



# FUTURES INDUSTRY ASSOCIATION JAPAN CHAPTER

## *Newsletter*

July 2008

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Mitch Fulscher  
Saiko Kanamori  
Eiichi Kojima  
Takanori Kosaka  
Motoko Ogawa

## *CHAIRMAN'S MESSAGE*

### ***FIA-Asia Conference in Tokyo – September 17-19, 2008***

Even though it's the "dog days of summer", we are working hard to organize the major event in Tokyo this year. The FIA Asia Conference is our opportunity to showcase the Tokyo Financial Market. "The emergence of Tokyo as the Financial Center in Asia". This is the theme we want to present to the international financial community which will be in attendance. So long as the Regulators and the exchanges continue to move forward with this objective, and with the help and cooperation by the political front, this objective can be realized!

#### **Presentations by the Leaders-**

FSA Commissioner Sato will lead off the program with a keynote address. This will be followed by our panel of "Host Exchanges" affirming actions now being taken to make Japan into a world class marketplace for international players. Later, a METI High official will focus attention on our commodities markets and the actions to modernize this sector to bring it up to global standards. More detailed presentations on these subjects will be made at the earlier InformationXchange panels on the 17th.

Of course this Conference will cover the developments throughout the Asian Region, and we will hear presentations about accessing markets in China, India and elsewhere in the Region. The global players will be there to talk about their plans for the rapidly changing derivatives markets in the world. Don't miss this event!

### ***Cool-Off Summer Party - August 6***

Our reward for surviving the heat of summer is the 2nd annual FIA-J Summer Party to be held on August 6. This year it will be at the Puruna Barca Trattoria in Suitengu at 6:00 PM. Be there!

Kampai!

Regards,

Mitch Fulscher  
Chairman, FIA-Japan



## Regulatory News

### **FSA - FIEA**

The FSA has released on its website the English version of the "Financial Instrument and Exchange Act", formerly known as the "Financial Instrument and Exchange Law."

<http://www.fsa.go.jp/en/news/2008/20080627-4.html>

## Activities On Going

### **Clearinghouse Follow-Up Report**

In early July we issued our "Follow-Up Report" with our recommendations for improving the commodity clearinghouse function.

As reported earlier, our FIA-Japan Clearinghouse Task Force issued an Interim Report summarizing our recommendations for improving the clearinghouse function for the commodities industry in Japan, including the identification of several Strategic Business Considerations. Subsequently, a regulators' study group issued its own report on changes that they believe should be made to the clearinghouse function. We have reviewed the study group recommendations and we have considered several areas where we believe further attention needs to be focused. Our comments and suggestions are included in this "Follow-Up Report". Our Report also includes certain overall comments about the current status of the commodities industry in Japan as well as our suggestion to expand the scope of the clearinghouse project. Detailed recommendations included in our recent Report are as follows:

#### **Financial Considerations**

- Adequate Clearinghouse Capital is Needed Now
- Expand the Sources of Capital from Investors

#### **Corporate Governance and Management Requirements**

- Key Management Position Requirements
- Conflicts of Interests Issues

#### **Operations Planning – Revenue and Expenses**

- Preparation of Short Term and Long Term Business Plan
- Pay Interest on Deposits
- Significantly Higher Operating Expenses Must Be Planned

#### **Clearing Member Minimum "Net Capital" Requirements**

- Calculation Methodology – Adopt Global Standards of Calculation
- Net Capital Requirements for General Clearing Members and Self-Clearing Members Should be Risk Based

#### **Position Transfers, Give-Ups and Direct Market Access**

A copy of our Follow-Up Report can be obtained from our Executive Secretary, Ms. Motoko Ogawa.

### **Special Advisor to the Executive Committee and New Directors**

Bob Takai has been serving as FIA-J Director and member of our Executive Committee. Recently, as a result of taking on additional management responsibilities at Sumitomo Corporation, he will be unable to attend our regular Board meetings. Takai-san has been a significant contributor to FIA-J, and our Board requested him to continue to serve as “Special Advisor to the Executive Committee”. We are pleased to report that he has accepted this appointment. Mr. Koichi Iwanaga, General Manager of Commodities Business at Sumitomo Corporation, has been appointed as Director of FIA-J replacing Bob.

Mr. Hayashi of the Tokyo Grain Exchange has served as Board Member of FIA-J for several years. Since he recently left TGE, he also resigned from our board. Mr. Hidetoshi Hamada of TGE was appointed as our board member to replace Mr. Hayashi.

### **New Treasurer**

Mr. David Wilkinson of Equinix will be replacing Ms. Junko Ueno of Newedge Japan as Treasurer of FIA-J. We would like to thank Ms. Ueno for her exceptional contributions to the Chapter and we welcome David to this new role.

## **Reports of Past Events**

### **IDX London 08**

The Futures Industry Association and the Futures and Options Association held the first International Derivatives Expo, June 10-11, 2008 at The Brewery in London. More than 800 people attended this inaugural event, representing approximately 340 companies from 30 countries-including senior representatives from the London trading community, prime brokerage firms, clearing firms, proprietary trading firms, executing brokers, exchanges, and technology vendors.

Mark your calendar for IDX 2009, June 9-10 at The Brewery and watch <http://www.futuresindustry.org/london> for details.



Photo:

Mr. Matthias Rietig (thumbs up!) and Mr. Michiaki Shinohara at the Osaka Securities Exchange booth.

## Future Events

### ***FIA-Asia 08 Tokyo Conference - September 17-19, 2008***

#### ***Mark your calendars now for the major event of the year for the Japan Financial Market!***

FIA-Japan is working together with FIA in Washington and FIA Asia to host the annual Asian Derivatives Conference. This year's event will be held in Tokyo on September 17-19 at the Westin Tokyo Hotel in Ebisu. The exciting agenda will focus on the emergence of the Tokyo Financial Center and the changes now being designed to improve the regulatory framework for doing international business.

The event will include keynote addresses by the FSA Commissioner and a senior official from METI to highlight the roadmap for changes and will include a presentation by the major futures exchanges in Japan. This will lead the way for the other Asian markets to showcase their emerging markets in this region. New developments and products along with global trends in the industry including "algo trading" and carbon credit trading will also be covered. An exhibitors hall will provide further forum for exchanges and market servicers.

For more information see the FIA website (<http://www.futuresindustry.org/fia-asia-derivatives-conference-2008.asp>) or contact Ms. Motoko Ogawa ([ogawa@brookandbridge.com](mailto:ogawa@brookandbridge.com)).

### ***Seminar on Exchange Trading Platforms - NASDAQ OMX***

As the first shot of the series of seminars on Exchange trading engines implemented in Japan, the FIA-J Technology Committee proudly announces that the Sub-Committee on Exchange Trading Platform will hold a seminar on NASDAQ OMX trading system "CLICK XT" and "SECUR", the clearing system which will be operational in May 2009 at The Tokyo Commodity Exchange. This is the first implementation of NASDAQ OMX system in Japan. The details of the seminar are as follows:

**Date:** September 2 (Tue), 2009, 17:00-19:00

**Venue:** Tokyo Kaikan "Level XXI"

21st Fl., Urbannet Otemachi building, 2-2-2 Otemachi  
03-5255-1515

<http://www.kaikan.co.jp/xxi/access/index.html>

The seminar is free of charge, and the refreshments will be served at the café "Grand Central" on the 1st floor of the building after the seminar.

### ***FIA-J "Cool Off" Summer Party***

The Summer Party last year was well attended and we decided to hold a party this year at 18:00 on August 6 in an Italian restaurant with comfortable open-air space and bar counter in Suitengu/Kayabacho. Let's energize ourselves, as we head toward the FIA Asia Tokyo Conference! To participate, please contact Ms. Ogawa, Executive Secretary ([ogawa@brookandbridge.com](mailto:ogawa@brookandbridge.com)).

#### ***Sponsors :***



## Exchange News

### **C-Com, OSE and KEX Sign MoU**

The Central Japan Commodity Exchange (C-Com), the Osaka Securities Exchange Co., Ltd. (OSE) and Kansai Commodities Exchange (KEX) signed a Memorandum of Understanding (MoU) among the three exchanges on May 27, 2008.

The three exchanges share the belief that the MoU will contribute to the mutual development of their respective markets, and pave the way to provide greater conveniences to market participants. Based on this MoU, the three exchanges will hold discussions to explore the possibility of co-operation in areas that will enhance mutual benefits, such as activities to promote derivatives deeply rooted in the Kansai region, development of new products, and joint utilization of electronic trading platforms.

### **OSE:**

#### ***Listing ETFs tracking South African and Russian stock indexes***

OSE approved the listing of two exchange-traded funds on the 29<sup>th</sup> of July. The first one seeks to track the performance of FTSE/JSE Africa Top40 Index and the other one tracks the performance of RTS index. For more details please see: [http://www.ose.or.jp/e/stocks/sj/1323\\_e.pdf](http://www.ose.or.jp/e/stocks/sj/1323_e.pdf)  
[http://www.ose.or.jp/e/stocks/sj/1324\\_e.pdf](http://www.ose.or.jp/e/stocks/sj/1324_e.pdf)

### **TGE:**

#### ***TG Index Starts***

From June 16, TGE has been publishing the TG Index on its website every business day at 16:00. The index is composed of TGE's corn, soybeans, non-GMO soybeans, azuki (red beans), arabica and robusta coffee, raw sugar, raw silk and CME group's rice and wheat. For more details please see:  
<http://www.tge.or.jp/english/price/tgeindex.shtml>

### **TOCOM:**

#### ***Market Modifications***

The Exchange has modified its Rules & Regulations, as described below (restrictions may apply; please visit our website for full details: [www.tocom.or.jp](http://www.tocom.or.jp)).

1. Transfer of Positions

Transfers are no longer limited to cases such as the default or discontinuation of brokerage business by a Broker Member. Position transfer is now also possible when a customer, who has concluded a contract for Transfer of Positions with a Broker Member in advance, submits a request for transfer in accordance with the contract, and said request is accepted by the Broker Member.

2. Additional Offset Method

When placing orders, customers were required to specify whether the order was intended to create a new position or offset an existing position. The Exchange has introduced, in addition to the current method, a FIFO-based (First In, First Out) offset method, whereby customers are no longer required to select "new" or "offset" when placing an order. Customers can now use the offset method of their choice (i.e: specify "new" or "offset" on their orders or use the FIFO-based method).

3. Gold Mini Contract Months

Since July 7th there are six contract months (from three contract months) available for Gold Mini futures transactions, as is the case for Gold Standard futures transactions.

### ***Next Generation System (NGS) – Planned Modifications for May 2009***

1. Modification of Order Types

- a) The current TOCOM-original Market Order will be replaced with the international standard for Market Order (if no matching order exists on the other side of the market, the former Market Order will be stored in the order book, whereas the latter will be canceled)
- b) Since closing Ita-awase (auction) will be abolished, Market Order at Closing and Limit Market Order, which are currently offered by TOCOM to FCMs, will be eliminated.



c) TOCOM will make available to FCMs a variety of internationally recognized order types.

2. Modification of Execution Rules

- a) Price limits will be eliminated and replaced with circuit breakers.
- b) Executable Price Range and Warning Points will be abolished. Accordingly, a Market Order (international standard type) placed during continuous trading will be executed instantly if there is an order on the opposite side of the market (matching order) within the range of the circuit breakers (if there is no matching order within the set range, the order is canceled).

3. Extension of Trading Hours

The morning session and afternoon session will be replaced by a day session from 09:00 to 15:30, without a lunch break, and an evening session from 17:00 to 23:00.

**Seminar in Seoul for Second Year in a Row**

On July 24th, a seminar presenting the TOCOM futures market was held in Seoul, Korea. Following last year's seminar, this is the second time that the Exchange organizes such an event in this country.

**LBMA/LPPM Precious Metals Conference 2008**

From September 28th to 30th, 2008, the London Bullion Market Association (LBMA) will hold its annual precious metals conference in Kyoto. The Exchange will take part in this event as a sponsor.

**TSE:**

**Introduction of LIFFE CONNECT® for TSE Options Trading Market**

The TSE has announced in July 2008 that it will introduce a new trading system (Tdex+) based on LIFFE CONNECT® for its options trading market next year. With the launch of Tdex+, the TSE is also planning to introduce major operational and regulatory improvements, including a new market maker system to attract investors worldwide.

**Launch of New Derivatives**

The TSE launched mini-TOPIX futures, TOPIX Core30 futures, and TSE REIT Index futures on June 16th. Not only institutional investors but individual investors also can access the TOPIX futures market easily through mini-TOPIX futures. TOPIX Core 30 is widely used as a Japanese blue-chip index, and TSE REIT Index futures are the first Japanese alternative investment futures products. On the same day, the TSE also listed individual ETF and REIT options.

**Introduction of Evening Session for Index Futures and Options**

On June 16th, the TSE introduced the 4:30 pm to 7:00 pm evening session for index futures and options, including TOPIX futures, mini-TOPIX futures, TOPIX Core30 futures, and TOPIX options.

TOPIX, a free-float adjusted market capitalization-weighted index, is widely used as the benchmark Japanese stock market, and the evening session is expected to improve market access for investors.

**Others**

**JCFIA and the Commodities Industry**

The Japan Commodity Futures Industry Association (JCFIA) is an organization of the commodity futures industry in Japan. It is composed of 61 FCMs (as of June 30, 2008), and it promotes activities to enhance easy market accessibility to the Japanese commodity futures market, and improvement of market integrity as well as brokerage business in the commodity futures market. As a part of its promotional activity, JCFIA will be one of the sponsors of the FIA-Asia Derivatives Conference held in Tokyo in September 2008.

Presently, the Japanese financial and capital markets are changing significantly. In June 2007, the Council of Economic and Fiscal Policy, advisory body to the prime minister proposed enhancement of competitiveness of financial market in Japan, which is lagging behind the U.S. and European markets in various aspects. In response to the Council's proposal, the regulatory authorities of the commodity markets, the Ministry of Economy, Trade and Industry and the Ministry of Agriculture, Forestry and Fisheries, launched a study group to modernize and enhance of competitiveness of futures markets of the market which they regulate.

Acting in concert, Japanese commodity futures exchanges have begun taking various measures. Specific endeavors are demutualization, implementation of a state-of-the-art trading platform, start of overnight trading (eyeing at 24-hour trading), restructuring of the clearinghouse, etc. Also the meetings on the amendment of the Commodity Exchange Act of Japan will resume in July in order to realize easy market accessibility of the Japanese commodity futures market.

### ***HKMEx***

The Hong Kong Mercantile Exchange (HKMEx) announced its formation in June, 2008. HKMEx will provide a platform for end-users and the global trading community, including Chinese commodities traders, to trade contracts and hedge pricing risks.

HKMEx will be chaired by Mr. Barry Cheung, former Deputy Chairman of Titan Petrochemicals Group. Mr. Thomas J. McMahon, former Vice President, Director of NYMEX Asia and past board member of NYMEX, will be the President. He is also a former member of the Board of Directors of FIA Japan.

Currently, HKMEx is focusing on finalizing the agreements with the shareholders, trading system development and clearing system integration. The design of its electronic trading platform is being developed by NASDAQ OMX, Patsystems, Trayport Limited, and with LCH.Clearnet set to become the clearing house.

Approval from Hong Kong's Securities and Futures Commission is estimated to be obtained by the end of 2008 and trading expected to commence in the first quarter of 2009. The initial contract to be traded on the exchange will be based on fuel oil.

## ***New Members***

FIA-J is very pleased to welcome our newest members, Tokyo Stock Exchange Group, Inc. and OMX Technology (Japan) Limited.

### ***Tokyo Stock Exchange Group, Inc.***

Tokyo Stock Exchange Group, Inc. (TSEG) is the holding company of Tokyo Stock Exchange, Inc. (TSE: Market operation company) and Tokyo Stock Exchange Regulation (TSER: Self-regulatory corporation). The TSE had a market value of JPY 396 trillion as of the end of March 2008 and a trading value of JPY 720 trillion for the fiscal year ended March 31, 2008, making it one of the leading stock exchanges in the world in terms of size and liquidity.

In addition to its core Japanese equity market, the TSE provides markets for derivatives products such as JGB futures and TOPIX futures. TSEG aims to strengthen its derivatives market (Tdex) under the Medium-term management plan, with the TSE scheduled to introduce a new trading system (Tdex+) based on LIFFE CONNECT® for its options trading market next year. In conjunction with this, the TSE is planning to introduce both a market making system as well as a remote membership system to be launched in the near future.

### ***OMX Technology (Japan) Limited***

OMX Technology (Japan) Limited is a Japanese entity fully owned by The NASDAQ OMX Group, which is the world's largest exchange company. It delivers trading, exchange technology and public company services across every major continent and it is number one in worldwide listings among major markets with over 3,900 companies. The company offers trading across multiple asset classes including equities, derivatives, debt, commodities, structured products and ETFs. NASDAQ OMX technology supports the operation of over 70 exchanges, clearing organizations and central securities depositories in more than 55 countries including Japan.

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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

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

### Executive Secretary

Ms. Motoko Ogawa

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