

## The New Trading Temples

**NYSE**

Announced Merger with ICE

**Former TGE Building**

TGE Take Over by TOCOM

### Topics of the month

**Japan Exchanges' 2012 Derivatives Volumes**

**ICE Announced Merger with NYSE Euronext**

### Regulatory news

**Japan Commodity Regulators Clarify Segregation Rules**

### People Interview

**CME Group Discusses Strategy in Asia**

**"A Global Market with Local Partnerships"**



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## CHAIRMAN'S MESSAGE

### Positive Action Leading to Positive Results

Mitch Fulscher, Chairman, FIA Japan

The news is good! The pieces are coming together. Following the election of a new government a few months ago, a new optimism appeared in Japan. Prime Minister Abe brought the LDP back into power and he seems to be taking leadership at this time when it's so desperately needed. "Abenomics," as it is called, was announced, and already we see dramatic effects. After being stuck in deflation for two decades, a 2% inflation target was proclaimed and strong political pressure on the Yen exchange rate quickly brought the Yen down by 15% relative to USD. The potential positive effect to Japan's export-focused economy immediately sparked investors globally. This resulted in a sharp increase of over 20% in the Nikkei stock average. Tough political discussions are now underway addressing key issues that are so important to Japan's growth prospects: Dealing with the energy policy following the nuclear meltdown, rebuilding the tsunami disaster area, membership in TPP, addressing taxation issues, etc. We don't know whether the right decisions will be made with respect to these issues, but we are relieved to see that these important areas are being addressed with strong leadership.

#### Financial Markets Coming Together

In the meantime, developments in the financial market are taking place. The TSE/OSE merger was consummated on 1/1/13 and action by the holding company, Japan exchange Group (JPX), for integration is underway. The stock markets, their trading systems and their respective clearing arrangements, will consolidate by July of this year. The derivatives systems integrate by March 2014. These actions are aggressive by Japan standards. Notably, the TSE volumes have hit record levels in recent weeks.

CEO- Atsushi Saito has indicated a strong interest in globalizing the exchange and it's reported that he "...is willing to pursue an alliance or merger with an overseas exchange to drive growth, including a willingness to discuss cooperation or arrangements with other global exchanges". This is a significant perspective for the exchange which was often criticized as being domestically focused.

Similarly, Tocom, Japan's commodity exchange, has taken over the trading of agricultural products from the TGE. CEO – Tadashi Ezaki has indicated that they are looking at merger/Joint Venture alternatives both in Japan as well as overseas.

The regulators are supporting these developments. FSA is pushing for the development of a "comprehensive exchange" for Japan and promoting the development of the Japan financial center in Asia. In the commodity sector, METI is supporting internationalization of the commodity markets. They recognize the importance of an active, liquid commodity market. METI has encouraged Tocom to reach out internationally to grow its business in Japan.

Indeed, the pieces are coming together in Japan and the financial markets are moving forward. FIA Japan continues to support these movements.



### **Regulator Moving to Improve Commodity Futures Market**

The Japanese government is currently implementing the following reforms to improve the commodity futures markets, focusing on energy products.

As mentioned in our previous edition, in the aftermath of the East Japan natural disaster, LNG imports have increased dramatically (7 folds between 2012 and 2010). However, LNG trading in Japan still lacks a forum for the creation of fair and transparent prices, lacks a mechanism to hedge the risk of price fluctuation, and also lacks a stable supply chain. The government is therefore considering the necessary steps and detailed market design to establish an LNG futures market.

The regulator is also moving forward with its research on the launch of an Electricity futures market. Currently, steps are being taken to reform the industry structure as a whole, including the revitalization of the spot market, which could impact electricity prices and would therefore increase the need for a futures market. The next step on the government's agenda is to prepare a legal framework to regulate said electricity futures market.

To reinforce the function of futures markets as a public utility service, it is necessary to increase liquidity on exchanges in order for commercial players to be able to easily participate in the market. To achieve this objective, the following reforms have been implemented:

Last year, the regulator has revised a number of regulations to revive the commodity futures markets, including the lifting of a ban on certain automated trades and solicitation rules under certain conditions. More recently, the regulator clarified its interpretation of the law pertaining to segregated customer funds related to trading in overseas commodity futures markets (a full report follows). Thanks to these reforms foreign participants have easier access to the Japanese markets and volumes on Tokyo Commodity Exchange may benefit from an increase in participation from overseas.

Additionally, serious consideration is also given to launching clearing services for OTC derivatives trading. Steps are also being taken towards implementing a tax reform to allow for gains/losses in both cash-equities and derivatives trading, including commodities, to be adjusted.

### **Japan Commodity Regulators Clarify Segregation Rules**

FIA Japan submitted a letter to METI and MAFF requesting clarification of certain rules applying to Japanese commodity FCMs regarding customer margin deposits held

with overseas brokers for commodity trades. On February 7, 2013, FIAJ received a positive response from the regulators. The response states that under certain conditions, customer deposits with a Japanese commodity FCM and held in segregation by an overseas registered broker may be considered as "properly segregated customer funds". Initially, this interpretation can be applied to overseas deposits held in segregation by US duly registered FCMs.

Segregated Customer Funds under US jurisdiction and Laws & Regulation are duly recognized as "comparable" to funds segregated under the Laws & Regulations of Japan. This is the first time for Japan to have regulatory acknowledgement of foreign segregation of customer funds to be an acceptable financial safeguard system applicable to the Japanese trading interests on foreign markets. However, initially it is limited to the US market. Other markets can be reviewed and considered prospectively.

### **Background**

Japan regulations require that all customer assets deposited with commodity FCMs as commodity futures and options margin money must be segregated. For foreign exchange commodity transactions, such customer funds may be held at the foreign exchange's clearinghouse, or else generally the funds should be segregated in a separate trust account in Japan.

The problem is that Japanese Commodity FCMs, including Japanese subsidiaries of foreign major financial institutions acting as global FCMs, generally do not act as direct clearing members of the foreign clearinghouses. Rather, such transactions are being executed and cleared through an "omnibus account" or "introducing broker" relationship with foreign FCMs. The foreign broker segregates the funds as required under their own regulations, but depending on the interpretation of the Japanese rule, the Japanese broker may need to also segregate additional funds into a domestic trust using its own money. This results in a duplication of the amount of segregated funds at the burden of the Japanese broker.

This situation is a major detrimental factor to the success and viability of Japan's commodity markets. Further, it is inconsistent with the practices of global markets wherein the foreign broker has an omnibus account with a Japanese FCM. For example, under US rules, customers' funds in the possession of registered foreign brokers have been recognized as "secured funds" and are treated as segregated funds under foreign jurisdiction. Japanese commodity brokers have been discouraged from accepting customer orders for overseas trades due to the uncertainty about the regulation and potential need for additional financial requirements

for duplicate margin deposits.

### Clarifying Response From Regulators

In the case of Commodity FCMs licensed under the Laws of Japan as an intermediary acting as a broker accepting and transmitting customer orders to US FCMs transacting on commodity exchange markets, customer funds held as segregated commodity margin money are exempted from the requirement for additional amounts to be segregated in a trust account in Japan under the Laws & Regulations of Japan, provided that the Japanese Commodity FCM meets with the following terms and conditions:

#### 1. Confirmation of Segregation of Customer Funds with US FCM

The Japanese Commodity FCM must confirm with the US FCM that the amount deposited with the US FCM is subject to Segregation of customer fund requirements under US Laws & Regulations. The Japanese Commodity FCM is required to receive written confirmation that the deposited customer funds with the US FCM are subject to Segregation of Fund requirements by the US Regulator (CFTC); and the US FCM is in good compliance with such requirements. The Japanese Commodity FCM is also required to inform the Customer Segregated Account Balance upon the customer's request.

#### 2. Customer Protection in the Event of Short-fall of the Amount to be Segregated.

It is required to confirm the mutual agreement between the Japanese Commodity FCM and its Customer that all customer segregated assets, and/or the amount equal to Net Assets (Total Equity) of the Customer account must be secured or guaranteed by the Japanese Commodity FCM

#### 3. An Exclusive "Designated Bank Account"

The Japanese Commodity FCM is required to establish a separate bank account from their other business. Said Bank Account is required to be an "Exclusive Bank Account" for the customer's commodity interests on foreign commodity exchange markets. Such bank account must be identified as an account exclusively utilized for the transactions of customers' funds.

*FIAJ believes that this regulatory interpretation is an important step to improve the international function of omnibus account relationships for cross-border trades between Foreign and Japanese markets. FIAJ is recommending to foreign Exchanges operating commodity markets and that wish to invite Japanese trading customers, to contact the Japanese commodity regulators in order to obtain recognition of their customer safeguarding policies*

*and applicable segregation requirements for customer funds deposited by Japanese Commodity FCMs on behalf of their customers in Japan.*

*For more information, please contact Ms. Motoko Ogawa, Executive Secretary at FIAJ*

## Topics of the Month

### Japan Exchanges 2012 Derivatives Volumes

For the 2012 derivatives annual volume, the Tokyo Stock Exchange and Osaka Securities Exchange showed solid gains compared to the previous year. However, volumes on the Tokyo Financial Exchange, Tokyo Commodity Exchange and Tokyo Grain Exchange dropped sharply.

OSE recorded its highest turnover at 205 million lots, an increase of 5.6% compared to the previous year. Its Nikkei 225 futures and options accounted for almost three quarters of OSE's total derivatives volume, increasing by 9.3% for the year.

TSE's total annual volume was around 29 million lots, an increase of 17.6% over the prior year, with its TOPIX volume increasing by 13.6%.

TFX's major contract, Click 365, which accounts for the majority of its turnover, declined by 56% compared to the previous year. A major factor for the sharp decline was a change in the tax treatment of over-the-counter FX trading, eliminating the preferential tax treatment for exchange traded transactions. However, starting in January this year, TFX experienced a 65% increase in volumes compared to the previous month. This increase reflects the growing volatility of the Japanese Yen exchange rates.

Partly due to the rigorous restrictions on the solicitation of individual investors, which were implemented in 2005, participation on the TOCOM and TGE markets continued to diminish and both exchanges' annual volumes declined sharply in 2012 (-20% and -40%, respectively). However, even if retail participation declined to roughly 30%, foreign investors now represent 35% of the TOCOM volume (from a mere 10% just a few years ago). Commodity prices on TOCOM have soared recently, with Gold futures breaking a record JPY5,000/g level, and January volumes jumped 26% from the previous month.

### RTS Launches Tokyo Data Center

RTS Realtime Systems Group (RTS), announced in January it has launched proximity hosting and low-latency connectivity services in Japan by leveraging KVH Co. Ltd. These

services, available from the new RTS Tokyo data center in the KVH facility, will enable the firm's global and local clients to achieve low latency access to Japan's major stock, futures and options exchanges.

### **TOCOM Take Over of TGE Market**

On February 12th, TOCOM started offering Agricultural futures in addition to its industrial commodity products, and amended its company name in Japanese to reflect this change (the English name is unchanged). TOCOM took over four products that last traded on Tokyo Grain Exchange on February 8th: Soybeans, Corn, Azuki Beans and Raw Sugar. The contract specifications match those of the former Tokyo Grain Exchange, except for a few amendments such as trading hours (9:00-15:30 and 17:00-4:00 JST). Volumes on the domestic commodity markets dropped 80% from their peak in 2003. From 16 commodity exchanges in the early 90's, there are now 2 commodity exchanges left in Japan, TOCOM representing 99% of trading volume.

TOCOM CEO Ezaki announced that "It is absolutely necessary for us to develop participation in our markets by attracting foreign investors and institutional investors among others." Mr. Ezaki added that "We will continue to pursue a reorganization of the company" in reference to a possible merger with Japan Exchange Group or an alliance with an overseas exchange.

### **ICE Announced Merger with NYSE Euronext**

In a move that shook the industry, ICE announced late last year its planned takeover of NYSE Euronext. Upon closing, the new company will be the world's 3rd largest exchange by traded contract volume and operate 14 regulated exchanges and 5 central clearing houses. FIA-J talked to ICE CEO, Mr. Jeffrey Sprecher on the background that led to this important development.

Commenting on the reasoning and timing behind the NYSE Euronext bid, Mr. Sprecher said: "This announcement positions ICE and NYSE Euronext to create a leading operator of global exchanges and clearing houses for commodities, credit derivatives, equities and equity derivatives, foreign exchange and interest rates. We believe we can unlock significant value and grow our businesses to a greater extent than could be done independently, while providing an expanded range of products and services for global markets as regulatory reform creates further demand."

NYSE has had a presence in Tokyo for some years now,

but this merger would possibly equate to an entry level into Japan for ICE. Asked about the ICE plans for Japan in particular, and for Asia as a whole, Mr. Sprecher answered: "As a global operator of energy markets, ICE has had a presence in Asia via our office in Singapore for over a decade. In Japan specifically, Japanese based companies are able to access our trading platform through becoming members of ICE Futures Europe. Asia is an important region for ICE's global energy business. Our portfolio of global energy products includes over 40 Asia-specific cleared energy contracts, including the 180cst Singapore Fuel Oil Swap and the GlobalCOAL Newcastle Futures contract. Brent and Gasoil are also widely traded in Asia and the region has contributed to the growth seen in these contracts over recent years."

Finally, with regards to the current regulatory changes taking place in the US and in Europe, CEO Sprecher said: "The development of new financial regulation follows G20 commitments defined in 2008 and is an ongoing and dynamic process and ICE is investing substantial time and resources in this area in order to comply with the rules as they become evident. ICE is therefore working extensively with the industry and regulators across all the jurisdictions in which we operate, from the U.S. to Europe and Asia, to ensure that new solutions maximize and enhance market efficiencies, while minimizing unintended consequences such as a reduction in market liquidity or dramatically increased costs. However, it is important to note that many of the proposed regulatory changes have already taken place in our energy markets, well in advance of the completion of financial reform. Therefore, we are well positioned to support our members and clients across the world, including across Asia, with implementation."



Jeffrey Sprecher,  
ICE CEO

## **Committee Activities**

### **Commodity Committee**

Chairman Yasuo Mogi,

While the Japanese commodity exchanges have been under the process of restructuring their markets and trading volumes have staggered in 2012, the Commodity Committee has been active to help develop the Japanese markets. Last year, we participated to various events and aggressively promoted such markets through the FIA conferences in Tokyo, Singapore and Chicago. Our committee also submitted various comments and suggestions to the regulators

and exchanges on topics including market structure, regulatory policies and regulatory interpretation of applicable rules and regulations. Our aim is to help create a user-friendly market place with easy access, as global participants are showing growing interest in the Japanese and Asian commodity space.

The committee was most recently involved in a review of the regulatory interpretation of the rules and regulations pertaining to segregation of customer funds on foreign commodity futures markets. Current practices have, in effect, resulted in a “double segregation” whereby Japanese FCMs had to place their own monies in Japanese trusts, in addition to the customer funds being held in segregation at the foreign marketplace. After having submitted a letter requesting clarification to the commodity regulators (METI and MAFF), FIAJ has successfully obtained regulatory approval for Segregation of Customers’ Fund in Recognized Foreign Jurisdiction, under certain conditions. As a result, we expect a renewed interest from Japanese investors in foreign commodity markets. A complete and detailed report on the subject is included in this edition.

In 2013, the committee plans to emphasize the development of options on futures contracts in highly volatile Yen-denominated commodity futures contracts.

## **Technology Committee**

### **Chairman Duncan Symmons**

The Technology Committee has had a quiet year ahead of the details of the OSE/TSE merger being announced. In July we hosted a session at the Global Market Solutions event, which included a panel discussion on the impact of the merger, and a separate presentation describing the changing landscape for traders trading into Japan. The technology committee also contributed to the upcoming FIAJ white paper on suggested practical changes that could be made to increase participation in the Japanese markets. The LinkedIn group on trading in Japan has also seen gradually increasing membership over the year, with now 100 members both domestic and overseas.

For the coming year, we shall be aiming to provide resources on the OSE / TSE merger. We are also planning a review of technology solutions that are available for people needing to make technology decisions, carried out by one or more impartial brokers.

## **Membership Committee**

### **Chairman Takanori Kosaka**

FIA Japan It is the only organization in Japan of its type with a membership drawn from the entire cross section of

the futures industry. We have over 60 members who have common interest in the growth and success of the Japan financial marketplace. Rakuten Securities, Inc and RGM Advisors, LLC joined us in 2012. If you wish to join our Association, please contact our Executive Secretary (see details on page 11).

## **Exchange News**

### **Markets**

#### **JPX Derivatives Trading Volumes Rise**

Annual trading volume of derivatives products on OSE reached a record high of 205,082,401 units in 2012, exceeding the 200 million milestone for the first time among exchanges in Japan. Also, trading volume of the Night Session reached a record high of 52,001,167 units, pushing the ratio of Night Session to Day Session to 35.4%.

Trading Volumes of mini-products and Single Stock Options on TSE are also increasing recently. Monthly trading volumes of mini-TOPIX Futures on January 2013 were 341,326 contracts, a record since the launch of the market in June, 2008. In addition, liquidity of the Single Stock Options is rapidly improving, with daily trading volumes of the auction market in January 31, 2013 at 7,976 contracts, a record as well since the launch of the market in July, 1997.

#### **TFX Trading Volume**

Kabu 365 annual trading volume for 2012 increased by over seventy percent from the previous year. The contract has recorded its highest monthly trading volumes in January 2013 and December 2012. Signs of recovery are also starting to show in the Click 365 market, where monthly trading volume for January increased by 65% from the previous month, recovering to an average daily trading volume at over 300,000 lots for the first time in ten months.

### **Products**

#### **Launch of Japan Exchange Group (JPX)**

Japan Exchange Group (JPX) was successfully established with the business combination between TSE and OSE, and its JPX stock was listed on the 1st Section of TSE on January 4 following FSA approval. JPX market includes approximately 3,500 companies listing and its market capitalization ranks next to the New York Stock Exchange and NASDAQ.

Regarding derivatives market, JPX also offers diverse



futures and options, including those for Japanese government bonds and internationally renowned stock price indices, such as TOPIX and Nikkei 225. In order to facilitate efficient trading of this wide range of products, JPX plans to consolidate the systems and integrate market functions of the cash equity markets in July this year, and do the same for the derivatives markets in March 2014.

JPX will also focus its efforts toward becoming the No. 1 market in Asia, by implementing initiatives to develop new products, and otherwise expand attractive product line-up, as well as enhance the clearing and settlement functions.

### **JPX Agreement on Launch of S&P CNX Nifty Futures in Japan**

JPX and India's leading stock exchange, the National Stock Exchange (NSE), signed a letter of intent on January 10 to prepare for the launch of an S&P CNX Nifty Index futures, representing a stock price index of India, on OSE, a subsidiary of JPX.

Moving forward, both parties will make preparations for the listing of yen-denominated S&P CNX Nifty Index futures by March 2014, the integration date of the derivatives markets of TSE and OSE. This is the first time that retail and institutional investors in Japan will be able to take a view on the Indian markets in addition to current ETFs, in their own currency and in their own time zone.

## **News**

### **TFX Introduction of Twitter Account**

On November 30th 2012, TFX opened an official Twitter account (“tfx\_pr”). TFX will keep delivering market data, sales campaigns, seminars and other information on Click 365 and Kabu 365.

### **TGE Closure: Looking Back at 60 Years of History**

This month marks the final closing of the Tokyo Grain Exchange, and the end of 61 years of history during which a number of innovations put it at the forefront of the exchange technology landscape.

Clearing in the exchange was computerized back in 1973, and a fully electronic trading platform was launched in 1988 (the same year the OSE started electronic trading).



This was four years before the CME's Globex system was launched for off-hours trading, and earlier than Eurex and Liffe.

By 1995, the TGE was already developing a second generation platform, based on standard PC hardware, and standard Ethernet networking.

The TGE's electronic session market had been custom built for the TGE to support the unique two sided auction market that was in use in all the Japanese commodities markets at that time and allowed members to trade directly from their offices. The second generation system was then successfully rolled out to the three major regional agricultural commodities exchanges in Japan.

Meanwhile, a separate continuous matching engine had been built to support their options market. This matching engine would be clearly recognized as the standard strict price/time priority matching that became the international standard years later, but at the time was limited to the options market.

It is with great sadness that we witness market events relegating the exchange to the history books, and we wish the staff all the best in their future endeavors.

*Duncan Symmons is Founder of technology provider Touch-Fire Trading, and he worked with the Tokyo Grain Exchange to assist with implementing their solutions from 1995 to 2013.*

### **JPX TOPIX Index Adjustment**

TSE and OSE announced how indexes currently calculated by the TSE and OSE will be calculated upon the merger of the TSE and OSE cash markets scheduled for July 2013. When the two equity markets are merged, companies listed on the OSE (but that weren't listed on the TSE) and that are to be transferred on the TSE 1st section, will be included in the TOPIX index calculation in stages on August 30 and October 30, in order to minimize impact on liquidity. Specific issuer names to be included and their FFWs will be announced on August 7, 2013 through the TSE website.

### **JPX MoU with Istanbul Exchange**

JPX and Istanbul MenkulKiymetlerBorsasi (IMKB) signed a Memorandum of Understanding (MOU) on January 10 to facilitate cross-listing of ETFs and explore ways to further strengthen their cooperative relationship.

Under the MOU, the exchanges agree to seek opportunities for cross-listing ETFs and promote cross-listed ETFs by jointly organizing conferences and workshops. The exchanges will also share information and expertise in various fields with a view to fostering a long-term relationship.

# CME Group Discusses Strategy in Asia A Global Market with Local Partnerships

**CME has a long historical presence in Asia, opening its Tokyo office as early as 1987. FIA-J asked about the CME strategy to both their new Managing Director in Asia and to their recently appointed Head of Japan, in this exclusive dual interview.**

**EB :** You have been in the derivatives industry for close to two decades across Chicago, London and the last 11 years in Asia and Japan. In your current position at CME Group, could you share your perspectives as to how the industry has evolved in recent years in Asia, and in particular how Japan is positioned in the region?

**Julien Le Noble (JLN) :** In the aftermath of the financial crisis of 2008, Asian economies across the region have fared relatively well when you compare them to the Western economies: the Eurozone is still struggling to resolve their sovereign debt issues, and challenges remain in stimulating the growth of the US economy amid lackluster consumer spending, weak business investment and government spending, and with tax issues yet to be fully resolved. So whether it is in China and India or the rest of Asia, while not insulated from what's happening West, the prospects for the economies here are brighter. At the same time, having a well-regulated futures industry in Asian markets has allowed the exchanges to focus on growth opportunities, and also to study and understand the ever-changing complex needs of Asian investors and participants. In Japan in particular, with the government playing a key role to ensure that Tokyo continues to maintain its relevance and remain as one of the key financial centers, there is a lot of attention centered on the recent formation of JPX from the merger of TSE and OSE. This is the right step in breaking down the silos and creating a consolidated exchange that will be in a better position to provide a more comprehensive and broad range of solutions to its customer base. In addition, with TOCOM consolidating this year under its roof the agricultural markets, and you get a market structure that opens the door to synergies which ultimately should benefit end users.

**EB :** You took over in June 2012 as Head of the CME Tokyo office, which was first established in 1987. What has been the CME strategy in Japan over the years and what are your plans going forward?

**Izumi Kazuhara (IK) :** A key part of my remit in Japan is to engage with Japan's financial community, and work closely with our clients to identify their risk management needs and

help them achieve their business goals.

CME Group already has a broad customer base in Japan. As you know, Japan is the world's biggest creditor nation, and the so-called mega banks as well as institutional investors are important customer segments for our fixed income and equity index complex. Also within the commodity sector, there are important players in the international commodity trading space. Together with my colleagues, we are providing these customers with our global benchmark products and working together to develop new innovative products and solutions to meet their demand in the continuously changing environment. Our OTC Clearing Service which is well accepted in the US and Europe will be one of the focus this year.

We also work closely with local Japanese service providers to develop new benchmark products for our global customer base. Partnerships with market-leading index or pricing organizations like Nikkei Index and RIM Intelligence are central to CME Group's strategy of developing regional products and services for our customers, and bringing value to them.

Locally, we are also looking into other areas with growth potential. For instance we are working together with the Japan CTA Association to educate Japanese institutional investors about commodity investments and we have also started to work with local trader organizations such as Market Forum, to engage more closely with the domestic proprietary trading community of the securities companies. In addition, we welcome the recent interest of online brokers in our global products. All in all, we see good potential to grow our business in Japan and there are lots of new fields and customer types in which to develop business for the interest of both sides.

**EB :** CME Group and the Osaka Securities Exchange (OSE) have had a long term partnership which was expanded in 2011 with a strategic arrangement to cooperate on joint product development, marketing and promotions. Can you tell us more about this partnership as well as others you have in Asia and how do they fit into your overall global business strategy?

**JLN :** Under the arrangement with OSE, both companies offer Japanese yen-denominated products for their customer base,

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**“Mega banks as well as institutional investors are important customer segments”**

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with the yen-denominated DJIA futures contracts trading on OSE and the yen-denominated E-micro Nikkei 225 Average futures to trade on CME. This will provide market participants with nearly 24-hour access to global benchmarks sized for their needs and denominated in their currency of choice.

CME Group is a global company, and we are acutely aware of the importance of collaborating with our key exchanges and companies where we believe it will create significant value for all of our customers. Partnership with various exchanges is a key part of our global growth strategy. Across Asia, we have partnerships with Bursa Malaysia Derivatives (BMD), Dubai Mercantile Exchange (DME), Korea Exchange (KRX), Osaka Securities Exchange (OSE), National Stock Exchange of India (NSE), Multi Commodity Exchange of India (MCX) and Singapore Exchange (SGX).

We firmly believe that local needs are best served through the development of our local presence and harness recognized local benchmarks to create regionally-relevant products, which also provide our growing global customer base with enhanced and wider trading opportunities. Developing further our existing and new partnership in that context is very front and center to our strategy in Asia.

**EB : There has been a series of consolidation as seen by the recent ICE proposed merger with NYSE Euronext, and OSE/TSE merger into JPX in January, while TOCOM has taken over the TGE agricultural markets this month. After a number of failed merger attempts globally, it seems that the exchange consolidation process has re-started. What are your views on this trend and how would this affect CME Group, in relation to Japan particularly?**

**JLN :** It is very clear that throughout the past several years, exchanges have been looking for ways to reap better synergies from economies of scale, and to continue to broaden their product offerings to better serve the needs of their customer base. This has also come as a result of changing regulations, as the markets adapt to the ever-changing landscape. As business models change, market consolidation will inevitably take place. At CME Group across Asia and globally, we are always looking at ways to better serve the needs of our customers.

**IK :** As mentioned earlier, we are always on the lookout for opportunities to move into areas with growth potential, be it partnership with other exchanges or organically to develop regional products and services for our customers, and bringing value to them. Whatever we do, it is with the customer interest in mind, first and foremost.

**EB : Regulatory authorities in the U.S. and in Europe are moving forward with a number of new rules designed to contain risks in the financial system. How do you see this affect global trade and what**

## **“Partnership with various exchanges is a key part of our global growth strategy”**

**impact, if any, these changes have on your strategy?**

**JLN :** US and EU regulations are driving changes globally, particularly in relation to the G20 commitments and we are encouraging all regulators to design consistent and transparent regulatory frameworks which allow global central counterparties and exchanges to operate within a consistent set of laws and regulations in all major financial centers.

When Congress passed the Dodd-Frank Act in response to the 2008 financial crisis, its primary goals were to reduce systemic risk through centralized clearing and increase transparency through reporting and trading on regulated trading platforms. Dodd-Frank makes clear that futures and swaps are different product classes and should receive similar, but not identical, regulation.

At CME Group, our goal is to provide a range of options for efficiencies in a capital constrained world, and the development of products and services that meet regulatory requirements and customer demand. The recent launch of our new physically delivered swap futures contract has given our customers a complementary standardized product providing pricing transparency and margin savings, alongside our established cleared OTC interest rate swaps solutions.

**EB : Thank you both for sharing your insights with FIA Japan on those important topics.**

### **JULIEN LE NOBLE**

Managing Director, Asia  
Julien Le Noble serves as Managing Director, Asia of CME Group. He is responsible for leading CME Group's efforts to develop benchmark products and services to meet the needs of its current and prospective clients in the region.

Le Noble joined CME Group with more than 15 years of experience in the derivatives industry, most recently serving as CEO and Representative Director, Japan and Head of Equities, Asia Pacific for Newedge, where he led the firm's Japanese business development and sales efforts for its Tokyo-based subsidiary.



### **DR. IZUMI KAZUHARA**

Executive Director, Head of Japan  
Dr. Izumi Kazuhara serves as Executive Director, Head of Japan of CME Group. Based in Tokyo, Dr. Kazuhara is responsible for developing growth opportunities and customer relationships for CME Group throughout Japan.

Prior to joining the company, Dr. Kazuhara gained extensive experience in the exchanges sector and derivatives industry, having previously worked at both NYSE Euronext and EUREX. He started his career in the academic world as an expert in international economic and competition law.



## Past Events

### FIA Japan New Year's Party on January 15

FIA Japan had its annual New Year's Party at the exclusive Ark Hills Club on January 15th. Although the previous day saw record snowfalls in Tokyo causing huge delays in traffic and public transports, over 80 people attended the event to celebrate the start of the year of the Snake and wish for the success of the Japanese market.

FIA Japan encourages members to bring guests with them, so that our social event can also be a forum for networking.

#### Gold sponsors:



**NASDAQ OMX**

#### Regular sponsor:



JPX Executive Officer, Kotaro Yamazawa, addresses the guests.



Anders Folkesson, Nasdaq OMX (left) and Andy Woodhouse, RTS (right)

## Future Events

### **G-MAC Conference: February 27, 2013**

The 14th Annual Japan International Banking & Securities System Forum 2013, better known as the G-MAC Conference, will be held at the Royal Park Hotel Tokyo on February 27, and will feature an FIA-J panel. Members of FIA-J are entitled to certain benefits related to the conference.

Please contact our Executive Secretary for details.

### **Boca 2013 - 38th Annual International Futures Industry Conference: March 12-15, 2013 Boca Raton Resort & Club, Boca Raton, Florida**

Each spring the FIA hosts its annual meeting in Boca Raton, Florida where industry leaders from around the world gather to discuss current issues and exchange ideas. Public policy leaders including Senators and Congressmen, regulatory officials, and Congressional staff are an integral part of the program.

Representatives of the Japanese derivatives industry will also be present.

### **NY Expo: April 10-11, 2013 Hilton New York**

Session topics will include a regulatory update on OTC clearing, margining, settlement, and reporting requirements; high-frequency trading; middleware; etc.

### **FOW Derivatives World Asia: March 20, Hong Kong**

FOW Events will hold its 20th FOW Derivatives World Asia in Hong Kong this year for the first time in its history and will bring the usual pan-continental content to its event, showcasing the key growth markets across the continent from Taiwan to Thailand. We will also be bringing Hong Kong and China to the fore with a day focused exclusively on these markets.

Note from the Editor: Hard copies of this edition will be available at all the events mentioned above.

FIA Japan was founded in 1988 as a nonprofit organization by foreign and Japanese futures industry participants and reestablished as an Ippan Shadan Hojin in 2010 marking a fresh start for further development. It is the only organization in Japan of its type with a membership drawn from the entire cross section of the futures industry. We have over 60 members who have common interest in the growth and success of the Japan financial marketplace.

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## Editor's Note

As shown in our 2012 annual volume review, last year ended with rather mixed results for Japanese contracts, as was the case for most global exchanges. But 2013 has started with a Bang! Gold futures on TOCOM, for example, traded over 100,000 lots a day in early January. The recent government change has triggered a general recovery of the markets, and most participants seem confident that the momentum will be sustainable.

FIA Japan Commodity Committee has also been instrumental in clarifying certain aspects of Japanese laws that have been impairing participation in foreign commodity markets by Japanese FCMs. A full report on this important issue is featured in this edition.

Finally, the exchange landscape globally has experienced interesting developments recently, which will impact the industry in Japan. Both CME Group and ICE shared their insights on the subject with FIA-J, while TOCOM CEO Ezaki commented on the recent takeover of the TGE markets.

These are all positive developments and may lead to a new start for Japan.

Tony Crane



*Sponsorship of this newsletter is available. Please contact the Editor or the Executive Secretary for details.*

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