

Tech Investments Reshape the Japanese Markets

Topics of the month

Otemachi Financial Center

JPX Unveils IT Master Plan

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Update on EU Financial Transactions Tax

Tech Corner (New!)

Inter-Party Latency (IPL) Management

People Interview

Yuji Kusunoki, President, Rakuten Securities

“Views on Abenomics and its Impact on the Markets”



Yuji Kusunoki

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CHAIRMAN'S MESSAGE

A New Era

Mitch Fulscher, Chairman, FIA Japan

For the past two decades no one was interested to hear about Japan's economy. "Japan passing" replaced "Japan bashing". But suddenly, following Abe's election with his new reflation and spending policies, the Japan stock market jumped to the top of the global leader board, and the very high Japan Yen exchange rate declined sharply, offering the expectation of improvement in Japan's export based economy. The international marketplace is discussing "Abenomics" and asking for details of the government's so called "third arrow", and wondering if this is the dawn of a new era for Japan. Even the respected Economist Magazine displayed our Prime Minister on its cover as "superman" flying through the sky.

Recently, Abe delivered an eagerly awaited speech on his strategy for growth. He described a wide variety of reforms in areas where reform is badly needed – taxation, energy, agriculture, women in the workforce, medicine, etc. However, global investors' first reaction was skeptical, viewing the reforms as too modest. Some doubt is appearing. But this is only the first stage of discussion of the critically important restructuring and reformation. Domestic elections in Japan are coming up next month and sensitive political considerations are present. Nevertheless, the next few months are critical to the credibility of Abenomics and its impact on the financial markets in Japan, and indeed, whether this is, in fact, the beginning of a new era. Hopefully the government has the courage to follow through.

Changing Capital Markets

Following the Lehman financial crisis, global markets are being restructured as a result of Dodd-Frank legislation in the US,

and similar regulatory changes in Europe. New laws and regulations are forcing OTC markets onto exchanges and clearing-house facilities, and new government oversight and reporting requirements are changing the distinctions between these markets. In a rush to implement rules which are meant to prevent a repeat financial crisis, a number of proposed regulations have severe extraterritorial implications. These rules are having the effect of changing the business models and activities of major global market players. Perhaps the US CFTC's approach is most onerous with its swap reporting rules, commodity position limits and proposed prohibition and separation of trading activities. Meanwhile in Europe a new financial transactions tax would create a tax burden on market activities in other non-member countries. For example, if a German or French security is traded in Tokyo or Singapore, there would be a transaction tax payable in Europe. Hopefully, these extraterritorial issues will be resolved in a rational manner. (See article on EU Financial Transactions Tax following in this newsletter).

The global changes in the capital markets will certainly affect Japan and the business model of Japanese international institutions. In addition to the issues just discussed, we do have some positive changes which will help to make our markets grow. The amendments permitting the development of "comprehensive exchanges" as well as other changes are helping to eliminate the product line silos that for many years inhibited the growth of our markets.

We will continue to work toward encouraging the growth of the Japan financial market and to help in its development as a primary financial center in Asia. In this regard we encourage the participation of all of our members to work with us for this purpose.

Regulatory News

FIA Special Report Summary: CFTC Approves Dodd-Frank Trading Rules

At its first public meeting since July 2012, the Commodity Futures Trading Commission on May 16 approved three final rules related to the trading of swaps—core principles for swap execution facilities, block trade size thresholds, and the procedures for determining which swaps must be traded on Swap Execution Facilities (SEF)—as well as an interpretative guidance on the prohibition of disruptive trading practices.

CFTC Chairman Gary Gensler said the three swaps trading rules "will bring to this once opaque marketplace the transparency that Congress and President Obama laid out in Dodd-Frank." The CFTC's two Republican commissioners voted against several of the rules, however, and expressed concerns about the prescriptive nature of certain provisions.

After having mentioned that over 90% of the rules required by Dodd-Frank are now completed, Gensler noted that the CFTC continues to work on guidance on the cross-border application of its rules, a revised version of its position limits rule, adding commodity and foreign exchange swaps for mandatory clearing, as well as a final rule setting capital requirements for non-bank swap dealers.

Core Principles and Other Requirements for SEFs: These requirements cover issues such as trading and product requirements, registration requirements, compliance and surveillance obligations, operational capabilities, and financial resource requirements. The "compliance date" for SEFs will probably come in October, meaning that SEFs will be able to begin oper-

ating at that time.

Block Trade Rule: The CFTC approved a final rule to establish minimum sizes for large notional off-facility swaps and block trades. The rule specifies the criteria for determining swap categories and the methodologies for determining the appropriate minimum block sizes. It also provides protections to maintain the anonymity of swap counterparties. The CFTC will have one year's worth of data from swap data repositories by April 2014, so the planned shift to higher thresholds will take effect not long after that.

Made Available to Trade Rule: Under Dodd-Frank, any swap that has been "made available to trade" by a SEF must be traded on that venue or some other SEF or futures exchange unless the counterparties are not subject to mandatory clearing and trading requirements. In addition, any swap that has been "made available to trade" is subject to the trading requirements in the SEF rule (i.e., it must be traded via an order book or Request For Quote mechanism unless it is above the block trade threshold). The trading mandate for interest rate and credit default swaps will probably take effect in December or January.

Interpretive Guidance on Disruptive Trading Practices: Under Dodd-Frank, certain disruptive trading practices such as "spoofing" are prohibited. That provision of the law took effect in July 2011. To provide market participants with guidance on the scope and application of this prohibition, the CFTC approved final interpretive guidance and a policy statement on disruptive practices.

Update on EU Financial Transactions Tax

The EU financial transactions tax (FTT) aims to ensure that the financial sector makes a "fair contribution" to the cost of the financial crisis by imposing a tax of 0.1% on transactions

involving equities, bonds, fund units, money market instruments, repurchase agreements and securities lending agreements, and 0.01% on the notional value of derivative products. Originally proposed in September 2011, but lacking unanimity among all 27 Member States, the FTT has reemerged via a request by a reduced group of 11 Member States – including Germany and France – for “enhanced cooperation”. The green light to proceed was given in January 2013 and a proposal adopted on 14 February 2013. Assuming the final hurdles can be cleared (including European Council agreement and national transposition), the FTT is scheduled to come into effect on 1 January 2014.

In addition to France and Germany, the Member States participating in the enhanced cooperation are Austria, Belgium, Estonia, Greece, Italy, Portugal, Slovenia, Slovakia and Spain (the “FTT-zone”).

Mirroring the 2011 proposal, the enhanced cooperation proposal provides that:

- the “relatively low” 0.1% tax rate (or 0.01% for derivatives) is set as a minimum rate, with Member States free to apply higher rates (note that in France, the already-existing national FTT is currently 0.2%);
- the FTT will not apply to day-to-day financial activities of ordinary citizens and businesses, or to capital raising or restructuring activities;
- if any party to the transaction is established in the FTT-zone, the transaction will be taxed, regardless of where the transaction is actually executed (the “residence principle”);

In addition, the new proposal provides that the FTT will apply to all transactions involving financial instruments issued in the FTT-zone, regardless of where they take place (the “issuance principle”).

In other words, the tax base is quite wide, covering transactions carried out by financial institutions on all instruments and markets, as long as there is some economic link to the FTT zone.

Avoiding the FTT will be difficult. To do so, financial institutions would have to relocate, abandon all their clients in the FTT-zone, and refrain from any interaction with financial counterparties established in the FTT-zone, as any such connection would bring a transaction within the purview of the tax.

Will the tax lead to a loss of Japanese investors in EU markets? In the long run, probably not, given that implementation of the FTT is likely to spread beyond the initial cooperating Member States to other areas in the Western world in the coming years.

Editor’s Note: As we go to press, it appears that the FTT Member states are considering to either delay or amend this plan. This action is in light of growing resistance from certain

Member States as well as from the countries with global markets. For example, the tax would affect activities in the US, Hong Kong, Singapore, and importantly, London. The extraterritorial aspects of the plan are severe. While EU countries are strongly protesting the overreaching Dodd-Frank Rules of the CFTC, including the swap rules discussed in the prior article, the FTT Members can expect a similar push-back on their Plan.

FSA Proposed Regulations Over OTC FX Binary Options

The Japanese FSA has proposed regulations over OTC FX binary options trading activities, which to date are not considered as “regulated instruments”. The proposal includes a number of key areas including the following:

- prohibiting short expiry/trading periods (i.e. less than 2 hour expiry terms)
- prohibiting the preferential trading conditions applying to Business Operators, which currently give them a trading advantage
- limiting a customer's maximum trading amount in view of his assets/experience and monitoring his trading activities
- requiring the broker to provide the customer with enough information on binary options

Currently, binary options trading is not regulated, and some brokers offer the possibility to trade 5-minute “high/lows” (a simple trade betting on whether the FX price will be higher or lower in 5 minutes) over 100 times per day, leading the way for regulators to look into the possible excessive speculative risk. In its self-regulatory rule recommendations, the Financial Futures Association of Japan (FFAJ) brought up several ideas, such as limiting a single trading period to at least two hours, allowing the investor to settle freely during the trading period, or allowing the setting of several strike prices.

For the first time, uniform guidelines on how to assess a customer's suitability, what information should be provided, etc. have been put together (until now, each broker could set its own standards). Asked about the proposal, an FX broker commented: “If the proposal to limit trades to 12 times per day and per currency pair goes through, many brokers will see their revenue shrink dramatically. That said, if binary options become regulated, we can expect new brokers to enter this market.”

Topics of the Month

Otemachi Financial Center

Located in the most ancient part of Tokyo, Otemachi has for hundreds of years, and continues today, to stand at the heart of Japanese commerce, communication and finance.

Otemachi is clearly centre stage for Japanese finance and commerce, housing more than 4,000 company headquarters with more than 10% of these listed on the first section of the Tokyo Stock Exchange.

It is no surprise that the Japanese government placed Otemachi at the core of its plan to reinforce Japan's role as an international financial centre. This effort is part of a broader strategy for strengthening the international competitiveness of Japan's financial and capital markets. The plan includes measures to develop key resources and skills in Japan, which is well positioned to take advantage of the opportunities presented in a world of increasing sophistication and globalization within financial services.

This position is further strengthened with the opening of Equinix's newest data centre and financial ecosystem (TY4) located in Otemachi Financial City.

"The opening of TY4 is a testament to the fact that, despite still challenging economic circumstances, demand from the Japanese financial services community remains strong", stated David Wilkinson, senior director of business development, Equinix Asia Pacific, "The efficient use of technology coupled with neutral ecosystems is key to the continued development and growth of the capital markets."

Growth of FX Trading in Japan

Globalization is driving change everywhere and perhaps nowhere more rapidly than in Asia Pacific, with its strong emerging markets and deep foreign exchange (FX) liquidity. The region already makes up around a quarter of the nearly \$5 trillion-a-day global FX market and shows rapid growth and innovation. Electronic trading (eFX) is now widespread. Since currencies give the measure of all financial assets, FX volatility creates particular difficulties for cross-border investors and opportunities for high frequency traders and hedge funds. Rapid economic growth in Asia was the magnet that drew them all in. It should come as no surprise, therefore, that seven out of the top ten appreciating currencies in 2012 were issued in the region. Given its rapid growth and innovation, Asia, and in particular Japan, is where the action is for global FX. Japan is now number three, following London and New York, in FX execution.

Moreover, since all these venues are now linked electronically, every participant must be prepared for the risks and contagions that reverberate across asset classes and global jurisdictions. Inevitably it is not surprising that the crisis has unleashed wave upon wave of FX volatility when confidence ebbs and uncertainty reigns.

This demand, for ever-greater trader agility and operational efficiency, is met by a rich ecosystem of technology-based supply chain partners who provide the deep well of knowledge and resources essential for success. Japan is uniquely positioned to take advantage of the growth and evolution of FX in the region. There has been a recent and continuing move to deploy technology solutions and services in Japan to tap into the huge liquidity, both in the institutional and retail space. Given the volumes, advances in technology and gravitation towards the region, it is no longer acceptable, practical or competitively viable to rely purely on matching trades only in London or New York. A number of firms either have or plan to have matching technology in the region and again Japan emerges as a natural home.

FIA-J Elects New Board Members and Appoints Officers

FIA Japan elected Board Members for fiscal 2013 at its AGM held on 5/28th. We are pleased to welcome nine new Directors and we expect for our activities to expand thanks to their initiatives. The newly elected Board Members are;

Edward Higase, President & CEO, KVVH Co., Ltd.

Wataru Ito, Managing Director, Tokyo Financial Exchange Inc.

Izumi Kazuhara, Executive Director Head of Japan, CME Group

Yuji Kusunoki, President, Rakuten Securities, Inc.

Junichi Maruyama, Vice Chairman Director, Member of the Board, Citibank Japan Ltd.

Tadao Sakashima, Executive Managing Director, Head of Fixed Income, Currency and Commodities Div., Daiwa Securities Co., Ltd.

Shin Shinozuka, Representative Director, Newedge Japan Inc.

Takayuki Uchiyama, Joint General Manager, Futures Sales Products Promotion & Marketing Dept, Fixed Income Group, Mizuho Securities Co., Ltd.

Joji Watanabe, Managing Director Head of Execution Services Dept., Nomura Securities Co., Ltd.

(a complete list of our Board Members is available on page 11)

At the first board meeting following the AGM, Representative Directors and Officers for 2013 were appointed as follows:

Chairman and Representative Director: **Mitch Fulscher**, Financial Consultant

Vice Chairman and Representative Director: **Yasuo Mogi**, Chairman—CEO, Nissan Century Securities Co., Ltd.

Secretary and Representative Director: **Koichiro Ohashi**, Attorney at Law, Partner, White & Case LLP

Treasurer: **David Wilkinson**, Senior Director, Business Development, Asia-Pacific, Equinix Japan K.K.

The Board also appointed Mr. Shozo Ohta, President & CEO Tokyo Financial Exchange (former President of FIA Japan) and Mr. Bob Takai, Corporate Officer, Sumitomo Corporation, as Advisors to the Board.

JPX Unveils IT Master Plan

On March 26th, Japan Exchange Group (JPX) released its IT Master Plan for FY2013 – FY2015. In the Mid-term Management Plan released on the same day, JPX announced its vision to become "the Most Preferred Exchange in the Asian Region." JPX outlined its goal to achieve the early realization of the TSE/OSE business combination benefits, alongside its core strategies of improving the appeal of Japanese stocks, expanding the derivatives market, and expanding its OTC business.

In a system-oriented exchange industry, the IT Master Plan outlines 3 core IT strategies to promote its market: (1) create synergies from the integration of systems, etc.; (2) enhance the core system supporting the market, and (3) improve reliability of the IT infrastructure.

(1) Create Synergies from the Integration of Systems

In moving forward with the integration of systems, JPX will prioritize reliability while aiming to achieve early synergistic benefits and engaging in user-oriented responses. As such, JPX will conclude its system integration by 2014 and engage in technological investment from 2015. Also, in addition to aiming for a JPY 7 billion reduction in system-related costs accompanying the integration of overlapping systems, JPX will work to contribute to improve user convenience. Below is a summary of the scheduled system/clearing integrations:

Market/Function/Service	System	Schedule
Cash Market	arrowhead	July 2013
	ToSTNeT	
Derivatives Market	J-GATE	March 2014
Margin (cash & der.)	JSCC Current System	July 2013
Clearing Functions	JSCC New Clearing System	During 2014
Network (Co-Location)	arrownet	May 2013

(2) Enhance Core System Supporting the Market

As an upfront investment to enhance market competitiveness, JPX plans to develop a next-generation arrowhead, consider the grand design of a next-generation derivatives trading system, expand OTC clearing system functions, improve convenience through the expansion of the arrownet offering scope, and pro-

mote JPX Co-Location Services.

(3) Improve Reliability of IT Infrastructure

JPX will further enhance reliability and ensure stable operations to fulfill its role as the core infrastructure for the financial capital market.

JPX will aim to achieve its visions of becoming "the Most Preferred Exchange in the Asian Region" as provided in the Mid-term Management Plan, while reaffirming IT as a strategic tool and source of competitiveness. JPX will strive under these strategies to establish highly reliable and convenient markets and promote the provision of its services.

Committee Activities

Commodity Committee

Chairman Yasuo Mogi

Following up on the recent regulatory acknowledgement and approval over the segregation of customer fund in the US (see previous editions for details), the committee is conducting a case study for orders/money flow linked to customer transactions. This includes customer transactions originating in a third country (such as Singapore, the UK and others), as well as customer transactions on markets located in third countries transiting through an FCM under US jurisdiction. The committee plans to discuss this further with the regulators.

The committee also considered commodity futures options, as they should be an essential market in Japan. The commodity option markets in this country have never really taken off in the history of Japan, even though domestic and foreign options contracts on equity index contracts, as well as foreign commodity options markets have strived. The committee intends to investigate the reasons behind this lack of success by holding hearings with players in the financial industry.

Technology Committee

Chairman Bruno Abrioux

To kick start the Fiscal Year 2013, Duncan Symmons, Chairman of FIA-J Technology Committee has passed the baton to Bruno Abrioux. All committee members expressed their strong appreciations for the committee achievements under the leadership of Duncan (who will keep supporting the committee as a regular member).

Under Chairman Fulscher's impulse and in line with the overall FIA-J objectives to support Japan becoming the preferred financial hub for Asia, the committee's mission has then been reconfirmed with all members as twofold: identify technological hurdles within the full eco-system preventing investors to come

to Japan, and to inform and educate as to the possible solutions available to tackle those challenges or propose resolution ideas. Obviously, technology can be looked from two different lenses: technology to answer questions generated as a result of the financial industry changing landscape (e.g.: complying to new regulations may require designing and deploying new technologies or new solutions), and technology as a business catalyst. The intrinsic value of new technologies or solutions sometimes adopted from other industries may directly enable new business opportunities or contribute to improve efficiencies and total costs (e.g.: Complex Event Processing Engine coming from intelligence or military industries, big data revolution, cloud solutions...)

Not only diversity of our committee's members is a must to guarantee a multi-sided approach of the industry, but also understanding the technology challenges faced overseas appears to be a key exercise in order to achieve our mission. For this reason, our committee will ensure a stronger cross-pollination with other FIA-J committees through sharing sessions, will monitor and establish deeper interactions with FIA Washington IT Division and will look at identifying new contributors for the committee itself. Finally, as a first concrete step, our committee also proposes to share regularly its findings in the newly created "Technology Corner" of this newsletter.

Membership Committee

Chairman Takanori Kosaka

FIA Japan recently welcomed the following two new members:

Citibank Japan

As one of Citi's core businesses in Japan, Citibank Japan Ltd. is engaged in banking services through the retail banking business and the corporate banking business. As of January 1, 2013, Citibank Japan operates in 38 locations throughout the country. The group makes full use of the Citigroup network, which spans over 140 countries, to provide not only services to meet the everyday needs of clients, but also comprehensive tailor-made settlement solutions.

GETCO Asia

GETCO is a global liquidity provider. GETCO was founded in Chicago in 1999, and the firm now employs about 400 people worldwide. The firm provides liquidity on over 50 markets in North and South America, Europe and Asia. Since 2007, GETCO has traded the Asian markets through GETCO Asia Pte Ltd. (GETCO Asia), located in Singapore. GETCO Asia acts as a high volume liquidity provider in the Asian markets and has established itself as one of the leading proprietary trading firms in the Asia region.

Exchange News

JPX

OSE Expands Contract Months / Strike Prices for Nikkei 225 Futures and Options

In order to improve convenience for investors, OSE will expand contract months / strike prices for Nikkei 225 Futures and Options, effective from July 16, 2013.

For Nikkei 225 Options, strike intervals will be reduced to 125 yen for the nearest three contract months and 250 yen for the other contract months. The number of strike prices to be listed will be doubled to 16 prices above/below the At The Market strike price. In addition, new contract months will be added so that the nearest nine consecutive contract months will become available.

With regards to Nikkei 225 Futures (large & mini), long-term contract months (up to 5 years down the curve) will be added, to be in line with the span of contract months of the Nikkei 225 Options.

JPX and Nikkei Agree on Joint Development of New Index

JPX and Nikkei Inc. have agreed to jointly develop a new stock price index for the purpose of contributing to the further development and vitality of the Japanese securities market.

The index will be comprised of companies listed on the cash equity markets slated to be combined within JPX Group (i.e. the current TSE 1st section, TSE 2nd section, TSE Mothers, OSE 1st section, OSE 2nd section and JASDAQ markets). Constituent selection and calculation rules will be developed using a holistic corporate analysis approach, including a focus on efficient capital usage and sustainable corporate value creation, as well as qualitative elements that meet the standards of global investors. JPX and Nikkei aim to launch the new index before the end of the year.

Renewal of Arrowhead

TSE announced on May 14th the renewal of arrowhead (its equity trading system) in the mid of 2015, including the enhancement of performance, the addition of new functions and the revision of the trading rules. The renewal will be implemented to improve the reliability, convenience and processing capacity of the current arrowhead system.

Concretely, the following revisions are planned.

- Introduction of user-specified quantity limit for orders
- Revision of sequential trade quote rule

- Optimization of bid and offer increments
- Performance enhancement and capacity augmentation

TOPIX Futures Market Growing

Trading of TOPIX Futures on TSE is drastically increasing.

Open interest in the June 2013 TOPIX contract exceeded 600,000 contracts, which is an all-time high since the launch of the market in September 1988. In addition, the trading volume of mini-TOPIX Futures is also growing: daily trading volume on May 24th hit a new record at 56,721 contracts.

JSCC

Following the establishment of Japan Exchange Group, Inc. in January, and in an effort to consolidate the clearing functions within the Group, the integration of the clearing organization under Japan Securities Clearing Corporation (JSCC) for derivative transactions listed on Osaka Securities Exchange is to be achieved on July 16, 2013..

As a result of the integration, further improvement of fund efficiency and reduction of operational burden on market participants are expected through the unification of derivatives contract margins currently cleared by either JSCC (TOPIX Futures, JGB Futures, etc.) or OSE (Nikkei 225 Futures, etc.), as well as through the integration of margin and fund settlement operations related to such contracts.

TFX

Kabu 365 Record Volume

In April, the monthly trading volume of Kabu 365, TFX's listed

equity index CFD, reached a new record high, following the recent rise in stock prices as investors' show high hopes for Abenomics, Prime Minister Shinzo Abe's economic policy. April volume was 532,309 (up 12% from the preceding month, up 210% from a year ago), the highest monthly trading volume for the fifth consecutive month. Open Interest also recorded its highest level at over JPY 200 billion.

TFX started a Kabu 365 3-month promotional campaign, through which the winner will receive the cash-equivalent of the last price of the Kabu 365 Nikkei 225 Margin contract on the last trading day every month. Details can be found on the Kabu 365 website: <http://www.click365.jp/cfd/>

TOCOM

Overseas Customer Trades Growing

Customer trades (sell & buy) originating overseas continues to be on the rise on TOCOM since the beginning of the year. After breaking an all-time high in January with 1,662,426 contracts, monthly volume of foreign customer trades went on to rise by 15% to 1,920,053 contracts in February. Although decreasing in March volume growth continued in April to reach 2,244,437 contracts. The ratio of foreign customer trades against total trades in April marked an all-time high at 34%.

Other Exchanges

Korea: JPX/KRX Sign LOI, FSC Grants Direct Access to Eurex,

JPX and Korea Exchange Inc. (KRX) signed a Letter of Intent (LOI) on April 24 aiming to list won-denominated TOPIX

Future Events

IDX International Derivatives Expo

– 25-26 June, London

The Futures Industry Association and the Futures and Options Association are pleased to present the sixth International Derivatives Expo. Last year's event boasted more than 40 exhibits showcasing the latest in products and technology for the derivatives industry, plus 30+ sessions with high profile speakers, information-packed workshops, and endless networking opportunities.

JPX will be an exhibitor at IDX, and TOCOM/TFX staff will attend the event.

FIA-J Cool-Off Summer Party – 10 September, Tokyo

FIA Japan will hold its annual summer party at Ark Hills Club on Tuesday, September 10. Further details will soon be announced by

the Executive Secretary.

Global Forum for Derivatives Markets

– 25-27 September, Geneva, Switzerland

The Swiss Futures and Options Association and the Futures Industry Association are pleased to announce the Global Forum for Derivatives Markets, September 25-27, 2013, at the InterContinental Hotel in Geneva. Also known as the Bürgenstock meeting, now in its fourth decade, the forum has a long history of attracting distinguished speakers and prominent names from the economic, academic and political worlds for high-level debate and discussion. The conference has proven to be an ideal forum for encouraging closer cooperation among market participants and international regulators.

options on KRX to provide Korean investors with new access to the Japanese markets.

In parallel, Eurex Exchange announced earlier this year that it has received confirmation from the South Korean Financial Services Commission (FSC) to offer its full suite of products in South Korea without objection.

Tech Corner (New Section!)

It's JST 9:30:42.819607am: do you know where your order is?

If not triggering a systematic "Race to Zero latency", the introduction of performance-enhanced matching engines, like TSE Arrowhead in January 2010, have at least raised questions on how to hunt and improve the latency weak links in an electronic chain that is getting increasingly complex (globally distributed infrastructures, cloud solutions, colocations...). Answering those questions is a key concern for HFT players and other market participants whose business heavily relies on algorithmic solutions. The FIA-J Technology Committee asked Mr. Ogura from Corvil, a company involved in latency management, to comment on the state of Inter-Party Latency (IPL) management.

In theory, latency can simply be defined as the measurement of the time required by an electronic message, be it market data related or transaction related, to travel from point A to point B, shared Mr. Ogura. But in practice, he added, because electronic messages transit through a large variety of parties (exchange

engines, network providers, solution vendors, sell-side infrastructure, etc.) the real challenge is to make a precise, reliable end-to-end measurement.

A lack of standard in the latency measurement field has often led parties involved in the electronic chain to define their own methods for evaluating latency, sometimes in a very unique and private approach. For the financial community, Mr. Ogura continued, this lack of consistency has had a detrimental effect on the visibility that could be provided on the true technical performance of a given trading chain, on the capability to spot an issue and its exact root cause at any level of the chain itself and, of course, on the ability to remediate promptly and efficiently any latency-related problems.

In order to answer those specific challenges, Corvil has been actively involved in the FIX Protocol Inter-Party Latency working group (FIPL)--whose main aim is to establish and specify protocols for the open exchange of latency information--and has also introduced a dedicated solution that focuses on IPL management: CorvilClear. This solution delivers three key capabilities: monitoring of microsecond inter-party latency and performance loss, a reporting feature used to validate cross-party Service Level Agreements and an automated event capture function coupled with a root-cause analysis for trouble-shooting. This solution is one important step towards resolving the technical challenges faced by the financial community, since it offers greater transparency and efficiency in the field of latency management, concluded Mr. Ogura.

FIA-J Technology Committee will keep a close eye on the progress made around this key matter that is IPL management!

Past Events

FIA Japan AGM

FIA Japan held its Annual General Meeting and reception at the International House on May 28th. We welcomed and enjoyed cocktails and buffet with about 100 of our members and guests at the reception following the meeting. During the reception, we held a special ceremony honoring Mr. Shozo Ohta, who served



Retiring FIA-J President Ohta is presented with a commemorative gift.

as our President for the past six years. Chairman Fulscher thanked Ohta-san for his great contributions to the Association and gave a presentation to commemorate his achievements. During his

Presidency, Ohta-san took leadership to enhance our membership and encouraged important Japanese financial institutions to join our Association bringing us to a higher level. During his tenure we hired our executive secretary, established our office location, and registered as a formal corporation (Ippan Shadan Hojin). With his help, FIA J held its most successful event last year – the FIA Japan Conference with over 400 delegates.

Gold Sponsors:



“Views on Abenomics and its Impact on the Markets”

Mr. Kusunoki started his career at Rakuten Securities in 1999, and was named President in 2006. He currently also serves as Executive Officer at Rakuten, Inc., Director at Dot Commodity, and Director at Rakuten Investment Management. He graduated from the University of Hiroshima in 1986 and holds an MBA from the University of Chicago.

Mr. Kusunoki was elected as a Board Member of FIA Japan in May 2013.



Yuji Kusunoki
President, Rakuten Securities

EB: Please tell us a little about Rakuten Securities and where your business stands currently.

Rakuten Securities is the second largest internet retail broker in Japan, with over 1.4 million customers' accounts, representing roughly JPY 2.2 trillion in deposited assets. We offer access to a wide range of products, including Japanese equities, foreign equities (US, HK, Singapore, Malaysia, Indonesia, Thailand), investment trusts, Nikkei225 futures/options, overseas futures (CME, SGX), margin FX, fixed income, covered warrants and gold/silver/platinum.

One of our major strengths lies in the fact that we are an internet broker within the Rakuten group, which is the largest retail internet business group in Japan, and therefore have an exclusive access to Rakuten members. Our primary customers are individuals trading thru the internet and we also conduct IFA (Independent Financial Advisors) business targeting HNWI (High Net Worth Individuals).

EB: Following the impressive “come back” of the Japanese markets so far this year, what are your thoughts on the potential for Tokyo to reclaim its position as a major global financial center?

I believe that the current “come back” could give us a great chance to revive Japan's potential in the global market. However, let's keep in mind that the “first and second arrows” of the Abenomics have just been released. The sustainability of this market momentum might really depend on the “third and last arrow”. In order to keep this momentum going, Japan needs more deregulations over its financial market policy and should try to further develop its attractiveness for global financial business on areas such as the use of the English language, the tax system, higher education etc.

“In order to keep this momentum going, Japan needs more deregulations”

EB: Could you tell us about your plans for your derivatives business in Japan and what you forecast in the mid-term for the Japanese markets?

Since this is rather strategic, our plans are basically confidential. That said, we are currently considering to start offering Topix-mini and JGB-mini, once the OSE J-Gate system is merged with the TSE derivatives system in 2014.

Developing derivatives business in Japan beside the Nikkei225 is not an easy thing, in particular for individual customers. There are good reasons why the Nikkei225 is the dominant product for Japanese individuals: One is that the index is very popular and people are familiar with it thru various media in their daily life. Second is that the movement is adequately volatile and gives individuals attractive opportunities to generate profits. Lastly, the futures product is tradable all over the world, not only at OSE but also at CME and SGX. I think that the direction for the development of derivatives business for Japanese individuals will be mainly determined by some key products, such as Nikkei225, Gold and FX.

I believe that our trading capability for global products will be one of the critical factors for the success of our trading business. Thus, I always consider extending our exchange connectivity globally, regardless of what type of product is listed (i.e: derivatives or equities). In Japan, I personally think that all futures products should be listed on JPX--an exchange that all investors in Japan trust and consider as the most reliable. Another advantage is that people could then trade through a single account, with margin efficiencies across equities and derivatives. This might be the best way to dramatically improve derivatives business in Japan.

EB: thank you for sharing your earnest thoughts with us. We look forward to your active participation within FIA Japan.

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Editor's Note

After starting the year with a "bang", the Japanese markets have been "playing the yo-yo", moving up and down in rather abrupt movements rarely seen in the past. As Rakuten Securities President, Kusunoki-san, adequately noted in our exclusive interview, the question now is "will this Abenomics come-back be sustainable?": it seems that market players share the same anxiety at this point...

In this July edition, we offer a special focus on the fast-evolving technology component of our industry: JPX revealed its "Master IT Plan", Equinix launched its TY4 data center in the heart of Tokyo and our Tech Committee—under new management—investigated Inter-Party Latency issues. We welcome participation in our committees of any professional interested in discussing such important issues.

FIA-J recently welcomed new members and new Board Directors into the Association, and we are looking forward to expanding our activities thanks to their contribution, including holding a successful conference in late 2014... More details to come in our next edition!

Tony Crane



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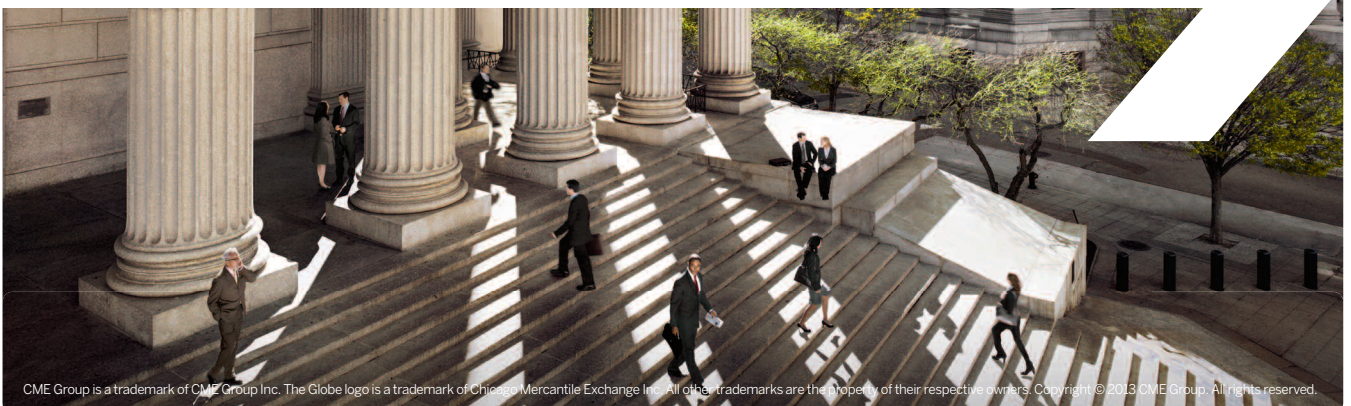
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