



FUTURES INDUSTRY ASSOCIATION JAPAN CHAPTER

Newsletter

September 2008

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CHAIRMAN'S MESSAGE

FIA-Japan Welcomes Delegates to FIA-Asia Conference in Tokyo

We are very proud to host the FIA-Asia conference in Tokyo on September 17-19. This is the fourth annual conference in Asia but the first one to be held in Tokyo. The timing for this event is significant! Japan's derivatives exchanges are transforming into world class markets with new technology, new products and a new way of thinking about the role of Tokyo as a true "financial center" for Asia.

Our "Host Exchanges" have been working together to make this event a success and they have obtained the cooperation of the regulators to help us to showcase our markets. The program is outstanding and speakers from the global markets as well as from Japan have attracted a great international audience.

In connection with this conference, regulators from the Asia Region as well as the CFTC and certain European countries are meeting in a private session and will discuss ways to cooperate and communicate to enhance international activities.

Our Host Exchanges for this event are shown below.



20th Anniversary- 2008

This year marks the 20th year anniversary of the Nikkei225 and the TOPIX stock index contracts introduced and traded at the OSE and the TSE respectively. For FIA-Japan, we are also proud to celebrate our own 20 year anniversary as Japan's only association representing the entire futures industry and its participants!

Regards,

Mitch Fulscher
Chairman, FIA-Japan

Activities On Going

FIA-Asia Tokyo Conference – September 17-19

This is the major event of the Year! FIA-Japan has worked together with FIA in Washington to host the annual Asian Derivatives Conference at the Westin Hotel in Ebisu. The Japan “host exchanges” – OSE, TOCOM, TFX and TSE - have helped to create the theme for the conference – “The emergence of the Tokyo Financial Center”. Keynote addresses by the regulators support the changes now being implemented by the exchanges to promote international business in Japan.

Developments in the other Asian markets are showcased during the various presentations and panels, along with a most interesting exhibition hall creating a forum for exchanges, market players and service providers to the markets to interface directly with the delegates. The introduction of new derivative products as well as global trends in the industry including “algo trading” and emissions trading are also presented.

The global explosive increases in commodity prices have ignited political and regulatory examination of the roles of traders and derivatives markets. Presentations by CFTC Commissioner, Ms. Jill Sommers, and Dr. Jay Muthuswamy address these issues.

20th Anniversary

TOPIX Futures at TSE

TOPIX futures, which were launched on September 3, 1988, will mark their 20th anniversary this September. For the last decade, the TOPIX futures market has been growing consistently, and in 2007 the turnover reached 16 million contracts. While institutional investors refer to the TOPIX as a benchmark for investment in Japanese stocks, over 50% of TOPIX futures turnover for 2007 came from overseas.

In June this year, the TSE launched at the same time mini-TOPIX futures to bring the TOPIX closer to individual investors

Nikkei 225 Futures at OSE

Osaka has been well known for its long history in trading futures. Rice futures started in the 1600s. OSE introduced Nikkei 225 futures in 1988.

Trading volume of Nikkei 225 futures hardly increased in 1990s, but in the 21st century, after OSE extended trading hours, improved its matching system and introduced Nikkei 225 mini (targeted at private investors), the contract has been growing again.

OSE celebrated the 20th anniversary of Nikkei 225 futures on the 3rd of September. The contract has been growing further into one of the most preeminent equity index futures in the world and reached a new yearly trading volume record for the second year in a row.

People

Interview with TSE President/CEO: Mr. Atsushi Saito

Question – Editorial Board: What have been the TSE's recent developments in the derivatives market?

Since the introduction of our new derivatives trading system and our implementation of a give-up system for futures and options products this January, system performance has improved dramatically. Also, in July, we launched the mini-TOPIX futures, TOPIX Core30 futures and TSE REIT index futures as well as the 4:30pm - 7:00pm evening-session for index futures and options. In terms of trading volume, TOPIX futures continue to set records every year, and the trading volume for 2007 reached over 16 million contracts. Trading volume for JGB futures has also been steadily increasing. We are planning to introduce the LIFFE CONNECT® trading platform for the “Tdex+” options market in July 2009 in order to further strengthen market performance. A co-location service and market maker system will also be made available at that time. A remote membership system will also be introduced to provide overseas investors with easier access to our market.

Question – Editorial Board: How do you see the Japanese derivatives market evolve in the near to mid-term, and what does the TSE plan to achieve in that period?

I believe there is ample room to expand the Japanese derivatives market. The TSE will challenge itself to aggressively expand its work in the derivatives field, taking particular advantage of the fact that we have a world class cash equity market. Our Medium-Term Management Plan outlines the expansion of our derivatives market for the next three years as a primary goal. We pledge to double derivatives trading volume in 3 years. In order to make it happen, we will take a proactive stance in handling any new issues which may arise.

Question – Editorial Board: Since the TSE has recently joined FIA-J as a member, what role do you believe the association should play in the futures industry?

The Japanese derivatives market is still in a growing phase. Clearly the FIA Japan Chapter and its members are taking the lead in promoting the development of derivatives markets in Japan. We are more than happy to work together with FIA Japan to further accelerate the developments of the derivatives market in Japan. We hope to develop a market that can compete against the current global standards.

Reports of Past Events

FIA-J Tech Committee held Nasdaq OMX Seminar

FIA-Japan Technology Committee held the “Exchange Trading Platform: NASDAQ OMX CLICK XT and SECUR” on Tuesday, September 2. At the seminar, Mr. Ulf Carlsson, General Manager, North Asia, NASDAQ OMX, made a technical description of their system, the CLICK XT and SECUR, as well as customer project examples. The seminar was followed by a casual reception, where the participants could meet personally with the speaker and network with other participants while having a drink.

Sponsors:



NASDAQ OMX



TOCOM
The Tokyo Commodity Exchange



Participants studying at the seminar...



... and relaxing afterwards!

FIA-J “Cool Off” Summer Party

Over 70 people gathered for our summer party on August 6. In the evening of a muggy summer day, FIA-J members and associates cooled off while having a beer, enjoyed nice Italian food and lively conversation with friends and reenergized themselves.

Sponsors:



TOCOM
The Tokyo Commodity Exchange

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Future Events

FIA Chicago Expo 2008: New 2-day Format!

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

Expo will be concentrated into 2 intensive days instead of traditional 3. Sessions and the trade show will be held on Tuesday, November 11 and Wednesday November 12 only. On November 10 there will be a reception in the historic Chicago Stock Exchange Trading Room at the renowned Art Institute of Chicago from 17:00. Exhibitors from FIAJ are: NYSE Euronext LIFFE, GL Trade, Patsystems, NASDAQ OMX, Newedge, Equinix, TGE, TFX, TOCOM, TSE, OSE and SGX. Every year, the Japan Street is a big hit so we hope to see you there!

For more information: <http://www.futuresindustry.org/expo-2007.asp>

Exchange News

C-Com:

To Participate in the 4th FIA Asia Derivatives Conference

C-Com will participate as an exhibitor at the FIA Asia conference to be held at the Westin Hotel Tokyo, Japan from September 17 through 19. C-Com will also participate in one of the InformationXchange sessions as a presenter.

OSE:

Replacement of Trading Platform

OSE has formed a project team to introduce its next-generation trading platform. OSE will announce the replacement outline, including a system developer and replacement date, around the end of September. At the moment, OSE targets implementation in spring 2010.

http://www.ose.or.jp/e/profile/pr_data/pr_080802.pdf

New ETFs

On the 12th of September we will list three new ETFs. Indian Rupee linked ETF, Brazilian Real linked ETF and Russian Rouble linked ETF. OSE plans to continue to list new ETFs.

http://www.ose.or.jp/e/frame.html?stocks/st_etss.html

Trading Volume of Futures and Options

Trading volume of futures and options at OSE exceeded 100 million for the second year in a row. The monthly volume exceeded 10 million contracts for the eighth month in a row.

MOU with CME Group

CME Group and Osaka Securities Exchange Co., Ltd., signed a memorandum of understanding to pursue opportunities to jointly develop products and services that will benefit market participants globally.

http://www.ose.or.jp/e/profile/pr_data/pr_080903.pdf

TFX:**TFX Publishes Mid-Term Business Plan**

In order to establish firm management foundations and achieve further growth, Tokyo Financial Exchange (TFX) has announced a Mid-Term Business Plan for the next 3 years. On the basis of this plan, TFX aims to be a comprehensive exchange for financial derivatives covering three sectors by 2010: interest rates, foreign exchange and equities. TFX is targeting annual transactions of 150 million contracts or more and an ROE of approximately 25%. A stock exchange listing is planned for 2011. The basic strategy in the business plan is as follows:

1. Establish highly convenient and reliable markets by introducing block trades, extending trading hours, and listing new products.
2. Realize a global market attractive to overseas investors by introducing a remote membership program and a liquidity provider scheme.
3. Build a world class trading system, with high speed and order processing capacity, coupled with the establishment of co-location and backup facilities.
4. Maintain the fairness and credibility of the markets by reinforcing self-regulatory functions and improving clearing and settlement.
5. Achieve transparency and efficiency in organizational operations by enhancing internal management, through compliance, as well as investor and public relations.

It has been four years since TFX demutualized, during which time TFX has steadily grown under two main operations: Interest Rate Futures Contracts and Exchange FX Margin Contracts.

For more details, please visit our website <http://www.tfx.co.jp/en>

TFX Implements Further Improvements to Exchange FX Margin Contracts (Click 365)

Retail investors of TFX's FX Margin Contracts in Japan (Click 365) will benefit from a significant increase in order processing capacity - on 27 October 2008, the maximum number of contracts per second will increase by twelve times. Additionally, 7 new currencies will be available to trade with the number of currency pairs expanding to 25. Moreover, three major financial institutions will become market makers.

TGE:**To Exhibit at FIA Asia Tokyo Conference**

Come visit us at booth 35 to see what has been going on at TGE. We have announced our mid-term strategy and if you haven't heard about it, then come by, pick up some goodies and see what we have to say.

TOCOM:

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

To Become First For-profit Commodity Exchange in Japan on 1 December

The Tokyo Commodity Exchange will become the first for-profit commodity exchange in Japan on December 1st, 2008, when it changes its structure from a membership organization to a stock company. In response to the intensified competition among exchanges globally, TOCOM has decided to demutualize to further increase its operational efficiency and the speed of its decision-making process, as well as have the ability to flexibly raise funds.

Gold Mini Open Interest Reaches Record High

Open interest in Gold Mini futures reached a record 71,882 contracts on July 31st. The number of Gold Mini futures transactions has also been increasing dramatically from an average daily volume of 3,993 contracts in 2007 to 40,215 in July 2008, more than a ten fold increase, making the Gold Mini market grow to become the second largest market in July.

TOCOM Supports LBMA/LPPM Precious Metals Conference 2008

From September 28th to 30th, the London Bullion Market Association (LBMA) will hold its annual precious metals conference in Kyoto. As this conference represents a great opportunity to interact with professionals from around the world, the Exchange will take part in this event as a sponsor. TOCOM staff will also be present in the exposition hall (i.e: the Edinburgh Lobby located on the third floor of the Okura Hotel Kyoto; booth #3) to introduce the Exchange's Precious Metals market and discuss TOCOM's latest developments with delegates.

TSE:**Launch of Co-location Service**

The Tokyo Stock Exchange, Inc. (the TSE) has decided to launch a "TSE Co-Location Service" in conjunction with the introduction of the Tdex+ system. This system is a new LIFFE CONNECT® based options platform that is scheduled to be operational in July 2009. It will also introduce this co-location service along with "arrowhead", the next generation cash equity matching engine scheduled for launch at the end of 2009.

This co-location service will also be available for the current derivatives trading system after it has been connected to the "arrownet".

The TSE plans to publish relevant information in the "Guideline for Co-Location Service" by late November, 2008.

Others

Haneda-Tokyo International Airport

Do you know that there's two international airports near Tokyo? Have you ever heard of Haneda Airport? Or just "Narita International Airport"? Since 30 years ago, when the new airport was built in Narita, visitors arriving in Tokyo would almost all (except a few Asian flights) land in Narita International Airport. Haneda Airport is still not well-known among foreigners, even though one can fly to/from Shanghai, Hong Kong or Seoul via Haneda daily.

Here is a short and interesting quiz.

1. Which among the 3 following airports, is closest to the City Centre? Is it Tokyo Haneda Airport, London Heathrow Airport or New York's JFK Airport? The correct answer is Haneda Airport, shortest distance to the city centre (15 km from Tokyo Station). Both Heathrow and JFK are almost 24 KM.
2. Which airport has the longest distance traveling to the city center? Is it London Gatwick Airport or Narita Airport? The right answer is Narita Airport (66 km) as Gatwick airport is only 43 km to Harrods.
3. Lastly, which one of the below has the shortest air travel distance?
 - a. New York to Miami
 - b. Haneda to Shanghai
 - c. London to Helsinki

The correct answer is New York to Miami (1770 km).

While Haneda to Shanghai is 1,780 km and London to Helsinki is 1,830 km. Therefore, from this simple quiz, you may realize that traveling from Shanghai to Tokyo is closer than you have imagined.

Therefore, if you happen to travel to Shanghai and decide to extend the trip to another part of Asia, why not discover the beauty of Tokyo? With the airport situated 15km away from the city centre, it doesn't get any closer! Within a short Taxi ride away (approximately 20 minutes), you can see the world famous Tsukiji market where you can savor the best Sushi, probably in the whole of Japan With the recent route opened from Haneda to and from Shanghai, Tokyo isn't so far away anymore. Hope you have an excellent short stay in the mystery land that is Japan!

Emissions Trading Market in Japan

Although emissions trading was first developed in the US and Europe, it has recently also attracted a significant amount of attention as a method to achieve the goals of the Kyoto Protocol in Japan.

The TSE set up the "TSE Carbon Market Study Group" and is currently meeting with experts on a wide range of topics about the framework design of the exchange on the creation of a carbon market based on Kyoto mechanism (e.g. CER). At the end of August, while confirming the need for an emissions trading market in Japan, the TSE is also verifying the potential for deepening the market by offering not only a cash market but futures trading as well. To implement this market, TSE is also considering the need to develop a clearing house and introduce DVP settlement.

The next phase will analyze overseas market structures and seek an appropriate approach to introduce an emissions trading market in Japan.

Japan Commodity Clearing House Reforms (JCCH)

1. Clearing fee increase
For the purpose of increasing the Default Compensation Reserve, JCCH will increase its clearing fee from October 2008.
2. Review of the clearing member's minimum net capital requirements
For the purpose of increasing the reliability of clearing member, JCCH will review its clearing member's qualification criteria, such as increasing the minimum net capital requirement from the current JPY 0.79 billion to JPY 2 billion from October 2009.
3. Consideration for introducing the risk based margin system, such as SPAN Margin Method
For the purpose of increasing the clearinghouse's corporate capital to a risk based amount, JCCH will make a decision to introduce a risk based margining system, such as SPAN, lay down basic policies and an introduction schedule by the end of September 2008.

Note: FIA-J has encouraged the reform of the commodities clearing function and has issued reports with our recommendations for improvements. Please contact our office for a copy of these reports.

New Members

Thanks to the great work of the Membership Committee Chairman and his team, we have many new members. As of September 1, we have a total of 67 members, including 8 individual members. Corporate members consist of the following; Financial firms: 21, IT, systems and ISV's: 10, Commodity firms: 9, Japanese exchanges and clearinghouse: 7, Foreign exchanges: 6, Others (law firms, association etc.): 6
FIA-J is very pleased to welcome our newest members below.

Chicago Climate Exchange, Inc.

CCX is an Exchange whose objectives are to apply financial innovation and incentives to advance social, environmental and economic goals. CCX, which began trading in 2003, is the world's first and North America's only legally binding, rules-based greenhouse gas emissions allowance trading system, as well as the world's only global system for emissions trading based on all six greenhouse gases. CCX members derive from all sectors of the global economy, including the public sector, and emissions reductions being achieved through CCX by major utilities, corporations, cities, states and counties, are the only reductions in North America being achieved through a legally binding compliance regime, subject to independent third party verification and price transparency. The founder, Chairman and CEO of CCX is economist and financial innovator Dr. Richard L. Sandor, who was named a Hero of the Planet by Time magazine in 2002 for his founding of CCX, and in 2007 as the "father of carbon trading." www.chicagoclimateexchange.com.

KVH Co., Ltd.

KVH was established in Tokyo in 1999 as an Asia-Pacific IT/communications service provider. Through its facility-based optical fiber networks and data centers, KVH offers secure communication/DC infrastructure and comprehensive IT solutions to support leading-edge electronic trading technologies such as algorithmic trading or DMA. In cooperation with COLT Telecom, its sister company focused on supporting the complex needs of many leading financial institutions across Europe, KVH offers multiple solutions for state-of-the-art electronic trading. More information on KVH can be found at <http://www.kvh.co.jp>

Nikko Citigroup Limited.

Established in 1999, Nikko Citigroup combines 100 years of experience and expertise drawn from the strong heritage of Nikko Cordial and Citi in Japan. Formerly known as International Banking Corporation, Citi opened their first office in Japan in 1902 and have since expanded their global network to over 100 countries. Nikko Cordial Securities was first established under the name Kawashima-ya in 1918 and experienced remarkable growth, extending their domestic presence to 111 branches throughout Japan. Nikko Citigroup is a combination of these two companies' networks, human resources, systems, experience and achievements. The first of its kind in Japan, Nikko Citigroup is a global wholesale investment bank offering customers the highest quality in financial services.

Saxo Bank Japan K.K.

Saxo Bank Japan K.K. is a wholly owned subsidiary of Saxo Bank A/S. The Saxo Bank Group is a modern, ambitious and progressive financial group with a global presence in online trading in the capital markets. As a reputed online trade facilitator, Saxo Bank A/S offers a range of direct trade facilitation services (FX, CFDs, Futures) to institutional clients and white label partnerships to banks worldwide.



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

Officers

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

Board Members

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

Executive Secretary

Ms. Motoko Ogawa E-mail: fiaj@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

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