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CHAIRMAN'S MESSAGE

LDP – The End of an Era

The collapse of the LDP after 60 years of reign has stunned Japan's system. Investors, regulators and business leaders are now waiting to see how things play out.

The LDP with its close relationship with business and the bureaucracy was a successful system in leading Japan's remarkable achievement and growth in the post war period. This system of governance worked, and it was envied by the US and other countries. However, it had become clear that structural reform is necessary to again move Japan forward to prosper. The LDP was incapable to change, and the groundswell of public demand for change – any change – swept them out on August 30, 2009.

The DPJ “manifesto” promises a number of social policies including cash distributions to the public, major cuts in carbon emissions by industry, and now a moratorium on loan repayments by troubled businesses. But more significantly, is the fundamental systemic change in the policymaking process and the reduction of the power of the bureaucracy. The DPJ intends to change the business-government relationship. The Prime Minister and his Cabinet are to determine policy and to be more directly involved in its implementation. The role of bureaucrats in forming and acting on policy is to be diminished. That is not how Japan governance worked in the past. The question is whether the DPJ can achieve this basic change in the governance system, and will their policies with respect to business be well thought out. And finally, what does all this mean for the Japan financial markets?

The Tokyo “Financial Center” of Asia – Lost Opportunity?

For several years FIA-Japan argued strongly for Japan leaders to focus on making changes to help Tokyo become an international Financial Center for Asia. Changes in regulation, taxation and attitude are required ingredients to make this happen. We cited Singapore with its coordinated governmental approach as a model to make this happen. We held meetings and issued reports to the Prime Minister's Office. The Prime Minister and his cabinet along with other governmental study groups were in support of this initiative. But little action followed. The political structure and system with domestic vested interests resisted change regardless of its importance to Japan overall.

We hope that the structural changes promised by DPJ can facilitate action that is critical for Japan's business, financial markets and for the economy. We will again present these important initiatives and encourage action that can help Japan achieve its “lost opportunity” and establish its role as the leading financial center in Asia. It could represent a dawning of a new Era for Japan.

Regards,

Mitch Fulscher
Chairman, FIA-Japan

Regulatory News

Follow-up Report: Commodity Futures Market Act Commodity Exchange Act amended

As reported in the previous issue of this newsletter, the Commodity Exchange Act (CEA) of Japan was amended to foster “transparent, convenient and trouble-free” commodity derivatives markets and was introduced as the “Commodity Futures Market Act” (“CFMA”) on July 10, 2009.

Building a comprehensive legislative system covering commodity derivatives trading

The major point of the amendment is that the new regulatory framework includes commodity derivatives trading on overseas exchanges, OTC markets, as well as domestic exchanges. The Japanese government aimed to build a comprehensive legislation to cover all such types of commodity derivatives trading. Since trading is now cross-border and diversified, commodity derivatives trading occurs within and without Japan. Another reason for the amendment is also the fact that there is a close relation between price fluctuation in the OTC market and the price formation on the domestic commodity exchanges.

Under the CFMA, the three separate laws that covered commodity derivatives trading on domestic exchanges, overseas exchanges and OTC are now integrated under one uniform regulatory framework.

Increasing competitiveness of commodity exchanges in Japan

Another significant point of the amendment is that the scope of business for the commodity exchanges will be expanded. The Commodity Futures Market Act will permit commodity exchanges to open markets for emissions trading and financial instruments trading, and enter the clearing business. The amendment will also allow commodity exchanges to invest into financial exchanges and vice-versa, as well as share the same clearinghouse.

The world's major exchanges compete with each other by providing a wider variety of listed products including financial instruments as well as commodities, or offering services such as OTC clearing. The new law is to facilitate efforts by the commodity exchanges in Japan to broaden their product lines, to diversify their service offerings and to enhance their global competitiveness.

The drastic amendment of the Commodity Exchange Act represents a firm commitment by Japan's government to address the development of commodity exchanges in order to fully meet the increasing needs of businesses to offset price fluctuation risks.

The Commodity Futures Market Act will be enacted in three phases between the first three months and year and a half after its promulgation (July 10, 2009) and will be complemented during that period with cabinet orders and ministerial ordinances where necessary.

Activities On Going

Clearinghouse Task Force

During the prior year, our Clearinghouse Task Force issued a series of Reports with our recommendations for improving the clearinghouse function for the commodities industry in Japan. Earlier this year we issued our “Urgent Action” report wherein we specifically asked that Tocom take the leadership to direct the development of the clearinghouse, and we set forth an action plan for this initiative. FIA-Japan is continuing to focus on this initiative.

Our Task force members have held meetings with Tocom leadership and with the exchange's regulatory body, METI (Ministry of Economy, Trade and Industry), to reinforce our views on the critical importance of this initiative to the success of the commodities industry in Japan. The Task Force has also expressed the strong view that now is the time to break down the silo's separating the financial markets from the commodity markets, and the clearinghouse function is an important aspect of this from the point of view of the market users.

Indeed, the fact that there must be a development of a new clearinghouse for the commodity industry is a good opportunity to directly involve the financial exchanges and work toward this goal. This goal was also clearly noted by the Diet in its message attached to the amendment of the CEA a few months ago. We also believe that OTC clearing of commodity and other related products should be contemplated in these development plans.

FIA-J is scheduling a series of informational meetings with METI on these and other commodities issues and our Task Force will discuss the clearinghouse issues with financial sector exchange to encourage their participation.

FIA-J Meeting with CFTC

Staff members of the US CFTC who are responsible for administering the Part 30 exemption program were in Tokyo in September as a part of their review of exchanges in the Asia region which were granted exemption in prior years. They held meetings with METI and MAFF during their Japan visit. On September 18, we invited Mr. Chapin and Ms. Noakes of the staff to give a short presentation to our Board about their activities and CFTC focus points in light of the change in the Commission Chairman. Prior to the Board meeting, representatives of the Japan exchanges were invited to meet with the staff and they held informal discussions.

People Interview

Fortis Clearing Japan – Mr. Sean Lawrence ***Managing Director***

Sean Lawrence has worked in the Banking industry since 1992 and in Asia from 1997. Whilst predominantly living in Japan, Sean has also worked in Singapore and Hong Kong. Originally from an OTC derivatives background, since 2005 Sean has experience in all the major and developing exchange traded markets in Asia.

EB: Could you describe the current operation of Fortis Clearing Japan?

Fortis Clearing Japan offers execution and clearing capabilities on TSE, OSE and TFX. Specializing in high frequency, low latency, direct market access, Fortis Clearing Japan supports clients from all the major Asian locations plus Europe and the US. Fortis Clearing Japan is part of the world wide Fortis Brokerage Clearing and Custody franchise.

EB: What is the strategy of Fortis Clearing in Asia?

Fortis Clearing attracts customers by providing quality, high speed, low cost solutions that meet the client's needs. We have a proven reputation of impartiality, flexibility and putting our clients' needs first. We believe such a strategy will generate the same success in Japan as has been demonstrated in the other locations in which Fortis Clearing operates.

EB: Clearing is regarded as a “key” after the global financial crisis. What is your view of the Japanese derivatives industry today and how do you plan to enhance your business?

We envisage the Japanese markets will expand in terms of volume, asset class, accessibility and integration with other markets. The recent increased regulatory focus on centralized clearing of OTC products is one of the drivers of this expansion, but not the only one. Fortis Clearing Japan considers all ideas that provide opportunities for its clients as potential areas for expansion.

Past Events

Trading & Risk Management Technology Fair 2009

On July 15 and 16, 2nd annual Trading & Risk Management Technology Fair 2009 was held at Sankei Plaza, Otemachi (central Tokyo). TSE, OSE, TFX, TOCOM and NYSE Liffe participated to the event and introduced recent developments in their respective exchanges at different sessions. 27 companies including OSE, TFX, TOCOM and NYSE Liffe attended as exhibitors and promoted their businesses to 1,400 attendees.

(Photo: well attended TOCOM presentation by Mr. Fukui, Executive Officer)



Derivatives World Asia 2009

As every year, FOW's Derivatives World Asia took place in Singapore on 9th & 10th September. The event always provides a unique forum for senior decision makers to debate and tackle the challenges of the industry. TSE and OSE were both present as exhibitors, in addition to this TFX, TSE, OSE and TOCOM were presenting at various panels, discussing the present and future of the Japanese derivatives markets. This year there was a special focus on technology and around 130 people attended the panel discussion titled "Innovations in Trading Platforms" where both TSE and OSE discussed the upcoming changes and the increasing influx of High Frequency Traders in the Japanese markets. Since the FOW event is always accompanied with various functions and parties, OSE and TOCOM took advantage of the convention to host a Sushi Party at the Raffles Hotel. Attendance was very strong with around 150 traders sharing thoughts over light sushi and drinks. All in all the strong attendance proved that there is a continuously growing interest in the Asian and Japanese markets in particular.

Commodities Week Europe 2009

As one of the biggest event for Europe's commodity investment community, Commodities Week was held on October 5th through 7th at the Royal Garden Hotel in London. Along side the exhibition hall, world class speakers, including institutional investors, investment banks, fund and asset managers, shared their insights on commodity investments and strategies with the audience. The third day of the conference focused on gold, its fundamentals and its role in an investor's portfolio. As a leading gold market, TOCOM was also present at the conference.

FIA Japan "Cool-Off" Summer Party, July 29

FIA Japan held a "Cool-Off" Summer Party at "the Hump", California style Sushi restaurant in Marunouchi (central Tokyo). Over 100 FIA-J members and friends filled up the restaurant.

We enjoyed nice Japanese and "American" sushi with wine and beer. What an international combination that was! Whether you enjoyed the summer party or missed it, please join us in our next social event. We plan to have a New Year party in January 2010. Details will be announced in the next edition.

Gold sponsors:



Buffet



Mr. Ohta, FIA-J President

Future Events

FIA Chicago Expo 2009

The FIA is hosting its 25th annual futures and options expo in Chicago, kicking off on Tuesday Oct. 20, with an opening reception that will be followed by two full days of panels on critical topics ranging from regulation to technology developments. Global exchange leaders, top regulators, industry experts and analysts will offer their perspectives on important developments in the futures and options industry. In the afternoon of the 21st, Mr. Nakajima, TFX will speak in the panel "Remote Access to Asian Market". From Japan, TSE, OSE, TFX and TOCOM will take part as exhibitors this year and more than 4,500 people from over 30 different countries will attend this event.

More information and details on registering for this event are available on the FIA website.

<http://www.futuresindustry.org/expo-2009.asp>

Exchange News

C-COM:

Mr. Kuroiwa assigned New Chairman & CEO of C-COM

Mr. Susumu Kuroiwa became Chairman and CEO of the Central Japan Commodity Exchange (C-COM) effective from August 1, 2009.

He possesses experiences from a variety of important positions at METI since joining the Ministry of International Trade and Industry (presently METI) in 1981, including Counselor, Japanese Embassy in Russia and Director General of General Affairs Department, Japan Patent Office.

The fifty-one-year-old C-COM Chairman is determined to lead the Exchange to go through this unprecedented challenging period to find a way to further enhance C-COM's functions of providing a fair, transparent and user-friendly marketplace as a "market infrastructure for the industry". A Gold futures contract listed only two and half months after his assignment is expected to work as a trigger to bring liquidity back to the Exchange.

Gold Market Launched on October 13

C-COM started the trading of a Gold futures contract in its Precious Metal Market on October 13, 2009. The new contract was listed in accordance with the "Scrap and Build" strategy proposal for its listed products submitted in February this year by the C-COM Study Group, consisting of scholars and industry professionals, to explore which direction C-COM should focus on.

This physically deliverable Gold contract has two unique features;

- 1) Six consecutive contract months to enable commercials to deliver the product every month, and
- 2) Five hundred (500) gram trading unit to enable individual investors to participate in the market with a relatively small amount of money.

In addition, C-COM Gold will be traded through the traditional Itayose (Single Price Session Trading) trading Method.

C-COM offers a specially discounted trading fee during the initial three month period in order to promote this promising new product.

OSE:

Introducing Next Generation Trading Platform for Derivative products

Osaka Securities Exchange decided to introduce CLICK XT of OMX TECHNOLOGY as its next generation trading platform for derivatives products and entered into the necessary contracts with OMX TECHNOLOGY and NTT DATA CORPORATION.

OSE will further develop the system and plans for an introduction in the first quarter of 2011.

TGE:

Demutualization Set for Nov. 2, 2009

At the Extraordinary General Meeting for Members held on September 11, 2009, it was decided that the Tokyo Grain Exchange will change from a non-profit membership organization to a demutualized commodity exchange on November 2, 2009. For more information, please contact public relations at TEL: +81 (03)3668-9318.

TOCOM:

Accelerates Efforts for Enhancing Market Convenience

Following the launch of the new trading system provided by NASDAQ OMX in conjunction with the start of a night trading session this past May, TOCOM is introducing a series of measures to enhance the convenience of its markets. In October, the exchange has scheduled to introduce Remote Membership and a Market Maker Program, to qualify proprietary trading firms as eligible for membership, and to increase position limit for investment trusts. TOCOM aims to facilitate entry into the TOCOM markets by potential new market participants, including overseas commercial players and institutional investors, as well as local and foreign proprietary trading firms.

1. Introducing Remote Membership

TOCOM will allow overseas entities to acquire a membership as "Trade Members" for executing proprietary trading without having to open an office in Japan.

2. Introducing Market Maker Program

As "market makers", TOCOM-designated firms will place both buy and sell orders in the market and make a market with other market participants. Market makers' quotes will help increase liquidity and enhance the probability of trades being executed.

3. Qualifying Proprietary Trading Firms as Eligible for Membership

TOCOM's membership is now open to proprietary trading firms as well as entities involved in the production, processing, or merchandising of a commodity listed at TOCOM and futures commission merchants.

4. Increasing Position Limit on Investment Trusts

TOCOM increased position limits for investment trusts, which have been recently allowed to directly invest in the commodity futures markets under a revised legislation, in order to encourage investment trusts to actively set up mutual funds, such as ETFs, investing in the TOCOM markets.

TSE:

(for details, please visit the TSE website at <http://www.tse.or.jp/english/news/>)

Trading Fees Incentive Program

Trading fees for Options on JGB futures, TOPIX futures and Individual equity options are free from October to December. In addition, trading fee for mini-TOPIX futures, TOPIX Core30 index futures and TSE REIT index futures are free until next March.

TSE will change the calculation method of trading fees from trading value based to trading volume based. JSCC will also change the calculation method of clearing fees from trading value based to trading volume based.

Market Makers for Tdex+

TSE has announced the Market Makers for its new options market, called "Tdex+".

Merrill Lynch Japan Securities Co., Ltd.

Mitsubishi UFJ Securities Co., Ltd

Newedge Japan Inc.

Societe Generale Securities, Tokyo Branch

UBS Securities Japan Ltd

Listing of New ETFs

TSE listed 5 Metal Securities Series ETFS on August 24th, 2009. The ETFs track the prices of gold, silver, platinum, palladium, and a precious metals basket.

On September 30, 2009 TSE also listed an ETF linked to the Citigroup Nonyen World Government Bond Index - Japanese Investment Trust ("Nonyen WGBI-JIT"). The Listed Index Fund International Bond (Citigroup WGBI) (Monthly Dividend Payment Type) ETF (also known as Jojo Gaisai) managed by Nikko Asset Management Co., Ltd., is an investment trust managed with the aim of tracking the Citigroup Nonyen WGBI-JIT. This ETF is the first of its kind in Japan and aims at tracking bond indices of advanced countries excluding Japan and it is also the first in Japan to offer monthly dividend payment.

The underlying index is a major benchmark of global bond investment and is widely used, even in Japan, as a benchmark by both public and corporate pension funds.

New Options Trading Platform

TSE has successfully launched "Tdex+ System", a new trading platform for options contracts. Tdex+ System is an advanced electronic trading system based on LIFFE CONNECT®, which has been used by NYSE Liffe and is highly rated for its performance and functionality by investors worldwide. With the introduction of Tdex+ System, order processing performance is dramatically improved to 6 milliseconds for order response time and the system can handle about 20 thousand transactions per second. Functionality for strategy trades is enhanced as well.





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

Susumu Kuroiwa	Central Japan Commodity Exchange (C-COM)
Yoshio Kuno	CME Group, Tokyo Office
Naoaki Kurumada	Dot Commodity, Inc.
David Wilkinson	Equinix Japan K.K.
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Michael Ross	GL Trade Japan K.K. / Sungard
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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)
Ko Takamatsu	Unicom Group Holdings, Inc
Koichiro Ohashi	White & Case LLP

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