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Saiko Kanamori
Eiichi Kojima
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CHAIRMAN'S MESSAGE**Will the Tiger Rise?**

2010 is the start of a new decade but we have many challenges ahead. The International press is now referring to "Japan's two lost decades". While global markets have started their recovery, the Nikkei is still lingering at 25% of its value 20 years ago. The collapse of the LDP Government last year brought a cheer throughout Japan with a demand for structural reform. But the public is showing little patience with the actions to date by the new leaders. Deflation is looming and the burden of government debt reaching 200% of GDP is sending warning signals internationally. The recent resignation and replacement of Finance Minister Fujii is a disappointment. Critics are crying out for vision and strategy for raising Japan's economy. Complaints about "inaction" by the Government and absence of leadership are again being heard. Sometimes it's hard to be optimistic...

But this is the Year of the Tiger!

In the derivatives and financial markets we are seeing some positive developments. TSE initiated its long awaited new high speed trading system for equities on January 4, 2010. This will attract significant increases in international trading of this market. In the meantime, all of the major exchanges are working on the introduction of remote memberships for overseas users of the markets, and they are providing for DMA – direct market access - with co-location services for low latency trading. There is a "mountain" of potential business by global traders and other liquidity providers waiting for these developments to be implemented.

FIA-Japan has issued many reports urging the exchanges and regulators to modernize the markets in Japan and to take action to encourage international business. Structural and regulatory issues have hindered the development of Tokyo as an international financial center. One of the structural issues relates to the "silo" structure separating the financial and commodities markets. In this regard, we were very pleased to see the recent announcement by TSE and TOCOM that they will work together to form a joint venture to trade carbon and other emissions. This is the first time that the financial sector and commodity sector have agreed to work together. We hope that this will be a start in breaking down the "silos" that separate our financial industry. This is important for Japan.

We hope the Tiger Will Rise – before it's too late!

Regards,

Mitch Fulscher
Chairman, FIA-Japan

President & CEO of TFX, Mr. Shozo Ohta

Mr. Shozo Ohta, President of FIA Japan, was elected as President & CEO of TFX at the board of directors meeting held October 28, 2009. Mr. Ohta had been serving as TFX Senior Managing Director & COO since 2004..

TSE and TOCOM to Form Joint Venture

The Tokyo Stock Exchange and TOCOM announced that they will work together to establish an Emissions Trading Exchange in Japan. TSE has been studying the issues relating to establishing a carbon market exchange and METI has also expressed interest in this development. Futures markets in emissions are currently actively traded at exchanges in London and Chicago.

The creation of a joint venture between TSE and TOCOM would represent a most significant development for the Japan financial markets. Historically, the financial market exchanges have remained totally separate from the commodity markets. There are separate laws and separate regulators over each of these “silos”. This situation has slowed the development of futures markets in Japan. Cooperation between these exchanges has significant potential for improving the financial marketplace in Japan far beyond emissions trading.

FIA-Japan supports this important development.

Regulatory News

FSA Proposals on OTC Clearing and Other Matters

In light of the global financial crisis related to OTC financial products, the Japan FSA has been considering the issuance of regulations that would mandate the clearing of certain OTC financial products using a central counterparty (CCP). Similar studies and regulations have been proposed by lawmakers and regulators in the US and Europe.

In December 2009, FSA issued a draft “Blueprint” with its preliminary conclusions regarding the requirement for mandatory CCP clearing of OTC products, as well as other proposals to strengthen financial market regulations. Following is a brief summary of the main points in the FSA draft.

- OTC transactions in “plain vanilla” type OTC derivative transactions should be subject to CCP clearing
- Trade information from CCPs should be submitted to regulators, and the regulators should have authority to request OTC trade information directly from financial institutions
- Plans should be made to strengthen JGB Clearing and broaden the use of the clearinghouse for such transactions
- Introduction of regulating securities firms on a “consolidated” basis together with the parent and subsidiaries, rather than on a company-only basis

Several other areas are also being considered including strengthening the regulations over major shareholders of financial institutions and regulation over insurance companies. The FSA will also review the need for further reporting by Hedge funds, and also sales practices related to derivatives.

CFTC Increases Net Capital Required for FCMs

The CFTC, which is the US futures market regulator, amended its regulations regarding minimum net capital requirements for FCMs. The amendments increase the base level of adjusted net capital to \$1,000,000 from the current level of \$250,000. The “margin-based” capital requirement for noncustomer positions carried by the firm also doubled from 4% to 8%. These amendments will become effective at the end of March 2010.

Activities On Going

DMA versus Sponsored DMA

FIA-Japan is now focusing on issues related to Direct Market Access, or commonly known as DMA. There are important control and risk management issues that we believe must be addressed in Japan as our markets facilitate this function.

DMA, is the practice whereby a broker who is a member of an exchange, provides exchange access and connectivity infrastructure for their customers. In simple DMA, all transactions flow via the broker’s infrastructure and hence the broker has full visibility and control over the order flow.

The drive towards latency and cost optimization has led to the emergence of Sponsored Direct Market Access (SDMA) in many markets, of which there are two forms: Filtered and Unfiltered. (The latter of which is sometimes referred to, perhaps unfortunately, as Naked Access.) In both forms, once authorized by the broker, the sponsored customer sends orders directly to the venue, bypassing the broker infrastructure. The difference in filtered and unfiltered comes in the form of risk analysis and control. With filtered access, the broker maintains real time supervision including control of pre-trade risk parameters, modification of parameters and the ability to shut down trading where necessary. In unfiltered access, the broker receives only post trade information to monitor, analyse and act upon.

The simple analogy is that sponsored DMA is akin to providing a supplementary credit card to a family member from your account. The filtered form is analogous to a card with a limit and the unfiltered form has no limit.

High frequency trading and the need for lower latency are key drivers to DMA adoption. Latency improvements can be significant both in terms of network connectivity and processing time. Volume aggregation may lead to better service fee structures/rebates, exchanges can benefit from additional liquidity and there may be revenue sharing opportunities for the brokers and sponsored customer. With appropriate due diligence and implementation, all parties may benefit from sponsored or the more traditional DMA.

In Japan, DMA market is still in its infancy, as compared to US and Europe. Signs of progress do exist like the establishment of TSE Arrowhead system and taking off of ATS market, both of which favor DMA as a business model in Japan. We want to see the Japanese market establish "Best Practices" in this very important area. We plan to issue a report with our recommendations on this subject.

<Editor's Note: As we write this article, the American SEC has proposed a ban on "Naked Access" in the US.>

People Interview

KVH – Ms. Miyuki Suzuki **President and Chief Executive Officer**



Ms. Suzuki began her career with Reuters, where over a 16 year period she held a variety of sales and marketing roles. She joined Japan Telecom in 2002, running the Consumer Business, and in 2004, Ms. Suzuki served as President and CEO of LexisNexis Asia Pacific, which provides legal information and IT solutions, before assuming her current role as President and Chief Executive Officer of KVH since January 1, 2007. She has lived and worked extensively throughout the Asia Pacific region, including Tokyo, Singapore, Hong Kong and New Zealand, as well as London, Bahrain and Toronto.

EB: Could you describe the KVH operations in Japan and your current growth strategy?

KVH celebrated its 10th anniversary in April 2009, since it was established as a 100% owned subsidiary of Fidelity. We started laying out optical fiber in the Tokyo and Osaka areas geared towards offering data connectivity to corporations. We then established our Tokyo Data Center in central Tokyo in an ideal location in the financial district. We now offer a complete service package to our customers, including network infrastructure and managed services (i.e: managing servers, firewalls, E-mail systems, etc...). KVH also offers proximity hosting services with low latency connectivity to exchanges in Japan, including TOCOM, TFX, OSE and the TSE. We see these services as strong areas of growth in the future.

EB: Major Japanese exchanges have introduced or are about to introduce new trading platforms. How do you see the technology environment in Japan evolve from here?

There is a constant requirement for improvement of technology. I am please to see that exchanges have been upgrading their systems, and Japanese exchanges should strive to maintain and exceed global technological standards. I think that technology could also help manage human-error risks. Of course, low latency and speed are important, but "best execution" practices are also essential. This means that the customer needs to not only know that he has received the best price, but also make sure that the trade was executed on time and not queued.

EB: How can market participants, both in Japan and overseas, benefit from this new technology?

Exchanges in Japan have to become best of breed. The Asia-Pacific region is very different from the U.S. or Europe, in the sense that there are many nations with many different regulations and market practices. I think that Asia-Pacific is at a crossroads and should make every effort to show itself as transparent and attractive to global traders. Technology can help provide confidence to market players by offering tools such as the possibility for prop houses to pre or post analyze trades etc... Japanese exchanges are also investing in the interoperability of different systems and Alternative Trading Venues are also coming in. This could spur competition, which is good for the investors and could result in increased liquidity.

For foreign customers who are not sure how to enter the Japanese markets, such as overseas proprietary or algorithmic traders, we offer a Facilitator Service through which the customer only needs to set up a regulated entity in Japan but can then rely on KVH resources, including our bilingual workforce, for communication with the exchanges and hosting its servers at the KVH Data Center. We have recently inked an international partnership agreement with SingTel, as our carrier partner, to offer fully-redundant low-latency connectivity to customers in Singapore who want to trade the Japanese markets, and vice-versa.

Past Events

25th Annual FIA Futures & Options Expo

The Futures Industry Association hosted its 25th futures and options expo in Chicago on Oct. 20-22, at which more than 6,700 representatives from the industry worldwide registered for the event. Attendees, including representatives from more than 40 different countries, were able to learn about the latest policy developments, industry trends and technology advancement from two days of information-packed panel discussions and more than 140 exhibitors.

The conference kicked off with a keynote address from Gary Gensler, the chairman of the Commodity Futures Trading Commission, who emphasized the need for broad reforms in the derivatives markets in the aftermath of the financial crisis. Gensler then joined top exchange leaders to discuss a wide range of issues affecting the industry, including new position limit policy. Among all the panelists speaking at expos, there was a range of subjects covered, including the Washington regulatory outlook, the latest developments in clearing, the options markets and algorithmic trading.

FIA Asia Expo 2009 – Singapore

From the 2nd to the 4th of December 2009, the fifth FIA Asia Expo was held in Singapore. The Expo was attended by over 400 members of the futures industry from across the world, with lively discussion and debate regarding the pressing issues in the Asian derivatives industry.

There were over 20 booths from various companies, including three Japanese exchanges: Tokyo Commodity Exchange, Tokyo Financial Exchange and Tokyo Stock Exchange.



Opening Ceremony: "Year of the Tiger!"



Lunch Break in Front of the TOCOM Booth
(left to right: Mitch Fulscher - FIA-J; Yasuo Mogi - Newedge Japan; Lieven Van den Brande – HKMEX)

Future Events

FIA Japan New Year Reception on Jan 20

FIA Japan organizes the New Year Reception from 18:00 to 20:00 on Wednesday, January 20, 2010 at the Foreign Correspondents' Club of Japan in Yurakucho. Please join us with your friends and colleagues! To register, contact Ms. Ogawa, Executive Secretary.

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Exchange News

OSE:

Trading Overview in Year 2009

Cumulative trading volume of OSE derivatives in 2009 was 166,080,784 units (as of 24 December), OSE is proud to announce that volumes grew against the global trend as the 2009 figure hit a record high for the 5th consecutive year, this underlines OSE's position as a thriving and vibrant exchange in Asia. Other record/increases included the following:

- 1 Annual trading volume of Nikkei 225 Options in 2009 was 34,986,005 units, which hit a record high, and trading volume of Nikkei 225 Options in J-NET trading has increased.
 - 2 Annual trading volume of Nikkei 225 mini in 2009 was 104,738,309 units, which hit a record high.
 - 3 Annual trading volume of ETFs in 2009 was 350,634,656 units, which hit a record high.
- (for details, please visit the OSE website at <http://www.ose.or.jp/news2/>)

TFX:

Change of Contract Specifications for Overnight Interest Futures Contracts

Following feedback and discussion with its members, TFX has decided to change the contract specifications for its Overnight Call Rate Future and Spot Next Repo Rate Future. Currently the traded object is the average rate over a calendar month. After the change, the object will be the average rate over the period between Bank of Japan policy meetings. The change is planned to come into effect in June 2010.

Record Trading Volumes for 2009

Trading volumes at TFX over 2009 were 83,678,044 - a 25% increase over the previous year. This is another record year for TFX since its inception in 1989.

Due to the monetary policies of the Bank of Japan, trading volumes for the Euroyen contract have decreased, but following volatility in the FX markets, volumes for TFX's FX products increased by 63% compared to the previous year.

TOCOM:

Trading Volume Shows Sign of Recovery

The annual trading volume for 2009 amounted to 28,881,948 contracts, down 29.6% from 2008. However, average daily volume recorded a gradual increase from 87,000 contracts in May to 143,000 contracts in December, which shows a clear sign of recovery.

Nikkei-TOCOM Commodity Index to be Listed in March 2010

TOCOM is scheduled to list the Nikkei-TOCOM Commodity Index Futures Contract on March 23, 2010. Published since July 2006, this index is calculated with essentially all the listed commodities on TOCOM and represents the price level of the TOCOM market as a whole. The Nikkei-TOCOM Futures Contract will be the first futures contract in Japan to be traded not on "contract moth-basis" but on a "daily roll-over" basis. The Exchange intends to build this up to one of its major listed products.

Gas Oil Futures Contract to be Reopened in May 2010

TOCOM is planning to reopen the gas oil contract, which has been suspended since February 2006, on May 6, 2010. The recent changes in the oil industry's environment, such as the expanded volatility of the crude oil price, the increase in gas oil exports and the introduction of market prices-linked formula in oil refiners' new wholesale pricing have increased the necessity to use the futures market functions. In order to serve such a need, TOCOM aims to re-design the gas oil contract so as to make a wider group of companies able to participate in the delivery process. TOCOM will announce the new gas oil contract specifications once they are finalized.

TSE:

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

TOPIX Futures to Trade on NYSE Liffe from Summer 2010

TSE and NYSE Liffe announced that TOPIX Futures will be listed on the NYSE Liffe market from summer 2010. The TOPIX index futures contract is a benchmark Japanese stock price index already traded on the TSE.

TSE's TOPIX Futures are already actively traded by investors worldwide, who use the instrument as a way to invest in Japan's largest stocks. Listing the contracts on NYSE Liffe will increase the number of customers who can trade the contract, and enable trading in the TOPIX Future while the Tokyo market is closed.

The contract specifications for TOPIX Futures traded on NYSE Liffe will be fundamentally the same as those traded on TSE. Trading hours will be set from 6AM to 9PM GMT (and from 7AM to 9PM BST). Consequently, trading in TOPIX Futures will be possible for up to 19.5 hours per day, compared to 7 hours at present.

Both exchanges are currently working together to establish a position transfer scheme where all TOPIX open positions in NYSE Liffe at the end of each day will be automatically transferred to TSE.

TSE Received CFTC No-Action Letter on Three TSE Index Futures Contracts in the U.S.

TSE announced that the U.S. Commodity Futures Trading Commission ("CFTC") issued a no-action letter permitting the offer and sale in the United States of the mini-TOPIX futures contract, TOPIX Core30 futures contract and TSE REIT index futures contract ("the three TSE index futures contracts") on November 9, 2009.

Pursuant to the no-action letter, U.S.-based investors are now able to trade the three index futures contracts listed on TSE, subject to the same regulatory requirements applicable to any other non-U.S. futures contracts.

TSE has previously received no-action letters from the CFTC with respect to the TOPIX futures contract, permitting these contracts to be offered and sold in the United States.

Launch of "arrowhead", the Next-Generation Equity/CB Trading System

-The Tokyo Market enters the Millisecond World with "arrowhead"-

TSE launched "arrowhead", the new equity/CB trading system held to the world's highest standards in terms of speed and reliability, on Monday, January 4, 2010.

"arrowhead" is the next trading system developed by the TSE for the next generation cash market in order to meet the needs of investors, such as high speed order placement and execution processing, and to respond to the reduction in order sizes and the rapid increases in the number of transactions. The new system is used for auction trading of stocks and CBs.

New ETFs Listed

From November 2009 to February 2010, TSE listed the following ETFs: NEXT FUNDS S&P CNX Nifty Linked Exchange Traded Fund, Simple-X NY Dow Jones Index ETF, Listed Index Fund International Developed Countries Equity (MSCI-KOKUSAI) and Listed Index Fund International Emerging Countries Equity (MSCI EMERGING). There are now 72 ETFs listed on TSE.

New Members

Chi-X Japan

Chi-X is a global provider of market infrastructure technologies and trading venues. Its regional Chi-X trading platforms aim to provide investors around the world with the most efficient markets possible through their high-speed, low-cost, intelligent trading models, while its separately operated Chi-Tech services unit, whose data management and trading technologies have been deployed by some of the world's leading exchanges and financial firms, provides a range of end-to-end trading and market data technologies. Chi-X believes that truly competitive, technology-driven markets benefit all participants in the trading process – investors, brokers and the primary exchanges – by making the market more attractive to the global trading community, which ultimately helps to increase overall market volumes and improve investor performance.

7ticks

7ticks is the driving force in high performance trading networks and managed services for direct access, co-location & proximity services to the global financial markets. As a leading Managed IT Services Provider for the financial trading industry, 7ticks delivers networking infrastructure design, procurement, installation and ongoing monitoring services.

Established in 2002, 7ticks' experienced team of industry professionals have a deep understanding of the complex and dynamic international electronic trading environment and know what it takes to consistently deliver industry leading low latency performance and reliability. Every trading day, 7ticks is on the front lines providing traders the enabling technology, optimized infrastructure performances, and proactive technical support required in today's ever-changing global trading market place.

7ticks plans 2010 Asia expansion. We aspire to add much value to the overall Japanese (and Asia Pac) market space and ultimately replicate the success 7ticks has enjoyed in the US and European markets.

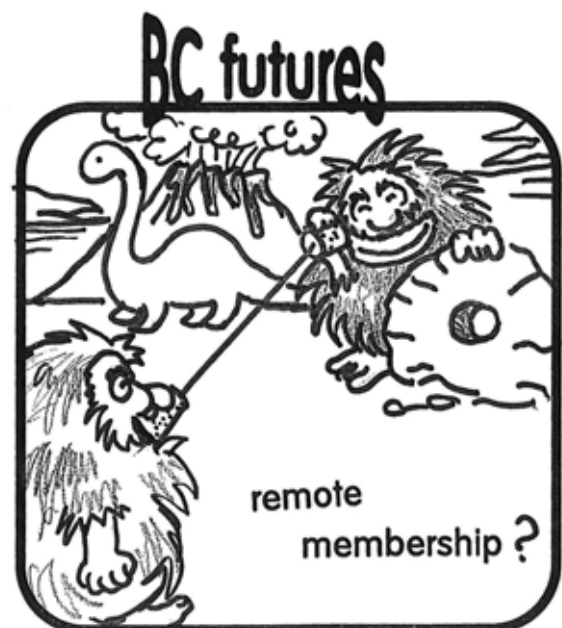
Orc Software

Orc Software (SSE: ORC) is the leading global provider of powerful solutions for the worldwide financial industry in the critical areas of advanced trading and low latency connectivity. Orc's competitive edge lies in its depth of knowledge of the trading world gained by deploying advanced solutions for sophisticated traders for 20+ years. Orc Trading and Orc Connect provide the tools for making the best trading and connectivity decisions with strong analytics, unmatched market access, powerful automation trading functionality, high performance futures and options trading capabilities, ultra-low latency and risk management. Orc's customers include leading banks, trading and market-making firms, exchanges, brokerage houses, institutional investors and hedge funds. Orc provides sales and quality support services from its offices across EMEA, Americas and Asia Pacific.

TradeWinds Consulting

TradeWinds Consulting was founded with the mission to bring the best in global solutions to the financial services community of Japan and Asia Pacific. We have three pillars of business consisting of providing trading solutions, market entry facilitation, and recruiting for the financial services community. Partnering with leading edge solution providers such as FFastfill, we provide ASP-based straight through processing and risk management solutions which join Japanese markets to over 50 other global exchanges. In conjunction with datacenter, network, exchange and brokerage partners we provide foreign market participants with market entry and concierge services to assist foreign participants who lack a local presence. Our recruiting services are tailored to the financial community in Japan and Asia Pacific. By providing these solutions we are committed to support our domestic and international customers as they grow their businesses.

Doodles



(Art Work by Mary Ann Ogasawara)



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.

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Mitch Fulscher, Chairman	Financial Consultant
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Yasuo Mogi, Vice President	Newedge Japan Inc.
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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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