

FIA Japan Newsletter

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January

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Takamichi Hamada, *President & CEO, Tokyo Commodity Exchange, Inc.*



PRESIDENT'S MESSAGE

Akemashite Omedetougozaimasu! Happy New Year!

I hope 2016 will be a profitable year for all of us in this industry.

Members of the Executive Committee had a chance to discuss the sentiment of the market with Eric Pan, the Director of Office of International Affairs of CFTC over breakfast. The statement by Commissioner of FSA, Mr. Nobuchika Mori, was on top of everyone's mind.

During his speech at the Thomson Reuters 6th Annual Pan Asian Regulatory Summit in Hong Kong, Commissioner Mori asked three questions.

- Would endless regulatory reforms contribute to sustainable economic growth?
- Would the combined effects of the whole range of well-intended reforms not betray the original good objectives?
- Would our focus on the prevention of recurrences of the past crisis not make us poorly prepared for the next crisis which may come with totally new outfit?

These are all valid questions. The Commissioner also stated that "the factories of manufacturing new regulations are still operating at their full capacity".

We at FIAJ applaud these challenges posed by the commissioner of the Japanese FSA. Growth is as important as stability. We are in the risk business. A world without risk would mean death to our industry. An overreliance on blunt instruments such as the Supplementary Leverage Ratio, when applied too broadly, will only cause unintended consequences.

We must all pay close attention to another risk: Cyber threats. According to Mr. Pan, CFTC will be more active in this area. FIAJ has been looking at this subject and will be putting a discussion panel at the GMAC event planned for February 25, 2016. I challenge our members to place Cyber Security at top of the to do list for 2016. The resources devoted to this area may not help write the next trading ticket, but nonetheless could well prove a life saver for many firms.

FIAJ will be challenged in 2016 to look at many new topics, including Fintech which is another area affecting all our members and getting a lot of buzz. We of course will be examining this promising space and see where we can offer help to our members.

Michael Ross,
President - CEO, FIA Japan

Takamichi Hamada

President & CEO,
Tokyo Commodity Exchange, Inc.



TOCOM Aiming for a Comprehensive Commodity Marketplace with Expanded Energy Lineup and More

Takamichi Hamada is President & CEO of the Tokyo Commodity Exchange, a post he has held since June 2015. Prior to this, he had served for one year as Executive Vice President & COO. This was Mr Hamada's second posting as Executive Vice President & COO. In October 2002, he held this role after departing the Ministry of Economy, Trade and Industry. He had worked there for 27 years, in various positions including Deputy Director-General, Industrial and Science Policy Environment Policy Bureau and Director General, General Affairs Department, New Energy and Industrial Technology Development Organization (NEDO). He led early reform efforts to open TOCOM's markets to the global trading community. Mr. Hamada left TOCOM in 2006 for other endeavors, including a post as executive officer of Fuji Electric and chairman of Venture Enterprise Center. He graduated from Tokyo University with a degree in Economics in 1975.

Aiming to attract more new market participants to increase market liquidity

FIAJ: You were appointed CEO of TOCOM in June 2015. What are your plans for the exchange, in the energy sector in particular?

Under the leadership of Tadashi Ezaki, my predecessor, TOCOM implemented a wide range of structural reforms. These included standardizing trading platforms and market rules, the development of new products, improvements in market usability and market participant diversification. These efforts have started to deliver results. For example, we are seeing a significant increase in market participation from overseas. Also, some of our markets got a boost from the success of financial products,

such as ETFs and ETNs that track TOCOM prices.

It goes without saying that we aim to attract more new market participants and increase market liquidity. It is a common phenomenon in marketplaces that low price volatility leads to low volume. As an exchange operator, however, we must work towards stable revenue growth that is independent of market movements. When I accepted my position, I reaffirmed our priorities. As stated in the midterm business plan, we are focused on three initiatives: 1. Establish a base of operations that stabilizes revenue growth; 2. Create a comprehensive energy market that includes electricity futures and LNG as core products and; 3. Increase collaboration with other exchanges, including JPX and exchanges in mainland China.

As part of our efforts to strengthen revenue, we're looking

to create a physical gold market and continue to promote the Gold Daily futures contract we launched last May. Ultimately, we aim to become a comprehensive commodity marketplace that extends beyond commodity futures to include OTC and physical products. We believe TOCOM will be better positioned to meet the needs of the global trading community.

Plans for our comprehensive energy lineup include electricity futures. TOCOM intends to launch contracts based on the METI Council on Electricity Futures Market policy for fiscal 2016. Electricity futures have distinctive properties, so we will conduct an educational campaign.

We are also supporting spot LNG trading at the Japan OTC Exchange (JOE), which we established jointly with Ginga Energy Japan in 2013. JOE has been working with CME Group to offer clearing services on ClearPort®. Now that CME Group is licensed to use JOE's LNG prices, I expect the new service to start very soon. We hope the introduction of this globally trusted clearing service improves market usability and encourages major energy companies around the world to participate in our marketplace. In particular, we believe that participation by suppliers will kick-start the market.

Finally, on collaboration, we will make concerted efforts to establish cooperative ties with mainland Chinese exchanges. This is based on the importance and growth potential of commodity trading in Asia. We co-hosted a seminar with Dalian Commodity Exchange for their investors last October where I made the opening remarks. It was a pleasure to see such interest in our products, including rubber futures.

System sharing with JPX to increase investors' convenience

FIAJ: TOCOM announced that it will start using the JPX trading platform in late 2016. Do you have any other collaboration plans or alliances with Japanese or overseas exchanges?

We have established a good cooperative relationship with JPX through the new trading system project. Our cooperation has also led to the success of ETF's and ETN's tracking TOCOM prices. Last December, we jointly hosted a networking reception to coincide with the FIA Asia conference in Singapore. I



discussed with Mr. Kotaro Yamazawa, Vice President of OSE, the advantages of the new trading platform for OSE's financial derivatives and TOCOM's commodity futures. We will continue to collaborate in such promotional efforts and TOCOM will use this opportunity to foster the participation of financial investors in the commodity market.

As I mentioned earlier, we are forging relationships with mainland Chinese exchanges. Following the joint seminar with the Dalian Commodity Exchange last year, we may consider whether working with the Shanghai Gold Exchange may be of mutual benefit. The Chinese government generally prohibits futures market investment both into overseas markets and from overseas investors. But the policy may be changing as the ban was partially lifted for overseas investors in recently opened special economic zones. Chinese exchanges may be willing to set up investor events in Japan in the near future.

Last December, we granted the first remote broker membership to NGNH International Futures, a Hong Kong entity of one of the largest financial institutions in mainland China. There are other brokers interested as well. I expect collaboration with Chinese exchanges to gather momentum when Chinese brokers become active in our market.

TOCOM to take advantage of Asia's growing presence

FIAJ: In recent years, the Chinese economy has had a large impact on the world commodity markets. What is your outlook on the commodity markets in the near-term and how does that affect your strategy for

domestic and overseas market participants?

China is the second largest economy in the world. And even though it has slowed significantly since last summer, it will continue to have an impact on not only the commodity futures market, but the global economy as a whole. In looking at the future of global commodity markets, regulatory trends need to be considered. After the Lehman shock, market regulations have tightened, two examples of which are the Volker Rule and Dodd-Frank Act. As a result, financial institutions incrementally withdrew from the commodity business. They were replaced by commodity traders such as Glencore and Vitol, as well as the trading arms of European power companies. Since late 2013, business has suffered from weak commodity prices. We should keep an eye on this situation and consider whether it may affect the market. In the US. and Europe, new regulations to control high frequency traders, who have become major market players, are being discussed.

As far as the Asian markets are concerned, their presence in the world of commodity trading has grown significantly. Over the years, an increasing proportion of commodity trades are done in Asia and the region is drawing global attention. Last November, the Intercontinental Exchange successfully launched its Asian hub in Singapore and Deutsche Börse is reported to have similar plans for later this year. China too is expected to roll out plans to launch a crude oil market at the International Energy Exchange

in Shanghai. They may also globalize the Renminbi, which would likely lead to market liberalization.

TOCOM, as a leading Asian commodity exchange, will strive to take advantage of the region's large growth potential. We are working to create a comprehensive energy market, expand our business scope and develop a comprehensive commodity marketplace. We are also reaching out more aggressively to the global investment community.

FIAJ: The Japanese government is working with regulators to re-establish Tokyo as a global financial center. How do you envision TOCOM's role in this project?

TOCOM is a privately-held company that has a highly important public mission in providing an indispensable component of Japan's economic infrastructure. In that sense, our best contribution would be to successfully strengthen TOCOM. Tokyo's status in global financial markets grows when we steadily implement the initiatives I mentioned earlier. Furthermore, to increase liquidity, it is critical that we improve market usability and consider investor needs. We will continue to call for changes to the tax code. Examples include the ability to aggregate profits and losses for commodity and financial investments and revising regulations concerning hedge accounting.

FIAJ: Thank you.

Regulatory news

FIA Special Report: CFTC Advisory Committee Discusses Clearinghouse Default Risk

The CFTC's Market Risk Advisory Committee held a meeting on November 2 to discuss issues related to how clearinghouses manage the risks arising from the default of one or more clearing members. The discussion focused on two recommendations in particular: 1) the "interdependencies" between clearinghouses

and other market participants and how this might affect their liquidity risk, and 2) operational readiness for porting customer positions and collateral in case of a clearing member default.

[Other recommendations](#) will be discussed at a later date.

FIA Merges into Single Organization

Photo Credit: John Rizzo

On November 5, FIA announced that official documents have been signed executing the merger of FIA, FIA Europe and FIA Asia into a single organization. The merger into one FIA will take effect on January 4, 2016. The newly merged organization will represent and serve both the global and regional needs of the futures, options, and cleared swaps industries.

Since June 2013, the three associations have been working closely together under an affiliated global structure, FIA Global, which enabled the independent organizations and their boards to better coordinate policies and priorities. The merger is the next step in enhancing global representation for the cleared derivatives industry.

As reported in our previous edition, FIA Japan notes that this merger would not cause a change in our relationship or in our continued interest in being a strong affiliate with FIA going forward.



Representatives from FIA affiliates sign official documents to merge into a single organization. Seated, left-to-right: Paul Davies, FIA Asia Chairman; Steve Sparke, FIA Europe Chairman; Walt Lukken, FIA President and CEO; Gerald Corcoran, FIA Chairman; Michael Dawley, FIA Global Chairman. Standing, left-to-right: Bill Herder, FIA Asia President; Simon Puleston Jones, FIA Europe CEO.

China Strengthens Regulations of Commodity Markets

By Makoto Sugitani, Mac
Straits Financial Services Pte Ltd

China's CSI300 and the underlying stock markets fell by more than 40 percent during a three months period (June to August) from its peak earlier in 2015.

Beijing took a number of measures, prioritizing on the near term market stability, to control speculative activities in equities and foreign exchange markets. Financial markets cooled off as a result of the government intervention, but a massive loss of value in the financial assets (some reports mentioned a loss of USD 5 Trillion) caused many to reduce their exposure in the commodity markets. The three commodity exchanges in mainland China—namely Dalian, Shanghai, and Zhengzhou—saw their open interests drop by 24.4%, 7.2%, 24.1% respectively, while relatively high volumes were traded during that period.

Further, the regulators in China expanded and strengthened controls in the commodity markets as well in order to curb speculative trades. The exchanges were given instructions to focus on program trading in particular and to control short-term/high-volume business among other measures. This directly affected the volume of the commodity exchanges, the second largest market in the world after the US. However, open

interest picked up by 40% from the end of August to November, as commercial hedgers and longer-term investment funds in China returned to the markets attracted to the ongoing volatile commodity prices.

The stock market turmoil delayed the countries' launch of a crude oil futures contract at the International Energy Exchange (INE) in Shanghai. The contract is designed to challenge energy markets in the US and the UK by opening the doors for the first time for overseas players to participate directly in a futures exchange in China. The crude oil market is expected to not only establish a greater influence over global energy pricing, but also to help promote the use of the Yuan currency in international business. As of the end of November 2015, the INE is still waiting for approval from the Chinese Securities Regulatory Commission.

Commodity markets should be priced on the fundamentals of supply and demand for the product, and should fluctuate efficiently through a linkage with international prices. Excessive price movements (as seen in the Chinese stock markets) should be corrected through arbitrage trades with the underlying or other relevant contracts (i.e. inter-exchange/market spread transactions). Chinese commodity markets are expected to grow further from a global perspective, and potentially in a much

larger scale, if arbitrage opportunities with overseas markets are provided. The launch of the Shanghai crude oil contract could

be the first step in this direction and provide international players with renewed confidence to participate in the markets in 2016.

Equinix Acquires Bit-Isle

In November, Equinix Japan announced that it had completed a cash tender offer of Bit-Isle, Inc, an acquisition that will create the fourth largest data center operator in Japan (Source: Fuji Chimera Research Institute). This supports growing customer demand in Japan from both domestic and multinational clients. Asia pacific is the company's fastest growing region—The acquisition in Japan is an indication of the ongoing and future

importance of the Japanese market and post- acquisition Japan will represent 40% of Equinix's data centers across the region.

Equinix will gain five data centers in Tokyo and one in Osaka in close proximity to the existing Equinix International Business Exchange (IBX®) data centers in Japan, creating campus-like environments to support the expansion needs of customers and bringing its total number of data centers in Japan to eleven.

FIS Completes Acquisition of SunGard

FIS™, a global leader in banking and payments technology as well as consulting and outsourcing solutions, announced on November 30, 2015 the closing of its acquisition of SunGard. The acquisition uniquely positions FIS to offer a broad range of enterprise banking and capital markets capabilities that will further empower the financial industry worldwide.

With complementary technology solutions and services encompassing retail and institutional (or wholesale) banking,

payments, risk management, asset solutions and insurance, the combined company now has more than 55,000 employees and \$9.3 billion in revenue on a pro-forma basis.

Gary Norcross, president and CEO, FIS, said: "This acquisition creates one of the broadest sets of technology assets and market expertise in the industry, and allows FIS to present new opportunities to our existing client base as well as to financial services markets that we have not historically served."

Exchange News

Introduction of FTSE China 50 Index Futures JPX

JPX is to introduce futures on FTSE China 50 Index, comprising of the Chinese stocks listed on the Stock Exchange of Hong Kong, when it launches the next J-GATE—the brand new derivatives trading system which is planned to go live in mid-2016. This is the first case for FTSE China 50 Index futures to be listed in the Asian Region. JPX-listed FTSE China 50 Index

futures should provide investors in Japan with an alternative trading instrument to invest in the Chinese market. When it launches the next J-GATE, JPX will launch four new products: TSE Mothers Index futures, JPX-NK 400 Options, TAIEX futures and FTSE China 50 Index futures.

One-year Anniversary of JPX Nikkei 400 Futures JPX

JPX Nikkei 400 Futures, which started trading on November 25, 2014, marked its first anniversary. The cumulative trading volume reached eleven million contracts (ADV: 45 thousand contracts) and open interest has increased to 280 thousand contracts, making the product one of the most traded products at Osaka Exchange. Additionally, the designation by the authority

in Taiwan in December of the JPX-Nikkei 400 futures as a tradable contract for Taiwanese investors and the launch of the JPX Nikkei 400 Options, which is planned to take place next summer, should bring further momentum to the trading volume of the futures contract.

Listing of TOPIX Futures contract in Taiwan JPX

Japan Exchange Group, Inc. (JPX) and Taiwan Futures Exchange (TAIFEX) announced their plan to introduce TOPIX futures, a futures contract based on one of JPX's major indices, to investors in Taiwan. The TOPIX futures on TAIFEX denominated in New Taiwan Dollar (TWD) was launched in December, 2015. Being a major indicator which reflects the

overall trends of the Japanese stock market, TOPIX is calculated based on all common stocks listed on the TSE First Section. The listing of TWD-denominated TOPIX futures can facilitate Taiwan investors' exposure to Japanese equity market without bearing foreign exchange risk.

To Change Specifications of Over-Night Call Rate Futures TFX

Tokyo Financial Exchange Inc. ("TFX") announced changes to the specifications of Over-Night Call Rate futures contracts ("O/N Call futures"). Effective December 24, the product has been changed to a contract whose underlying asset is the "average Uncollateralized Overnight Call Rate for the (corresponding) delivery month" from the "average Uncollateralized Overnight Call Rate over the interval between Bank of Japan's Monetary Policy Meetings (MPMs)". TFX had been reviewing the specifications of the O/N Call futures since the Bank of Japan's

release of its "New Framework for Monetary Policy Meetings" in June 2015, where the central bank announced its decision to reduce the frequency of MPMs from 14 times a year to 8 times a year starting from 2016. While some of the other features of the product, such as the last trading day, have also been adjusted along with the change in the underlying asset, its fundamental specs including trading unit etc. remain unchanged. For more details, visit the [TFX website](#).

Smooth Launch of New FX Margin Contracts "Click 365 LARGE" TFX

On November 30, TFX smoothly launched its new exchange FX margin contract "Click 365 LARGE". Total traded volume on the first day was 203 contracts, out of which 174 contracts were traded in the USD/JPY pair, reaching 12.7%* of trading value

volume for the USD/JPY pair of Click 365 (13,722 contracts) on the same day.

*Trading unit of Click 365 is one tenth of Click 365 LARGE

Gold Daily Futures Volume Grows Steadily to Become a Leading Product TOCOM

TOCOM Gold Daily Futures continues to trade actively since its launch in May 2015. It has become a top-traded product, second only to the Gold Standard contract. Daily volume on launch date was 12,525 contracts and it hit its highest level at 29,491 contracts on November 30 (as of December 4). Open interest of the contract reached over 70,000 contracts for the first time and marked a record 81,889 contracts on November 26.

TOCOM's Gold Daily futures contract size is 100 grams and

has no maturity date, which is attractive to investors in foreign exchange and other financial products that do not mature. Gold Daily Futures are cash-settled, but EFP (Exchange of Futures for Physical) transactions allow investors to buy and sell physical gold. Retail investors are attracted to the market due in part to high demand for 100 gram gold bars. TOCOM will continue to develop this contract.

Appoints AT TOKYO Corp. as Proximity Provider TOCOM

TOCOM designated AT TOKYO Corporation as a proximity service provider for two of its data centers. The "AT TOKYO Chuo Data Center" (CC1) and "AT TOKYO Chuo Data Center #2" (CC2), collectively called the "TOCOM Proximity Center", will go into service in September 2016 in conjunction with the Exchange's new trading platform launch.

AT TOKYO will provide TOCOM market participants with

ultra-low latency connections to Access Point 3 (AP3). The service will also offer connectivity to other exchanges in Japan and abroad. TOCOM expects the proximity service to serve as a hub, bolstering TOCOM's market, connecting markets in Hong Kong, Singapore and North America and serving as an optimal network for high-speed traders.

Expands Base Metals Offering with New Aluminum Japan Premium (Platts) Futures CME Group

CME Group announced it will expand its base metals offering with the introduction of a new Aluminum Japan Premium (Platts) futures contract to begin trading on December 7, 2015. This new Aluminum Japan Premium (Platts) futures contract will complement CME Group's existing suite of aluminum risk management tools, including its [Aluminum MW U.S. Transaction Premium Platts](#) futures, [Aluminum European](#)

[Premium Metal Bulletin](#) futures and physically delivered [Aluminum futures](#). The Aluminum Japan Premium (Platts) futures contract will be 25 metric tons in size and will be cash-settled referencing the [Platts CIF Japan Spot Premium for Aluminum](#) which is published daily in real-time service [Platts Metals Alert](#) and in [Platts Metals Daily](#).

Announces Launch of Ultra 10-Year U.S. Treasury Note Futures and Options CME Group

CME Group announced the launch of the Ultra 10-Year U.S. Treasury Note futures and options for early in the first quarter of 2016. The new Ultra 10-Year U.S. Treasury Note futures will allow for delivery of original issue 10-year U.S. Treasury notes with remaining terms to maturity at delivery of at least 9

years 5 months and not more than 10 years. By comparison, the existing 10-Year U.S. Treasury Note futures allows for delivery of 7-Year and 10-Year U.S. Treasury Notes with remaining terms to maturity at delivery of at least 6 years 6 months and not more than 10 years. The existing contract will remain unchanged.

Legal & Compliance Committee**Chairman Koichiro Ohashi**

At the November board meeting, Koichiro Ohashi was appointed as the successor to Peter Jaeger as the Chairman of a bit modified “Legal & Compliance Committee”. FIAJ wishes to thank Mr. Jaeger for his commitment and efforts leading this committee over the years. Mr. Ohashi is a lawyer qualified in Japan and NY and a partner in Greenberg Traurig Tokyo Law Offices. He made the following comments:

“As I have spent most of my time in my 20 year *Bengoshi* [lawyer] career in the financial regulatory and financial transaction practices, I am delighted to become a part of this committee so that I can provide my knowledge and experience to this committee.

My first agenda will be to solicit members for this committee. I understand that currently the members of the committee are only composed of Mike Ross - FIAJ President-CEO, Rebecca

Weinrauch from KCG and myself, so we need more people to join. We would like to gather various voices from members to reflect valuable output from this committee. So please contact me if you are interested in this committee [[contact the FIAJ Office](#)].

With respect to the objectives of this committee for the rest of this business year, while it is pending further discussion within the committee, what I have in my mind is i) to provide updates to FIAJ members on new laws and regulations; ii) to provide or help the Executive Committee to prepare FIAJ position papers and the like; and iii) to hold a series of seminars regarding laws & regulations concerning Japanese (and/or foreign) market activities by inviting some outside legal experts.

So, in order to produce fruitful outcomes from this committee, I sincerely hope you will consider joining us!”

Technology Committee**Chairman Bruno Abrioux**

Over the past months, the Technology Committee has been focusing on preparing the next round of events for our members and the broader community. As a preview, please find below a summary of targeted seminars and webinars (all dates are tentative).

1) January: A comprehensive 2016 Roadmap of Japan Exchanges and Clearing Houses.

The objective of this short webinar is to deliver in the English language an overview of what’s coming in 2016 for each domestic exchanges and clearing houses. The presentation will gather in a condensed manner all that you need to know on the current market highlights, the coming functional and technical changes as well as the new instrument introductions.

2) February 25: A Technology Panel at the 17th Annual Japan International Banking & Security Forum 2016 organized by G-MAC

As mentioned in the Future Event section of this newsletter, our Technology Committee plans to join the 17th Annual Japan

International Banking & Security Forum event, which will focus this year on Trading Risk Management and IT System under a globally competitive environment. We aim for an in-depth reflection on how to manage risks when it comes to cyber-threats. To better understand what is exactly at stake when dealing with cybersecurity, I also invite you to read this month’s Tech Corner.

3) By the beginning of April: An Executive summary presentation of the “Guide to the Development and Operations of Automated Trading Systems” published by the FIA Market Technology Division.

Following the release of its whitepaper titled “[Automated Trading Systems: 5 fundamental questions to assess the technology-related risks](#)”, the Technology Committee would also like to share an executive summary (including a Japanese version) of the comprehensive document published by the FIA Market Technology Division in March 2015.

Membership Committee**Chairman Izumi Kazuhara**

FIA Japan recently welcomed a new member to the Association: Optiver Australia Pty Ltd. We look forward to their active participation in the Association, including the FIAJ PTSG (see report below).

Optiver is a global electronic market maker that puts only its own capital at risk. Trading on all of the world’s major financial markets, Optiver continuously strives to improve

them by offering fair, tradable prices to end-investors in all market conditions. By consistently adding liquidity, volume and competitive prices, they contribute to the stability and smooth functioning of fair, transparent and reliable markets.

The company started in 1986 in Amsterdam and currently employs around 800 people from 40 different nationalities across offices based in Amsterdam, Chicago, Sydney, Shanghai, Hong

Kong and Taiwan, enabling it to trade 24 hours a day.

Optiver Australia Pty Ltd was set up in 1996 and is a wholly owned subsidiary of Optiver Holding BV. Optiver employs approximately 290 people in Asia Pacific and trade on a range of

markets including China, Hong Kong, Japan, Korea, Singapore and Taiwan. In Japan, Optiver is an active participant and market maker in exchange-listed derivatives and ETFs.

Commodity Study Group

Chairman Mitsuhiro Onosato

CSG discussed the following points in recent meetings.

1. Asian Market Updates

Mr. Sugitani (ex-Chairman, now based in Singapore) shared updates on the recent development of Asian commodity markets as follows;

- 1) Shanghai International Energy Exchange (INE) postponed its crude oil futures contract launch to 2016, which was originally planned to be launched in 2014.
- 2) SGX may be considering to launch an LNG futures contract.

2. Give-ups on TOCOM

Some foreign participants find that TOCOM's give-ups system is not easy to use. In response to this, CSG reviewed the current set up details, and discussed ways to improve it.

3. New TOCOM Gold Options

TOCOM plans to revamp its Gold Option market when launching the new trading system in 2016. CSG considered how to best design the new option contract, and how to promote it.

Proprietary Trading Study Group

Chairman Michael Ross

At its last monthly conference call, PTSG has finalized its Charter and objectives as follows. Prop firms interested in participating in the FIA Japan PTSG initiative are encouraged to [contact the FIAJ Office](#) for details.

In the US (FIA Principal Traders Group) and Europe (FIA European Principal Traders Association), principal traders/electronic market-makers have successfully established industry groups facilitating and advocating common industry positions towards legislators, regulators, exchanges, media and the public opinion.

With increased regulatory attention to algorithmic and high frequency trading ('HFT') by regulators and exchanges, FIA Japan - Proprietary Trading Study Group ('FIA Japan PTSG') has been set up with the main objective of educating key stakeholders in Japan about HFT, understand concerns and address the same.

FIA Japan PTSG is a group of firms that trade their own capital in equities, futures & options and other asset classes in Japan. FIA Japan PTSG firms engage in manual, automated and hybrid methods of trading and are active in a wide variety of asset classes such as equities, fixed income, foreign exchange and commodities. They serve as a critical source of liquidity in Japan, allowing those who use the markets, including individual investors, to manage their risks and invest effectively.

FIA Japan PTSG aims to:

- Provide a forum to identify and discuss issues confronting the PTSG in Japan;
- Define common positions on public policy issues in Japan and advance the group's collective interests;

• Improve regulators' understanding of the constructive role played by proprietary trading firms/HFTs in exchange-traded equities and derivatives markets in Japan;

• Promote a pro-active role in discussions with regulators and exchanges on algorithmic trading and HFT in Japan;

• Promote cost-effective & transparent access to Japanese markets.

FIA Japan PTSG believes:

• Integrity - All market participants should operate with integrity and communicate with regulators in an open and honest way.

• Regulation - A well regulated market provides stability and creates efficiencies. For this reason, market participants and trading platforms should be appropriately regulated.

• Transparency - Markets should strive for real transparency for investors and market participants.

• Stability - Stable, reliable and well-functioning markets increase security & safety and provide the foundations that encourage investor confidence.

• Equal access - Access to markets should be open to all in a non-discriminatory way.

• Equality of information - All market participants should have access to the same trading information in order to provide a level playing field.

• Risk Management - Having risk controls in place to ensure orderly, safe and secure markets.

• Competition - Fostering competition between market participants, trading platforms, clearing platforms and co-location facilities to encourage innovation and promoting market efficiencies.

Cybersecurity: Recent Regulatory Trends and Guidance for the Futures Industry in Japan

Cybersecurity in Japan: Today's Landscape

In November 2015, the Government of Japan hosted a Cybersecurity conference (“Cyber3”) in Okinawa. The conference concluded with several key findings, including the recognition that cyber risk must be integrated with enterprise risk management, making cybersecurity a “C-everybody” issue in the [Cyber3 Conference Okinawa 2015 Executive Summary](#).

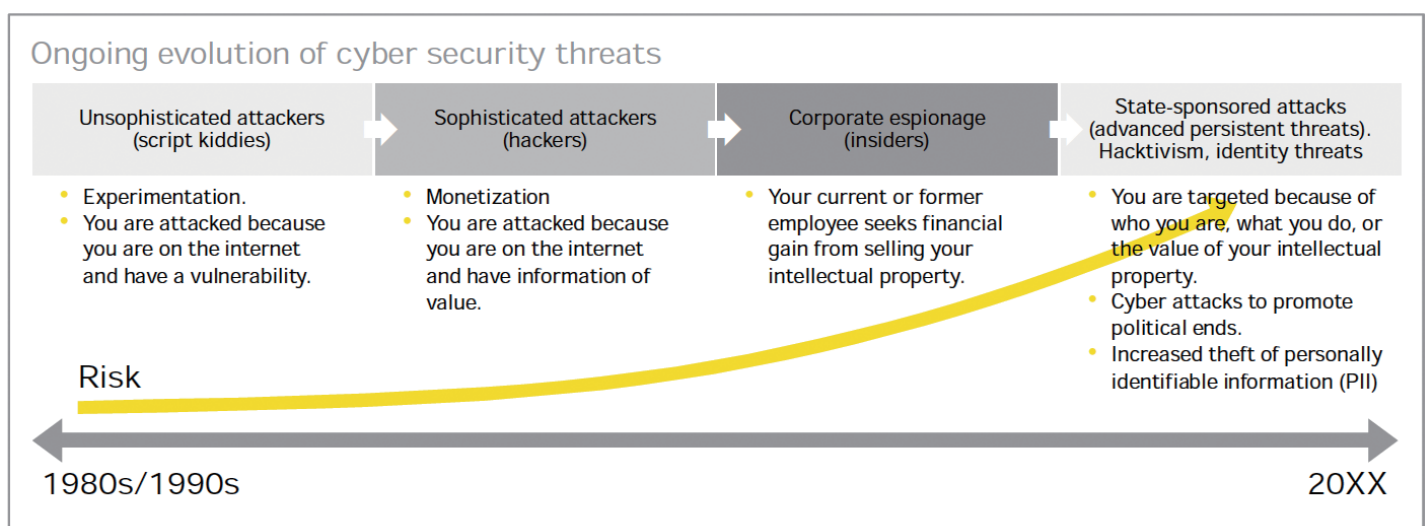
Cyberattacks are becoming more prevalent and persistent, and today's highly sophisticated attackers have significant funding (C.f. Exhibit below), attacking vulnerabilities in people, processes and IT. Japan's National Institute of Information and Communications Technology detected 25 billion cyberattacks in 2014 as per [the Japan Times article dated February 17, 2015](#), and [Mr Taro Kono](#), Chairman of the National Public Safety Commission, stated at Cyber3 that Japan's National Police Agency confirmed that during the six-month period from January through June 2015 there were approximately 1,500 cases of spear phishing e-mail attacks—a seven-fold increase over the same period of the previous year. Within the past several years, Japan has seen its fair share of high-profile thefts and attacks, including personal information leaks at Japan's National Pension Service in May 2015, and systems damage at its largest defense contractor, Mitsubishi Heavy Industries in 2011 according to Mr Kono.

Financial institutions and Financial Market Infrastructures, too, continue to be targeted globally, with more than half of

a survey-respondent exchanges having experienced cyber-attacks as per the [IOSCO Staff Working Paper as of July 2013](#). Indeed, an objective of more sophisticated attackers is economic manipulation. Prices and algorithmic trading strategies can be “risk assets.” Attackers may try to manipulate share prices of a targeted listed company through sustained attacks over prolonged periods, and then capitalizing on a sharp drop in the share price of the company with false negative publicities spread by the attacks. They might steal or alter algorithm of proprietary or agency automated trading machines without detection.

Governments and Global Regulators Gear Up on Cyber

In the cybersecurity summit hosted by the U.S. Chamber of Commerce in the US. in September 2015, the Chamber strongly encouraged companies to use its cybersecurity framework, while the Department of Homeland Security encouraged them to layer defense as soon as possible by buying down risk management in such ways as multi-factor authentication (to make it more expensive for attackers), segmenting (and complicating) networks, and real-time information sharing (within a gated community). In this summit, the Department of Justice strongly recommended real-time sharing of information by a victimized party. In the [Antitrust Policy Statement on Sharing of Cybersecurity Information](#), it maintains that the sharing is “not likely to raise anti-trust concerns.” The risk facing a victimized company never sharing the information is “to the contrary,” said



John P. Carlin of the Department of Justice.

Whilst a victimized company is expected to efficiently share relevant information upon eliminating personally identifiable information (PII) about its clients, which does not interest network defenders anyway, financial institutions are increasingly subject to government fines for data negligence as a whole. According to the [Mayer Brown Legal Update](#), the US SEC fines registered broker-dealers for failing to adopt written policies and procedures to protect their clients' PII. In its [National Exam Program Risk Alert](#) dated September 15, 2015, the SEC announced a new round of cybersecurity examinations at financial institutions, and will engage in testing of their implementation of governance, data loss prevention, vendor management, training, key controls and procedures. Following suit, the EU has negotiated strict standards for data that would introduce fines for companies that suffer breaches resulting from corporate negligence, according to the [federal legislative update](#) by JD Supra Business Advisor.

The Japan FSA has improved on its cyber strategy through new bilateral and international frameworks. In July 2015, the Japan FSA introduced the [Policy of Approach to Strengthen the Cyber Security in the Financial Industries](#) to strengthen cybersecurity in the financial sector, promoting information sharing frameworks in a gated community of financial institutions, facilitate industry-wide cyber security exercises, and expand cyber awareness beyond IT management and into boardrooms. Also in the same month, the Ministry of Foreign Affairs of Japan hosted the 3rd annual [Japan-US Cyber Dialogue](#) in Tokyo, where it agreed to increase information sharing about cyber incidents and threats, cooperate to protect critical infrastructure, and engage within international forums.

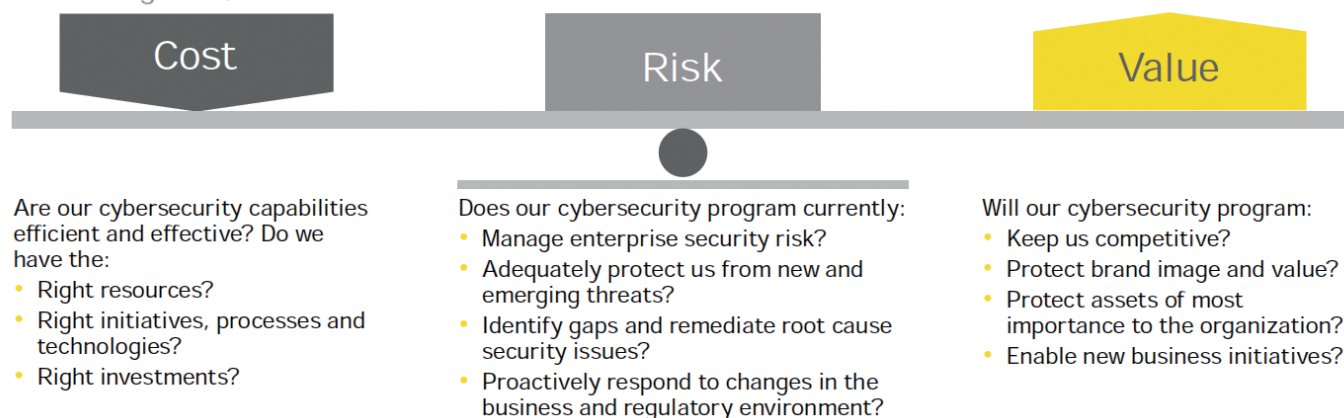
“There is no expert in cybersecurity” not because you as a

professional are deemed inadequate by others condescendingly but because of diverse skillsets and massive right resources required. National Association of Software and Services Companies (NASSCOM) published [key statistics](#) showing that six-million security people would be needed globally by 2019. Thus, it's a balancing act to manage costs, risk, and value of a cybersecurity program while identifying gaps and capabilities, making strategic investments to protect risk assets (C.f. Exhibit below).

Guidance for the Futures Industry

With the cybersecurity perception correctly shifting from mere IT issues to risk management issues, there has been no shortage of guidance on how firms within the financial services industry should approach cybersecurity risk management issues differently. In 2015, the IOSCO (i.e. [Consultative Report](#)), the US CFTC (i.e. [System Safeguards Testing Requirements](#)), the SEC (e.g. [Investment Management](#)), the FINRA (i.e. [Report on Cybersecurity Practices](#)) and the Federal Financial Institutions Examination Council (FFIEC) (i.e. [Cybersecurity Assessment Tool](#)) each released cybersecurity guidance and tools to help financial institutions assess their programs. In August 2015, the NFA too proposed its own [guidance](#), setting forth general requirements for member-firms' cybersecurity programs. If approved, the guidelines would affect a wide range of futures market intermediaries, including commodity pool operators, commodity trading advisors, futures commission merchants, introducing brokers, and retail foreign exchange dealers, as well as swap dealers and major swap participants. Meanwhile, FIA Japan continues to do its part to raise awareness of the resources available to market participants in addressing cyber-attacks.

Balancing cost, risk and value



The Fear Gauge: Basics of VIX

Many investors know VIX as “the fear gauge,” since it tends to spike when markets are tumultuous. Specifically, the CBOE Volatility Index (VIX) measures the implied volatility of the S&P 500® (SPX) for the next 30 days. When implied volatility is high, the VIX level is high and the range of likely values is broad. When implied volatility is low, the VIX level is low and the range is narrow.

VIX is calculated throughout each trading day by averaging the weighted prices of select S&P 500 call and put options that expire with more than 23 days and less than 37 days. Every week, the options used to calculate VIX roll to new contract maturities. As each VIX calculation begins, the first step is determining which option contracts, with strike prices higher and lower than the current SPX level, will be included. Typically more than 100 puts and calls are included. To make the cut, the contracts must have current non-zero bid and ask prices from investors willing to buy or sell at that price. Finally, the options contracts that have been selected are weighted to ensure that

each has the required impact on the calculation.

The VIX formula is designed to combine options in a way that means that subsequent movements in the VIX are dependent only on the volatility of the underlying. Changes in the S&P 500 level, dividends, interest rates, or other factors have no impact because they have been balanced out and removed.

Please see the chart below for a 10-year history of performance of the S&P 500 and VIX. It shows VIX spikes when stocks drop, earning its name, “the fear gauge.”

For similar protection globally, volatility indices are popular in equity markets around the world in addition to US and Japanese government bonds.



Source: S&P Dow Jones Indices. S&P 500 in green. VIX in blue.

Opinion Column

A Step to Move Forward

By Chika Nakamura, ABN Amro Clearing

Halloween has become a very popular event in Japan in recent years. News journals were broadcasting how big crowds of costumed people were partying in Tokyo. Japanese have been opened to accepting foreign traditions and it seems this will continue forward in the future. It is now a commonplace for even a non-Christian to celebrate Christmas by listening to Christmas songs, decorating their home with Christmas themed items, and exchanging gifts. The same acceptance can be seen with Valentine's Day, although there are some unique differences with the Japanese version.

While some say that the adoption of foreign tradition is a deviation from heritage, it does not correlate to the lessening of Japanese traditions. New Year holiday is still the most spiritual time for Japanese people. Getting together with family and praying at the shrine for good health and prosperity purifies the spirit and reenergizes individuals at the beginning of each year. In summer, each family brings back the spirits of its ancestors from the cemetery to pay respect and to honor their memories. This is something very sacred to Japanese and has continued to be a fundamental of Japanese culture and tradition.

Why are Japanese people so open to foreign

cultures and traditions? Japanese are curious by nature; however, adoption has to do more with clever advertising and marketing. The Japanese often have a “follow the herd” mentality and crafty marketing often has led to the adoption of new products, ideas, and even traditions.

On the other hand, Japanese people tend to dislike changes in daily procedures and routine. This could explain the fact that the fax machine is still heavily used in certain industries. This seems to go against the cultural adoptions such as Halloween and Christmas. Perhaps the way to advocate new ideas and methods of new technology has not been attractive enough to people in the work environment.

FIAJ certainly understands the importance of advocacy as well as projects for change. It will be a core driver to appeal to people in the financial industry and spread the message of innovation in order to grow the market in Japan. FIAJ is focusing on transparency in the market for healthy competition. We believe new technologies and innovation will stimulate existing participants and attract new investors from around the world. Circulating the work of the FIAJ is a step to move forward.

Past Events

"Japan – Land of Rising Funds" Reception

On November 3, Japan Exchange Group (JPX), Tokyo Financial Exchange (TFX), Tokyo Commodity Exchange (TOCOM), Colt and Phillip Securities co-hosted a reception on the sidelines of FIA Expo. This reception focused on the Japanese market, and has been held annually since 2010. This year, over 200 people from prop firms, institutional investors, vendors and brokers joined the reception. Various investors became more familiar with the Japanese markets, while enjoying their drinks and sushi.

FIA Asia Derivatives Conference - December 8-10 2015

The 11th Annual Asia Derivatives Conference was held at the St. Regis Hotel in Singapore on December 8-11. Over 600 delegates from the Asian markets as well as from Europe and the US attended the sessions and spent time with the exhibitors from all of the areas. International Regulators from Asia and the other global marketplaces also held a private meeting at the site on the first day to discuss the regulatory challenges facing the industry during these times of rapid change and turmoil. FIA plays an important role in encouraging regulators to meet together during the FIA conferences and to attend the conference sessions to understand and to deal with the problems associated with cross border business activities.

FIA President and CEO, Walt Lukken, opened the Conference and set forth his plan for merging FIA Asia and FIA Europe into a single FIA organizational structure. This merger is expected to be completed at the beginning of 2016.

Coinciding with the Conference, a Special Panel discussion and reception was organized by JPX and Tocom, together with and supported by Nissan Century and Phillip Securities. The event was entitled "Evolving Japan 2016". The panel was moderated by Yasuo Mogi. Important comments, including over Tocom's sharing of JPX' next generation system starting in autumn next year, were made by Kotaro Yamazawa and Takamichi Hamada. Notably, they both discussed the importance

and expansion of commodity markets in Japan and the potential for the exchanges to work together in the future. Peter L. Jaeger commented about strategic objectives, market efficiency and actions being taken by JPX and Tocom. Thair Hussain expressed the high customer interests he sees in the Asian commodity space.



"Evolving Japan 2016" Panel Discussion

From left to right: Moderator Yasuo Mogi, Chairman, Nissan Century Securities Co., Ltd. / Takamichi Hamada, President & CEO, TOCOM / Kotaro Yamazawa, COO & Senior Executive Vice President, OSE (JPX group) / Peter L. Jaeger, Managing Director, Regional Head Asia Pacific - Futures, Clearing & Collateral, Citigroup Global Markets Singapore Pte. Ltd. / Thair Hussain, Director, Global Sales, Phillip futures Pte Ltd.

1st Media Round Table by Saxo Bank FX Securities

Saxo Bank FX Securities K.K., a member of FIA Japan, held a media round table in Tokyo on November 17 where its group Chief Investment Officer, Steen Jakobsen gave an intriguing presentation about his view on Abenomics to Japanese journalists.

"Abenomics has failed", Jakobsen concluded. "While a weak Yen benefited exporters, the higher cost of imports has hurt the average consumer. All we need to look at is the fact that low interest rate, cheap energy cost and weak Yen in the previous year have led the country into a recession. What Japan needs is a wake-up call and only strong Yen and real structural reforms will be able to save the country."

Saxo Bank has been providing services to Japanese retail customers since 2009 and it is planning to add overseas futures instruments to its product portfolio from 2016. Visit our [website](#).

Future Events

■ FIA Japan New Year's Party January 19, Tokyo

1/19

FIA Japan will hold its annual New Year's Party at Ark Hills Club on Tuesday, January 19. Please join us with your colleagues to celebrate the start of the New Year. Please check further details in the email invitation to be sent by the Executive Secretary.

Gold Sponsors:



■ 17th Annual Japan International Banking & Security Forum 2016 (JIBSIS 2016) February 25, Tokyo Royal Park Hotel

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FIA Japan will support JIBSIS 2016 hosted by G-MAC. The topic is "Revitalization of the Japanese Market" and 300 delegates are expected to attend. The sessions planned include Mr. Miyahara, President of Tokyo Stock Exchange as a Keynote Speaker, a panel discussion on Derivatives & IT, and the current state of the market structural reforms. The session will be followed by a Networking reception with the market players.

Executive Committee Members

At its November 2015 Board Meeting, FIAJ Directors approved the nomination of Koichiro Ohashi as an Executive Committee member. Mr. Ohashi has been deeply involved in FIAJ activities over many years and we are looking forward to his continued contributions to the Association. In addition to his role as Secretary and Representative Director, Mr. Ohashi also chairs the Finance Committee and the Legal & Compliance Committee.

Other Executive Committee members are Junichi Maruyama, Yasuo Mogi, Michael Ross, Jay Sapsford, Peter Jaeger, Richard Clairmont and Yoshio Kuno. See the FIA Japan Board of Directors list on the last page for details.

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FIA Japan was originally established in Tokyo in 1988 as a nonprofit organization by foreign and Japanese futures industry participants and later reorganized as a “General Incorporated Association” (“Ippan Shadan Hojin”). It is the only organization in Japan of its type with a membership drawn from the entire cross section of the derivatives industry. It has approximately 60 members representing the various corporate sectors participating in the derivatives industry in Japan. Their Mission is to encourage the growth and success of the Japan financial marketplace and its development as a regional and global financial center.

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