

# FIA Japan Newsletter

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"FIA Global" has started.

Bill Herder, *Head of Asia-Pacific, FIA.*



## PRESIDENT'S MESSAGE

# Working closer with FIA

FIA has completed its merger to become one global organization. In a world where regional business has grown to become global and local regulations have global impact, the merger by FIA makes a lot of sense. FIA-Japan will not merge with FIA, but will work very closely with FIA for the benefits of its members in this global environment. To make this possible, the Executive Committee is currently negotiating with FIA an affiliation agreement. As Bill Herder mentions in this issue's article, "FIA will be able to tap into the knowledge and experience present in FIA Japan to help our members efficiently conduct business in the Japanese financial market... FIA Japan members will have better access to FIA resources from around the world to help navigate the international landscape." There has already been much cooperation between FIA and FIA-J's committees. I hope the formalized relationship will allow FIA-J leverage FIA's strength for the benefit of its members. We hope we can report to you with specifics by the next time this newsletter is published.

OSE/JPX and TOCOM are reporting substantial growth. In FY2015 the Nikkei 225 mini grew by 33% over FY2014. TOCOM is reporting 15.8% growth in volume over FY2014. Much of the TOCOM growth can be attributed to the increase of overseas participation, which now accounts for 48.2% of its volume. A healthy domestic market means the need to access foreign market will also grow. FIA welcomes this win-win situation.

It has been a year since I have taken over as President – CEO and Representative Director of Future Industry Association Japan. I like to personally thank everyone on the Executive Committee, the Board and each member firm for their contribution to FIA-J. It has been a pleasure to work with everyone!

Thank you!

PS – Did I forget to mention FinTech and Blockchain? You will find articles about each in the newsletter.

Michael Ross,  
President - CEO, FIA Japan

## Bill Herder

Head of Asia-Pacific  
FIA

# "FIA Global" has started.



**The merger of FIA America, Europe, and Asia has been completed and FIA Global has started. We asked Mr. Bill Herder, Head of Asia-Pacific, about FIA's action policy in Asia.**

**Our mission is to help coordinate issues at global level**

**FIAJ: FIA America, FIA Asia and FIA Europe recently merged into a single entity now known as "FIA". Can you tell us what triggered this move and what that means for your operations in Asia?**

The merger was a logical evolution from the work we've been doing globally. In 2013, the separate entities, FIA, FIA Europe and FIA Asia became affiliated under one umbrella, FIA Global. The entities agreed to coordinate strategy, advocacy and member relations. It worked well, and we were able to improve our service to our members. The full merger was the next logical step in this process. Our industry spans the globe, and it's beneficial to have a global organization working on behalf of our members.

The transition has already proven beneficial for our members. Here in Asia, we've been serving a geographically large and diverse region with a small staff. But with the multitude of regulatory jurisdictions and the complexities of cross border regulatory issues our workload was becoming rather daunting. With the new organization, we now have subject matter experts across the globe working together to analyze and provide insights on a wide range of issues. Besides the outstanding internal resources at our disposal we are also able to gain the insight of the members who are dealing with these issues on a

daily basis across the globe. Along with the increased reach in advocacy, we are now much stronger in the areas of member outreach as we can take advantage of global strategies in areas such as marketing, event programming and publications. The benefits have been global as well: in Europe and the U.S., FIA members now have access to information and advocacy on the latest developments in Asia. They can take advantage of the specialized knowledge we've built over the years. A single FIA gives us global reach powered by regional expertise.

**FIAJ members can reach the information gathered by FIA globally**

**FIAJ: While FIA Japan has a specific focus on the Japan financial markets, we understand that FIA in Asia strives to work with the many derivatives markets throughout the Asia Region. How do you organize your activities and goals in this regard?**

The size of the Asia-Pacific region is vast. Our remit covers a triangle with vertices of Wellington, Seoul and Dubai. There are a multitude of cultures, exchanges and regulatory jurisdictions in that area, so we serve as a sort of clearinghouse—connecting members, collecting information, and sharing insights. As a trade association, we endeavor to represent the entire market place. We have standing committees for Law, Risk and Compliance, Operations, Technology and a newly formed committee on Commodities. We also engage working groups for more specific issues such as specific cross border regulatory issues and OTC clearing.

We do all of this with a globally-coordinated strategy, voted on by the FIA board of directors at the beginning of the year with input from all three regional advisory boards.

Our regional advisory board is essential to the work we carry

out. This diverse group hails from across the region and from both the exchange and FCM communities. They help define the issues facing the industry, determine their priority, and identify the best solutions. The staff here then decides how we will accomplish the objectives which have been set. We also have weekly calls with various internal groups within FIA to ensure that, as a global entity, we are keeping to a shared agenda and vision that best serves our industry.

I am fortunate to work with some of the brightest and most dedicated colleagues I have ever encountered; not only here in Asia but globally. Collectively we are able to provide a voice for our members which is far stronger than any individual could hope for.

**FIAJ: FIA and FIA Japan, which was established in 1988 as the Japan Chapter of FIA and later incorporated under Japanese law, are currently working towards a formal affiliation agreement. How do you envision this already strong relationship to further grow and what benefits could this bring to our mutual members?**

In the past 28 years the financial industry has undergone seismic changes. When FIA Japan was founded a trader was located where the products he traded were located. As a result there was very little need for anything more than the strong, yet informal, relationship between the two associations. With the advent of electronic trading a person sitting anywhere in the world could trade any market they wanted. This innovation brought along with it not only unprecedented growth in volumes but also the burden of cross border regulations. National borders in the financial world have become blurred to the point of almost non-existence. Much like the evolution of FIA, the natural progression is to formalize the relationship between FIA and FIA Japan. The affiliation agreement will benefit both the exclusive and mutual members of FIA and FIA Japan in a number of ways. Even if the borders are blurring from a trading and regulatory aspect, there are still idiosyncrasies which knowledge of and experience in the local market can help understand. Be it language, custom or culture, these characteristics are part of our industry as much as rules and regulations set forth by the governing bodies. FIA will be able to tap into the knowledge and experience present in FIA Japan to help our members efficiently conduct business in the Japanese financial markets. Likewise the trading community has become increasingly globalized. No individual market can sustain, let alone grow, without overseas participation. FIA Japan members will have better access

to FIA resources from around the world to help navigate the international trading landscape. From another standpoint, the two associations will form reciprocal representation on various committees and boards to help facilitate the transfer of specific knowledge and to keep on top of industry matters. Along with the agreement, there will be additional coordination on branding, marketing and events such as the Japan Futures Conference which was held in the summer of 2015.

### Support the coordination of cross-boarder regulatory issues

**FIAJ: In the aftermath of the Lehman crisis, regulators around the globe have been tightening regulations, which sometimes conflict with one another. How could such issues be resolved and what role could FIA play in that respect?**

In our region, and around the world, conflicting regulations have been an ongoing concern, as have duplicative regulations that accomplish the same goal but require different processes, procedures, or record keeping to verify that to different regulators. Conflicting rules or regulations mean that a firm may be violating the law in one jurisdiction by adhering to requirements in another jurisdiction. This leads to an impossible situation for global compliance. While we respect and appreciate the need for any jurisdiction's ability to enact sovereign rules, we have an obligation to advocate and educate when these rules become obstructive to the open global markets to which we ascribe.

FIA has long advocated for substituted compliance and mutual recognition as a way to avoid conflicting regulatory requirements. As an association, we spend a great deal of time with the various regulatory authorities. We have developed relationships which allow us to discuss and advocate for policies which conform to global best practices.

These efforts have been strengthened by our merger, which allows us to speak with a global voice and to have consistent and thoughtful conversations not just with the APAC regulators that we have relationships with here in Asia, but also with regulators across the map. When you're sharing the same data and thought leadership in Asia, Europe, and the Americas, you're able to make headway more easily. I think the cross-border regulatory harmonization—more than anything else—demonstrates just how important it is to have a global organization representing the cleared derivatives industry today.

**FIAJ: Thank you.**

## METI Establishes Study Group on FinTech

According to its website, the Ministry of Economy, Trade and Industry (METI) created a Study Group on the Integration of Industry, Finance and IT (“Study Group on FinTech”) to discuss in a comprehensive manner the possibility that innovative financial services using technologies including IoT technology, big data and artificial intelligence will generate new industries and significantly change the manner in which corporate finance is provided. Participants to the Study Group meetings held late last year were from a variety of backgrounds and included experts from the Bank of Japan, Mizuho Financial and Nomura Research Institute, as well as observers from FSA.

Some of the topics listed for discussion by the Study Group include the following:

1. Will FinTech generate new industries in Japan?
2. What kinds of opportunities and threats will be generated with the rise of FinTech?
3. How will FinTech change the way in which funding is arranged by companies?
4. Will FinTech change household asset building/allocation, currently biased to savings and deposits, or will it increase the supply of risk capital?

Further details are available [here](#).

## FIA Comments on CFTC’s Proposed Rule on Automated Trading

FIA filed a comment letter with the Commodity Futures Trading Commission (CFTC) on March 16 in response to its proposed rule on automated trading.

“Automated trading has revolutionized markets, enhancing efficiency and contributing to liquidity,” said Walt Lukken, president and CEO of FIA. “To be effective, regulation of automated trading must be implemented in a manner that protects market integrity while allowing for continued evolution of trading practices and technology. We appreciate the CFTC’s goal of modernizing regulations and enhancing transparency, but we have concerns with the proposed rule as written, particularly with regard to the scope of their application.”

The proposed rule has significant scope; it addresses entirely new regulatory areas and would impact large numbers of market participants, not just a subset of firms engaged in specific types of activity.

To apply particular requirements to the appropriate scope of market participants, FIA recommends the CFTC separate the

rulemaking into three components:

1. Pre-trade and other risk controls to help protect market integrity
2. Policies and procedures for the development, testing, deployment and monitoring of Algorithmic Trading (including third-party software)
3. Registration (if necessary)

FIA believes that risk controls are the most critical aspect of this regulation, and all electronic trading should be subject to appropriate pre-trade and other risk controls. FIA’s letter urges the Commission to address risk controls first and then consider rules around software development, testing, deployment and monitoring. FIA also noted that the approach to both risk controls and policies and procedures is too prescriptive as proposed. Finally, registration requirements should be considered only after risk controls and policies and procedures are in place, when it’s clear whether it is required.

Further details are available [here](#).

## FIA Japan Affiliation with FIA

FIA Japan, established in 1988 and later incorporated in Japan, has discussed its strong relationship with FIA for many years. FIAJ and FIA officers met several times in the past two years and again in Boca Raton this past March, where FIA welcomed our affiliation with the understanding that FIAJ would retain its independence. A formal letter was sent to FIA Japan in March regarding formalizing our relationship with the newly merged FIA, which was then followed with a draft of the FIA Trademark License agreement in April. Our Executive Committee discussed the contents of these documents and reported the essence of the

discussions to the Board of Directors.

Even though the details of our affiliation with FIA have yet to be formalized, FIA Japan wishes to continue working in close collaboration with FIA, and leverage our mutual resources to the benefit of all of our members. As we may wish to amend our by-laws to incorporate and reflect some of the points of the affiliation, we may hold an extraordinary AGM later this year to approve the changes and will keep our members informed of any progress.

## CME, Eurex, SGX - 2016 Roadmap Japanese Webinar

Following the release of the “2016 Japan Roadmap Overview“ English webinar in January 2016, which covered updates from JPX, TOCOM and TFX, the FIA Japan Technology Committee invites you and your teams to a 30-minute webinar in Japanese offering this time an overview of the derivatives market situation, the main technical and functional changes, as well as the introduction of any new products, planned in 2016 at CME, Eurex and SGX. This webinar was purposely prepared in the Japanese language so that it can be shared with your domestic customers who may be interested in trading overseas markets.

[CME, Eurex, SGX - 2016 Roadmap - Japanese Webinar](#): You

can access this latest Japanese webinar and registration page by clicking on this link.

[2016 Japan Roadmap Overview - English Webinar](#). You can access the previous English webinar and registration page by clicking on this link.

(Please note that the webinar session will require the installation of the webex webinar tool)

Should you have any comments or questions, please feel free to contact our FIA Japan Technology Committee. Enjoy the session!

## Tokyo Financial Center – Inheritance Tax Issue

A recurring theme of senior Japanese officials for years now has been the effort to position Tokyo as the premier financial center of Asia. It is a campaign that is taking on urgency as Japan’s government grapples with how to finance the rapidly aging population and the growing ranks of pensioners. The consensus is that Japan must better leverage its vast pool of savings, and that would mean attracting the sort of talented financial professionals that would help allocate those savings to the highest returns, certainly more than just piling the money into low yield government bonds.

Building that talent pool invariably leads to the prospect of luring foreign professionals to Japan, and a debate has raged for years about how best to do that. A long list of ideas includes greater reliance on English for business transactions, better

schools and international hospitals, and – the favorite of Japan’s local property developers – building more of the sort of homes that “gaijin,” or foreign professionals might like to live in.

In fact, the benefits of more investment in these areas are questionable. Tokyo already has great medical facilities with English speaking staff. It has a predictable legal system. Its regulators seem far less willing than counterparts in the US and Europe to burden the financial industry with punitive regulation in the wake of the 2008 crisis. And who can deny the benefits of living in a clean, safe city like Tokyo, which boasts more Michelin rated restaurants than any other major world center.

It is difficult to improve on the existing benefits in Tokyo by pouring more cement to build fancy lodgings for would be fund managers from abroad. What will ultimately attract those



financial professionals is to remove the hurdles to making the sort of living those professionals might make if they lived and worked in another financial center like London, New York or Hong Kong. Invariably, that leads to a discussion of taxes.

Consider the case of a financial professional that comes to Tokyo to join in the effort to help Japan better leverage its savings pool. Should that financial professional get hit by a bus or otherwise die while in Tokyo, his or her relatives would have to pay as much as 55% of the total value of the professional's global assets to the Japanese government in the form of an inheritance tax. Not only would the spouse and children be left grieving, but they might have to sell the family home back in London, New York, or wherever that may be, so as to meet the onerous burden of the Japanese inheritance tax. Similarly, if the

professional or any member of his family living in Japan were to receive an inheritance from any person located overseas, they would be taxed on the value regardless of the location of the assets.

Fortunately, there is a solution. Japan recently agreed to visa-based exemptions to its so-called "exit tax," which put a similarly onerous burden on permanent Japanese residents when they leave Japan. Those exemptions are a model for tax authorities to adjust the inheritance tax so that it doesn't deter foreign financial professionals from coming to Japan on a temporary basis to contribute to the Abenomics reform effort to revitalize the nation's finances and pay for the graying of Japan.

The International Bankers Association of Japan also released comments on the subject. [You can access their website here.](#)

## OSE Changes to Coincide with Launch of Next Generation Derivatives Trading System (Next J-GATE)

Osaka Exchange-Japan Exchange Group (OSE) will launch its Next J-GATE on July 19, 2016. Starting with the previous March 2016 edition, we have covered revisions to trading rules and new products for the launch. In this edition, we will cover the Non-Cancel Period (NCP) and the mandatory use of the hard-limit function.

For some time, OSE had received word that pricing would be disrupted by order amendments/cancellations just before Itayose of the opening and closing auction of each session. Thus, OSE currently adopts operational procedures to restrict large order amendments and cancellations just before Itayose. Still, OSE is aware of complaints about the complicated operational criteria and also the burden of handling inquiries. In addition, even after the current restriction came into effect, OSE continued to see amendments and cancellations of orders that were just short of the criteria. In a comprehensive consideration of the situation, they aim to resolve the issues of pricing and operational burden by implementing a system-based NCP [Non-Cancellation Period] so that amendments to or cancellation of orders will not

be accepted before the opening or closing auction. The NCP will be applicable to Nikkei 225 Futures, Nikkei 225 mini, and TOPIX Futures. The NCP will run for one minute before the opening auction of the day and night sessions and the closing auction of the night session

Moreover, for the purpose of strengthening management systems and frameworks pertaining to erroneous orders, OSE will provide a hard limit function (i.e: reject orders equal to or more than the quantity or value set in advance by each trading participant) and mandate the use of this function. OSE staff will monitor the use and configuration of this function by each trading participant periodically and on a timely basis. With this approach, OSE will secure a situation where the hard limit is set without omission and improve the credibility of the rules on order management and of its market.

OSE aims to enhance usability for investors and market participants and to promote market liquidity with the launch of the Next J-GATE.

## FIA announces departure of COO Mary Ann Burns

FIA announced that Mary Ann Burns, executive vice president and chief operating officer, will be leaving FIA at the beginning of July to head marketing and distribution for the craft brewery owned by her family.

“It has been an amazing 23 years at FIA,” said Burns. “I’ve enjoyed working with many extraordinary members of FIA on a host of projects over the years, and I value the opportunity I’ve had to work with the FIA leadership and very talented staff. I’m excited to start something completely new and I leave knowing that FIA will be in very good hands going forward.”

“Mary Ann has been a tremendous asset to FIA,” commented

Mitch Fulscher Chairman Emeritus of FIAJ. “As our organization in Japan grew we interacted very often and she was always helpful to us whenever we needed assistance from FIA”, he added. “She has an amazing ability to stay “cool” regardless of the many pressures of her ever growing responsibilities and position at FIA. Her broad knowledge of the industry and her close network with its leaders, both in the US and internationally, is most impressive, and her management style is a model to follow. We at FIA Japan wish her well in her new and interesting venture.”

Further details are available [here](#).

### Exchange News

## OSE Breaks Record for Total Derivatives Trading Volume ..... JPX

Osaka Exchange-Japan Exchange Group (OSE) announced its trading overview for FY2015. The total derivatives trading volume reached 385.9 million contracts, exceeding the high in FY2013 of 355.9 million contracts. In particular, Nikkei 225

mini grew by 33% over FY2014, and reached an ADV [Average Daily Volume] of 1,100,776 contracts. Also, JPX-Nikkei 400 Futures, which launched in November 2014, is standing firm at an all-time record high ADV of 40,484 contracts.

## OSE's Night Session Continues to Grow ..... JPX

OSE's night session has been growing and marked record highs for nine years in a row. For FY2015, trading volume for the night session was 139 million contracts, accounting for 36% of total derivatives trading volume.

In tandem with the launch of Next J-GATE in July 2016, the night session trading hours will be extended, ending at 5:30 am instead of the current 3:00 am.

## To Launch DJIA Margin Contracts in June ..... TFX

On February 16, Tokyo Financial Exchange Inc. (TFX) announced the detailed launch schedule of Dow Jones Industrial Average (DJIA) based equity index contracts on its Exchange Equity Index Margin Contracts market (Click Kabu 365). The new contracts will go live on Monday, June 27, 2016.

TFX believes that the introduction of DJIA Margin Contracts to Click Kabu 365 will help increase the convenience of its users dramatically, making possible for them to trade major global

equity indices from the US, Europe and Japan without being subject to currency fluctuations between Yen and USD/EUR. It is also expected that the launch of the new product, which has an underlying asset that is undeniably one of the best known overseas equity indices among Japanese retail investors, will boost Click Kabu 365's profile and facilitate further vitalization of the market.

## To Enhance Information Services on Click 365 LARGE ..... TFX

In May 2016, TFX has renewed the website of “Click 365 LARGE”, which the exchange introduced to its suite of Exchange FX Margin Contract in November last year. The contract size of Click 365 LARGE is 10 times larger than its sister contracts “Click 365” and the new website contains more detailed market information to help investors with their trading activities.

In spite of the cost required for trading Click 365 LARGE (even though some of the brokers now offer Click 365 with zero

commission), the product has been gaining attention not only from retail investors but also institutional/overseas investors due to its constant delivery of tight spreads. With the renewed website that offers information such as prices and spreads of each currency pair, TFX hopes to improve the visibility of the Click 365 LARGE brand in the trading community and expand its investors base to reach out to both domestic and overseas institutional investors.

## TOCOM Fiscal 2015 Volume Up 15.3% - Gold Rolling Spot and Crude Oil Actively Traded ..... TOCOM

TOCOM’s trading volume for fiscal 2015 (ending March 2016) was 26,159,658 contracts, up 15.3% from the prior year. Average daily volume was 106,774 contracts, up 15.8%. Trading was light during the first half of the year and had a lack of direction. In the later part of the year trading was more active as price volatility increased due to turmoil in emerging economies, including China.

Active trading along with exchange-based upgrades led to the highest volume of the past three years. TOCOM Dubai Crude Oil and Gold Rolling Spot contracts led the way. The Gold Rolling Spot contract, which does not expire, successfully captured

retail investors’ interest after its May 2015 launch. Dubai Crude contract specifications were revised to better meet industry needs and an ETN based on Dubai Crude was also well received. This led to a 253% volume growth for Dubai Crude.

Volume from overseas customers was up 24.8% to 25,201,322 contracts in fiscal 2015. Overseas business now accounts for 48.2% of TOCOM volume – well above the 11% level in 2009. TOCOM has made concerted efforts to open its market to the global community starting with the launch of its NASDAQ-based trading platform in 2008.

## TOCOM Announces Midterm Management Plan ..... TOCOM

On March 10, TOCOM announced its “Midterm Management Plan” for fiscal 2016-2018 and business plan for fiscal 2016. Management’s strategy is focused on three goals: 1. Further stabilize the business to insulate it from external factors; 2. establish a “comprehensive commodity market” and; 3. continue coordinating with exchanges, such as JPX, as well as overseas entities. These goals are designed to increase market liquidity and create more consistent results.

For fiscal 2016, TOCOM is prioritizing four initiatives: 1.

successfully implement and launch a new trading platform with JPX’s derivatives system; 2. create an electricity futures market; 3. develop a comprehensive commodity market and; 4. further encourage retail investors to participate in the market. TOCOM plans to expand its products, including: 1. gold options with updated contract specifications and a new platinum rolling spot contract; 2. a physical gold market and; 3. a marketplace that tracks petroleum spot prices.

## JOE’s LNG OTC Transactions Now Clearable through CME Clearing ..... TOCOM

On March 22, TOCOM’s subsidiary, Japan OTC Exchange, Inc. (JOE), launched a new LNG contract that can be cleared through CME Clearing. This followed CME Group’s listing of the LNG DES Japan (RIM) Futures contract. Launched on NYMEX on February 22, it is based on the DES Japan price, which is published by RIM Intelligence.

Clearing benefits both the buyers and sellers in Japan and overseas by reducing credit risks of LNG OTC transactions. JOE expects this will help the LNG market develop Asia’s first reliable LNG benchmark price.

Further details are available [here](#).



**Technology Committee****Chairman Bruno Abrioux**

Before unveiling the Technology Committee FY2016 plan, allow me to share a short summary of the various activities conducted throughout FY2015.

First of all, our committee has kept its commitment to feed the Tech Corner of the FIA Japan newsletter with educative articles on the most recent technology developments impacting the FSI [Financial Service Industry]. A broad variety of topics spanning from Cloud-Computing to the current FinTech landscape in Japan were covered.

We also had a clear goal to increase our committee participation to FSI events. We materialized this objective through the organization of two Technology Panel Discussions: one for the FIA Japan Financial Market Conference 2015 on May 13, 2015 on the theme of “Cloud Technologies in the Financial Services Industry: the business benefits and challenges” and another one at the 17th Annual JIBSIS Forum 2016 on February 25, 2016 with a focus on “Cyber Security in the Financial Services Industry: Cyberattacks, Dare to Share” (you can find more about this latter event in the “Past event” section of this newsletter).

Beyond a regular support to FIA Japan MDC and PTSG activities and sharing sessions with representatives of FIA in Asia, our committee has also released the whitepaper titled “[Automated Trading Systems \(ATS\): 5 fundamental questions to assess the technology-related risks](#)”, as a complementary work to the “Guide to the Development and Operations of Automated

Trading Systems” released in March 2015 by the Automated Trading Committee of the FIA Market Technology Division in the US.

Last but not least, on February 1, 2016, a single webinar aimed at presenting JPX, TOCOM and TFX plans in the English language was successfully released: “[2016 Japan Exchanges / Clearing Houses - A Comprehensive Roadmap](#)”.

Obviously, none of these activities would have happened without the contribution of our committee members and the strong engagement of our panelists and article writers, be they FIA Japan members or external contributors. As Chairman of the committee, I would like to share here my deepest thanks for all the commitment and professionalism from everyone while preparing and executing those activities.

What’s next? For FY2016, we have already identified a number of topics of interest to cover through articles, webinars, panel discussions and other roundtables. In a non-exhaustive manner, we could quote activities like taking the pulse of the FinTech trends with a zoom on blockchain technology, checking on what some of the overseas exchanges who are members of FIA Japan (i.e: CME Group, Deutsche Boerse and SGX) have planned for the industry, or looking at the replacement of the FIA Tech-run solution egains by a solution called atlantis...

As a conclusion note, I also encourage all our readers to share any technology-related topic considered as worth exploring for our committee.

**Membership Committee****Chairman Izumi Kazuhara**

FIA Japan recently welcomed the following new members to the Association. We are looking forward to their participation in our activities.

**XR Asia Trading – Corporate Member**

XR Trading Pacific LLC is affiliated with the US-based trading firm “XR Trading LLC”, a proprietary trading firm that engages in a market-maker trading approach. This adds value to the markets in which they participate by providing liquidity

in a full range of instruments across multiple asset classes. They employ innovative trading strategies that integrate technology with a quantitative automated market-making approach.

This unique approach enables them to successfully leverage their strategies across a multitude of products and global exchanges. XR Trading LLC is headquartered in Chicago, with trading offices in Sydney and London covering trades 24 hours a day across all time zones.

**Commodity Study Group****Chairman Mitsuhiro Onosato**

CSG discussed the following points in recent meetings.

**Asian Market Updates:**

Mr. Sugitani (previous CSG Chairman, now based in Singapore) shared some thoughts on global market trends and updates on recent Asian commodity market developments.

According to FIA’s 2015 volume data, the Asian region was the largest in terms of contracts traded (about 7 billion) for the first time, mainly due to the Chinese exchanges (Dalian: +31%, Zhengzhou: +25%). Asia grew by about 20%, while North America was down 6% and Europe was flat. Even though,

the actual physical flow of commodities relating to China has shrunk, derivatives trading remained strong. On the other hand, the index futures contract in China basically died due to tighter regulations probably. Foreign players are worried of those sudden changes in regulations. The launch of the INE Crude contract has been pushed back beyond June 2016.

#### **TOCOM Gold Delivery:**

Some foreign players pointed out that TOCOM gold delivery is difficult to implement. TOCOM was approached by one of the major US transportation and secured storage companies to become a TOCOM designated warehouse, however, the regulations in Japan related to issuing warrants makes it difficult for such a new player to enter. TOCOM considers helping the

company get the proper registrations/people in. If a warrant market was created, it would open a new window as warrants could be swapped internationally. Another idea is to use Gold accounts in banks, ideally the BoJ (as is the case in the UK).

#### **Options Seminar:**

CSG also discussed about the options seminar held by JPX and TOCOM and supported by TFX and FIAJ on March 29, 2016. The option seminar program draft was distributed. Few brokers are involved in the options market. One reason is the limitation of their own options trading functions, which may result in complaints from customers. A sales point towards the brokers is to appeal on the risk management aspect of options.

### **Special Report**

## **JPX-TOCOM Joint Options Seminar 2016**

**On March 29, JPX a holding company of Osaka Exchange(OSE), and TOCOM organized a joint seminar on options, with the support of FIA Japan and TFX. The seminar attracted over 80 participants, half of them being retail investors wanting to learn more about options trading. The 2-hour seminar featured a first part targeted at brokers, while the panel discussion in the second half was designed for the benefit of retail investors. At the networking reception that followed, investors, brokers and exchange staff had a chance to swap business cards and exchange insights on options trading. Below is a summary of the main themes and points addressed during the two sessions.**

### **Part 1: Options Trading and its Attractiveness**

#### **1. Recent Developments in OSE's Options Markets**

Mr. Miki of OSE explained that they have introduced weekly options in May 2015 to respond to the needs of market participants, which have been trading well except during the China crisis period. Participants in the weekly options market are mostly market makers and retail investors and present opportunities both on the call and put sides.

#### **2. TOCOM New Gold Options**

Mr. Yamashita of TOCOM covered the following: The current TOCOM gold options are not trading, so the Exchange will launch new gold options to coincide with the launch of the new

trading system to be shared with OSE in September 2016. The specifications will be modified to be closer to the Nikkei 225 options type (e.g: European type; cash-settled etc.). The contract size will also be reduced to match the needs of retail investors. The new TOCOM gold options offer attractive features such as a) the possibility to start investing from smaller amounts; b) high level of leverage; c) limited loss for options buyers; and d) hedge against physical gold or gold futures. According to a survey implemented by TOCOM, roughly 3.5% of the Japanese population is interested in trading gold options, which actually corresponds to the percentage of people trading FX and is therefore a relatively high proportion, the main reason behind this interest being the linkage to gold.

#### **3. Options on JPY interest futures at TFX**

Mr. Seo of TFX mentioned that following the negative interest rate introduced by BoJ recently, the yield curve of the TFX Euro-Yen options has been modified and presents interesting investment opportunities.

#### **4. Options supporting growing markets and its effectiveness (Reducing brokerage business risks and changes in the earnings structure)**

Mr. Mogi, FIAJ Vice-chairman and Chairman of the board, Nissan Securities, made the following comments: Options on futures have been growing globally from around 15 billion contracts in 2007 to 25 billion in 2015, while Japan stagnated

and now represents around 1% of the global market. In the US, the number of FCMs has dropped dramatically due to tightened regulations, such as the ones introduced by Dodd-Frank, while Introducing Brokers have been merging into much larger organizations. The success of the US options market can be explained through numerous reasons, including the rationalization of regulations into a single framework in 1976, which differs dramatically with the Japanese experience. It was noted that the launch of an options market greatly improves the liquidity of the related futures market. The key to a successful options market also lies in the relationship of the broker with its customers.

## Part 2: Environment Surrounding Options Trading in Japan

This panel discussion was moderated by Mr. Itoh, Simplex Institute Inc., and included the following panelists: Mr. Kanamori and Mr. Moriya from Options Trade Promotion Association (Investors), Mr. Miki (OSE), Mr. Kazuhara (CME) and Mr. Onosato (TOCOM).

The panel explored the benefits of options trading, the main one being that risk is easily controlled with options. One of the investor panelists started trading options ten years ago after having experienced heavy losses in the equity market. The other trader started with futures trading and started using options to hedge his risk. Another attractive aspect is the possibility to make profits at times when volatility is low in the market. The insurance side of options is also a benefit (for example using the new TOCOM gold options for those investors who hold physical gold).

CME explained that options could be used as insurance when liquidity dries up in the market and one can't easily close an open futures position, as was the case last year after the China Crisis. For TOCOM, gold is the most important product. Following sudden price fluctuation, many investors left the market after making losses when prices dropped suddenly. Therefore using the new options as an insurance is recommended. For OSE, few players in the options market are actually hedging. There are more investors participating and implementing strategies that involve options in and out of Japan.

The two investors were asked about their demand for the options market in Japan. They commented that more brokers targeting retail players need to be involved in the Nikkei225 weekly options. Also, if strategy orders, whereby they could trade more than two legs in one single order, could be introduced



left: Panel discussion.  
under: Social gathering,  
which was held after the  
seminar.



to the market, that would help limit the risk to the investor. OSE is hoping that the liquidity in the new weekly options will improve when the new trading system will be launched, as some trading functions will be easier to handle.

On the theme of education of options traders, the two investors commented that there is a lack of information on options when compared to FX or to what is available on US websites. OSE is working on providing more info through its website/members or by providing simulations on-line. It was commented that FIAJ could follow the steps of what happened in Holland where the finance minister promoted the teaching of options trading in schools. The panel also demystified that a high level of mathematical ability is required to trade options.

What not to do when starting options trading: sell put options. OSE recommends starting from buying options and understand where the risks are through simulations/seminars etc. The reduced contract size for the TOCOM gold options helps reduce risk and allows the investor to implement strategies using multiple options.

The costs related to options trading systems were also explored, noting that both exchanges and brokers have to handle a much larger amount of data when compared to equities or futures. The positive effect of options trading on futures liquidity may well make the extra cost worth it though.

Asked about their expectations for the options market in Japan, FIAJ Vice-Chairman Mogi commented "Option contracts are vital risk management tools that are well fit with commercial and investment needs, as I believe options contracts may be able to minimize risk and maximize profit opportunities. Without exception, the growing futures markets in the world today have provided both futures and options side by side, which complement each other's through the correlation of the market places. Both exchanges and industry organizations are

encouraged to extend and enhance the scope of their educational activities on Options Transactions, as this has been lacking and represent an important source for market development, especially in the commodity space in Japan.”

The FIAJ Commodity Study Group had been contemplating

the idea of organizing such seminar on options for some time. Group Leader Onosato made the following comments: “I believe options offer the potential for the commodity futures market in Japan to grow dramatically. We are looking forward to the entry of many commodity brokers dealing with options business.”

## Past Events

### 17th Annual Japan International Banking & Securities System Forum 2016

February 25, Tokyo

The FIA Japan Technology Committee was invited to host a panel discussion at the JIBSIS 17th event focusing on the theme of “Cyber Security in the Financial Services Industry: Cyberattacks, Dare to Share”. Under the moderation of Bruno Abrioux (FIA Japan and FIS SunGard Japan K.K.), the four panelists, Sean King (PwC), Michael Ross (FIA Japan and Omgeo KK), Shinobu Hirayama (Rakuten Securities, Inc.) and David Wilkinson (Equinix Japan KK) discussed how to improve cyberthreat intelligence through information sharing and analysis. They covered points ranging from possible improvements to the currently fragmented FSI cyber threat intelligence landscape in Japan (how can the information flow be improved between Financials ISAC, CEPTOAR, NISC, FISC and other bodies?) to the need for an international multi-stakeholder cooperation (What are the potential benefits of Information Sharing and Analysis Organizations (ISAO) as

called by the US Executive Order 13691?). They explored how to develop “situational awareness” as recommended by the consultative paper Guidance on cyber resilience for financial market infrastructures released at the end of 2015 by the Committee on Payments and Market Infrastructures (CPMI) and the Board of the International Organization of Securities Commissions (IOSCO). At a more technical level, they also looked at the current information sharing standards like the Trusted Automated eXchange of Indicator Information (TAXII) and the Structured Threat Information eXchange (STIX) in conjunction with the concept of “data gravity” (applications moving toward the data) and how it could be used to achieve higher efficiency in cyberthreat intelligence, ie deploying the necessary resources “to collect and redistribute meaningful data that can be acted on”. Finally, they considered and commented on the broader picture of designing a true strategy for cyber resilience, starting by developing a culture of cybersecurity at all level of an organization.

## Future Events

### ■ FIA Japan Annual General Meeting May 26, Tokyo

5/26

We will hold the 28th Annual General Meeting and a reception at International House in Roppongi on Thursday, May 26, 2016 from 17:00. FIA Japan expanded its activities and program and continues to grow. We thank our members for your continuous support to FIAJ and would like to encourage your participation in our activities. We look forward to seeing you at the AGM. For more details please contact the Executive Secretary at [morizono@fiajapan.org](mailto:morizono@fiajapan.org)

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### ■ IDX 2016 7-8 June, London

6/7

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# World Exchanges Hit by Blockchain Fever

In our last Newsletter Tech Corner, “FinTech: a deeper look and current trends”, blockchain-based distributed ledgers were referred as one of the fundamental and tectonic change afoot in the Financial Services Industry. Indeed, the underlying technology for bitcoin, the blockchain, has quickly caught attention among the broker community and other financial institutions; as an evidence, the R3 Blockchain Consortium led by R3CEV LLC, a blockchain technology company, has been able to gather not less than 42 financial companies between September 15, 2015 and December 17, 2015. The list includes Mitsubishi UFJ Financial Group, Mizuho Financial Group, Nomura, and Sumitomo Mitsui Banking Corporation among its members. SBI Holdings also announced on March 14, 2016 that it would join the consortium.

Without any surprise, the blockchain heatwave has also stroke a number of Stock and Commodity Exchanges across the globe. As of April 14, 2016, at least 11 exchanges (or related business group) have developed strategies to explore the potential of the new technology, from direct Proof of Concept (PoC) with partners to acquiring stake in FinTech companies or also engaging in industry-wide groups and foundations.

Japan and its main domestic exchange are no exception to this industry “tech excitement” for blockchain. As a matter of fact, on February 16, 2016, the Japan Exchange Group, Inc. (JPX) has publicly announced the commencement of a PoC aimed at evaluating the limits and possibilities of the distributed ledger technology in cooperation with IBM Japan ([access the News Release here](#)).

On the same day, IBM, one of the Premier members of the

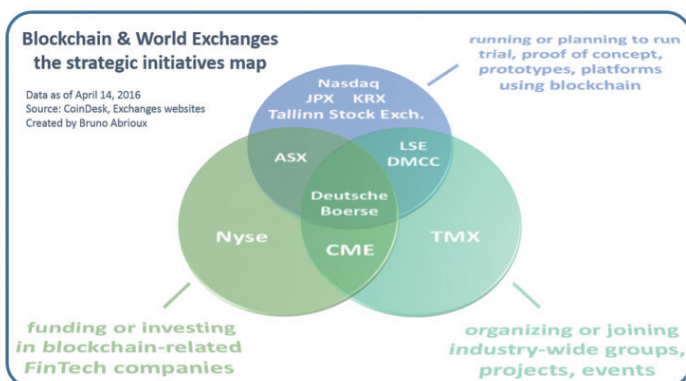
[Hyper Ledger Foundation](#) (along with the CME group, the Deutsche Boerse Group, Fujitsu and Hitachi – while NEC and NTT Data are also listed as General members of the foundation) had unveiled its Blockchain-As-A-Service offer for Developers and had confirmed already partnering with the London Stock Exchange group on this matter ([access the News Release here](#)). More recently, on April 07, 2016, JPX also issued a [press release announcing a second PoC in collaboration with Nomura Research Institute \(NRI\)](#). According to [NRI’s announcement](#) on the same day, this specific PoC involving not only JPX but also supported by Nomura Securities, SBI Securities and Mitsubishi UFJ Financial Group among others, is scheduled between April and June-end 2016 with an objective to assess the applicability of blockchain technology to securities markets. While it will be the first blockchain-related engagement between JPX and NRI, this technological trial comes as the second phase of a PoC initiated by NRI itself in October 2015.

In order to better understand JPX objectives, the FIA Japan Technology Committee had the opportunity to interview Mr. Atsushi Santo, Head of New Business Development at JPX. We are pleased to share here the content of our discussion.

**FIAJ: A number of Securities and Commodity exchanges over the globe have started strategic initiatives around blockchain: some venturing in FinTech companies, others initiating or joining industry consortiums and many running their own trials with the help of partners. At this stage, the latter approach seems to be the preferred route for JPX. What has motivated this choice?**

*We have had intensive discussions among internal working group last year and concluded that distributed ledger technology is worth further investigation. Since our research so far was done just on a paper basis, we decided to start PoC to examine if our understanding is correct on the sandbox environment. We don’t deny other routes in the future, but implementing PoC would be a rather straightforward approach to get deeper insight.*

**FIAJ: Distributed ledgers could potentially fit a number of purposes in the trade-life cycle. What will the efforts of the PoC focus on?**





*Since distributed ledger technology is built on a Peer-to-Peer network, pre-trade order 'aggregation' would not be a good fit. We assume that its technological advantage over legacy technology will be higher availability, higher security and lower cost. In order to fully leverage those technological advantage, our PoC will focus more on the post-trade layer.*

**FIAJ: The news release from JPX mentions that there are "issues to be resolved in the technology". What are the main concerns today identified by JPX in regards to distributed ledger?**

*Although our pre-assumption needs to be tested during the PoC, one of the concerns we have now is throughput. A few tps [transaction per second] for bitcoin for instance is not sufficient for a financial infrastructure. Theoretically speaking, it could be improved in some way such as through the introduction of faster consensus algorithm or larger blocksize. However, the larger blocksize would require higher network bandwidth and might impair the cost advantage. Finding out the best balance considering such complicated issues would not be easy but our experience as a leading market operator will surely help to*

*resolve those issues.*

**FIAJ: What is the progress of the PoC (note: as of interview date, April 14, 2016)?**

*We have learned the technical aspects of the Hyperledger supported by IBM and completed the basic design of the sandbox environment. After development, we will implement tests until the end of June. Hopefully we could finalize our evaluation in July and share those with industry professionals later on.*

**FIAJ: JPX has initiated two PoCs: one with IBM and one with NRI. How do these 2 PoCs differentiate or complement each other?**

*There are some blockchain/distributed ledger technologies such as 'The blockchain', Ripple, Hyperledger, Ethereum or Eris. By running two similar PoC based on different technology, we would like to confirm if our findings come from a specific technology or if there are common issues to all blockchain/distributed ledgers.*

**FIAJ: Thank you very much. Our FIA Japan Technology Committee is definitely looking forward to hearing the result of your PoC in a few months' time.**

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