



### *Abe's Election Win- Imperative for Reform*

(Picture: Prime Minister Shinzo Abe takes control in major election win. See page 15.)

### Topics of the month

FIA Japan Financial Market Conference 2015: May 12-13  
JPX-Nikkei 400 Futures Debut



### Regulatory news

FSA International Initiatives in Asia  
EU/US Cross-border Regulatory Update  
Key European Regulatory Developments

### People Interview

FSA Deputy Director-General Ono Discusses Plans to Vitalize Japanese Markets



Mr. Hisashi Ono

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## ***PRESIDENT'S MESSAGE***

### **Japan's Best Chance**

Mitch Fulscher, President - CEO, FIA Japan

Ng Kok Song is the founding chairman of the Singapore Exchange (SGX) and one of the great financial leaders of his time. Recently, he was interviewed during the FIA Asia Conference in Singapore while they celebrated the 30 year anniversary of SGX. Kok Song talked about the formation of the exchange and its pivotal role in helping to establish Singapore as a financial center in the Asia Region. Simex, as it was then named, worked closely with Leo Melamed of the Chicago Mercantile Exchange and they created the first and most successful “mutual offset” clearing system between the two exchanges. This unique system allowed futures contracts to be executed in Singapore and the positions to be transferred to the CME in Chicago overnight. Kok Song described the arrangement, and noted that it allowed Singapore to have a “direct link” to the global international financial market. He went on to state that the success of his exchange and the development of the Singapore Financial Center was only able to be achieved as a result of the “collaboration between the Government and Business in Singapore.”

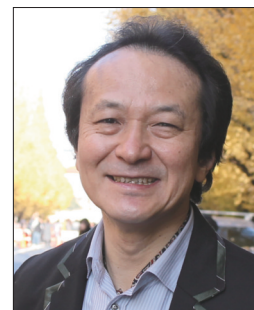
Indeed, the very small island of Singapore is an extraordinary success story. 30 years ago, it seemed very clear that Tokyo would soon become the clear international financial center for Asia. In the mid-1980s, global banks and major financial firms set up their Asia headquarter operations with that in mind. But over the years, coordinated action in Singapore and inaction in Japan changed the view of market players.

#### **A model for Japan**

Prime Minister Abe and his stated Strategy to Re-vitalize the Financial and Capital Market clearly states the government's goal to take a leading position as the financial center for Asia. Mr. Hisashi Ono, senior official of FSA, in our interview in this newsletter, confirmed this intention and listed a series of reforms that they will implement, under this government mandate. The message is clearly understood by the regulators.

Kok Song noted in his interview that “it is now a significant moment in Asia.” The transformation of China and the connectivity to the rest of the world's markets has positioned Asia with incredible opportunity. Japan's enormous wealth, including personal savings and Japan's Government Investment Pension Fund (GIPF), is a critical ingredient in this picture of Asia. It is time for Japanese Government and Industry to come together to reach the goals established in the Revitalization Strategy. This is Japan's best chance.

# FSA Deputy Director-General Ono Discusses Plans to Vitalize Japanese Markets



**Hisashi Ono**

Deputy Director-General, Planning and Coordination Bureau  
Financial Services Agency

Hisashi Ono is Deputy Director-General of the Planning and Coordination Bureau of Financial Services Agency (FSA), where he is responsible for overall planning and policy making of financial system, planning and policy making concerning securities markets and other financial markets, monitoring and analyzing these markets and supervision of exchanges. Mr. Ono is also Director-General of the Office for Regional Economy Vitalization Cooperation Japan (REVIC), where he is responsible for planning and policy making regarding the REVIC as well as supervising the REVIC.

From August 2012 to July 2014, Mr. Ono was Deputy Director-General of the Supervisory Bureau, where he was responsible for supervising regional financial institutions, insurance companies, and Deposit Insurance Corporation of Japan. From July 2011 to July 2012, Mr. Ono was Deputy Director-General of the Planning and Coordination Bureau, where he was responsible for planning and policy making of credit and insurance system. Prior to the FSA, he worked for the Asian Development Bank and the Inter-American Development Bank. Mr. Ono graduated from the College of Arts and Science, University of Tokyo in 1983.

**FIAJ : FSA is well known as the very important regulator over the financial markets in Japan. In the past, its responsibilities were included in the role of the Ministry of Finance (MOF). As a separate Agency of the government, how does FSA and its responsibilities now relate to MOF, and also to the Bank of Japan?**

FSA's mission is threefold: 1) protection of depositors, investors, insurance policyholders, etc.; 2) maintenance of a stable financial system; 3) facilitation of finance. FSA has a primary responsibility over financial regulatory policy, while MOF conducts fiscal policy and BOJ does monetary policy. In comparison with financial regulatory authorities in other jurisdictions, FSA has the unique characteristic that it is responsible for policy making of financial system, securities market and other financial markets as well as conducting inspection/supervision over the financial industries, including bank, insurance and security. On the occasion of international financial diplomatic events, such as G20 and FSB, FSA works closely with MOF and BOJ.

**FIAJ : Extra-territorial outreach resulting from Dodd-Frank and EU regulations is creating havoc for global market players in many countries. How do you see things unfolding in Japan? Are there issues arising here?**

FSA is currently discussing the assessments of the Japanese regulatory and supervisory framework of OTC derivatives for equivalence and substituted compliance with regulators in Europe and the US. We emphasize that the final assessments should be based on the overall regulatory

***“The goal is for Japan to become Asia’s number one international financial center by 2020”***

outcomes, not a rule-by-rule judgment, taking fully into account international standards such as the Committee on Payments and Market Infrastructures (CPMI)-IOSCO Principles for Financial Market Infrastructures.

***“The issues to be tackled include the early realization of a comprehensive exchange”***

FSA welcomes the equivalence decision made by the European Commission on October 30 this year which recognized that the Japanese regulations on CCPs are equivalent to those under EMIR. However, the processes of application by Japanese CCPs for registration at the CFTC as a Derivatives Clearing Organization (DCO) and the recognition of a third-country CCP to ESMA are still ongoing. FSA continues to pay close attention and due regard to these matters in order to avoid any negative impacts on transactions conducted by Japanese market participants.

**FIAJ : The Japanese Government has a stated goal of developing Tokyo as a leading financial center for Asia. Although Japan is positioned well to take this role, many foreign market players still see Japan as difficult and costly due to regulations, tax issues and other challenges. Do you think the goal can be achieved? What initiatives are underway to help achieve this official target?**

Based on the “Japan Revitalization Strategy” issued last June, the “Panel for Vitalizing Financial and Capital Markets,” which was jointly held by FSA and MOF, released several recommendations in the financial field to draw a picture where the Japanese financial markets ought to be by 2020. The main points of these recommendations were incorporated into the “Revised Japan Revitalization Strategy” which was approved and issued by the Cabinet in June.

***“We will commit strongly to establishing our leading position as an international financial center.”***

Taking into account the changing internal and external economic and social structure, such as Asian countries’ rapid growth, and the decreasing birthrate and aging population, these recommendations set the goal for Japan to become Asia’s number one international financial center by 2020. The issues to be tackled include the followings; utilizing the abundant household financial assets through schemes such as the Individual Savings Account (NISA), increasing corporate profitability and productivity through instruments such as the establishment of a “Corporate Governance Code,” improving the attractiveness of the markets and broadening the range of investors through measures including the early realization of a comprehensive exchange.

We will continue to work aggressively to address those issues, and commit strongly to establishing our leading position as an international financial center.

**FIAJ : Focusing on the exchange traded securities and derivatives markets, what are the challenges to further grow the markets and at the same time ensure appropriate fairness of the markets and customer safety?**

Based on the recommendations released by the Panel which I mentioned, the “Japan Revitalization Strategy revised in 2014” listed specific new measures to be taken, including the following ones:

- improve financial infrastructure such as securities settlement systems and other infrastructure,
- introduce more convenient information services in English regarding financial administration,
- improve the environments in order to promote the constitution of infrastructure funds and healthcare REITs, and
- establish and utilize crowdfunding to promote entrepreneurship and new ventures.

We will steadily implement those reforms to vitalize the Japanese financial and capital markets and make them more attractive.

***“We will steadily implement reforms to vitalize the Japanese financial and capital markets and make them more attractive.”***

***“Japan introduced mandatory clearing earlier than any other countries in the world”***

**FIAJ : As to OTC financial markets, what are the challenges and FSA actions following the global regulatory movements over OTC trading following the Lehman collapse?**

Countries have made substantial progress in honoring the G20 commitment of regulating OTC derivatives, which includes introducing central clearing requirements, trade reporting requirements, mandatory trading on electronic trading platforms, and margin requirements for non-centrally cleared derivatives.

Japan introduced mandatory clearing earlier than any other countries in the world, in November 2012. Reporting requirements were implemented as of April 2013. Regulations of mandatory use of electronic trading platform were finalized in November 2014 and will be implemented by September 2015. With respect to margin requirements for non-centrally cleared derivatives, draft regulations were published for public consultation in July 2014. As such, we have steadily implemented regulations regarding OTC derivatives.

Given the inherently cross-border nature of OTC derivatives transactions, coordination among the regulatory authorities in different jurisdictions is indispensable and critical as for the contents of the regulations as well as the timing of implementing the rules. In order to prevent market fragmentation and reduction of liquidity, we have to try to harmonize regulations, including margin requirements and mandatory clearing, by adopting international standards and through close consultation with other authorities. Through these efforts, we hope Japanese financial and capital markets are recognized to be easily accessible, transparent and well-secured.

**FIAJ : Thank you for sharing your thoughts with FIA Japan.**

## Regulatory News

### **FSA International Initiatives in Asia**

The second Asia-Pacific Regulators Dialogue on Market Surveillance was hosted by the Securities and Exchange Surveillance Commission of Japan on October 28 and 29 in Tokyo. The purpose of the meetings is to exchange views on market surveillance issues with the aim of strengthening market integrity in the region. It was held among regulators responsible for market surveillance from the Asia-Pacific region.

Regulators from Australia, Hong Kong, India, Indonesia, Malaysia, Singapore, Thailand and Japan participated in that dialogue, with Mongolia attending as an observer. During this dialogue, regulators discussed various emerging market surveillance issues, including cross-border cooperation, preventive and enforcement measures for market misconduct, and the role of regulators and stock exchanges. They also visited Tokyo Stock Exchange and discussed surveillance of electronic trading with the staff of Tokyo Stock Exchange and Japan Exchange Regulation.

On a separate initiative, FSA established the Asian Financial Partnership Center (AFPAC) on April 30, 2014, with a view to addressing the issues related to the financial markets in Asia, to review the financial sector technical assistance for infrastructure development, and to further strengthen cooperative relationships with Asian financial authorities. The AFPAC will invite government officials from Asian financial authorities as Visiting Fellows, conduct research on such subjects as challenges for the Asian financial market, and hold seminars and conferences.

Through this initiative, the FSA aims to contribute to the development of financial infrastructures and the strengthening of the financial system in Asia.

## **FSA**

### **Published Public Comments on Platform Operators**

On March 11, 2014, the revised Financial Instruments and Exchange Act (FIEA) was implemented and made it mandatory for Platform Operators and Type I Financial Instruments Businesses providing OTC trading services to be registered. FSA requested public comments on business operations from operators affected by the amendment and received a total of 116 comments from 8 individuals and associations. Note that this does not concern commodity derivatives.

On November 19, FSA published the public comments (Japanese only) it had received on OTC derivatives trading, as well as the FSA's own answers/view points. The comments were on Financial Instrument Operators who provide OTC-specific trading platforms, using electronic data processing systems, and on other operators licensed to offer OTC derivatives electronic trading (referred as "Platform Operators").

For example, the following comment was made: "We note that OTC derivatives trading of products not related to cash securities between professional operators doesn't fall under the scope of Financial Instruments Trading Business. Are we to understand that OTC-specific derivatives trading by Type I Financial Instruments Operators or registered financial institutions is also not included in Financial Instruments Trading Business?" FSA clarified its standpoint, stating that "OTC-specific derivatives trading, using electronic data processing systems, is included in Financial Instruments Trading Business."

FSA already amended and promulgated parts of the FIEA Enforcement Order, Cabinet Order and Supervision Guidelines on November 19, which include a minimum capital of 300 million yen (and minimum one year experience) for Platform Operators. However, most of the revisions are planned to be enforced by September 1, 2015.

### **EU/US Cross-border Regulatory Update**

CFTC Chairman Timothy Massad said dialogue continues with European regulators to facilitate their recognition of US clearing-houses. "We have agreed to consider changes that would further harmonize our rules with European rules governing these clearinghouses. This would in turn facilitate their recognition of our US clearinghouses," he said on November 5 in a keynote address to delegates at FIA's 30th Annual Futures and Options Expo. Massad also announced during his speech that a key part of the agency's cross-border guidance will be delayed beyond the end of the year.

With respect to position limit rules, Massad indicated the CFTC would not move quickly: "We are going to take our time to get it right," he said.

### **Key European Regulatory Developments**

#### **EU Clearing Obligation**

On October 1, European Securities Markets Authority (ESMA) published the final draft of the Regulatory Technical Standards (RTS) for the central clearing of Interest Rate Swaps (IRS), setting out the classes of interest rate swap contracts that will have to be centrally cleared. These are:

- Basis swaps denominated in EUR, GBP, JPY, USD
- Fixed-to-float swaps denominated in EUR, GBP, JPY, USD
- Forward rate agreements denominated in EUR, GBP, USD
- Overnight index swaps denominated in EUR, GBP, USD

IRS clearing will be phased in gradually from six months after the RTS enters into force – expected in the first quarter of 2015 – up to three years later, depending on the counterparty.

At the same time, ESMA published a consultation on draft RTS for the clearing of foreign-exchange Non-Deliverable Forwards (NDF), defining only cash-settled contracts as being within scope. The timescale for proposed application dates is the same as that for IRS clearing.

FIA Europe and ISDA filed a joint response to this Consultation Paper proposing that the size of the FX NDF market and the relative immaturity of voluntary clearing by comparison with Interest Rate and Credit OTC derivatives are characteristics which make the asset class unsuitable for mandatory clearing. If, however, the clearing of FX NDF OTC is mandated, then the response made several recommendations, including limiting the requirement to contracts with a tenor of one year or less and restricting the counterparties with obligations and the frontloading period.



## Fair and Effective Markets Review

FIA Europe submitted its response to HM Treasury's Fair and Effective Markets Review Recommendations on proposals to bring seven benchmarks into scope. Among other issues, FIA Europe was concerned that acting unilaterally in the UK risks a fragmentation of liquidity and market disruption and could result in an uneven playing field across Europe.

## EMIR - CCP Equivalence Decisions

On October 30, the European Commission published the first sets of 'equivalence decisions' for the regulatory regimes of CCPs in Australia, Hong Kong, Japan and Singapore. CCPs in these jurisdictions will be able to obtain recognition in the EU, and can therefore be used to clear standardized OTC derivatives as required by EMIR, whilst remaining subject solely to the regulation and supervision of their home jurisdiction.

On November 14, the European Commission's 'European Banking Committee' voted on the Commission's proposed revision to the implementing act granting an extension of the transitional periods related to own funds requirements for exposures to central counterparties in Capital Requirement Regulation (CRR). The deadline, which has already been extended once to December 15, will now be extended by another six months in order to allow time for the assessments of third country jurisdictions still to be made – including, most notably, the US. Under the CRR, exposures to QCCPs attract a lower charge than exposures to CCPs that do not have QCCP status. The new transitional deadline under CRR is now expected to be June 15.

## Topics of the Month

### FIA Japan Financial Market Conference 2015: May 12-13

FIA Japan is currently organizing a major international Financial Market Conference to be held in Tokyo on May 12-13, 2015. Similar to the 2012 FIA Japan conference, which attracted over 400 delegates from the Asian and global markets, we plan to hold the event at the prestigious Palace Hotel located in Otemachi, the financial center area of Tokyo.

The overall theme of the conference is "Japan Mission: Develop a Leading Financial Center for Asia." Keynote Speakers being invited include senior officials from the office of the Governor of the Bank of Japan, the Tokyo City Governor, as well as senior FSA and METI officials.

The Sponsorship Package is now available offering different levels of marketing opportunities to accommodate the various needs of participating companies. Interest in this event is high and we already received intentions to sponsor the event from a dozen Japanese and global entities. Please contact the FIA Japan Conference Secretariat for details on sponsorship opportunities (+81 (0)3-3219-3587; [fiaj@ics-inc.co.jp](mailto:fiaj@ics-inc.co.jp)).

We will make regular updates on the conference details through this newsletter and on the FIA Japan website.

### JPX-Nikkei 400 Futures Debut

Osaka Exchange launched the JPX-Nikkei 400 Futures on November 25. The new contract traded 71,514 times on that day, which was the 3rd largest trading volume after Nikkei 225 Futures and Nikkei 225 mini. OSE held a ceremony celebrating the launch of the new product.

OSE provides a market maker scheme for JPX-Nikkei 400 Futures where the designated market makers posts continuous quotes for the product during the day session. As of the launch date, OSE has designated seven market makers, including ABN AMRO Clearing Tokyo, BNP Paribas, Newedge Japan, Mitsubishi UFJ Morgan Stanley, and their respective clients, who will provide continuous quotes for the new product.



JPX-Nikkei 400 Futures launch ceremony



## Committee Activities

### Market Development Committee

Chairman Yoshio Kuno

#### MDC submits an interim report about HFTs

MDC has been discussing and following HFTs developments since last year. While an overheated debate about HFTs has faded away, MDC submitted an update with its opinion to the board (the report will soon be uploaded on the FIAJ website).

In short:

- MDC thinks “HFTs” are essential market participants in the current market structure.
- The issues of wrong behaviour and technology risk should be separate discussions:

“Wrong behaviours” should be policed by market operators and regulators according to the rules and regulations.

To mitigate technology related risks, there should be standard best practices (risk control measures at various levels, drop copy, on-boarding process etc.) and those should be updated as technology progresses.

- It is not a right approach to define “HFTs” with “hard numbers” and/or technology setup (i.e. low latency, trade per second, co-location, proxy site and so on).
- The industry (HFTs, market operators, brokers and regulators) should improve transparency over “HFTs” and educate all investors to gain a better understanding about HFTs.

### Technology Committee

Chairman Bruno Abrioux

Over the past 2 months, the FIA Japan Technology Committee has been discussing the impact of technologies, like cloud computing, on the Financial Services Industry. “How do those technologies translate into real business outcomes? What are the known risks and pitfalls when adopting cloud technologies? Where does Japan stand in terms of cloud adoption compared to the rest of the world?” are some of the questions that were discussed by the committee members, as well as with the Market Development Committee. To illustrate some of the most recent trends, please have a look at the Tech Corner in this newsletter where we present the innovative concept of a marketplace for trading cloud resources recently launched in Europe. Our Technology Committee has suggested expanding those

exciting discussions to a broader audience during the 2015 FIAJ Tokyo Conference.

Join us! In order to keep a fair, balanced and representative view of opinions in our various discussions, the FIA Japan Technology Committee is looking at increasing the participation of FCM/Brokers to its activities. If you are interested, please contact Tony Crane: [crane@fiajapan.org](mailto:crane@fiajapan.org)

### Membership Committee

Chairman Izumi Kazuhara

FIAJ recently welcomed Touch-Fire Trading as a new Corporate Member of our Association. We are looking forward to their participation in our activities.

“Touch-Fire Trading provides high-performance electronic trading and monitoring systems. The company was formed in Japan by the team that previously built the matching and clearing solutions at 7 futures exchanges in Japan and Asia, and implemented trading and back office solutions in multiple Japanese brokers.

Touch-Fire supports clients wishing to launch new, complex business initiatives, and achieve this by having a flexible plugin design, which can support both high transaction rates, and varying regulation models. They build complete front to back solutions to support the complete client requirements to launch such initiatives, including integration with other vendor systems.

The company is partnered with a Japanese broker providing the capability to take on HFT clients, and integrates with multiple other systems. This system is now managing millions of orders per day across the different markets in Japan, including Futures, Options and FX markets.”

### Commodity Study Group

Group Leader Makoto ("Mac") Sugitani

The Commodity Study Group (CSG) recently implemented a survey asking the derivative industry for comments on the announcement made by TOCOM for its commodity markets to be traded on JPX' next generation trading system in 2016. The survey was distributed to FIAJ member firms, including sell/buy side and vendor firms, asking for their views in terms of trading, clearing and operations, as well as any feedback related to the sharing of the trading system in general. Comments and feedback were immediately summarized and forwarded to TOCOM as a reference for their discussions with JPX. The system migration across financial and commodity markets is not the only strategic aspect for the Japanese derivative business to grow, but it needs to be carefully planned and implemented to be successful as

survey participants have expressed various interests. CSG believes that it is useful to provide such opportunities to communicate and share input in order to better understand the overall progress of the industry. On a positive note, local commodities, led by precious metals, have picked up volume recently thanks to an increased volatility in currencies.

## Exchange News

### **JPX**

#### **Introducing Weekly Options**

Osaka Exchange announced that Nikkei 225 Weekly Options will be launched in May 2015. The expiry of the Weekly Options will take place on the week when the regular Nikkei 225 Options' expiry does not take place, which allows market participants to add variety in their options strategies. Weekly Options market has been growing and has become widely used in other exchanges such as CBOE, EUREX, and TAIFEX. With the globally well-known and actively traded Nikkei 225 market, OSE aims to expand its options market through this new weekly options contract.

#### **JSCC: JPX Clearing System Integration**

Following the establishment of Japan Exchange Group, Inc (JPX), and aiming to improve fund efficiency and reduce operational and system burden, the clearing organization consolidation between Japan Securities Clearing Corporation (JSCC) and Osaka Exchange (OSE), as well as the Margin Offsets (i.e. off-set between Nikkei 225 Futures and Topix Futures) for OSE listed derivatives transactions, was achieved on July 16, 2013.

More recently, JSCC announced that the coexisting post-trading clearing functions of the OSE clearing system was integrated into JSCC's clearing system on November 25, 2014, completing the consolidation in accordance with the business strategic plan.

### **TFX**

#### **New IRS-related Derivatives being Considered**

Tokyo Financial Exchange (TFX) held in October its 4th study group meeting with regard to a new futures product tied to interest rate swaps (IRS). Following the implementation of enhanced regulation for over-the-counter (OTC)

derivatives at the global level, exchanges in the US and Europe have already introduced futures products which can be alternatives to OTC products. TFX formed a study group which consists of TFX trading members and market participants and continues to hold discussions around this subject. By taking into account the market environment and assessing the needs of users, TFX will continue to explore possibilities for new product development.

#### **Nissan Century Securities Designated as Market Maker**

On November 7, 2014, TFX has designated Nissan Century Securities as a Market Maker of its Exchange Equity Index Contracts (Click Kabu 365). With Nissan Century Securities' participation, Click Kabu 365 is now supported by three Market Makers and it is expected that this will lead to further improvement of its market liquidity and investor convenience.

### **TOCOM**

#### **Adjusted Oil Markets**

TOCOM adjusted the time for settlement price calculation for the Oil markets to start at 15:10 and end at 15:15 JST. Referred to as "TOCOM Time," the Exchange expects that this will help facilitate physical trades that reference TOCOM prices and, consequently, hedging on the TOCOM market.

In addition, TOCOM will change the specifications for Crude Oil futures beginning with the June 2015 contract, which will start trading on January 5, 2015. The Exchange intends to use Dubai crude oil as the sole underlying product, corresponding more closely to the practice of the physical market (currently, it is a cash-settled blend of Middle East crude oil, with the final settlement price based on the average value of Platt's Dubai and Oman crude prices).

#### **Planning Launch of Gold Daily Futures**

As part of initiatives to increase volume, TOCOM plans to launch Gold Daily Futures contracts to encourage participation of retail investors, which constitute a core part of its market participants, on May 7, 2015. The Exchange expects contract-day specification to attract many retail investors who actively trade FX and other financial products online.

### “What Are Rules For?”

When I was a child, I was told to follow the rules without any questions. If I asked a teacher or my parents for the reasons to keep to the rules, some of them were reasonably explained but some were not. They told me that the “rules are rules, and rules must be followed to maintain society”. I have often thought about what the rules are for and how they should work.

I see the rules are often changed in sports. It seems like every time new rules are determined, they limit the skills and tactics of the latest top players for others to have another chance to win the next games. On the other hand, the changes definitely stimulate the athletes to challenge their regular practices to innovate new skills and strategies to the next level. New technologies are simultaneously developed in accordance with the new rules. For example, these could be new swimsuits, golf clubs, shoes, etc. Then, when such developments become too excessive, there are new rules to cool them down and create a level-playing field.

Rules and regulations are created for protection and to ensure fairness. They are the standard. However, standards make certain people win the game. Others instead innovate and come up with new skills and technologies, creating a dynamic movement in the field. Then, some gaps appear between old standards and new standards. Deregulation or changes in rules are required to reduce the gaps. This seems to be the normal cycle of changes.

Looking at the financial industry in the same manner, I note that the old rules and regulations for the protection of investors and to ensure a fair market have been a standard in Japan. However, there has been innovation and new technologies in the market. There are already gaps between the old and the new standards. Now is the time to change the rules and the regulations. I see already some changes.

The rules on solicitation of commodities clients were changed some years ago due to excessive and aggressive sales tactics in the past. The new rules were meant to protect investors from certain specific bad business practices. However, the rules have resulted in trading volume being reduced significantly. The question now is whether those highly restrictive rules are appropriate considering current improved practices. Revised new rules could help develop the market for investors and grow the industry.

The rules on gross settlement of equities traded on the same day do protect investors from ‘churning’ by brokers, but increases costs for brokers and investors. Do those rules create an efficient and effective market?

As the exchanges, vendors, investors, and brokers have brought advanced technologies and the new trading styles to the market, it is time to question if such rules and regulations are still relevant and actually still achieving their original purpose whilst helping the industry to grow further.

## Future Events

### FIA Japan New Year Party

**January 15, Tokyo**

FIA Japan will hold its annual New Year Party at Ark Hills Club on Thursday, January 15. Please join us with your colleagues to celebrate the start of the New Year. Please check for further details in the email invitation that has been sent by the Executive Secretary.

Gold Sponsors:



### [FIA/SIFMA Asset Management Derivatives Forum 2015](#)

[February 4-6, Dana Point, California](#)

FIA and SIFMA Asset Management Group are coming together to host a comprehensive review of the most critical derivatives issues facing the buy-side. With international regulation of the derivatives markets heating up, new leadership in place at the derivatives regulators and the one-year anniversary of mandatory swap trade execution approaching, challenges to trading in the global swaps markets remain.



## **Toward the Commoditization of Cloud Computing Resources**

From your private use of on-line file storage and sharing services to industry-agnostic cloud-based Client Relationship Management solutions designed for professionals, it is undeniable that individuals and businesses of all nature have become heavily reliant on cloud computing technologies. The Financial Services Industry is no exception to this rule. According to a 2011 Tower Group research--“Destination 2015 – Spending on Cloud Computing in FS”--the overall cloud spending in global financial services was assumed to grow from USD 4 Billion in 2010 to USD 26.4 Billion in 2015.

The obvious consequence of a fast-growing cloud technology industry has been the multiplication of offers (private, public, hybrid clouds, cloud-neutral access points...), solutions (IaaS\*, PaaS\*, SaaS\*...) and related providers. Thus, the complexity of managing IT resources has shifted from the IT Operations teams and their home-managed infrastructures to the IT Strategic Planning and Purchasing teams in charge of selecting the proper cloud providers that will best fit their business needs, budgets and IT requirements. Questions that need to be answered by those teams go far beyond the usual review of pricing and technology; they must now put extra-care in assessing critical points around Terms and Conditions, Service Level Agreement (SLA), Security and Confidentiality, performance guarantees..., all key factors when moving to the cloud. Looking at the variety of cloud providers and the creativity of their proposals, it is definitely other than easy to compare the offered services “apple-to-apple” and, as we all know, the devil is indeed in the details...

While debating those questions within our FIA Japan Technology Committee, we came across an innovative initiative launched in 2014 in Europe: « The Deutsche Boerse Cloud Exchange » (DBCE). The concept is pretty simple: connect cloud-technology consumers with providers through a marketplace for cloud resources offering standardized IaaS products. In other words, turn computing power, memory and storage into exchange-listed tradable commodities. The parameters defining the products of those three asset classes are the contract duration (open-end or fixed-term), governing region (location) and platform where the buyers' data will be stored and processed. In order to guarantee strict product standardization, each IaaS provider is required to undergo an admission process prior to being admitted as participant to DBCE, accepting to follow specific rules and standards in terms of contract and agreement, SLA and benchmark guarantee performance for their products. The DBCE ensures the products match the defined standards through a “market surveillance” operation defined as availability, monitoring and benchmarking of the traded products. On top of offering the trading platform and its interface, the DBCE also proposes guaranteed payment services by acting as trustee and handling cash flow for providers on a prepaid basis. Finally, the DBCE services also include the settlement process by ensuring the delivery and provisioning of the traded resources.

The DBCE spot market has just been launched in pre-production for a few pilot participants in Europe.

Michael Osterloh, Member of the Executive Board of DBCE, made the following comments:

“Our 100% vendor agnostic marketplace gives customers the possibility to compare and buy IaaS offers and standardized commodities. We follow the multi-sourcing consumer trend by offering one flexible, transparent and easily comparable

product range. Our main target consumers are companies which need IT infrastructure such as web businesses, SMEs preferring out-tasking projects, SaaS companies, system integrators, smaller managed service and cloud providers.

The feedback so far is promising. At the moment our main challenge is balancing demand and supply. This means that various consumers require great numbers of IaaS resources (e.g. for big data analytics) which is indeed a good sign. There are also technical challenges around specific features, therefore we are constantly optimizing our processes to fit buyer's and seller's needs.

Going forward, within the next 12 months DBCE plans to go live and to continue the on-boarding and partnering with up to a hundred more providers and consumers, but also aims to enter the US market. We have Asia on our expansion roadmap, but we cannot say when exactly we will enter this market as of yet.“

\* IaaS stands for “Infrastructure as a Service” and can be summarized as the offering of computing capacities (through physical servers or virtual machines), storage, networks in a cloud-service model. PaaS and SaaS stand respectively for “Platform as a Service” and “Software as a Service”.

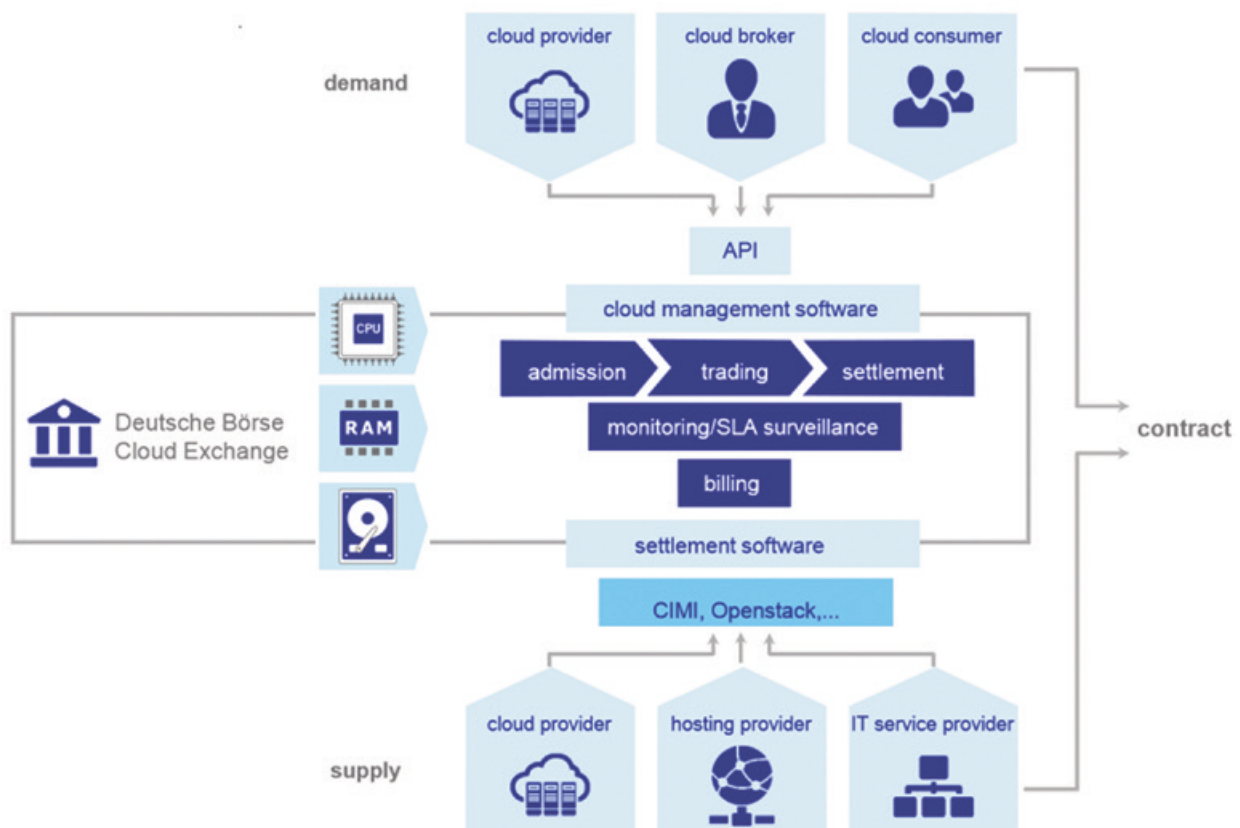


Image: courtesy of Deutsche Boerse Cloud Exchange

# Past Events

## FIA EXPO 2014 November 4-6, Chicago

Nearly 5,000 people attended this year's 30th annual futures and options industry Expo in Chicago, making it once again the largest industry event of the year and signaling the tremendous interest in new products and services offered by exchanges, brokers and technology firms exhibiting at the event. There were over 125 exhibitors this year with booths at the conference.

This year's conference featured keynote speeches by CFTC officials, and global exchange leaders including discussion with the CEOs of CBOE, CME, Eurex and ICE, and 25 panels on hot topics for the industry. The problems arising from the extraterritorial reach between EU and US regulators were focused on by Tim Massad the new Chairman of the CFTC.

On the sidelines of Expo, KVH organized its annual Japan-focused reception, in collaboration with major Japanese firms, including JPX, TFX and Nissan Century. Over 200 people participated to the event this year as well.



Chicago traders and market participants were keen to attend the Japan night reception this year as well, where short presentations on the Japanese markets were made.

## FIA Asia Derivatives Conference 3-5 December 2014

The FIA Asia Derivatives Conference was held at St. Regis on 3-5 December. The event is unique because of its high-quality delegates, program, and exhibitors (the exhibition hall was fully sold). Around 600 senior delegates from 25 countries and more than 200 firms attended this annual event this year.

A keynote address was made by Mark Wetjen Commissioner, Commodity Futures Trading Commission. Other session topics included: Technology Challenges and Opportunities; Monitoring CCP Risk; Proprietary Trading; Cross-Border Trading; Regulation; Commodities Exchanges in Asia.

## Market Forum 2014

Now in its 10th edition and organized by the NPO Japan Financial Security Industry Market Forum, Market Forum 2014 was held in Tokyo on November 5. The event started as a minor networking event between young financial brokers, but has now grown to become a major event regrouping not only financial brokers, but also exchanges, system/data vendors, media etc. Over 360 people attended and 11 companies sponsored and exhibited at the event, including JPX, TOCOM, TFX, CME, Eurex, Sungard and KVH.



Top: participants listen to a keynote speech and presentations. Right: representatives from the sponsoring companies are thanked on stage.



Right: participants discussing at the booths of Trading Technologies (top) and Thomson Reuters (bottom)







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

## FIA Japan Recent Activities

### FIAJ Blog

FIAJ added a blog function to its website earlier this year, where we feature some of the most important articles issued in previous editions. Eventually, we will start posting longer articles covering news relevant to our industry in a more detailed fashion, as the blog is not limited by space. Following an approval from our Finance Committee, we will further develop this function, creating a blog-dedicated signup box on our website (to be implemented by the end of 2014). We encourage our members and newsletter subscribers to also register for this new service to keep in touch with industry and FIAJ developments. Registrants will receive automated notifications when a new post is made.

### Webinar Series Project

In addition to approving the blog development, our Finance Committee also give us the go ahead to proceed with setting up an FIAJ-dedicated webinar service. Our Market Development Committee (MDC) and Technology Committee are both eager to use such a tool to help educate the general public on futures & options, help promote our derivatives markets, and implement theme-specific seminars for FIAJ members. MDC has already produced a "Futures 101" and an "Options 101" presentation in Japanese to explain the basics of derivatives trading to the general public (these documents will soon be uploaded on the FIAJ website under a newly created "Education" section). Said presentations will be reformatted and used as a basis for the first webinar we may hold in early 2015. Webinar recordings will also be made available on our website.



<Cover Photo>

#### Abe's LDP Election Win on December 14

The LDP coalition major win gives the Prime Minister perhaps his "best chance" for taking action on his promised structural reforms needed to improve the economy. As recently noted by The Economist Magazine, Abe (appearing as a Samurai ready with his 3rd arrow) is determined to make Japan great. He is "still Japan's best bet"

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*Happy New Year !*



## FIA Japan New Year Party

Please join us.

**Date/Time**

Thursday, January 15, 2015

18:00-20:00(Registration starts at 17:30)

**Venue**

Ark Hills Club

East Wing 37F Ark Mori Building,

1-12-32 Akasaka, Minato-ku, Tokyo

Please come up to 37F through Ark Hills Club desk on 1F

Inquiries to : Ms. Sayaka Morizono (morizono@fiajapan.org)

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\*Actual records for fiscal 2013

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