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**CHAIRMAN'S MESSAGE****US Regulators Overreact Again?**

US Regulators and politicians are famous for quick action following a crisis. The recent financial crisis is no exception. Billions of US tax payers' dollars are being spent and extreme action undertaken following the collapse. The government deficits being created by the effects of these expenditures will impact the credit markets and continue to be felt in future years. Congress is now grinding its way toward dramatic reform of the financial regulatory system that may significantly change the US financial markets. Some of these reforms are needed. But unfortunately, some proposals would go too far and will significantly damage the US markets.

There are proposals that would cap the size of banks, asserting that some are just "too big," and the so called "Volker Rule" which would limit the size and activities of banks and prohibit their trading in the capital markets. President Obama has proposed an additional "penalty tax" on liabilities of banks. Further, establishment of position limits on holding of financial instruments and commodities, and controls over OTC market are part of the headlines today. Certainly the experience of the past two years tells us that some reforms are called for. Greater capital buffers and better measurements of risk, and a much better focus on "liquidity" are all necessary. Several years ago, Sarbanes - Oxley intended to create better corporate governance following the Enron case, but it is now clear that this was "overkill" with its many costly requirements and little or no benefits. Here we go again.

But in Japan...

In Japan, we did not have the same meltdown as the US. The government did not have to bail out the banks or other financial institutions. It is appropriate, however, for regulators in Japan to learn from the mistakes made in the other major financial markets. For example, increasing the minimum capital requirements in the banking industry with a better understanding of the measurement of risk and the monitoring methods and controls in place at financial institutions. Also the introduction of "CCP" clearing for certain OTC financial products which has already been proposed by regulators. Let's also have a greater focus on liquidity measurement and requirements. But hopefully in Japan we can consider some of the rational proposals being made in the US while ignoring those that may go too far and be harmful.

Regards,

Mitch Fulscher  
Chairman, FIA-Japan

## **FIA-Japan Will Incorporate as *Ippan Shadan Hojin***

FIA-Japan Board of Directors has approved a plan to adopt a new structure as a “General Incorporated Association” (*Ippan Shadan Hojin*). Since the original formation of FIA-J over 20 years ago, we have operated under an informal association structure.

Over the past years our membership has grown and our activities have expanded. Recently new laws governing incorporated non-profit entities came into effect which will permit us to adopt this new corporate form. We have discussed this with legal and professional advisors who have recommended this action, and have concluded that it will be appropriate for us to establish this corporate structure.

We intend to function in the same way and to continue our governance structure and operation substantially as we have done over the past years. Our plan is to propose this restructuring to our Members at the forthcoming Annual General meeting April 15, 2010. Prior to the meeting we will send further information and explanation to all our members including a draft resolution which will be discussed and voted on at the meeting.

## **U.S. Trading Community is Connecting to the Asian Markets**

In the U.S., the trading community is looking for new arbitrage and market making opportunities and is turning to Asia to find them. The always popular Kospi200 remains a target however the increasingly accessible offering across the Japanese exchanges where products such as the Japanese Government’s bonds on the TSE, the Nikkei 225 on the OSE and commodities futures products on TOCOM see the APAC region as a very realistic liquidity source for international traders looking for edge.

While there are still barriers to entry for trading firms looking to gain membership to the various exchanges around the region, many firms in the U.S. are now using non-membership (sponsored) access to trade directly onto the Asian markets. This allows traders to access infrastructure hosted by local members of the markets, connect directly to the exchanges gateways and to interact with real, live market data and market orders. Utilizing this type of access and the services offered by both exchanges and local broker members in terms of hosting hardware see the latency of distance becoming less of a factor for those physically sitting in locations remote to the market and products they are trading. “It is clear that more and more U.S. based trading firms are connecting to Asia for new opportunities.” said Greg Chambers, APAC President, Orc Software. “We expect an increasing demand from overseas firms for world-class technology, especially ultra-fast connectivity and managed services, to support their trading business in Asia.”

## **Newedge First Foreign Broker to Get Korean Futures License**

Newedge was granted a full futures license by the Korea Financial Services Commission and becomes the first foreign company out of 19 that applied for the said license to get approval. As a result of obtaining the full futures license, Newedge Korea can offer all products listed on the Korea Exchange (KRX) including equities and derivatives. This adds to Newedge Korea's current offering (spanning across cash equity, stock index contracts and stock futures and options) all the KOFEX products listed on the KRX, including interest rate, currency and commodity products.

In addition, this full futures license will allow Newedge Korea to offer offshore futures and options products to domestic clients. A strong demand is anticipated from local clients wanting to trade all the listed futures and options products that Newedge can offer through its global network of 85 memberships.

This license was obtained following the consolidating in 2009 of the six laws regulating capital markets under the unique Financial Investment Services and Capital Market Act (FCA). It was difficult under the previous legal system for a financial institution to explore a new line of business or expand upon its existing line of business. Under the FCA, a licensed Financial Investment Company is permitted to engage in all types of Financial Investment Businesses, subject to satisfying relevant regulations and licensing requirements.

In parallel, in a move to raise revenue and curb speculation it appears that South Korean lawmakers agreed to impose a tax on derivatives transactions including futures and options from 2013. The basic rate would be set at 0.01 percent, and concerns have been expressed that it could drive many investors away from that market and pull down trading volumes. South Korea boasts the world’s largest market for equity derivatives by number of contracts traded, with 2.7bn stock index options contracts traded in 2008, according to the World Federation of Exchanges. This compares with 514m traded on Eurex, the next biggest market on that measure.

## Regulatory News

### ***FSA Report on Clearing***

In preparation for the current ordinary session of the Diet, the Financial Services Agency (FSA) has published a report entitled “Development of the Institutional Framework Pertaining to Financial and Capital Markets”, which can be downloaded from the FSA website (links below).

The report contains six sections as follows:

- I. Improving the stability and transparency of the settlement of OTC derivative transactions
- II. Strengthening securities clearing and settlement systems, including government bond transactions and stock lending transactions
- III. Consolidated regulation and supervision of securities companies
- IV. Hedge fund regulation
- V. Ensuring investor protection and fair trade
- VI. Others – Development of a reporting system for short selling

Among the wide variety of topics covered, the following are some of the points of note to FIA Japan members and associates:

- Clearing of OTC derivative transactions of a large trading volume (currently, plain vanilla interest rate swaps) should be subject to mandatory CCP clearing.
- In order to reduce settlement risk in Japan’s markets promptly and effectively, clearing should ideally be concentrated in CCPs established in Japan. However, Japanese financial institutions conduct international transactions so alternative options such as mandatory CCP clearing through alliances between foreign CCPs and domestic CCPs, or mandatory clearing at foreign CCPs, should also be admitted.
- OTC derivative transactions of a certain volume, which are closely related to execution under Japan’s legal system (currently, iTraxx Japan CDS index transactions), should be subject to mandatory clearing at a domestic CCP.
- Currently, clearing of financial instruments is divided among five organizations. It is hoped that market participants will examine ways to improve clearing functions, giving due consideration to the consistency of clearing systems for different financial instruments.

For more details, please find the original documents available at the following location:

<http://www.fsa.go.jp/en/news/2010/20100122-3.html>

## Activities On Going

### ***Financial Instrument Committee of FIA-Japan***

Written by Julien Le Noble – Committee Chairman

In the aftermath of what came close to the apocalypse of the financial world in late 2008, governments around the world rolled out aggressive rescue packages of gigantic proportions imperative to bring stabilization to financial markets. It now appears that the objective is achieved with the prospects of a collapse of the financial system and a second Great Depression quite remote.

Nonetheless, the consequences of the financial crisis are profound, for instance with credit that hasn’t normalized yet fully, sovereign debt issues appearing, economic growth shy to resume globally, and unemployment reached unhealthy levels. So while circumstances have improved, regulators overseeing the financial markets and policy makers alike have focused their attention towards establishing and / or strengthening oversight ; whether it is about central counterparty clearing model (that has proved its merits during the crisis of 2008 itself), or risk management in the High Performance DMA space, or redefining mandates of commercial and investment banks, a lot has been debated.

In this context, FIA-J FIC aims at interacting with Japanese regulators, exchanges, market participants and intermediaries all contributing to important investments and reforms enabling Japan’s financial markets to be stronger and more competitive. Whether it is about Risk Management, DMA, remote memberships, trading platforms upgrades, etc, FIA-J FIC has committed to actively provide guidance and insight on key issues relevant to the industry. The key issues covered by the Financial Instrument Committee are :

### **Risk Management and High Performance Direct Market Access in Japan**

Advanced trading technology has enabled trading firms to reduce significantly latency of their order execution flows, and therefore has enabled to increase significantly the frequency and sophistication of trades across derivatives markets. Inevitably, comes with it inherent risks to exchanges, FCMs and trading participants that must be identified and controlled in order to maintain the integrity of orderly markets and avoid erroneous trades.

In coordination with the Risk Management Committee of FIA Asia, FIA-J FIC held two rounds of discussions with each Japanese exchanges individually (OSE, TSE, TFX, TOCOM) in June and December of 2009. These meetings were very productive and created awareness with regards to risks associated with direct market access, sponsored access or unfiltered (naked) access.

Remote Membership, Non Clearing Memberships, as well as Co-location were topics addressed too.

In turn, concrete steps and directions by the exchanges have emerged, and in a view to continue interacting further, FIA-J is preparing a best practices / recommendations paper to be circulated to Japanese exchanges and regulators which will be the basis of further meetings.

### **Improving the clearing house function and operating model in Japan**

In coordination with the Clearing House Task Force of FIA-J, FIC addressed issues revolving around the Japanese clearing-house need to adapt their operating models, break-down the silos across products (financials, securities, commodities), and risk management.

The topic of Central Counter-Party clearing of OTC traded products remain also on the agenda as exchanges such as TFX and TSE have studied and consulted within study groups the cost benefit to implement such facility, considered the need for governmental endorsement, and opportunities to collaborate with international structures to deliver such initiatives.

## **People Interview**

### **Tokyo Financial Exchange – Mr. Shozo Ohta** **President and CEO**

On the 28th of October 2009, at the board of directors meeting, Shozo Ohta was appointed President and CEO of Tokyo Financial Exchange (TFX). Mr. Ohta served as Chief Operating Officer of TFX from 2004, and from 2007 has served as the president of FIA Japan.



#### **EB: What is your view on the derivatives market in Japan, given the trends in regulation towards global financial markets?**

Based on a review of the financial crisis, global regulators are announcing various policies for strengthening regulation, including the reduction of risk in OTC derivatives trading.

In Japan, there has been progress towards implementation of measures to protect investors and inhibit excessive risk, including discussion surrounding clearing systems for OTC trading, strengthening of leverage regulations for derivatives trading and the prohibition of unsolicited offers.

It can be said that there has been a major trend towards an increased importance of exchanges in derivatives markets. Given the demand for transparency and reduced counterparty risk, I believe that exchanges and clearing houses offer the most appropriate solution.

In recent years, exchanges in Japan have implemented remote membership schemes and technology systems meeting global standards. Japanese exchanges are proceeding with developing infrastructure that competes head on with exchanges in Europe and the USA. With the current level of interest rates, stock prices etc., these may not be the circumstances to be optimistic about the market environment, however, as the nation with the most financial assets after the USA, I believe that there is a large possibility for strong development of the Japanese derivatives market.

**EB: In October last year, you became the President and CEO of Tokyo Financial Exchange. Please tell us about your strategy for TFX.**

Firstly, TFX will be launching a new range of rolling spot equity products based on the Nikkei 225 Stock Average and other indices. As a comprehensive exchange for financial derivatives, these new products will form the third pillar of our product offerings after interest rates and FX, and we are progressing with our preparations for launch in the summer of 2010. In addition to the Nikkei 225 Stock Average, we intend to achieve the launch of similar products based on other foreign equity indices.

We expect that these products will answer the needs of retail investors, as easily understood investment tools linked to the value of the indices.

Secondly, we are constructing a central counterparty (CCP) clearing system for OTC derivative transactions. In Europe and the USA, there are already functioning CCP clearing solutions for interest rate derivatives and CDS. In Japan, in preparation for submission of a bill at the ordinary session of the Diet this year, the Financial Services Agency is working towards obligating the use of a CCP for OTC derivatives transactions.

For the sake of the future development of the financial market in Japan, a CCP for OTC derivatives transactions is a necessary and important piece of infrastructure. TFX is the only exchange in Japan specializing in financial derivative transactions and we plan to construct a CCP system making use of that knowledge and experience.

In addition to the above, TFX will expand trading from abroad through aggressive advancement of our remote membership scheme and collocation services.

**EB: As the president of FIA Japan, please tell us your views on the association's recent achievements and future goals.**

FIA Japan is a unique, cross-sectoral organization in Japan that spans both the financial and commodity derivatives businesses. It has released proper and appropriate statements and proposals to regulators and industry participants. In the Autumn of 2008, FIA Japan successfully hosted the FIA Asia conference. Last year, it released a proposal for improving the function of the commodity clearing house and each community has debated issues such as technology and clearing systems.

Going forward, FIA Japan should continue to broadcast information to the world relating to Japanese derivatives markets, and should actively work towards increasing the presence of the Tokyo market on the global stage.

## Past Events

### ***Luncheon with CFTC Commissioner O'Malia on Feb 24***

FIA Japan welcomed CFTC Commissioner Scott O'Malia at a luncheon held at TOCOM with our board members on February 24, 2010 (see pic below). The Commissioner visited Japan with Mr. Warren Gorlick, Associate Director, Office of International Affairs. During their visit they also met with Japan Regulators over futures markets from FSA, METI and MAFF and they attended the IEA conference on Energy during their stay in Tokyo.

During our luncheon our Board members candidly discussed DMA issues and the necessity of pre-trade risk management. Commissioner O'Malia responded to questions about the status of new regulation over the financial markets in US, high frequency trades etc.. Mr. O'Malia noted that he has an affinity for Japan since he stayed in Japan when he was a college student.



## 11th Annual Japan International Banking & Securities System Forum 2010

On February 24, the 11th Annual Japan International Banking & Securities System Forum 2010 was held at Royal Park Hotel, Nihombashi (Central Tokyo). Mr. Miyama of TSE, who is a board member of FIA Japan, made a speech on arrowhead which is the next generation cash equity trading platform developed by TSE. 14 companies including TSE attended as exhibitors and promoted their business to 400 attendees.

## FIA-J Shinenkai New Year's Reception

FIA Japan organized a "Shinenkai" New Year's Reception at the Foreign Correspondents' Club of Japan in Yurakucho on January 20, 2010. Over 110 Members and guests joined the event to celebrate the start of the new year and to welcome in the "Year of the Tiger". Mr. Ohta, FIA-J President and CEO of TFX, offered his comments on the new year and he gave the opening Toast.

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FIA-J Members and guests welcoming the "Year of the Tiger"



Speech by FIA-J President, Mr. Shozo Ohta – TFX  
(background: Mr. Cartan McLaughlin – Trading Technologies; Mr. David Wilkinson – Equinix Japan)

## Future Events

### 35th Annual International Futures Industry conference in Boca Raton

The Futures Industry Association is pleased to hold the 35th Annual International Futures Industry conference in Boca Raton, Florida on March 10-13. The conference will be attended by industry executives and government officials from all points of the globe, including representatives from the Japanese futures industry. This year's conference will focus on such issues as the rise of high-frequency trading, the clearing of OTC derivatives, and the business strategies of the global futures brokers. The keynote speakers include Gary Gensler, the chairman of the Commodity Futures Trading Commission, Duncan Niederauer, chief executive officer of NYSE Euronext, and Dr. Philip Verleger, an expert on the global petroleum markets. Audio files of the conference presentations will be posted on the FIA website a few weeks after the event.

## **FIA-J Annual General Meeting of Members - April 15, 2010**

FIA Japan will hold the 22<sup>nd</sup> Annual General Meeting at the beautiful International House in Roppongi. The AGM starts at 17:00 and the reception follows at 18:15. The reception room overlooks the spectacular garden with Sakura trees - hopefully still in bloom. We expect most of our members to attend the AGM and hope that you will bring your colleagues and friends to the reception. To attend, please register with Ms. Ogawa, Executive Secretary.

Gold sponsor confirmed as of March 2:



## **Exchange News**

### **OSE:**

#### ***New Commodity ETFs on Tocom Futures Tradable at OSE***

On February 15th OSE launched 2 new ETFs on TOCOM Gold and Platinum Futures, the new ETFs gives investors a further opportunity to directly invest in the performance of domestic commodity indices. The OSE ETFs are the first domestic ETFs that are linked to a domestic commodity market in Japan.

Please find the product prospects at the following links:

#### **NEXT FUNDS Nikkei-TOCOM Platinum Index Linked Exchange Traded Fund ETFs (1682)**

[http://www.ose.or.jp/e/stocks/sj/1682\\_e.pdf](http://www.ose.or.jp/e/stocks/sj/1682_e.pdf)

#### **Mizuho Gold ETF ETFs (1683)**

[http://www.ose.or.jp/e/stocks/sj/1683\\_e.pdf](http://www.ose.or.jp/e/stocks/sj/1683_e.pdf)

This selection, together with an annual trading value of 2.2 trillion Yen, makes OSE one of Japan's leading trading venue for ETFs.

### **TFX:**

#### ***Historical Record for Monthly Trading Volumes***

TFX monthly trading volume for January 2010 was 10,610,079 contracts, which was a 140% increase over the same month the previous year. This is the first time since inception that TFX's monthly trading volume has breached 10 million contracts. The increase in Click 365 (Margin FX) trading volume was dominant, where trading volumes were triple those of the same month the previous year.

#### ***Barclays Bank Designated as a New Market Maker on the Click 365 Market***

TFX designated Barclays Bank as a market maker in its Click 365 market. The total number of market makers is now six companies. It is planned for Barclays Bank to commence market making within the first quarter of 2010.

### **TOCOM:**

(for details, please visit the TOCOM website at <http://www.tocom.or.jp>)

#### ***TOCOM-linked Products Launched***

On February 15, 2010, two ETFs were listed on the Osaka Securities Exchange. One of them uses the settlement price of TOCOM gold futures and the other links to the Nikkei-TOCOM Platinum Index. An investment trust, which invests directly in TOCOM's gold futures contract, was also launched on February 17, 2010. These are the first Japanese investment trust and ETFs linked to the Japanese commodity futures market.

***Block Trades Introduced***

As the first Japanese commodity futures exchange, TOCOM introduced Block Trading on February 4, 2010, after having received approval from the Minister of Economy, Trade and Industry. TOCOM has been receiving numerous requests from investors involved in investment funds and ETFs to introduce Block Trading, which allows for transactions to be concluded apart from the market.

***Extending Trading Hours***

TOCOM aims to extend the closing time of the night session from the current 23:00 (JST) to 4:30 from September 21, 2010. Trading hours for the rubber contract will not be affected (9:00-15:30 and 17:00-19:00). TOCOM decided to extend the trading session beyond 23:00 partly because the overlap in trading hours with the New York market could greatly benefit arbitrage traders.

***Launching TOCOM NEXT***

TOCOM announced that the Nikkei-TOCOM Commodity Index market, which is planned to be opened on March 23, 2010, will be called "TOCOM NEXT" and the Exchange also released a logo.

The name "TOCOM NEXT" is a combination of the word "TOCOM" (the abbreviation of Tokyo Commodity Exchange, Inc.) and "NEXT", in reference to the fact that this index market represents both the center piece of the Exchange's future listing line-up as well as a new type of investment product that wasn't offered before.

***CFTC NAL Application***

TOCOM has been receiving comments from various U.S. market players, including some located in New York, stating that "in addition to the remote membership, once DMA is available, they would actively participate in the TOCOM market, since this would facilitate their access." Accordingly, in order to offer DMA to U.S. customers, TOCOM is moving forward quickly with its preparations to apply for a No-Action relief from the CFTC and hopes to receive said relief by fall.

***TSE:***

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

***Position Transfer Arrangement on TOPIX Futures and JGB Futures between NYSE LIFFE and TSE***

TSE has announced that futures on TOPIX, which is a popular benchmark for Japanese stock market, will be listed on NYSE Liffe and a position transfer arrangement between TSE and NYSE Liffe will be available. Also, the arrangement will be applied to JGB futures which have been listed on NYSE Liffe. It will be effective this autumn.

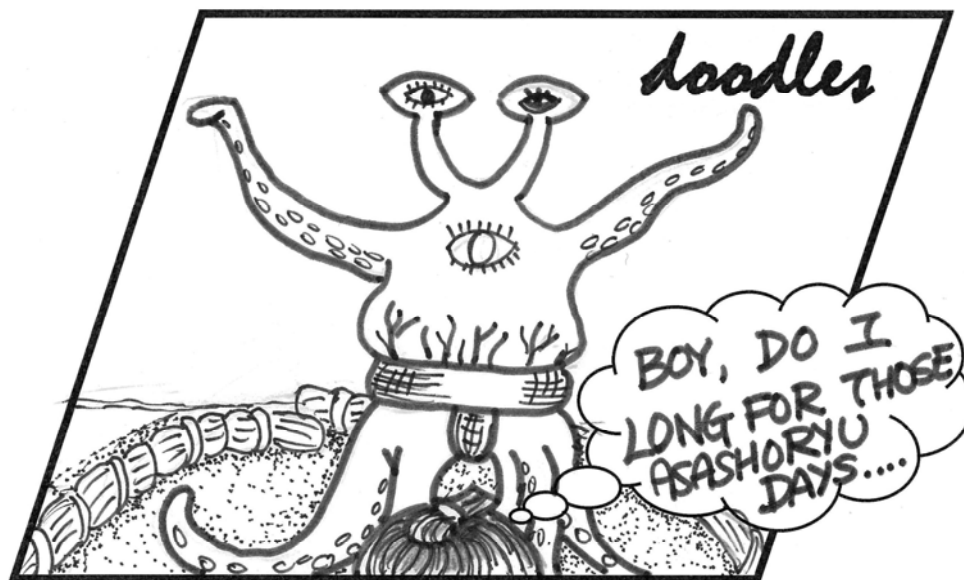
***Calculation and Publication of TSE Dividend Focus 100 Index***

TSE will calculate and publish a new dividend yield-focused index called "Tokyo Stock Exchange Dividend Focus 100 Index" from March.

The Tokyo Stock Exchange Dividend Focus 100 Index is an index which places focus on the estimated dividend yields of its constituent issues. The index will be made up of the top 100 issues (90 stocks, 10 REITs) which have large market capitalization and high estimated dividend yield, out of constituent issues of the TOPIX 1000 and Tokyo Stock Exchange REIT Index.

## Doodles

February 4 2010, Yokozuna Asashoryu suddenly announced his retirement. This year started with a big surprise for the Sumo world. As you may know, Asashoryu is a Mongolian sumo wrestler. Although the Japanese sumo world seems to be conservative, in fact it has opened its doors to foreigners. In January 2010 the total number of registered sumo wrestlers was 735, out of which 59 are foreigners. 42 sumo wrestlers are listed in the Makuuchi (*main event*) division, including 17 foreign wrestlers. Based on the total number of wrestlers, the top three foreign countries participating in Japanese sumo are: Top one - Mongolia (43 people); second place - U.S. (30 people ); and third place - Brazil (15 people). The traditional sumo industry has been trying to stimulate its activity by welcoming foreigners...and the Japanese futures industry has been working on the same strategy!



「朝青龍時代は良かったな。。。」



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
Scott Shenk	Credit Suisse Securities (Japan)
Naoaki Kurumada	Dot Commodity, Inc.
David Wilkinson	Equinix Japan K.K.
Mitch Fulscher	FIA Japan
Michael Ross	SunGard Global Trading (Japan) KK
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.
Julien Le Noble	Newedge Japan Inc.
Yasuo Mogi	Newedge Japan Inc.
Seiji Yuki	Okato Shoji Co., Ltd.
Hideki Noda	ORIX Investment Corporation
Kotaro Yamazawa	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)
Kunimitsu Ito	Tokyo Grain Exchange Inc. (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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