



FUTURES INDUSTRY ASSOCIATION JAPAN CHAPTER

Newsletter

December 2007

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CHAIRMAN'S MESSAGE

2008 - Year of Nezumi

Corporate and political scandals continue to fill the newspapers. A political stalemate has totally occupied the Prime Minister and his Cabinet, and the reform movement has been put on hold. This is extremely disappointing. We hope to see a continued forward momentum in creating the Tokyo Financial Market, but the situation has become clouded again.

On a positive note, we were pleased to see the interim report issued recently by METI, MAFF and the Industrial Structure Council which urges changes in the futures exchange structures in Japan. These recommendations would allow integration and tie-ups and the freedom to trade products outside of the current regulatory "silos". The FSA is also discussing ways to integrate the operations of securities and commodity exchanges. The Ministries will submit changes to the Diet amending the FIEL and the CEL, hopefully during 2008 for enactment in 2009. These movements are slow... but in the right direction.

FIA-Japan is now focusing on two major initiatives. First we have formed a Task Force which will examine the role and function of the clearinghouse in the Japan futures markets. The first priority will be the commodity clearing function where much improvement is needed. See the article appearing in this newsletter for more information on this Task Force. Our other major initiative is the FIA Asia Conference which we will host in Tokyo in September 2008. This is an important opportunity to bring international attention to the Japan financial market. We will keep you informed of these initiatives as we move forward.

To all our members, we wish you a healthy and joyous holiday and a prosperous New Year. 2008 is the Year of "Nezumi" – we expect much activity and, hopefully, rapid movement forward!

Regards,

Mitch Fulscher
Chairman, FIA-Japan

Regulatory News

Discussions with Regulators

In order to enhance communication with the Regulators, recently FIA-Japan has initiated informal "roundtable" discussions with METI and MAFF. A small group of Executive Committee members representing overseas firms are able to express their views and observations about the Japan commodity markets as well as discussing developments in the global marketplace. We plan to make such meetings a frequent occurrence to maintain an open channel for communication with the Regulators.

FSA Meeting

FIA-J Executive Committee member Mr. Hiroyuki Takai, corporate officer of Sumitomo Shoji Co., was invited to FSA's policy making meeting in November and offered his view on commodity derivatives trading from a commodity trader's stand point. The series of meetings held by FSA is aimed at enhancing Japan's financial markets' functions and thus improve their competitiveness against foreign markets.

Commodity futures markets are currently regulated under the Commodity Exchange Law administered by the Ministry of Economy, Trade and Industry (METI) and the Ministry of Agriculture, Forestry and Fishery (MAFF). On the other hand, financial products, such as Nikkei 225 and individual stocks, are traded under the FSA's Financial Instruments and Exchange Law. However, the Council on Economic and Fiscal Policy (CEFO) - Prime Minister Yasuo Fukuda's private council - has set forth a bigger objective for exchanges regardless of their regulators, which is to let them have the possibility to list a comprehensive and wider array of trading vehicles in order to enhance their competitiveness. FSA, METI & MAFF respectively started their policy making meetings in accordance with the CEFO decision.

Based upon his knowledge and experience, Mr. Takai explained the current situation surrounding commodity markets and possible recovery measures for these markets, which are far behind their international rivals.

Trading Volume of Financial Derivatives

Following is the July - September 2007 quarterly volume of financial derivatives traded by members of the Financial Futures Association of Japan - FFAJ. Please refer to periodical magazines issued by the Association for further information.

Exchange-traded Financial Derivatives: on the Tokyo Financial Exchange, 33,218 thousand contracts on customer accounts were traded, and 6,259 thousand contracts (excluding market making volume for Margin FX) on house accounts were traded (11,436 contracts on overseas exchanges were also traded by FFAJ members).

OTC transactions with retail customers: OTC foreign exchange margin transactions (OTCFX) worth 185 trillion yen, 10.5 trillion yen worth of OTC currency options and 68.6 billion yen worth of NDF were traded. The volume of OTCFX represents a 54% Q-Q increase due to the high volatility seen in July and August. 143 pairs of currencies were traded during the quarter, of which GBP/JPY had the largest volume with GBP 4 billion (=936 billion yen) per day, followed by USD/JPY with USD 7.4 billion (=857 billion yen), which represents 51% of the USD 14.8 billion traded on the inter-bank market (via brokers) in Tokyo. The inter-bank market is open during day time, however, and OTCFX is said to be active during night time.

Activities On Going

Commodity Clearinghouse Task Force

Our Board of Directors has discussed the important role of the Clearinghouse in furthering the growth of the futures market in Japan. Recently we have established a special Task Force to focus on the clearing function for the commodity industry. This Task Force will survey the practices and design of the clearinghouses in the U.S. and Europe and determine the needs and special requirements for the Japan marketplace. We expect to develop a position paper setting forth our recommendations for the commodity markets in Japan.

Our Task Force review will include the following areas –

- Financial requirements for the clearinghouse and its members
- Margining methodology
- Risk management
- SRO Audit functions
- Corporate governance
- Give-ups and position transfer

People

Interview with TFX President: Mr. Shozo Ohta

Mr. Shozo Ohta, Senior Managing Director and COO of the Tokyo Financial Exchange (TFX), is internationally known and joined TFX in 2002 after serving in the Ministry of Finance in a senior position. He also serves as President of FIA-J since his election at the Board Meeting on May 9, 2007.

What do you think of the market environment and the main achievements of TFX in 2007

Mr. Ohta: The annual trading volume of TFX products has been nearly 72 million contracts in 2007 as of November 2007, representing a 70-percent increase over the same period last year, thanks to recovering Japanese financial markets.

To respond to this trend, we've improved our trading-infrastructure by extending our trading hours to 8 pm and introducing a Market-Maker scheme for Euro yen Options last February. In response to the enforcement of the Financial Instruments and Exchange Law, TFX changed its Japanese company name to "Tokyo Financial Exchange", omitting the word "Futures". This new name is the first step for TFX to develop into a more comprehensive "Financial Exchange" that handles various financial products.

What is your strategy for the years to come?

Mr. Ohta: Three projects. First at all, technology improvements. We will be upgrading the version of our trading system powered by LIFFE CONNECT this next spring. This upgrade will enhance both the transaction speed to less than 10 ms and the reliability of TFX markets, which includes Business Continuity Planning (BCP). TFX will provide one of the world's fastest and most robust systems.

Secondly, the introduction of a remote-member scheme. We have approval from the FSA for the scheme, and obtained a No-Action letter from the CFTC to make our system available to U.S. members.

Thirdly, listing new products. We listed Over-Night Interest Rate Future products in December, and we have plans in the futures to list other products.

As President of FIA-J, what roles do you think the association should play in helping reform the industry?

Mr. Ohta: FIA-J is the only association in Japan with cross-sectional and diversified members engaging in the futures business such as banks, securities, commodity brokers. The role of FIA-J will be more important than ever with Committees of regulators formulating some considerations to invigorate the Japanese futures markets and to integrate the financial and commodity markets. To make our proposal to various policies more efficiently, it would be necessary to enhance both the domestic and foreign presence of FIA-J by increasing the number of members and energizing our activities. I believe that an immediate plan to achieve these goals will lead to both the success of the FIA Asia conference held in Japan next year and the success of FIA-J organized seminars.

Reports of Past Events

FIA Asia Presentation by Nick Ronalds

We had an open board meeting at Ark Hills Club on October 16 and Mr. Nick Ronalds made a presentation titled "FIA Asia: An Association for All Asian Markets".

Mr. Nick Ronalds is working full time in the formation of FIA Asia which is a new association covering the entire Asian region. As FIA Washington approved the by-laws of FIA Asia, this new organization is now officially founded.

Luncheon with CFTC Chairman Lukken

FIA-J organized a luncheon event with a presentation by CFTC Chairman Lukken at the Tokyo American Club on November 7, while Chairman Lukken and CFTC senior officers visited Japan to attend the annual IOSCO conference. They enjoyed a good time with FIA-J members, sharing their views on the market. Chairman Lukken and Director Jackie Mesa of International Affairs showed interest in our FIA Asia 2008 Tokyo Conference and expressed their intention to help support the idea of holding a "regulators meeting" as a part of the conference.

We thank the below sponsors for their generous help:



FIA Asia 2007 Taipei Conference

FIA Asia conference was held at the Shangri-La Far Eastern Plaza Hotel in Taipei on October 10-13, 2007. The program covered country specific issues as well as Asian general issues and over 300 people attended. We have started to prepare for the next year conference in Tokyo.

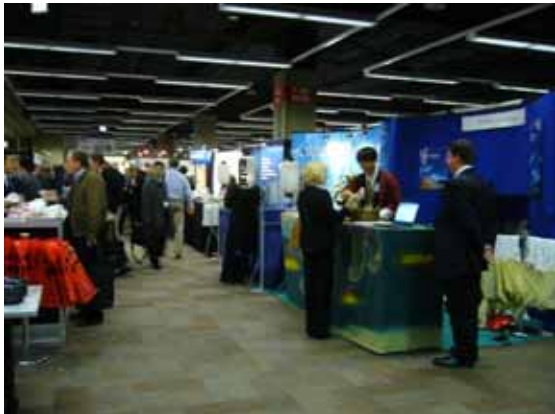
Photo: "Information Xchange: Commodity & Energy"
 From left to right, Mr. Yasuo Mogi, Vice Chairman, Fimat Japan (Chair), Mr. Jerald David, Head of Marketing and DME Relations, Dubai Mercantile Exchange (Speaker), Mr. Mitsuhiro Onosato, Executive Director, The Tokyo Commodity Exchange (Speaker), Dr. David Rutledge, Chief Executive, Dubai Multi Commodities Centre, and Director, Dubai Gold & Commodities Exchange (Speaker)



FIA's Futures and Options Expo07

The Futures and Options Expo, held in Chicago from November 27 to 29, saw 140 exhibitors attend to about 4,200 delegates, representing 37 countries, demonstrating Expo's status as the world's leading trade show for the futures industry. Delegates also participated to a series of specialist panel sessions held by industry leaders covering "hot topics" such as algorithmic trading, latency and clearing services.

The Central Japan Commodity Exchange, the Tokyo Financial Exchange, the Tokyo Grain Exchange, The Tokyo Commodity Exchange, the Tokyo Stock Exchange and the Osaka Securities Exchange organized for the fourth consecutive year the "Japan Street" event, displaying traditional pictures and artifacts, as well as serving Japanese food that attracted many interested participants and made for a memorable event.



"Japan Street" at FIA Expo07



Mr. Shirota, International Affairs Section Manager, serving the "Japanese Buffet" at the TOCOM booth

Future Events

FIA Asia 2008 Tokyo Conference

FIA-Japan has been designated by FIA Washington to serve as the host for the 2008 Asia Conference together with the Japanese futures exchanges. We are now proceeding with plans for the conference and we are finalizing arrangements for the venue. The timing is expected to be September 17-19, 2008 at the Westin Tokyo Hotel. Once the contract with the hotel is settled we will officially announce the location and dates to all our members. We plan for this to be a major event that will attract exchanges, FCM's and Regulators from throughout the Asian region. We also expect to have an exhibition hall for participants to display their products and services to the attendees.

One of the important aspects of this conference will be the gathering of futures industry Regulators from around Asia. They will hold a private session, and with the support of the CFTC in Washington, we would like to encourage an open line of communication to advance regional cooperation among regulators and the industry.

FIA-J Shinnen-kai (New Year reception)

FIA-J plans a New Year reception at the Ark Hills Club on January 18, 2008. The reception starts at 18:15. Please join us with your friends as a new year starts. For further details, please contact our Executive Secretary, Ms. Ogawa (ogawa@brookandbridge.com).

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Exchange News

C-Com:

Signed MOU with SHFE

Central Japan Commodity Exchange (C-Com) and Shanghai Futures Exchange (SHFE) signed a Memorandum of Understanding on November 7 in Nagoya. SHFE and C-Com have already worked together very closely in the past and share a few common products such as Energy, Rubber and Aluminum. The areas of cooperation in the MOU include information sharing, exchange of staffs, training, holding joint seminars and joint product development. As both exchanges list common products, this official cooperative framework is expected to bring about practical results in a number of areas.

Presentation at Korean Commodity Futures Symposium

At the Symposium held at KRX in Seoul by the Korea Commodity Futures Forum on October 25, C-Com made a presentation on its oil futures market. This Symposium was designed for those who are involved in the research of commodity futures such as university professors and Futures Commission Merchants in Korea in order to promote the development of the industry. It is normally held once a year with prominent lecturers from abroad. This year, there were two presentations: CME Group and C-Com. The CME focused on their pork contracts, and C-Com presented its experience in listing oil futures in Japan entitled "Issues and their solutions for listing oil products in Japan". KRX plans to list Pork Belly futures in the very near future, and is seriously considering listing Gasoline following the launch of the Pork Bellies contract.

OSE:

Listing of Covered Warrants

OSE announced its plan to launch trading of covered warrants, tentatively scheduled for next summer. Listed covered warrants are widely traded on major European and Asian exchanges; however, the OSE's planned listing is the first such initiative in Japan. Underlyings will be Japanese listed stocks (including ETFs and REITs) and major Japanese/ foreign financial indexes. The investment amount per issue is expected to be approximately several tens of thousands of yen, and this launch is also intended to familiarize individual investors with options trading.



Expansion of Underlying Instruments for Equity Options

OSE announced its plan to extend the eligible instruments underlying Equity Options trading to include ETFs, REITs and so on, tentatively scheduled for May 2008. Considering the recent expansion of the REIT and ETF markets in Japan, from the view point of providing means for hedging price volatility risk on such products and new investment tools based on them, OSE has decided to extend the eligible instruments underlying Equity Options trading to include securities other than stocks. The criteria for selecting underlying instruments for Equity Options, such as liquidities, are the same as the current criteria for selecting underlying stocks.

TGE:

Continuous Trading at TGE to start in January

The Tokyo Grain Exchange (TGE) will start continuous trading for Arabica and Robusta coffee futures and raw sugar futures contracts on to its continuous trading platform from January 4, 2008. Corn futures also will join the above products sometime after April 2008.

TOCOM:

Modification of Rules & Regulations

TOCOM will extend its trading hours by two hours on and after January 7th, 2008, with a closing time for the afternoon session at 17:30 instead of 15:30. The Exchange has modified its Market Rules and Brokerage Rules accordingly, following approval from the Ministry of Economy, Trade and Industry. The modifications include postponing the ending times for order entry and Trading Reports by two hours, as well as postponing the time by which a customer can offset a position or settle a position through delivery by 45 minutes. For further details, please visit our website at: www.tocom.or.jp/news/

Articles of Incorporation Updated

TOCOM has updated the English version of its Articles of Incorporation to match the current Japanese version. The update included the addition of Article 18-2, "Change in Type of Membership," modifications of Article 58, which now specifies the cases under which a Member may transfer positions, and Section 3, "Default Measures," as well as the deletion of Article 59.

The Articles of Incorporation of available for download at: www.tocom.or.jp/profile/kitei/index.html

Aluminum Delivery Unit Changed

The Delivery Unit for Aluminum has been changed from 50,000 kg to 25,000 kg effective on and after October 29th, 2007, applicable from the Oct08 contract onward. Please note that Declared Delivery for the Oct08 contract starts in September 2008, and basic delivery takes place in October 2008.

Others

Merger of Three Companies Under Dot Commodity, Inc.

Dot Commodity, Inc. is a commodity futures FCM, which only deals in Internet-based transactions. It was established by Mr. Naoaki Kurumada, former official of METI, in 2005. It merged its commodity futures brokerage business with its equivalents at Himawari CX and Astmax Futures. With this merger, Dot Commodity, Inc. became the biggest player of its type in the industry in Japan in terms of business scale, with around 10 billion yen in reserved assets and a volume of 300 thousands transactions per month. This merger of the 3 companies offers various services to satisfy the needs of each customer and also aims to expand services for the profit of the larger business community.

The background for this merger lies in the expected future development of the commodity FCM business through the internet. According to Mr. Kurumada, this expectation is based on the planned introduction of 24-hour trading at TOCOM and the decrease in Mandatory Deposit to FCMs (Sekinin-Junbikin) to 1/30 of the former amount (this change in regulation is expected to bring around 300 million yen in special profit to the merged Dot Commodity, Inc. annually). Dot Commodity, Inc. has the firm intention of contributing to the development of the Japanese commodity future markets by increasing liquidity in the market.



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

Board of Directors and Officers

Officers

Mitch Fulscher, Chairman	Financial Consultant
Shozo Ohta, President	Tokyo Financial Exchange Inc. (TFX)
Yasuo Mogi, Vice President	Fimat Japan Inc.
Takanori Kosaka, Secretary	HSBC
Junko Ueno, Treasurer	Societe Generale Securities Tokyo (FIMAT)

Other Board Members

Osamu Akita	Japan Commodity Futures Industry Association
Brian Benus	Bear Stearns (Japan), Ltd.
Thomas J. Dreves	Baker & McKenzie GJBJ Tokyo Aoyama Aoki Koma Law Office
Masanori Hayashi	The Tokyo Grain Exchange (TGE)
Mikio Hinoide	Osaka Securities Exchange Co., Ltd. (OSE)
Junnosuke Inoue	Unicom Group Holdings, Inc
Mikio Kawamura	Tama Graduate School of Management & Info. Sciences
Fumihiko Kimura	Central Japan Commodity Exchange (C-COM)
Yoshio Kuno	Chicago Mercantile Exchange Inc. (CME)
Naoaki Kurumada	Dot Commodity, Inc.
Julien Le Noble	Societe Generale Securities Tokyo, FIMAT Division
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Hiroyuki Takai	Sumitomo Corporation
Hideaki Ushijima	Japan CTA Association

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