

Newsletter

May 2009

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CHAIRMAN'S MESSAGE

FIA-Japan – A Full Agenda

In April we held our 21st AGM and elected new directors for 2009. The AGM was followed by a reception with over 100 members and guests. Officers for this year were elected by the Board, and Committees are now being formed to take up issues and activities. There are many changes taking place in the futures markets. The new trading platforms and new products have captured the attention of overseas players including prop houses and hedge funds and clearing firms. In particular, the offering of "remote membership" to overseas firms inviting them to directly participate in our markets is evidence of the new international "attitude" of the exchanges. But these positive developments have focused our attention on other issues and changes that must be addressed. We realize that we need to address several legal, regulatory and tax issues, as well as certain other exchange protocols. There are also risk management issues related to DMA (Direct Market Access) that affect clearing members and the clearinghouse that need attention now.

Our FIA-J Committees will be focusing on these and other issues and we will be making our recommendations to regulators and exchanges. At the same time we are continuing our focus on the clearinghouse improvements that are necessary, particularly in the commodity sector. We are seeking help from all of our members to participate on these committees to help us to clarify the issues and to make recommendations for changes.

OTC Clearing

The current financial crisis has forced us to recognize the important role of the clearinghouse in managing and controlling financial risk. Regulators in North America and Europe have been studying this issue and making recommendations for requirements for clearinghouses to take on the management of risks related to OTC trading in derivatives. Last week, the US Treasury and CFTC issued a release asking Congress to require clearing and regulatory oversight over OTC derivatives. Recently, in Japan both TSE and TFX have announced plans for establishing and offering clearing arrangements for certain OTC financial products. We support this movement to enhance our financial marketplace in Japan.

Regards,

Mitch Fulscher
Chairman, FIA-Japan

TOCOM Launches New Platform Powered by NASDAQ OMX Technology

On May 7, Tokyo Commodity Exchange Inc. (TOCOM) went live with a new trading system based on a suite of trading and clearing platforms provided by the NASDAQ OMX Group, Inc. The new system started accepting orders at 8:30 am and the day session started at 9:00 am on schedule.

TOCOM is NASDAQ OMX's first Japanese customer to operate one of its systems. NTT Data Corporation made a significant contribution to this project as a system integrator.

The introduction of the new trading system has made it possible for TOCOM to offer various services as an international marketplace:

- Order Transaction Response Time: 10 milliseconds
- Capability of 24-hour trading (In the current phase, night session ends at 23:00. For rubber market, it closes at 19:00.)
- Internationally recognized order types
- Circuit Breaker System
- Market Maker Program (to be introduced in fall of 2009)

Masaaki Nangaku, President & CEO of TOCOM met the press with Lars Ottersgård, Head of NASDAQ OMX Market Technology, Toru Yamashita, President & CEO of NTT Data Corporation after the new trading system went live and commented: "Today's successful launch of our new trading system based on the globally advanced technology of NASDAQ OMX allows us to offer world-class trading functionality in line with international practices."



TOCOM CEO Masaaki Nangaku (right) ringing the opening bell at the launch ceremony of the new trading system with the presidents of OMX Technology and NTT Data.



TOCOM's new trading room

OTC Clearing Initiatives

Following endeavors in the US and Europe to establish central counterparties (CCP) for OTC derivatives transactions, two Japanese clearing houses have hosted separate OTC clearing study groups over six months with major financial institutions. Tokyo Financial Exchange (TFX) and a collaboration between the Tokyo Stock Exchange (TSE), Japan Securities Clearing Corporation (JSCC) and the Japan Securities Depository Center (JASDEC) published reports on the conclusions of the study group discussions.

Common points to both initiatives include:

The decision to concentrate on the clearing of standardized Interest Rate Swaps (IRS) and Credit Default Swaps Agreement (CDS) and the importance to integrate well with existing and future infrastructure in the US and Europe. Developments will be monitored closely and there will be discussions with foreign clearing institutions on the establishment of a coordinated scheme

TSE

The report by the TSE Group collaboration includes a draft outline for the clearing operations of interest rate swaps and credit default swaps. These outlines feature details on eligible trades, qualifications of clearing participants, margin operations, interest payments and clearing funds. The amount of net assets necessary to qualify as a clearing participant will be about JPY 500 billion. According to the final report concluded by the study group organized by TSE Group, JSCC will commence clearing operations for IRS and CDS by the first half of 2010.

TFX

Based on the content of its report and the direction taken by regulators, TFX has committed to establishing a CCP for OTC derivatives. The outline of the system will be confirmed in 2009 and the CCP will commence operation in fiscal year 2010. The TFX CCP will start with CDS index transactions and introduce single-name transactions later. To qualify as a clearing participant, equity of JPY 1 trillion and an "A" rating or better will be necessary.

There is a large discrepancy between the size of the OTC derivatives market in Japan and that of the US and Europe. There is hope that the establishment of a CCP will help to boost market activity and create a solid foundation for growth of the Japanese OTC market.

Regulatory News

Commodity Futures Market Act

A bill to amend the Commodity Exchange Act (CEA) in order to establish "convenient, transparent and trouble free" commodity futures markets was proposed by the Cabinet at a meeting on March 3, and passed on to the Diet immediately. If approved, the bill will be implemented in three stages, with the first stage as early as September.

Due to the uncertainty in raw material prices and the dramatic changes taking place in global market places, risk management measures are desperately needed by businesses in Japan. However, the potential hedgers are not actively using the Japanese commodity futures markets. In order to change this situation and increase the use of those markets, "market convenience" is considered to be key. The bill includes the following amendments: enable market users to deposit margin monies not only in cash but also in Letter of Credits; make it easier for exchanges to list new products; facilitate cooperation between financial exchanges (or even foreign exchanges) and commodity exchanges by relaxing certain limitations on voting rights at an exchange.

At the same time, it is important to prevent inappropriate price formation at commodity exchanges that don't reflect the demand/supply situation in the real economy. As was declared at the Hokkaido Toyako Summit in July 2007, "transparency" of transactions is essential. The bill proposes changes that would enable regulators to overview actual off-exchange trading activities and to penalize any related manipulation attempt. The bill would also permit regulators to cooperate with foreign regulators on information sharing procedures to help detect illegal activities, including market manipulation. In case of an emergency, regulators would have the power to request exchanges to raise margin rates.

Lastly, to establish "trouble free" commodity markets, the bill proposes to regulate new brokers and to strengthen rule enforcement over off-exchange or overseas futures trading and those who might damage the reputation of commodity futures trading. The bill sets out different levels of regulations according to the type of market participant (i.e: retail customer or professional) and also aims to strengthen the customer protection fund.

The name of this new legislation is expected to become the "Commodity Futures Market Act" to reflect the integration under one law of domestic commodity futures markets regulations and foreign markets regulations, as well as the expansion into the lightly regulated over the counter market.

Activities On Going

FIA-J 21st AGM

FIA Japan conducted its 21st AGM and reception at the International House of Japan on April 9. More than 40 member firms attended the meeting and over 120 people came to the reception. At the AGM, Board members for 2009 were elected. Officers for 2009 were elected at the first board meeting following the AGM. While 2008 Chairman, President, Vice President and Treasurer were reelected, Mr. Ohashi of White & Case was newly appointed as Secretary. Please see the back cover page for the full list.



Guests enjoying drinks at the reception...

(left to right: Mr. Takahashi – NFPF; Mr. Iwanaga – Sumitomo Shoji;
Mr. Onosato – TOCOM)



And guests enjoying the buffet!

(Mr. Kojima – JCFIA & FIA-J EB member)

FIA-J President Ohta Comments at the AGM

I would like to express my thanks and admiration for the hard work undertaken this year by everyone in FIA Japan. There have been some remarkable events in the past year and I would like to emphasize the following points:

Firstly, in September last year, FIA Japan hosted the FIA Asia conference. It was unfortunate that this conference was also witness to the collapse of Lehman Brothers, which had a large impact on many participants. Despite this, the attendance was greater than that for the previous three conferences, there was a great deal of lively and constructive dialogue and it was a huge success.

Secondly, against the background of a severe lack of global confidence and financial market paralysis, the problems of counterparty risk and liquidity risk have attracted great attention. The absence of proper clearing facilities for OTC derivatives is being seen as one of the causes of this crisis. It is under these circumstances that the role of exchanges is being re-examined and the subject of OTC derivative clearing solutions is raised in policy discussion in Europe and the United States. Proper financial policy will be debated between the world's regulatory bodies and I believe it is appropriate that within that debate, the role and function of exchanges' clearing systems should be discussed. FIA Japan has been proactive in this movement through various measures including the submission of important and timely reports.

Lastly, thanks to the cooperation of its members, FIA Japan strengthened its financial foundations by increasing its membership dues last year. Based on this, I believe that we are now better positioned to carry out our activities.

In the year to come, the economic and financial environment is likely to be very difficult. The unique, cross-industry FIA Japan will be asked to do its utmost in contributing to the development of the Japanese futures industry. Indeed, I believe that we are expected to lead the way in promoting bold reforms. Let us work together to achieve this objective.

People Interview

J.P. Morgan – Mr. Peter L Jaeger **Executive Director , Head of Futures & Options, Japan**

Peter worked in Tokyo from 1988 to 1997, in fixed income sales at Bankers Trust and Bank of America. He joined JP Morgan's futures business in London in 1997 and took charge of fixed income futures sales in 2006. In July 2008 he moved back to Tokyo to head JP Morgan's futures & options business in Japan and Korea.

EB: Could you describe what particular challenges you had to overcome in Japan to establish/develop your business and the current scope of JP Morgan's derivatives operations.

JP Morgan will celebrate the 25th anniversary of our Tokyo futures & options business next year, but we are growing and evolving all the time. To keep optimally positioned for steady revenue growth, we need client diversity, network power and speed, global reach outside Japan, and top quality sales & research coverage on the ground.

Our current scope of products, clients, technology and connectivity scenarios is the broadest it's ever been. We have invested successfully in automation and enjoyed steady growth in both revenue and market share. We benefit from economies of scale, but at the same time we dedicate a lot of resources to domestic clients.

EB: Over 6 months after the "Lehman shock," what have been the repercussions of the global financial crisis on customer order flow in general and on your Japanese operations in particular?

No one is immune to the global decrease in volumes: markets have deleveraged and risk appetite has waned. At JP Morgan, we have always positioned ourselves for the credit-conscious, conservative clients and this strategy has paid off in the post-Lehman world where clients care more than ever about the security of their funds and the capital strength of their broker.

EB: What is your outlook in terms of overseas participation in the Japanese markets in 2009~2010?

I think overseas participation will pick up again later this year, particularly as interest rates begin to rise. In Japan fixed income, we face a challenge in rebuilding liquidity and restoring futures to their role as the best hedging tool. I am optimistic that JP Morgan can help in this process.

Japan is a fascinating country with so much to capture the imagination. I am confident that Japan and her markets will benefit hugely as activity in Asia picks up again.

EB: As an FIA-J Board Member, what roles do you think this organization should play in our industry?

First, I am honored to join the Board and I thank my colleagues for their support and guidance. I think the FIA-J can play an absolutely critical role in guiding our member Exchanges to higher levels of transparency, risk management, and user-friendliness. The clearinghouse project is one example. We also have important work to do in the area of pre-trade risk management facilities for co-lo and other high-performance DMA traders, an area in which Japan is a relative latecomer. Finally, I think we can play a valuable role as an advisor to our regulators, whom we can help keep up to date on the key movements in the industry which they may not have the resources to focus on.

Past Events

Boca – FIA Annual Conference

The FIA Annual meeting in Boca Raton was quite successful with over 700 participants including exchange leaders and the major international players.

FIA-Japan hosted a panel titled "Japan Futures Market goes Global". The panel discussed the important changes taking place in the Japan markets. Speakers from TOCOM, TFX and METI highlighted the new developments in modernizing the exchanges as well as pointing out the changes in the commodity law that will help to facilitate international business. The panel was hosted by Yasuo Mogi and Mitch Fulscher who added their comments about the attractive changes taking place.

During the Conference, Ryoichi Seki, Vice President at TOCOM, also delivered a presentation on a panel discussing the opportunities in Asia. Also, Mr. Kurosu, Assistant Director of METI, participated at the Regulators Conference attended by delegates representing regulators from around the world.

Photo Right: FIA-J panel session
TOCOM CEO Nangaku and TOCOM Executive Officer Onosato discussing with FIA-J Chairman Fulscher before the start of the session.
Mr. Mogi, Newedge, appears on the left.
(photo credit: TOCOM)



FIA-J Tech Committee Seminar: NYSE Technologies' LIFFE CONNECT

The Technology Committee successfully completed the second in the serial discussion on the latest technology in futures trading arena by holding "Exchange Trading Platform: NYSE Technologies' LIFFE CONNECT". The seminar was held on Friday 24, 2009 at Otemachi Sankei Plaza. Close to 200 people participated in the event.

Presentations were made by NYSE Technologies CEO and NYSE Euronext Co-Global CIA Stanley Young, NYSE Technologies Business Development Manager Paul Philipps. Lively Q&A session was the high light of the seminar.

Reception, which followed the seminar, was also well attended. The event was sponsored by NYSE Technologies, Tokyo Stock Exchange, Tokyo Financial Exchange, HP, Intel, NTT Communications and Equinix. We greatly appreciate the sponsors for helping financing the event and reception.

Sponsors:



Future Events

FIA/FOA Host International Derivatives Expo in London

The Futures Industry Association and the Futures and Options Association will be hosting the second International Derivatives Expo. The conference will be held at The Brewery in London June 9-10. The inaugural event in 2008 included more than 50 exhibits showcasing the latest in products and technology for the derivatives industry.

There will be more than 30 panels addressing a wide range of topics including: central clearing, how the carbon markets work, algorithmic trading; compliance post the financial crisis; and risk management. In addition, officials from Eurex, NYSE Liffe and others will offer an update on their CDS clearing projects.

Don't miss the TFX and TOCOM booths in the exhibition hall!

<http://www.idw.org.uk> for more information and to register

Exchange News

C-Com and TFX Sign MoU

The Central Japan Commodity Exchange (C-Com) and Tokyo Financial Exchange Inc. (TFX) signed a Memorandum of Understanding (MOU) on March 26, 2009 to establish a cooperative relationship.

By signing this MOU, C-Com and TFX will exchange information on issues such as the development of new products, trading rules and systems. The two exchanges will hold discussions to explore areas of further cooperation in order to strengthen the function of both exchanges and improve convenience for market participants. The formation of the official cooperative framework between the two Exchanges is expected to contribute to the development of both commodity futures and financial derivatives markets in Japan.

OSE:

Obtains Credit Rating

OSE has newly obtained the Issuer Rating of AA - (stable) from Rating and Investment Information, Inc. (R&I) on April 28, 2009. It is the first Japanese exchange/clearing organization to obtain a credit rating.

The purpose of obtaining a credit rating is to improve management transparency to stakeholders, such as shareholders and participants, by obtaining an evaluation from a neutral third party.

TFX:

To Relocate to New Office

TFX moves to a new office on June 1, 2009.

New Address: Marunouchi Park Building 15th Floor, 2-6-1 Marunouchi, Chiyoda-ku, Tokyo 100-6915

Phone/Fax: +81 3 4578 2400 / +81 3 3212 5780

Business Plan for Fiscal Year 2009

TFX has published its business plan for fiscal year 2009. TFX's strategy includes the following:

- (1) The launch of CFDs based on the Nikkei 225 stock average and a selection of foreign stock indices
- (2) Improved convenience and increased volumes for Euroyen and Click 365 markets
- (3) In the interests of a fair and reliable marketplace, TFX is looking into establishing OTC clearing infrastructure and is currently developing internal systems in preparation.

Joined International Swaps and Derivatives Association (ISDA)

TFX has become a member of International Swaps and Derivatives Association, Inc. (ISDA) as of March 12 2009 as a first for a Japanese exchange.

Through joining ISDA, TFX would like to use this as an opportunity to strengthen its ability to gather and analyze information related to OTC derivatives and facilitate better collaboration between TFX and business participants.

By doing so, TFX hopes to contribute to the development and promotion of the derivatives market.

TGE:

Announces Sub-Indexes

From April 27th, TGE announced Sub-indexes of 8 out of 10 of the agricultural commodities that comprise the TG Index. Please access to see TG Index and the sub-indexes <http://www.tge.or.jp/english/price/tgeindex.shtml>

Mid-term Management Plan

On April 15, 2009, the board of directors approved the mid-term management plan for the FY2009 to FY2013. The Priority measure and policies are 1) demutualization, 2) upgrade of the trading platform, 3) review of listed contracts and launching of new products, 4) organizational reform and enhancement and 5) increase trading participants. For further information please contact TGE's PR department at +81 (0)3-3668-9318

TOCOM:

TOCOM Announces Midterm Management Plan

TOCOM announced its midterm management plan effective from April 2009 to March 2012 on March 17. The focus of the business strategy is to implement various measures to develop an attractive market in line with global standards such as the start of a co-location service concurrent with the launch of a new platform. In fall of 2009, the exchange plans to list a Nikkei-TOCOM Commodity Index futures contract and to offer a Market Maker Program.

Through these measures, TOCOM aims to stem trading volume decline (average daily volume in January 2009 was 139,000 contracts), reverse it to an increase and achieve 15% growth on year-to-year basis in the fiscal years 2010 and 2011. The exchange also aims at returning to profitability and reach 100 million yen in ordinary income in fiscal year 2011.

New "Nikkei-TOCOM Commodity Index"

TOCOM and Nikkei Inc. (Nikkei), the publisher of Japan's most influential economic daily newspaper, announced on March 30 that they have agreed to jointly manage the new "Nikkei-TOCOM Commodity Index". As a result of this agreement, the TOCOM Index which has been publicized by TOCOM since July 2006 will change its name to the "Nikkei-TOCOM Commodity Index" as of the April 1, 2009 calculation.

TOCOM and Nikkei are committed to work together to establish the Nikkei-TOCOM Commodity Index as:

- 1) A benchmark for evaluating investment performance in the commodity futures market of Japan,
- 2) A basis for structuring investment products, and
- 3) An indicator for developing comprehensive hedging strategies.

On April 1, the new Nikkei-TOCOM Commodity Index reached 209.13 points, up 12.3% from the beginning of 2009.

TSE:

Tdex+ Launch Post Poned

TSE has decided to postpone the implementation of Tdex+, which is a new trading platform based on LIFFE CONNECT® for its options market, by about 2 months. TSE will announce a new launch date in early June.

Joined ISDA

TSE has joined the ISDA (International Swap and Derivatives Association, Inc.), the global trade association representing participants in the OTC derivatives industry. ISDA was established in 1985 and today, member institutions number over 800. Since its inception, ISDA has pioneered efforts to identify and reduce the sources of risk in the derivatives and risk management business.

http://www.tse.or.jp/english/news/200904/090402_a.html

To Provide CDS Pricing Information

In collaboration with Markit, TSE has begun to provide Markit iTraxx Japan, a CDS index referencing a basket of 50 Japanese companies, on its website since April 28, 2009. TSE meant to promote better understanding and enhance transparency of CDS market.

<http://www.tse.or.jp/english/market/data/credit/index.html>

Survey of 10-Year JGB Futures

TSE has announced the result of the survey regarding 10-Year JGB futures trading. Since January 23, 2009, TSE had surveyed trading participants and investors etc. about 10-Year JGB futures market because trading volume and open interest of the JGB futures have been decreasing.

http://www.tse.or.jp/english/news/200904/090409_a.html

Others

New Logo and New Brochure

Have you noticed the change of the FIA Japan logo as shown on every page of the newsletter? To follow the logo style of FIA Washington, FIA Japan decided to change its original logo, used since the establishment of FIA-J, to this new design.

New brochures with the new logo were printed and distributed at the AGM. We plan to distribute the brochures at major events.

Thomas McMahon – CEO of SMX

Former board member Thom McMahon was appointed CEO of Singapore Mercantile Exchange. The exchange is promoted by Financial Technologies Group and will offer a wide range of commodity futures and options contracts on precious metals, base metals, agriculture commodities, currencies and commodity indices.

We wish Thom all the best in his new endeavor!



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 over 70 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.
Koichiro Ohashi, Secretary	White & Case LLP
David Wilkinson, Treasurer	Equinix Japan K.K.

Board Members

Fumihiko Kimura	Central Japan Commodity Exchange (C-COM)
Yoshio Kuno	CME Group, Tokyo Office
Naoaki Kurumada	Dot Commodity, Inc.
David Wilkinson	Equinix Japan K.K.
Mitch Fulscher	FIAJ
Michael Ross	GL Trade Japan K.K. / Sungard
Takanori Kosaka	HSBC Securities (Japan) Limited
Osamu Akita	Japan Commodity Futures Industry Association
Peter Jaeger	J.P. Morgan Securities Japan Co., Ltd
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.
Seiji Yuki	Okato Shoji Co., Ltd.
Hideki Noda	ORIX Investment Corporation
Mikio Hinoide	Osaka Securities Exchange Co., Ltd. (OSE)
Duncan Symmons	Patsystems Japan K.K.
Koichi Iwanaga	Sumitomo Corporation
Mikio Kawamura	Tama University
Mitsuhiro Onosato	Tokyo Commodity Exchange, Inc. (TOCOM)
Hidetoshi Hamada	The Tokyo Grain Exchange (TGE)
Shozo Ohta	Tokyo Financial Exchange Inc. (TFX)
Hironaga Miyama	Tokyo Stock Exchange, Inc. (TSE)
Junnosuke Inoue	Unicom Group Holdings, Inc
Koichiro Ohashi	White & Case LLP

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