsewhere to set up their financial headquarters for operating in Asia.

Some say “it's too late”

We are seeing developments in Shanghai, for example, where on January 9, the futures exchange started trading gold contracts and had volume of 1.2 million trades in the first month alone! We see Japanese investment management firms leaving Tokyo and setting up operations in Singapore to do its Japanese business! Countless firms are being welcomed in Singapore and Hong Kong on an organized basis by the authorities. China and India are moving rapidly while Japan looks the other way.

But don't give up hope

However, in just the last three months important announcements by Japanese regulators, exchanges and others are pointing toward movement to correct this situation. An effort to try to make the changes necessary for Japan to succeed in building the infrastructure and changing the attitude to help make the Tokyo Financial Center a reality. In December, FSA published reform proposals to revitalize the financial markets helping to break down some of the “silos” separating banking and securities and commodity businesses. Similarly, the commodity regulators have issued reports supporting the same movements and recommending a number of reforms to strengthen the commodity futures business and to improve its international competitiveness. There are a number of Councils and Study Groups formed by the regulators in this movement, and several of our FIA-J Directors are actively involved in these committees. New legislation is planned for this spring.

The regulators have a good understanding of the importance of making these changes. Also the press in Japan has focused on the urgent need for change. However, it is the “political resistance” that we worry about. What we need is Leadership from the political front. Do what is right for Japan!

FIA-Asia Conference September 17-19, 2008

The timing for the FIA-Asia conference in Tokyo this year is perfect. This is the opportunity for Japan to showcase its changing financial market to the global financial community. Stay tuned for more.

Regards,
Mitch Fulscher,
Chairman, FIA-Japan

Regulatory News

FSA: Law Amendments

To improve the competitiveness of its financial and capital markets and for Japan to become a financial center in the region, various bills are to be submitted to the Diet. These bills include plans to diversify the listing of exchange traded funds (ETF) and permit alliances between financial and commodities exchanges.

Originally, the Council on Economic and Fiscal Policy (CEFP), a consultative organ to the Prime Minister placed within the Cabinet Office, suggested these plans last June. Since then, the Financial Services Agency (FSA), the Ministry of Economy, Trade and Industry and the CEFP each had intensive debates during the last half of the year, which led the FSA to publish "the plan for Strengthening the Competitiveness of Japan's Financial And Capital Markets" on 21 December, 2007.

The FSA's plan was enunciated around four pillars: 1) bolster the confidence and vigor of the markets; 2) have a business environment that vitalizes the financial service industry and promotes competition; 3) improve the regulatory environment; 4) improve the broader environment surrounding the markets. Some of the actions described called for fostering professional markets to ensure market fairness and transparency, strengthening market surveillance by relevant bodies, redesigning the firewall regulations across the banking, securities and insurance industries, and encouraging foreign fund managers to participate in the Japanese markets by removing taxation risks.

Japan Offers Futures Trading Seminars in China

As a part of its Official Development Assistance (ODA) program, Japan will offer Chinese women living in farming areas all over China the opportunity to study the trading of agricultural commodity futures. A series of 11-day training sessions on risk control through the use of futures are scheduled to start in March at a training school in a city north of Beijing.

Japan's ODA to China started in 1979 and, until June 2005, represented approximately 3.1 trillion yen in loan aid, 145.7 billion yen in grant aid and 144.6 billion yen in technical cooperation.

Activities On Going

Commodity Clearinghouse Task Force

There are significant shortfalls in the current commodity industry clearing function. Our Board has been discussing the importance of improving the clearing function as it currently presents an impediment to the future growth and success of the commodity futures market in Japan. In December, 2007 we formed a Task Force to survey the practices and design of the clearinghouses in the US and Europe and to determine the requirement for the Japan market. Our mission is to make recommendations for submission to the regulators, the exchanges and to JCCH (the Japan Commodity Clearing House).

We expect to issue an interim report in the next month which will focus on the following important areas:

- ❖ Financial Requirements – clearinghouse and clearing members
- ❖ Corporate Governance – structure and management
- ❖ Risk Management – pre-trade and post-trade
- ❖ Margining Methodology – risk based system with real-time information
- ❖ Information and Service to Clearing members – data, information, timeliness

Technology Committee

The FIA Japan Technology Committee met on February 22nd to discuss its 2008 activities. These will be divided into four basic areas (Clearing House/Exchange, Front Office, Middle Office and Back Office), each with its own subcommittee, and will focus on both the technology side and best practices.

For 2008, the Committee will measure its success based on the total number of people involved. Its goal is to have over 100 members by the end of 2008 involved in various events sponsored by the Committee/Subcommittees, from the current 20-25 active members.

People

Interview with TOCOM President: Mr. Umetaro Nagao

Mr. Umetaro Nagao was elected as President & COO of The Tokyo Commodity Exchange (TOCOM) in June 2007. Before joining TOCOM, Mr. Nagao served as Chairman at the Environmental Restoration and Conservation Agency of Japan (ERCA) and also served in the National Futures Protection Fund.

Question – Editorial Board: what is your analysis of the recent developments in the Japanese commodity markets and what were TOCOM's main achievements in 2007?

Mr. Umetaro Nagao:

While major exchanges overseas have enjoyed exploding trading volumes last year, volumes on commodity exchanges in Japan, including TOCOM, have remained sluggish after reaching a peak in 2003. The exchange landscape has also experienced dramatic changes, with four commodity exchanges left, down from seven in 2006.

To reverse this downward trend, during fiscal year 2007 we've implemented a series of actions, including the extension of our trading hours by two hours, the revision of our market rules and the launch of our Gold Mini contract.

Question – Editorial Board: what is your strategy for the years ahead to tackle this issue?

Mr. Umetaro Nagao:

Firstly, we are proceeding with our exhaustive preparations to introduce, by the end of March 2009, a new trading system, provided by OMX with NTT Data as the System Integrator, that offers the world's highest level of performance and that fully meets international standards on trading functionality.

Secondly, we will change the structure of the Exchange within the year, from a membership organization to a stock company, in order to increase our operational efficiency and the speed of our decision-making process, as well as to have the ability to flexibly raise funds.

Thirdly, once the new trading system is introduced, the trading hours will be extended again until 23:00, followed as soon as possible by the implementation of twenty-four hour trading.

Thanks to these major reforms, we will continue to improve our market structure to strengthen our competitiveness globally, leading the revolution of the Japanese futures industry.

Report of Past Events

FIA-J Shinnen-kai (New Year reception)

FIA-J held a New Year reception at the Ark Hills Club on January 18, 2008. 80 attendants, members and friends of our members had a nice time as a new year started. We thank the sponsors and firms who supported the event.

GOLD SPONSORS:



REGULAR SPONSORS:





“Happy New Year!”

(left to right: Mr. Fulscher, Mr. Le Noble and Mr. Ohta)



Mrs. Fulscher and Mr. Ihara added a special “Japanese touch” to the event!

Future Events

FIA-Asia Tokyo Conference 2008

Plans are underway for the 2008 FIA-Asia conference which will be hosted by us in Tokyo. This major event will be held at the Westin Hotel in Ebisu on September 17-19. FIA-Japan and the Japanese Exchanges will welcome the delegates from Asia, Europe and North America. We expect over 300 participants. This event will provide an excellent showcase for the “coming out” of the Tokyo Financial Center as Japan is now making significant changes in the regulations, the infrastructure and it’s attitude toward international financial business. During the conference we will also provide an exhibition hall for participants to display their products and services to the delegates.

We are also organizing a “regulators conference” to be held at the same time. Regulators from the Asia region will be invited to join in a meeting to focus on regional coordination and cooperation among regulators of the futures markets. The U.S. CFTC has agreed to support this part of the events.

Boca Raton Conference

The FIA International Futures Industry Conference, the so-called Boca Conference, will be held in the Boca Raton Resort & Club, Boca Raton, FL on March 12-15, 2008. This event attracts over 800 senior level futures industry professionals. FIA Japan will take one of the InformationXchange slots titled “Developing Japan’s Financial Center” in the late afternoon of March 12. Mr. Fulscher chairs this slot and the panelists are Mr. Kurosu from METI, Mr. Yamazawa from OSE, Mr. Seki from TOCOM, Mr. Ito from TFX and Mr. Adachi from TSE. FIA-J together with OSE, TOCOM, TFX and Newedge will also host a sushi bar at the welcoming reception.

FOW Derivatives World London 2008

FOW Derivatives World London 2008, which will be held on April 8 & 9, at the Old Billingsgate, London, is one of Europe’s largest derivatives events. TOCOM, TGE, TFX and TSE will also take part in this event as exhibitors. To actively promote the Japanese markets, a Sake Bar will be set up next to the Japanese exchanges. Bottoms Up!

For further details on the FOW Expo, please visit <http://www.fowevents.com>

FIA-J Annual General Meeting

The 20th Annual General Meeting of FIA Japan is scheduled to take place at the International House of Japan in Roppongi at 17:30 on April 16. There will also be a reception following the AGM. We will celebrate this memorable year for FIA-J and look forward to your participation. Further information will be announced by the Executive Secretary soon.



Exchange News

C-Com:

C-Com moves to its New Headquarters on March 24, 2008

C-Com's new headquarters building is to be completed on March 6, 2008 when a ceremony in celebration of the completion of the new offices will be held at the new premise. C-Com will start its business at the brand new building on Monday, March 24, 2008.

The official address and tel/fax number of the new headquarters are as follow: (Effective March 24, 2008)

1-16-2 Marunouchi, Naka-ku, Nagoya, AICHI 460-0002 JAPAN

Tel: +81-52-209-7893 Fax: +81-52-219-5321 (International Affairs Division)

CME / TGE:

Joint Seminars on Corn, Grain & Oil seeds

TGE and CME Group will hold the following seminars on March 10 & 11.

March 10: Session 1-18:00~"Connecting to Globex"; Session 2- 18:00~"Freight Derivatives-Ocean Freight market Outlook and Freight Exposure hedging Strategy " "Details on TGE Corn vs CME Group Corn Product Arbitrage Trading Opportunities and Techniques";

March 11: Session 3-18:00~"Agricultural Futures Products and Opportunities in Inflationary Market Conditions"; "Identifying Trading Opportunities and Techniques in Agricultural Futures Markets".

To register go to www.tge.or.jp or for further info call (+81) 3-3668-9317

OSE:

OSE and ISE signed MoA on New Options Platform

The Osaka Securities Exchange Co., Ltd. (OSE) and International Securities Exchange Holdings, Inc. (ISE) announced that they have signed a Memorandum of Agreement (MOA), in which the two exchanges agreed to build a cooperative relationship as the first step towards the formation of a joint venture and the launch of a new, jointly owned trading platform that promises to revitalize the Japanese equity options market.

TOCOM and OSE signed MOU on Comprehensive Cooperation

TOCOM and OSE signed an MOU on comprehensive cooperation between the two exchanges. Based on the MOU, both exchanges will explore cooperation opportunities in the areas of infrastructure, including electronic trading platforms, joint marketing targeted at investors, as well as information-sharing toward joint development of new products etc.

Trading Volume Surpasses 100 Million Units

The total trading volume of futures and options contracts listed on OSE for the fiscal year starting in April 2007 exceeded 100 million units, first among all 7 derivatives exchanges in Japan (not only among financial exchanges but also including commodity exchanges). The major contributing factor to this achievement is that the derivatives trading, which used to be considered as a product targeting institutional investors, came to be highly evaluated and accepted by a number of individual investors, triggered by the introduction of Nikkei 225 mini.

Listing System for Foreign ETFs

In order to widen the range of its listing products, OSE will establish a listing system for Foreign ETFs (ETFs created in foreign countries), tentatively scheduled for April this year. OSE listed Japan's first commodity price-linked ETF (Gold-Price-Linked ETF) and foreign stock index-linked ETF (SSE50 Index-Linked ETF) last year.

TFX:

Introduces Remote Membership

Tokyo Financial Exchange (TFX) will introduce a Remote Membership scheme, which offers foreign investors direct access to the TFX market, in the second quarter of 2008, to drive the globalization of the market and to enhance market liquidity by providing more opportunities for foreign investors to trade TFX products. TFX will be the first Japanese exchange to welcome remote members.



Eases Membership Criteria

TFX plans to ease qualification criteria for trading membership to further open the TFX market to both domestic and international investors.

TOCOM:

Latest Developments at TOCOM...

TOCOM has implemented a 2-hour extension of the trading hours, with a closing time at 17:30 instead of 15:30. In January, Average Daily Volume grew by 33% thanks to the newly extended hours. Monthly volume for January increased 45% over December..

In January, TOCOM signed an MoU with the TSE under which the Exchanges will jointly study and discuss the possibility of cooperation in the fields of listing ETFs on the TSE market that will track commodities and commodity indices listed on the TOCOM market, as well as arbitrage trading between the two Exchanges which will result from these listings.

Since February 2008, the price limits for Rubber, Silver, Platinum, Palladium and Aluminum are determined based on the largest market price movement within a certain period of time and are set at a level where the probability that they will be reached is very low, matching the method applied to the other markets (Gold, Gasoline, Kerosene and Crude Oil).

In February, TOCOM signed an MoU with the OSE to explore co-operation opportunities in the areas of infrastructure, including electronic trading platforms, joint marketing, as well as joint development of new products and services.

... and Strategy For the Year to Come

TOCOM is proceeding with its preparations to introduce a new trading system that offers one of highest level of performance and that fully meets international standards on trading functionality. The new trading system, provided by OMX with NTT Data as the System Integrator, is on course to be operational by the end of March 2009.

Secondly, TOCOM will change its structure within 2008, from a membership organization to a stock company, in order to increase operational efficiency and the speed of its decision-making process, as well as to have the ability to flexibly raise funds.

Thirdly, to further respond to the needs of market participants, once the new trading system is introduced, the trading hours will be extended again until 23:00, followed as soon as possible by the implementation of twenty-four hour trading.

The Exchange is also revising its market rules, including price limits and position limits, to conform its trading rules to global standards. Furthermore, while considering the listing of new products, such as the TOCOM Index, LPG and fuel oil, as well as expanding the listing of mini contracts, reopening the Gas Oil market is also under consideration.

Special Report

Is It Time to Start Trading the Japanese Markets?

As there have been so many changes over the last few years, and more planned this year, Japan is becoming much easier to get involved in. Here is a fresh look at the current situation and the opportunities available in the Japanese markets.

“What do the Japanese markets offer?”

Demand for commodities globally, the Bank of Japan's lifting of the ultra-easy monetary policy, and Japan's ongoing deregulation activity have combined to see strong activity and opportunities on both the commodity and the financial futures markets.

Similarities with contracts listed overseas and new extended trading hours which overlap with overseas markets, now allow for arbitrage opportunities. Meanwhile, differences – such as the Asian influences or the fact that in Japan the far month tends to hold most of the open interest, while overseas, it is typically the near months – can offer unique opportunities.



Mr. Honma, Trading Manager at Mitsubishi Corporation Futures & Securities in Tokyo says “My overseas customers are not only attracted to Asian exposure and the unique trading opportunities available in the Japanese markets, but they also value the low operational risk environment in Japan resulting from highly liquid markets, a stable political system and currency, plus of course the support of dollar-denominated margins. We are somewhere between the exotic and the mature”.

On a broader level, the Japanese government has been taking significant steps to move to a more competitive, open market. The “Financial Instruments and Exchange Law” in June 2006, and subsequent “Plan for Strengthening the Competitiveness of Japan's Financial and Capital Markets” in December 2007, both implement (or plan to implement) real changes which are encouraging competition, and bringing new entrants and vitality into the financial markets.

“How do I connect to the markets in Japan”

With the launch of the continuous system at the Tokyo Grain Exchange in January 2008, it became possible, for the first time, to trade directly onto the 5 largest derivatives exchanges in Japan.

A few ISVs have a long presence in Japan and can offer connections to all of these exchanges and several large global brokers can also provide this directly. This means that it is now easy to trade live markets in Japan directly from overseas.

“How easy are the Japanese Markets to trade on?”

In the past, unique Japanese trading models and limited trading hours made it difficult for international traders. In the last few years, this has been changing with several exchanges moving towards international standards, and extended trading hours. The Tokyo Grain Exchange has just moved their first set of commodities onto a new continuous trading system, and Tocom have announced that they will be launching a new continuous system in Q1 2009 with the specific intention of following international norms. Furthermore, the TFX and the OSE have recently launched late night trading to overlap with international markets.

Now you simply need connectivity and an agreement with a Japanese broker, or a global broker with local memberships in Japan, and you can start trading.

“Is it expensive to trade?”

The market for commissions have been open to competition since the old system of regulated trading commissions was abolished in May 2005. There is now a range of services available, and the commissions in the online trading segment have fallen dramatically.

Furthermore, the creation of the Japan Commodity Clearing House in March 2005 to act as central counter-party for the commodities markets has enabled more efficient clearing across these markets.

New Members

FIA-J is very pleased to welcome our newest members, Multiwave and Invast Securities, which were approved by the Board of Directors in December.

MultiWave Co., Ltd.

MultiWave Co., Ltd. was established in 1993 targeting business for the development of trading systems related to futures/options trading of securities and commodities. At first, MultiWave offered analytical systems for both corporations and individuals. In 2002, they began to develop a real time rich-client trading system that was ahead of its time in Japan. Having acquired NYMEX/DME ISV Certification in 2007, in October of the same year MultiWave has evolved into the first Japanese global ISV.

Our first priority is the satisfaction of our customers and to continuously provide them with state-of-the-art products and services in the financial electronic trading market.

Invast Securities

Invast Securities, listed on the Hercules Market, deals with both salesperson to client transactions and Internet transactions. Invast Securities has five offices with clients located in the regions of Kanto and Kansai. The internet business includes derivative transactions in Forex, Securities and Commodities. Forex derivatives cover both exchange traded margin transactions and OTC transactions.



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	Newedge
Takanori Kosaka, Secretary	HSBC
Junko Ueno, Treasurer	Newedge

Other Board Members

Osamu Akita	Japan Commodity Futures Industry Association
Brian Benus	Bear Stearns (Japan), Ltd.
Thomas J. Dreves	Baker & McKenzie GJBK Tokyo Aoyama Aoki Koma Law Office
Masanori Hayashi	The Tokyo Grain Exchange (TGE)
Mikio Hinoide	Osaka Securities Exchange Co., Ltd. (OSE)
Junnosuke Inoue	Unicom Group Holdings, Inc
Mikio Kawamura	Tama Graduate School of Management & Info. Sciences
Fumihiko Kimura	Central Japan Commodity Exchange (C-COM)
Yoshio Kuno	CME Group
Naoaki Kurumada	Dot Commodity, Inc.
Julien Le Noble	Newedge
Shinjiro Mizuno	Kanetsu Shoji Co., Ltd.
Hideki Noda	ORIX Investment Corporation
Koichiro Ohashi	White & Case Law Offices
Mitsuhiro Onosato	The Tokyo Commodity Exchange (TOCOM)
Michael Ross	GL Trade Japan K.K.
Scott Shenk	Merrill Lynch Japan Securities Co., Ltd.
Hiroyuki Takai	Sumitomo Corporation
Hideaki Ushijima	Japan CTA Association

Executive Secretary

Ms. Motoko Ogawa E-mail: ogawa@brookandbridge.com

FIA-J Office

c/o White & Case LLP
Kandabashi Park Building 19-1, Kanda-nishikicho 1-chome, Chiyoda-ku,
Tokyo 101-0054
Tel/ fax 81 (0)3-3259-0220

Opinions contained in this newsletter are of the contributors' personal opinions, and FIA-J does not represent either for or against such opinions, unless otherwise clearly stated. FIA-J makes no representations and to the extent permitted by law excludes all warranties in relation to the information contained in this publication and is not guaranteed by the FIA-J as to accuracy and completeness. FIA-J is not liable to any third party for any losses, costs or expenses, including any direct, indirect, incidental, consequential, special or exemplary damages or lost profit, resulting from any use of the information contained in this publication. If you have any questions regarding the contents of the newsletter, please contact the Editor or the FIA-J Executive Secretary.