



### *FIA Merges to Reflect Changes in Global Landscape*

(Photo: Walt Lukken - President and Chief Executive Officer FIA)

#### Topics of the month

FIA Global Announces Merger Plans  
Japanese Market Volatility



#### Regulatory news

FSA - Japan to Participate in Asia Region Funds Passport  
Reforming Major Interest Rate Benchmarks - JBA TIBOR  
FIA Asia Responds to Singapore Mandatory Clearing Proposal

#### People Interview

FIA CEO Lukken Shares Insights on Market Regulations and FIA Global Merger

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## **PRESIDENT'S MESSAGE**

# **Moving Forward as Japanese Markets Recover**

Michael Ross, President - CEO, FIA Japan

**T**he crisp autumn season has brought a degree of stability in the financial markets. The Nikkei is recovering nicely from the declines of the summer, and as we note elsewhere in this issue, we have every reason to believe that Japan's sound fundamentals will continue to attract investors to our markets.

In our November issue, we focus on striking developments with the various arms of Futures Industry Association. We seize on news of the merger between FIA affiliates in Washington, Europe and Asia as an opportunity to ask our colleague Walt Lukken, President & CEO of FIA, to share his thoughts on the merger and a wide range of other issues.

I was fortunate enough to sit down with Walt during a recent trip to the US, and we agreed that while FIA Japan is not part of the merger, it will remain an affiliate of the new global organization and we will continue our close cooperation. We are working out fresh licensing agreements, and will continue looking for ways to share resources in areas ranging from legal to technology. Walt, who joined the board of FIA Japan over the past summer, shared his appreciation of the dedication and hard work of all our members of FIA Japan.

More broadly, the global regulatory firmament continues to address the causes of the 2008 financial crisis by focusing on capital and liquidity. But we note that here in Japan, the Financial Services Agency is stressing the need to address other concerns as well, including Cyber Security. Threats in this area, according to the Agency's Financial Monitoring Report for 2014-15, have become "borderless and rapidly more complex." The FIAJ Technology Committee will investigate best practices in addressing these concerns, and leveraging our relationship with FIA, will report back to the membership.

Another area of focus in Japan will be in asset management. The Bank of Japan's quarterly flow of funds data show that more than 50% of household assets are still held in demand accounts. This made sense during a deflationary environment, thanks to the real return on cash represented by increased purchasing power over time. The Bank of Japan, however, seems determined to rid Japan of its deflationary pressures, and hit an inflation target of 2%. If successful, this will erode the value of assets held in demand accounts. It will fall to asset managers to come up with better, more sophisticated products that will offer investors alternatives designed to protect them from the coming period of inflation.

FIA Japan has started working with industry participants and regulators to allow for such alternatives, aimed at both domestic and global markets. We expect to report back to our membership on our progress in due course.

For now, please accept my best wishes for a productive autumn season!

# FIA CEO Lukken Shares Insights on Market Regulations and FIA Global Merger



**Walt Lukken**

President and Chief Executive Officer FIA

Walt Lukken is the President and CEO of the FIA, a Washington, D.C.-based trade association that represents participants in the regulated, listed and cleared derivatives markets. He is also CEO of FIA Global, overseeing the affiliation of FIA, FIA Europe and FIA Asia. FIA's membership includes the world's largest derivatives clearing firms as well as leading derivatives exchanges and clearinghouses from more than 20 countries. In 2015, Walt was also appointed as a Director of FIA Japan.

Walt previously was CEO of New York Portfolio Clearing, the derivatives clearinghouse jointly owned by NYSE Euronext and the Depository Trust and Clearing Corp. Before joining the private sector in 2009, Walt served as Acting Chairman of the Commodity Futures Trading Commission for 18 months and as CFTC Commissioner since 2002.

**FIAJ: FIA has just announced the merger of FIA, FIA Asia and FIA Europe into a single entity. What led you to make such a move, what are your objectives and what benefits do you expect for your members?**

I'm excited for the merger because it will allow us to enhance our service to our members.

This merger is the next step in an ongoing drive toward integration that FIA, FIA Asia, and FIA Europe began years ago. As our industry has globalized and our markets have become increasingly interconnected, FIA has grown and expanded as well. Since June of 2013, we've been working together as affiliates under FIA Global, which helped us to better coordinate policies and priorities. The merger will allow us to build on this collaboration even more, and combine resources and assets from each individual association to enhance our advocacy work. That means that policy and advocacy for the futures, options, commodities and cleared swaps markets will be coordinated on a global level, allowing us to speak with a single voice, which magnifies our message.

We're also maintaining our regional advocacy focus with the merger. Regional staff and Advisory Boards from the Americas, Asia, and Europe will continue to develop and maintain the productive relationships with government officials and industry professionals FIA is known for at the regional level.

We'll be able to leverage this regional expertise to amplify our global coordination, and vice versa. We'll also be better able to offer more globally-focused member services, which will enhance our conferences, educational resources, and member communications.

Our members will enjoy the best of both worlds: regional expert-

***"The merger will allow us to speak with a single voice, which magnifies our message."***

***"Our members will enjoy the best of both worlds: regional expertise and global coordination"***

ise and global coordination.

**FIAJ: Following the Lehman shock, US and European regulators have pushed a number of major reforms affecting our industry. Where are we in the implementation of their plans? What is coming next? What new issues have arisen?**

Global regulatory coordination is an area where FIA's progress toward the merger is already benefitting our members—they can see our latest work on clearing issues in Europe, Asia, and the Americas on a single page on our website.

After the financial crisis, the G20 prioritized central clearing as a way to mitigate risk. However, as different countries have implemented different regulations at different times, we're seeing a number of challenges for firms that clear in multiple countries.

We must make sure that the regulators work together so that market participants and infrastructure can operate on a cross border basis.

U.S.-based CCPs who are registered with the CFTC and do business

with European participants are required under EU law to be "recognized" by having equivalent regulations to those in Europe. The EU has yet to designate the U.S., as well as other non-EU CCPs, as equivalent.

According to the International Banking Federation, capital requirements for European clearing member banks could increase by as much as 30 to 60 times if the EU doesn't recognize U.S. CCPs as equivalent.

It's clear that we need to address this. I've long advocated for mutual recognition and substituted compliance as the path forward. Comparable rules and regulations can ensure equivalent regulatory outcomes while reducing the cost of duplicative efforts.

FIA has prioritized harmonizing cross-border regulatory requirements and has been working in the U.S. and Europe to drive this forward. Harmonization does not mean a race to the bottom. We believe it can be used to raise standards. We've put together a paper on how clearinghouses can assess and manage their risks. Our goal is to ensure that the risks of central clearing are both transparent and effectively managed.

What it comes down to is this: if global regulations are not well coordinated, markets could fragment regionally and lose liquidity.

We have global markets, and competing regional approaches are detrimental to all of us.

***"Comparable rules and regulations can ensure equivalent regulatory outcomes while reducing the cost of duplicative efforts"***

***"...if global regulations are not well coordinated, markets could fragment and lose liquidity."***

**FIAJ: Cybersecurity is an issue that is of concern to many market participants and the FIA Japan Technology Committee has several on-going projects around this theme. How is FIA responding to this type of threat?**

FIA prioritized cybersecurity as a key issue of concern for our industry. We know that the threat of attack is growing rapidly: IOSCO reports that more than half of the world's exchanges have experienced a cyber-attack. And some experts estimate that financial institutions are four times more likely to be attacked than other industries.

Because the threats are growing and evolving at such a rapid rate, there's no way to insulate a firm completely from attack. So I think we need to change our mindset—we'll never achieve 100% cybersecurity, but we can excel at cyber risk management.

In the U.S., we encourage our members to join the Financial Services Information Sharing and Analysis Center (FS-ISAC), which is a public-private partnership that provides real-time information on cyber threats and educates its members on cybersecurity. We're also working with regulators and industry experts on cybersecurity standards that will ensure the health of our industry while allowing for innovative and evolving responses to cyber threats.

I think the key is to work together and share best practices, since no one faces this threat alone.

**FIAJ: You were a keynote speaker at the FIA Japan conference held in Tokyo this past May, where part of the discussions focused on establishing Tokyo as a financial center and how Japan might become more significant as a leader for Asia. What are your views on this possibility? Can Tokyo truly become the financial center for Asia?**

The FIA Japan conference did a great job of framing this issue within the broader context of globalization and evolving financial regulations. It's simply not possible to have significant or sustainable growth without an infrastructure that facilitates cross-border activity.

As Japan works to expand its financial influence, I think its greatest strength will be its commitment to open markets. This accessibility, along with Japan's emphasis on healthy and well-regulated markets, creates the confidence and reliability that is necessary to drive growth.

This commitment to openness and transparency is also a factor in the degree of economic integration between Japan and the U.S. Our nations enjoy a high degree of mutual trade and investment, which has been a positive influence on job creation, innovation, and economic development in both our countries. The

***“When I look at Japan, I see a market primed for growth. I think there's every reason to be optimistic about what's next.”***

White House released figures this summer ahead of Prime Minister Abe's visit noting that the U.S. has more than \$120 billion invested in Japan, while Japan is the second largest foreign investor in the U.S. at \$350 billion. It's in everyone's interest to see Japan's financial industry continue to grow.

It's also clear that Prime Minister Abe and the Japanese government are committed to developing Japan's economy and, in particular, the financial sector. The Japanese government has implemented several initiatives to make its futures markets more attractive for trading. When decision makers understand the importance of strong and healthy market growth, it's far easier to make progress since policymakers and regulators are careful to consider how their decisions might affect the financial industry.

I'm encouraged by recent measures of growth in Japan—I believe we're already seeing signs of a resurgent financial industry. For instance, the Nikkei index is up 37% in dollar terms since 2013, and many small companies are increasing exports and buying back stock. The Japan Exchange Group's data shows that the value of derivatives trading has risen to nearly JPY 1.4 trillion, which is the second-highest on a half-yearly basis. And I understand that a [recent report by the Bank of Japan](#) noted that the financial system has a strong loss absorption capacity and a high degree of resiliency.

Taken together, these factors paint a very positive picture. When I look at Japan, I see a market primed for growth. I think there's every reason to be optimistic about what's next.

**FIAJ: Thank you for sharing your insights with us.**

### **FSA - Japan to Participate in Asia Region Funds Passport**

On September 11, FSA announced that Japan has decided to participate in the Asia Region Funds Passport (ARFP). FSA has participated in the discussion of the Working Group in order to ensure that the ARFP will be effective in increasing cross-border investments among member economies and contributing to the development of financial markets in the region.

Economies in the Asia region recognize the value of creating better connections between their financial markets. Working together to reduce the barriers to cross-border financial transactions, created by differences between economies' laws and regulations, economies in the region can further the development of deeper and more efficient financial markets which, in turn, can contribute to sustainable and sound economic growth. The Asia Region Funds Passport Working Group, which consists of Australia, Japan, Korea, New Zealand, the Philippines, Singapore and Thailand, continues its efforts to progress the Passport alongside other interested regional economies.

### **Reforming Major Interest Rate Benchmarks - JBA TIBOR**

In July 2014, Financial Stability Board ("FSB"), which regroups major financial institutions in 25 jurisdictions, published "Reforming Major Interest Rate Benchmarks" ("FSB Report") and required administrators of three major financial benchmarks (LIBOR, EURIBOR and TIBOR) to consider the development and introduction of alternative benchmarks which are more anchored in actual transactions. Responding to this requirement, Japanese Bankers Association TIBOR Administration ("JBATA") has been considering an alternative benchmark for TIBOR (conveniently referred to as "TIBOR+" in the FSB Report).

JBATA recently published its 2nd consultative document "Promoting the JBA Tokyo Inter Bank Offered Rate ("JBA TIBOR") Reforms".

### **FIA Asia Responds to Singapore Mandatory Clearing Proposal**

FIA Asia and ASIFMA have submitted a joint letter to the Monetary Authority of Singapore (MAS) in response to the public consultation for the mandatory clearing of over-the-counter (OTC) derivative contracts. Central clearing seeks to mitigate counterparty credit risks inherent in OTC derivatives trades. The MAS proposal affects only Singapore-dollar and US-dollar OTC contracts, which are the most widely traded interest rate derivatives in Singapore.

### **FIA Special Report: CFTC Proposes Changes to Position Limit Aggregation Rules**

The Commodity Futures Trading Commission on September 22 approved a "Supplement" to its proposed changes to the agency's policy on aggregation, which determines the degree to which related entities are required to combine their positions when calculating whether they are in compliance with position limits.

CFTC Chairman Tim Massad said the supplemental proposal was designed to "simplify" the exemption process and create a "more practical, efficient rule."

Massad also noted that the CFTC is continuing its work on a final rule establishing a new federal regime for position limits on commodity futures and economically equivalent commodity swaps. "I want to underscore that the Commission appreciates the importance and complexity of these issues, and we intend to take the time necessary to get it right," he said in a statement. "We hope to have more to say about issues related to position limits in the coming months."



### FIA Global Announces Merger Plans

Under a new governance structure - FIA Global - set up two years ago, FIA, FIA Europe and FIA Asia have collectively, strengthened their influence on cross-border issues and substantially increased the coordination and information flow between regions. They have also provided a powerful voice to express the views of their members when dealing with legislative, regulatory and market issues in their respective time-zones.

In August 2015, FIA announced that the respective boards of FIA, FIA Europe and FIA Asia have all approved a plan to proceed toward a merger of the three organizations, which is expected to be completed in the first quarter of 2016. The boards of the three organizations believe a merger will provide the industry with a robust, powerful and effective global association, with strong regional focus, to promote its interests.

FIA Japan's Executive Committee and Board of Directors discussed this important development and noted that this merger would not cause a change in our relationship or in our continued interest in being a strong affiliate with FIA going forward.

### Japanese Market Volatility

Japan's markets have struggled in recent weeks along with the turmoil in global financial markets, rattled by concerns over economic weakness in China and uncertainty over the direction of interest rates in the US. International investors, responding to troubling news out of China, reduced risk positions globally in late August, causing Tokyo stocks to decline along with equity markets across the globe. The yen rebounded against the dollar and other major currencies.

The weakness has continued through September and into early October, with net selling by international investors for several successive weeks driving the declines. The net buying or selling by foreign investors remains the single most consistent performance indicator in the Japanese equity market.

Foreign investors sold 2.9 trillion yen in Japanese equities in the five weeks from August 10 to September 11. As a result, the Nikkei 225 Stock average, after hitting an early August peak above 20,800, fell to a low just below 17,000 in late September.

Japanese corporate earnings, however, remain relatively strong, and the Price-to-Earnings ratios on Japanese equities are now at the lower end of their historical range, which is already enticing many global investors back to the Japanese equity market in the early days of October, causing the Nikkei to rebound to 18,300 at the time of this writing.

Other factors likely to support Japanese equities in the weeks ahead include the continued sound fundamentals in the US, stronger consumption in Japan thanks to an anticipated increase in real wages, a successful listing of Japan Post, positive corporate revisions due to the recent yen weakness and continued accommodative policies by the Bank of Japan.

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## Committee Activities

### Market Development Committee

Chairman Yoshio Kuno

MDC welcomed new members : Messrs. Accrombessi and Kawamoto of Newedge/SG and Mr. Clairmont of ABN Amro. With these new powerful resources, the discussion about cost of business continues. The discussion now includes hidden costs and less transparent areas in addition to hard number items.

### Technology Committee

Chairman Bruno Abrioux

Our committee is glad to introduce a refreshed version of its mission statement:

« The FIA Japan Technology Committee mission consists essentially in educating and providing thought leadership on how technology advancements can better serve, support or even transform the financial services industry businesses in Japan. »

The committee is composed of members from the entire financial eco-system, spanning from Exchanges to Technology Providers and Brokers/FCMs, allowing thus a fair, balanced and representative view of opinions in the technology-related topics addressed by the committee.

As a representative example of its activities, you will find in the Tech Corner of this newsletter the summary of the committee's reflections on the technology-related risks with regards to Automated Trading Systems. The thought provoking check list aims at complementing the comprehensive "Guide to the Development and Operation of Automated Trading Systems" issued by the FIA Washington in March this year.

### Membership Committee

Chairman Izumi Kazuhara

FIA Japan recently welcomed a new member to the Association: Flow Traders Asia.

Flow Traders Asia Pte. Ltd. is a wholly owned subsidiary of Flow Traders N.V. (hereinafter referred to as 'Flow Traders'), a leading global technology enabled liquidity provider that specializes in exchange traded products ("ETPs"). Flow Traders' shares are included in the Euronext AMX (midcap) index which is made up of 25 medium-sized listed companies on Euronext Amsterdam.

Flow Traders provides liquidity in ETP markets 24 hours a day while seeking to stay market neutral at all times and without having directional opinions. They provide liquidity in over 4,000 ETP listings across the globe, tracking all

underlying asset classes including equities, fixed income, commodities and currencies with access to 94 exchanges in 32 countries, and operates a global cutting-edge technology platform with a robust real-time risk management framework.

Flow Traders is headquartered in Amsterdam, the Netherlands, with trading offices in Singapore and the US covering all time zones.

### Commodity Study Group

Chairman Mitsuhiro Onosato

The Commodity Study Group (CSG) members have deep knowledge of and long experiences in the commodity markets. CSG examines and proposes ways to strengthen Japan's commodity markets, which have been suffering from low levels of liquidity for some time. The Group takes into account recent trends in both domestic and international commodity markets.

China, the largest commodity importer in the world, has strengthened its presence in the world's commodity trading community, along with other countries in East Asia. This contrasts with the sluggish Japanese commodity market.

However, Japan's commodity markets are globalizing and there has been a strong increase in overseas participation. Trade volume originating abroad rose from around 10% to 50% over the past six years.

Recently, liquid natural gas (LNG) imports have risen sharply following an increase in demand from thermal power plants after the Great East Japan Earthquake and the Fukushima nuclear incident in 2011. The events that followed have created a great need to restructure Japan's energy policy. The establishment of a comprehensive energy market, inclusive of LNG and electricity trading, is an important response to the challenges Japan is currently facing.

CSG continues to exchange views and opinions on the topics above and many others. They continue to strive to strengthen Japan's commodity markets to play a leading role, not only domestically but also in the greater East Asia region.

### Proprietary Trading Study Group

Chairman Mike Ross

Following the recent launch of the Group, a conference call was held on October 1 and was chaired by Mike Ross, President - CEO FIA Japan. The below points were discussed.

1/ Organization/interaction of the Group: To help interact with FIAJ committees and brainstorm on issues, it was decided to create an Advisory Panel to PTSG, including some Chairmen of other FIAJ committees.

2/ Risk Management at Japanese Exchanges: This topic had been previously brought up by the Group. In parallel, the Technology Committee is planning to gather feedback from various players on FIA's [Development and Operations of ATS](#) document published in March 2015. The PTSG members will review the document and share their feedback as to how Japan fits in the sets of recommendations made by FIA.

The Group also identified a number of issues specific to Japan, while recognizing at the same time that many major issues have already been addressed by the Japanese markets, including redundancy lines.

## Exchange News

### *Japan Exchange Group (JPX)* **Introduction of TAIEX Futures**

JPX is to introduce futures on TAIEX, the most commonly used stock index of the Taiwanese market, when it launches the next J-GATE, the new derivatives trading system which is planned to go live in mid-2016. This is the very first case for TAIEX futures to be listed outside Taiwan. JPX-listed TAIEX futures should provide investors in Japan with an alternative trading instrument to invest in the Taiwanese market. TAIEX covers the majority of the Taiwanese market and is the standard benchmark for the Taiwan capital market.

### **Listing of First TOPIX ETFs on Taiwan Stock Exchange**

On September 10, Fubon Asset Management - a Taiwanese AM company - listed "Fubon TOPIX Leveraged 2X Index ETF" and "Fubon TOPIX Inverse -1X Index ETF" on Taiwan Stock Exchange as the first ETFs which track TOPIX in Taiwan. The Taiwanese ETF market has been expanding this year in terms of both the number of ETFs listed and trading volume. The new TOPIX leveraged/inverse ETFs will add further momentum to the ETF market and reinforce the internationalization and competitive advantage of Taiwan's securities market.

### **Calculation and Publication of "JPX JGB Futures Index Series"**

JPX will start to calculate and publish the "JPX JGB Futures Index Series" when the next J-GATE goes live in mid-2016. The basic idea of the index is to track the daily return of the 10-year JGB Futures. The index series will consist of four indices, each having different multipliers on

the regular (x1) index; JPX JGB Futures Index, JPX JGB Futures Inverse Index (-1x), JPX JGB Futures Leveraged Index (2x) and JPX JGB Futures Double Inverse Index (-2x).

### **Celebrating 30th Anniversary of JGB Futures**

The JGB Futures contract listed on JPX started trading on October 19th, 1985 and celebrates its 30th anniversary this October. JGB Futures, the first postwar financial futures product in Japan, has been playing an essential role in the Japanese fixed income market by providing key interest rate indicators. JPX released special contents on its website which explain the history and transition of the futures product and important changes in the trading regulations.

### **JSCC Introduces Cross Margining and Non-JPY Interest Rate Swaps Clearing**

Japan Securities Clearing Corporation (JSCC) has introduced a cross margining scheme between interest rate swaps and Japanese government bond futures (JGB futures) to reduce collateral requirements by offsetting risks. JSCC also launched clearing operations for interest rate swaps denominated in non-JPY currencies (USD, EUR and AUD) on September 24.

The cross margining scheme between interest rate swaps and JGB futures enables clearing members to reduce collateral requirements while still maintaining the same level of risk management at JSCC.

Furthermore, JSCC has enhanced its compression services, which reduce the notional amount of cleared positions at JSCC, in response to recent growing demand for the services from market participants due to "leverage ratio regulations," where capital costs corresponding to the notional amount of outstanding trades are required for financial institutions.

### *Tokyo Financial Exchange (TFX)* **TFX to Host Annual Click Festival 2015 Event**

Tokyo Financial Exchange (TFX) is hosting an event called "Click Festival 2015 – Stock & FX: Trading Strategy Forum" at Bellsale Kanda (2 minutes walk from Ogawacho / Shin-Ochanomizu Station) on November 21.

Marking two anniversaries - 10-year for Click 365 and 5-year for Click Kabu 365 since their respective launch - TFX invites a wide variety of industry experts to address the present situation and future prospects in stock and FX markets through a range of seminars and panels. Jesper Koll, CEO of WisdomTree Japan, is scheduled to deliver the keynote speech on Japan's economic outlook and invest-

ment strategies for 2016.

The event will be broadcasted by Stock Voice TV (TOKYO MX).

### ***Tokyo Commodity Exchange (TOCOM)*** **Started Publishing Market Structure Analysis**

In September, TOCOM started publishing market structure analysis with more detail on market structures and market data for each individual listed commodity. This analysis includes average price movement, average daily volume and end-of-month open interest, broken out by session, membership category and geographic origin of trades. It provides monthly data for trading since April 2014.

Market structure analysis is available on the exchange website “Market Data” section and is updated around the 21st day of each month.

### **To Co-Host Seminar with Dalian Commodity Exchange**

TOCOM will co-host a commodity seminar with the Dalian Commodity Exchange (DCE) on October 28. The two exchanges will invite DCE’s members and their clients,

who will be introduced to TOCOM and its listed commodities. Guests will also be presented with Rubber market price trends, which is of particular interest to Chinese investors. Tadashi Hamada, the President and CEO of TOCOM, will present TOCOM’s market directly to this gathering of Chinese market participants.

### **To Co-sponsor Seminar and Event at Chicago’s FIA EXPO**

TOCOM will co-sponsor the “Trading Asia Symposium” with six other Asian exchanges, including the Japan Exchange Group (JPX), SGX and HKEX. The event will promote Asian derivatives markets and include exchange panels that will outline their strengths and latest market developments. Hosted by Philip Capital, the event will be held at the Hilton Chicago, FIA EXPO’s venue, on November 3.

On November 4, TOCOM will co-host a reception with Colt (formerly KVH), JPX, TFX and Phillip Securities (Phillip Capital’s Japanese subsidiary) on the sidelines of EXPO. This event was started in 2011 to direct the attention of EXPO participants on the Japanese market and its renewed vitality.

## **Opinion Column**

By Chika Nakamura, ABN Amro Clearing

### **What is Happiness?**

Everyone has a right to pursue happiness. The question must be what makes you happy and what are the costs of gaining that happiness. Sometimes it's sad but true that someone's unhappiness can be someone else's happiness. On the other hand, there are people who feel genuinely happy by sharing their happiness with others. What makes you really happy? Is it material gains? Perhaps, it's achieving your goals or maybe, it's just dependent on your mind set.

Happiness could be different according to your circumstances. If you are starving to death, a piece of bread would make you happy. If you have nothing to wear in cold and miserable weather, even a worn out blanket would make you happy. On the other hand, you could find happiness by risking your life helping wounded soldiers in battle fields. Everyone is different. Everyone has different desires, wishes and standards.

In the financial industry, it is often believed that happiness could be quantified by the income or profit numbers. The higher the number gets, the happier you become. On the other hand, it is also expressed as a zero sum game. Some people may say, when you make money, someone is losing money on the other side. If it is true, it is hard to believe that there are so many people engaged in the industry. Because the financial industry is so dynamic, the happiness could be distributed in many ways. In fact, even a talented trader wins because he or she has talented supporters including exchanges, brokers, IT technicians, etc.

Perhaps happiness is how you contribute your true talent to the world. Even if you are not the center of attention, as long as you utilize your talent for doing good, you feel better and achieve goals. The majority of people are behind the scenes doing small and invisible work on a daily basis. Happiness could be when you find the place to share your ability to move forward towards the same goals.

FIAJ is a place to gather our skills and abilities towards the same goals. All types of specialists in the Japanese financial industry are discussing how to improve their environments. It is a genuine happiness that people work not for individual benefits but for the industry and eventually for the country. If Japan becomes the financial center in the APAC, it will bring more opportunities for people beyond the financial industry to utilize their specialties in their fields.

## Automated Trading System: 5 fundamental questions to assess your technology-related risks

Earlier this year, the Automated Trading Committee of the FIA Market Technology Division published a “Guide to the Development and Operations of Automated Trading Systems” (ATS) in the US. While acknowledging risks of other natures, like financial risks, this has prompted our Technology Committee to further reflect on the specific technology-related risks undeniably associated with the use of ATS.

In a first step, the exercise has consisted in defining the core constituents of any ATS so that the committee could, in a second phase, identify the fundamental technology-related risks inherent to such systems. It has led the committee to create the definitions and check list presented below, which gathers five “simple but not easy” open questions on ATS technology risks.

The committee strongly recommends that any organization directly or even remotely involved with ATS closely consider these questions.

“Please... Draw me an ATS!”

If we were to put a one-liner defining the concept of ATS, we could (arguably) propose the following one:

“A logic running on an IT system without human intervention that is set to make contextual trading and execution decisions based on the analysis of dynamic data.”

### Diagram Legend:

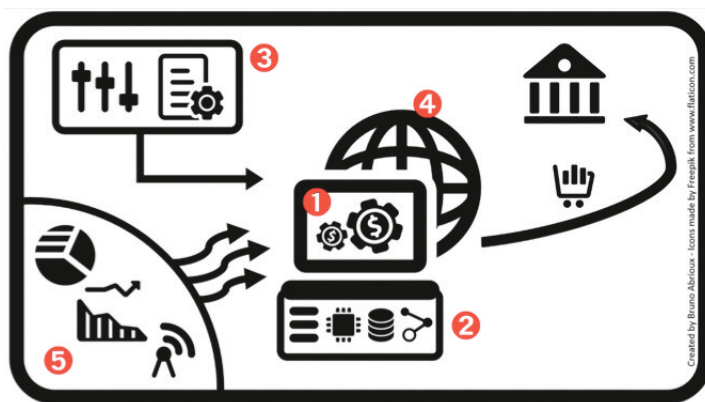
❶ the logic, often referred to as algorithm: a program developed to make decisions (outputs) based on a number of inputs.

❷ the IT system running the logic without human intervention. “IT system” is to be understood here in its broad sense: from infrastructure including computational resources (e.g: CPU, memory, storage, network connectivity...) down to the operating system and software application layers.

❸ the settings associated to the logic: configuration parameters and other non-real-time static data.

❹ the context: the conditions that define the market and trading environments.

❺ the dynamic data flow such as real-time market prices, company risk data updates, news, social media sentiment...



This definition intentionally depicts the concept of ATS in its widest possible spectrum: from basic VWAP (Volume-Weighted Average Price) execution algorithms to advanced HFT programs.

### What could go wrong?

In a pro-active prevention spirit, the below section will focus on the five core constituents of any ATS as described above and bring key questions helping assess its level of technology-related risk.

#### ☠ Technology-related Risk ❶: a flawed or corrupted decision logic

Be it inadvertently through misconception or miscoding, or be it deliberately through malicious intentions to improve the business performance in a non-compliant fashion, an ATS can present risks of flawed or corrupted logic. In the former case, this could lead to a sudden erratic behavior of your ATS (including possible violations of trading rules) while, in the latter



case, this could purposely lead to regulatory breaches.

## 🔑 Key Question to Assess Risk ①:

Which measures do you take to guarantee that your ATS logic does not include any flawed design, malfunction or intentional non-compliant code?

## 💣 Technology-related Risk ②: system performance issues

Insufficient computing capacity, faulty equipment, network traffic congestion... are as many risks that may lead to an improper behavior of your ATS. Indeed, under such conditions, vital functions such as processing the real-time inputs, computing decisions, triggering and relaying the output action commands down to the market in a timely manner may be affected.

## 🔑 Key Question to Assess Risk ②:

How do you ensure that your IT system shows sufficient processing capacities to run the ATS logic at any time and permanently delivers full redundancy in order to cope with faulty equipment or network connectivity problems?

## 💣 Technology-related Risk ③: erroneous settings

Setting wrong configuration parameters or inputting mistaken static data could obviously bring your ATS to operate in an unexpected, unpredictable way.

## 🔑 Key Question to Assess Risk ③:

Which management procedures do you have in place to confirm a proper validation, authorization, scheduling, execution, communication and documentation of any ATS-related settings modification?

## 💣 Technology-related Risk ④: ATS logic running under an unidentified and untested context

Every program is normally conceived and tested to perform under a given identified context. Beyond those known boundaries, the behavior of the program may no longer be accurately predictable. Imagine here your ATS running under flash crash conditions or abnormal market volatility like during the Japanese great Tohoku earthquake...

## 🔑 Key Question to Assess Risk ④:

To which extent have you identified the context under which your ATS can operate safely and predictably, and can you detect changes in the market or trading environment conditions pushing your ATS beyond its known validated boundaries?

## 💣 Technology-related Risk ⑤: delayed, missing or inaccurate dynamic data

In the face of unreliable dynamic data (missing or delayed delivery of real-time data, corrupted information, data inaccuracies) and despite a perfect logic, your ATS will very probably command the wrong decision; this is infamously known as Garbage In – Garbage Out (GIGO).

## 🔑 Key Question to Assess Risk ⑤:

What safeguards have you deployed to ensure a constant integrity of your dynamic data (content accuracy, timely delivery) and to keep your ATS behavior under control in case of unreliable data despite your safeguards?

## And if it goes wrong?

Despite all risk prevention efforts, all kind of testing (unit testing, functional testing, acceptance testing, stress testing...), things can sometimes turn really wrong in production. This is especially true when it comes to solutions designed to burst automatically an infinite number of trading commands to the market in the shortest possible time unit... This is even more true with the new generation of ATS leaning toward Machine Learning ATS or AI-type of ATS (i.e: ATS with a capacity to adjust dynamically and without human intervention the decision strategy based on context in order to optimize revenue and/or circumvent some rules; ATS capable of auto-diagnosis and self-correction...) and the increased use of unstructured data as source of decision.

Thus, looking at the past large market incidents involving ATS, limiting the overall damage for your company and the market itself often comes down to one question: how fast can you detect that something is going wrong with your ATS and trigger the appropriate chain of actions to pull the plug and cure the remaining situation?

As a conclusion, the FIA Japan Technology Committee hopes that this high-level check list has helped you assess your ATS technology-related risks and strongly suggests complementing your evaluation by consulting the comprehensive FIA [“Guide to the Development and Operations of Automated Trading Systems”](#).

# Future Events

## Market Forum

### 28 October, Tokyo

The 10th Annual Market Forum event will be held at Otemachi Sankei Plaza on October 28. It is a gathering of around 400 participants mainly coming from the local trading community.

## FIA Expo 2015

### November 3-5, Chicago

The FIA Futures & Options Expo, now in its 31st year, convenes thought leaders and industry stakeholders for three days of engaging programming. Over 5,000 attendees will gather in Chicago for a stellar program and exhibit hall, featuring the most innovative technology and service providers.

## Hedge Fund Club Tokyo

### December 3, Tokyo

Tokyo Hedge Funds Club event gathers Japan's hedge fund industry: The Hedge Funds Club, one of Asia's largest network of hedge fund managers and investors which was founded in Tokyo in 2005, will host its year-end networking evening for a few hundred guests at the Roppongi Hills Club in Tokyo on December 3. The by invitation only networking event for funds and investors finishes the Hedge Funds Club's 10-year anniversary celebrations.

## FIA Asia Derivatives Conference

### December 8-10, Singapore

The FIA Asia Derivatives Conference convenes over 700 senior-level executives, managers and regulators in Singapore for an in-depth discussion of global and regional derivatives industry issues.

Panel sessions will cover topics such as: regional market developments, trading challenges and the evolving regulatory landscape. The three day conference provides ample opportunities for interaction with distinguished speakers and networking with fellow participants.

## **FIA Japan New Year's Party**

### **January 19, Tokyo**

FIA Japan will hold its annual New Year's Party at Ark Hills Club on January 19. Please join us with your colleagues to celebrate the start of the New Year. Please check further details in the email invitation to be sent by the Executive Secretary. We are also looking for sponsors for this event. Please contact the Executive Secretary ([morizono@fiajapan.org](mailto:morizono@fiajapan.org)) if you are interested to become a sponsor.

## Past Events

### **FIA Japan "Cool-off" Summer Party**

Our annual Summer Party was conducted at the exclusive Ark Hills Club on September 10.

Despite the rain caused by a typhoon, the party was attended by around 90 members and guests. Among the guests were included Mr. Yasushi Hasegawa, Deputy Director-General of FSA and Mr. Takayuki Sumita, Director-General of METI. We enjoyed cool beer, wine and conversation with our industry friends.

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Top: Bill Herder, FIA Asia President, shares his comments on the announced FIA merger.  
Bottom: FIAJ members and guests.



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

### Exchange of Information between FIAJ and Regulators

Following recent new appointments and transfers within the regulatory bodies (see our September 2015 edition for details), FIAJ Officers conducted a series of constructive meetings with both FSA Deputy director-General of the Planning and Coordination Bureau, Mr. Yasui Hasegawa, and METI Director-General for Commerce, Distribution and Industrial Safety Policy, Mr. Takayuki Sumita.

As had been already the case with their predecessors (namely Mr. Ono of FSA and Mr. Terazawa of METI), both regulators would like to continue to interact with FIAJ, including through the holding of informal meetings between FIAJ members and regulators at a staff level (e.g. managers or deputy managers) in order to exchange opinions and views in an open and candid way. This is in line with FIAJ’s stated mission to create forums for discussion to help deepen the understanding of the market by all parties involved in our industry.

### FIAJ Office: We’ve Moved!

FIAJ has been continuously expanding its activities over the past quarter-century, relying mostly on the “volunteer-based” efforts and contributions of all of its members, officers and directors. We’ve hired assistance from outside staff on a part-time basis some years back to reach our current status with a full-time Executive Secretary and a half-time Administration Manager & Editor. As our budget doesn’t provide for an actual physical office, our staff are independent service providers working from home.

However, a physical address was necessary at the time of incorporation of the Association and White & Case generously provided FIAJ with this “virtual office” for many years. Our new “virtual office” is now kindly provided by Greenberg Traurig Tokyo Law Offices (see contact information on the right). We wish to thank Mr. Koichiro Ohashi and his firm for their support in providing an office for FIAJ.

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