FIA JAPAN

NEWSLETTER

DERIVATIVES INDUSTRY UPDATES FOR JAPAN DECEMBER 2017

PRESIDENT'S MESSAGE

HST Regulations in Japan: Entering Final Stages

Richard Clairmont
President
FIA Japan

On October 24, FSA issued draft amendments to Cabinet Ordinances and other detailed regulations, following the revision of the Financial Instruments and Exchange Act (FIEA) approved by the Diet in May 2017. The revision and amendments introduced for the first time regulations over "High Speed Trading" (HST), which now represents more than half of trading volume in the capital and derivatives markets in Japan. The draft detailed regulations are open for public comments until November 22 and are targeted for enactment by April 2018.

The revised FIEA allows for offshore firms to continue trading from overseas without having to establish a physical presence in Japan, and instead requires a registration process that includes the need for a local "Agent" to facilitate communications between the regulator and the HST firm. Some of the most important points in the draft detailed regulations, for HST firms who are not licensed in Japan and wish to register to continue trading the Japanese markets, include the following:

・Language: applications and related documents can be submitted in English (a first for Japan!).

・Risk controls: documentation showing that proper risk controls are in place is required.

・Order flagging: HST firms will be required to flag their orders under one of four different strategy categories (e.g.: Market making).

・In general, the jurisdiction of the HST firm should be a signatory of the IOSCO multilateral cooperation agreement.

The detailed regulations are available on the FSA website (Japanese only).

As reported in this edition, FIA Japan has recently held two major events in Tokyo. The first one was a reception for CME Group Chairman Emeritus, Leo Melamed, to celebrate the award conferred to him by the Government of Japan: the Order of the Rising Sun, Gold and Silver Star. We want to congratulate Mr. Melamed, who was instrumental in the establishment of FIA Japan almost 30 years ago, on this award conferred to him for all of his life achievements. In a separate event, we held a Special Speech from Mr. Michael Gill, Chief of Staff for CFTC Chairman Christopher Giancarlo to FIAJ members at the TSE Hall, to share an update on current priorities at CFTC.

Through these and other activities, FIA Japan will continue its efforts to bring value to its members and to help further the development of the Japanese markets.

Note from the Editorial Board: this December 2017 edition may be the last edition that we publish under a print-ready PDF format, as we consider moving to a fully-electronic HTML format next year. To keep in touch with news from the derivatives industry in Japan, please register to our free distribution service on the FIA Japan website: https://www.fiajapan.org/

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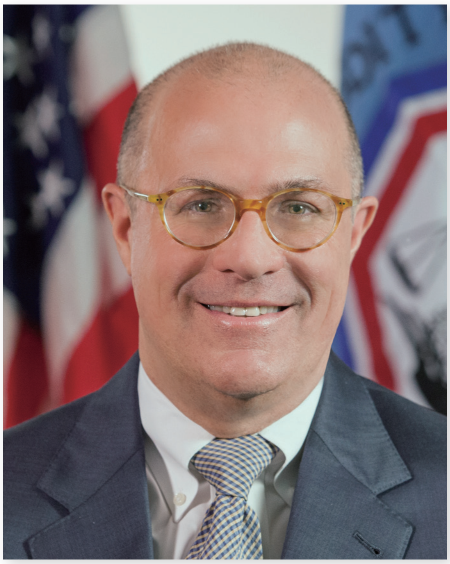
CFTC Chairman Giancarlo Shares Update on Global Regulation Status and Developments



J. Christopher "Chris" Giancarlo
Chairman – U.S. Commodity Futures Trading Commission (CFTC)

J. Christopher "Chris" Giancarlo was unanimously confirmed as Chairman of the U.S. Commodity Futures Trading Commission by the U.S. Senate on August 3, 2017. Prior to becoming Chairman, Mr. Giancarlo was designated Acting Chairman on January 20, 2017 and was nominated by President Trump to serve as the Chairman on March 14, 2017 to a term that expires in April 2019. Mr. Giancarlo had served as a CFTC Commissioner since his swearing on June 16, 2014, after a unanimous consent by the U.S. Senate on June 3, 2014. He was nominated by President Obama on August 1, 2013.

Before entering public service, Mr. Giancarlo served as the Executive Vice President of GFI Group Inc., a financial services firm. Prior to joining GFI, Mr. Giancarlo was Executive Vice President and U.S. Legal Counsel of Fenics Software and also served in several law firms. In addition, Mr. Giancarlo has testified three times before Congress regarding the implementation of the Dodd-Frank Act, and has written and spoken extensively on public policy, legal and other matters involving technology and the financial markets.

Mr. Giancarlo received his law degree from the Vanderbilt University School of Law and has been a member of the Bar of the State of New York since 1985.

FIA Japan: You were designated as Acting Chairman in January 2017, when your predecessor Mr. Massad stepped down, and recently confirmed by the Senate as Chairman of the CFTC. How would you describe the current status of the Commission and its approach to regulation and oversight, in comparison to where we were in 2016?

Giancarlo: In addition to my confirmation as the new Chairman of the CFTC, the other significant development is that the CFTC now has two new Commissioners. The U.S. Senate confirmed Brian Quintenz and Russ Behnam in August 2017 as new Commissioners. With Commissioners Quintenz and Behnam part of the CFTC, we now have three Commissioners in office ready to consider new rulemaking and other matters of importance to the CFTC.

Domestically, we have begun new initiatives to simplify the CFTC's regulations and proactively respond to new challenges. Earlier this year, I announced the launch of Project KISS, inviting comments on four particular areas: registration of clearing, trading, data repository, and intermediary entities; swap data reporting and recordkeeping; clearing; and trade execution. The purpose is to devise less burdensome applications of existing rules while achieving the same regulatory objectives. Lessons learned from the prior rulemaking and implementation process as well as Project KISS will inform our forward-looking efforts to establish an updated framework for reform. Also in 2017, we introduced another new initiative, LabCFTC, which is designed to make the CFTC more accessible to technology innovators and gather information about innovations to enhance the Commission's understanding of new technologies.

Internationally, I have spoken publicly and to my counterparts abroad about the importance of regulatory comity and supervisory deference in how we regulate cross-border activities and firms. The CFTC is at the forefront in implementing global swaps market reforms. As other regulatory authorities proceed with the implementation of swaps reforms in their respective jurisdictions, we are working with them to ensure that our rules do not conflict with or fragment the markets. This approach is aimed at achieving the goals of the OTC derivatives reforms originally set forth by the G-20 Leaders in 2009, while ensuring continuity of transactional flow and avoiding unnecessary friction in the markets.

FIA Japan: In a speech made in late 2015, JFSA Commissioner Mori talked about "regulation factories", in relation to the numerous international bodies looking at introducing a number of new rules and regulations. What are your thoughts on Mr. Mori's comments?

Giancarlo: In his 2015 speech, Commissioner Mori cautioned against over-regulation and noted the potential for unintended consequences resulting from excessive or imprudent regulation. I am in agreement with Commissioner Mori that we must look carefully at all of the international standards that have been developed since the G-20 Pittsburgh Summit in 2009 and identify and fix unintended consequences. For this reason, I have been a strong proponent of the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) pivoting away from development of new standards and instead looking more intensely at the effectiveness of reforms to date. The CFTC has taken a leading role in these efforts. The CFTC co-chairs the FSB's Derivatives Assessment Team (DAT), which is conducting a comprehensive review of the incentives to clear OTC derivatives. I am pleased that one of the issues that the FSB DAT is examining is the effect of the supplemental leverage ratio on clearing. The CFTC is also the chair of the IOSCO Committee on Derivatives, which is currently considering all of the OTC derivatives reforms and whether they are achieving "efficient resiliency."

FIA Japan: Following similar steps in Europe, Japan is on the verge of introducing its own set of regulations around HFT (or "HST - High Speed Trading" as it is known here), including a mandatory registration process for any of those firms trading the Japanese markets. What are your thoughts on these developments? What is the situation in the US and where are we heading? How can global regulators best coordinate extra-territorial issues?

Giancarlo: Japan's initiative to embrace and adapt to the electronic and digital age is admirable and exemplary. Twentieth century analog financial markets no longer exist and existing regulation must be updated to address today's challenges. Recently, the CFTC has begun taking steps to catch up to the electronic and digital revolution. Automated trading now constitutes about 70 percent of regulated futures markets and this is bound to increase in the future. We finalized Regulation Automated Trading (RegAT) in late 2016, which seeks to draw on industry best practices, provide flexibility in setting risk control parameters, and does not require the pre-approval or pre-testing of algorithms. However, RegAT falls short of being the appropriate response to automated trading concerns. Requiring the registration of more market participants and subjecting them to additional rules does not begin to address the complex risks associated with high frequency trading. Realizing this and other shortcomings, we are now in the process of finding new solutions to the evolving challenges.

The right approach is to keep abreast of developments in the digital transformation of the financial markets, embrace innovation, and update rules for the digital age. The CFTC and regulators in other jurisdictions are well aware of the potential benefits and risks of fintech and look to work with developers and market participants to capitalize on the benefits and monitor the risks. It is in our best interest to cooperate and coordinate with our foreign counterparts and to learn from each other's best practices.

FIA Japan: FinTech and cybersecurity are taking more and more of a central role, which is also true for our industry. How is CFTC involved in these developments? Is this a threat or an opportunity for global financial markets? What would you recommend that market participants focus on?

Giancarlo: The CFTC embraces innovation and the digital transformation that has been taking place in our markets. We view these technological advancements as an opportunity to improve the quality, resilience, and competitiveness of global markets. Consumers, farmers, ranchers, as well as investors already have benefited from the technological innovation of the markets overseen by the CFTC. There is no doubt that the digitization of financial markets presents challenges to market regulators.

I mentioned already that we recently announced the creation of LabCFTC. LabCFTC is designed to make the CFTC more accessible to technology innovators and serves as a platform to inform the Commission's understanding of emerging technologies and how they interact with our current rules. Additionally, LabCFTC is an information source for the CFTC regarding technology-driven innovation that may influence policy development. This two-way engagement helps innovators understand relevant regulations and our approach to oversight and, at the same time, provides the CFTC exposure to new developments in the area, including concepts that may be useful to the agency for regulation and oversight. Good regulation should not constrain technological innovation, but rather serve as a platform for such innovation.

FIA Japan: In the recent speech in Tokyo, delivered by your Chief of Staff Michael Gill, what was the main message to the FIA Japan members in attendance and to other Japanese market participants? How do you think that FIA Japan can continue to best support the development of our markets?

Giancarlo: In the speech to the FIAJ, we sought to highlight the importance of readjusting our reform work based on past and current experiences. The speech addressed my current priorities, which focus on evaluating and improving our reform efforts. It is particularly important to share our thoughts in this setting given the importance of Japan as one of the leaders in the G-20 reform efforts.

The speech discussed CFTC projects underway to secure smarter and simpler regulatory approaches where possible, better aligned to fit the needs of regulators and market participants alike. Where appropriate, we seek to make our existing regulations simpler, less burdensome, and less costly, and yet still serve the same goals. It makes sense that, as we continue to work on reforms, we want to learn from our experiences to date, and make such adjustments.

The speech also addressed new challenges on the horizon, including new market technologies and cyber-attacks. My current priorities include projects to consider adjustments to our regulations where appropriate and to respond to technological changes. We must adopt a proactive approach to technological advances to combat the threat of cyber-attacks, while working to promote stability and flexibility in our financial markets. Other priorities include advancing our swaps data reporting harmonization work in a timely manner.

FIA Japan: Thank you very much.

FUTURE EVENTS

FIA Japan New Year Party

17 January, Tokyo

FIA Japan will hold its annual New Year Party at Ark Hills Club on January 17. 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.

FIA Asia Derivatives Conference

28-30 November, Singapore

High-level discussions and analysis on the latest industry issues affecting the Asia-Pacific region will include: Health of the clearing ecosystem; Evolving global markets; Global regulatory environment.

Visit the FIA website for details.

Japan-EU High Level Meeting on Financial Issues

The 2017 Japan-EU High Level Meeting on Financial Issues was held in Brussels on October 3. This year's meeting provided an important opportunity for Senior Officials from both sides to exchange views on recent regulatory and supervisory developments in the financial sector.

Senior Officials from the JFSA and the European Commission took stock of their bilateral cooperation and explored ways to strengthen them, notably in view of preparing the regulatory cooperation framework under the future Japan-EU economic partnership agreement. They also discussed the possibilities of relying on each other's regulatory and supervisory frameworks. The JFSA and the European Commission exchanged views on the future of the international financial system, coordination in international forums and the potential impact of Brexit. The JFSA and the European Commission also exchanged views on the completion of the Basel III reforms and discussed how they were implementing G20 commitments regarding risk reduction in the banking sector. Both parties also discussed the increasing importance of the development of financial technology (fintech).

The JFSA used the opportunity to brief the European Commission on the transforming flow of funds in Japan, including Fiduciary duty, the Stewardship code and Corporate governance. The European Commission used the opportunity to brief the Japanese delegation on the priorities of the mid-term review of the Capital Markets Union, its proposal regarding securitization as well as its proposal regarding supervision of central counterparties under the European Market Infrastructure Regulation.

Click here for details.

TOPICS OF THE MONTH

FIA Japan Board of Directors Appoints Yasuo Mogi as New Chairman

At the Board of Directors meeting held on October 26, Mr. Yasuo Mogi was newly appointed as Chairman of FIA Japan, replacing in this capacity Mr. Junichi Maruyama who had stepped down the previous month to accept his appointment as Ambassador to Serbia from the Government of Japan.

Mr. Mogi is one of the founding members of Futures Industry Association Japan, "General Incorporated Association" ("Ippan Shadan Hojin") and has been a Board Member since inception of its legacy organization in 1988. He has served as Chairman of various committees over the years, while also acting as a member of the Executive Committee. He had assumed the role of Vice Chairman of FIA Japan since May 2013. Also, he was inducted into the FIA's Futures Hall of Fame in 2011 for his contributions and efforts in bridging the gap between Japan and global markets.

Throughout his professional career of over 40 years, Mr. Yasuo Mogi has served in many leading roles in the Japanese and international financial markets, including management positions of large scale businesses involved in the global derivatives industry. Most recently, he was the Chairman and CEO of Nissan Securities Co., Ltd from 2011 to 2016. Prior to that, he had served as

Vice Chairman of Newedge Japan Inc, Representative Director and Tokyo Branch Manager of Prudential Bache International Futures Ltd., and Managing Director of Gerald Far East Ltd, a member of Gerald Metals, to name a few. Following his retirement from Nissan Securities in May 2017, Mr. Mogi has been consulted for business development in the derivatives industry by domestic and foreign financial institutions as a business consultant based in Tokyo.

Asked about the background of FIA Japan and his vision for the Association, Mr. Mogi made the following comments:

"FIAJ as an FIA Affiliated industry association in Japan, and as the only derivatives industry association with a wide range of membership participations covering the financial, securities and commodity spaces, has been emphasizing the development of the Japanese derivatives markets as a part of the global markets. The Association is now faced with the most important period to further develop the derivatives markets, which are experiencing rapid growth of both domestic and international trade interests resulting from financial risk management and investment opportunities. In conjunction with FIA and its various functions and activities, we will devote every possible effort to accelerate the development of the derivatives industry."

COMMITTEE ACTIVITIES

Commodity Study Group Chairman Yasuo Mogi

The main topic recently discussed within the Commodity Study Group (CSG) was how Tokyo Commodity Exchange (TOCOM), the venue where over 90% of domestic commodity futures transactions are executed, could attract more overseas market participants, including market participants from mainland China.

TOCOM has strengthen its efforts to further build cooperative relationships with Chinese futures industry companies this year. In April, TOCOM jointly organized an event with a Hong Kong based Chinese futures association to offer networking opportunities between Hong Kong based Chinese futures companies and TOCOM's broker members. TOCOM also signed a number of Memorandum of Understandings (MOU) with various Chinese FCMs to establish a cooperative relationship for collaborating on mutually beneficial business opportunities. On the system side, TOCOM announced that Zhengzhou Esunny Information Technology Co., Ltd. (Esunny), one of the largest Chinese financial IT services providers and used by the vast majority of Chinese FCMs, was accepted as a registered ISV of TOCOM. This ISV registration allows Esunny access to technical information to develop applications and services for building connectivity to TOCOM's markets. TOCOM has been taking a long-term view in building cooperative relationships with foreign futures exchanges, including the Chinese futures industry, and successfully invited a high level of trading interests. Today, more than 60% of TOCOM's trading volume is being transacted by foreign trade interests. CSG is also looking into the potential growth of outbound trading interests on Foreign Commodity Markets. CSG will keep supporting the enhancement of the commodity space to attract market participants, not only from China but also from all over the globe, by offering advice as CSG consists of a variety of industry participants from buy-side, sell-side and so on.

Law & Compliance Committe Chairman Koichiro Ohashi

At its meeting held on October 12, the L&C Committee discussed HST regulations from an exchange/broker perspective including the below points:

・**Status of flagging rules at JPX**

➢ For the flagging requirements, JPX will categorize trading strategies, as (i) market making, (ii) arbitrage, (iii) directional or (iv) others.

➢ HST firms will be required to flag their orders (either directly or through their brokers).

➢ JPX will put together a system connectivity manual to be distributed to market participants (ie: brokers, market makers).

・**Mapping Registration** (ie: the exchange will require for brokers to identify the user of each virtual server (for TSE arrowhead) or each TAP/ID (for OSE J-GATE)): this will be covered in the user ID application form.

The Committee also considered other topics for future discussions, including market disruptive behaviors (eg: wash trading), ETFs and Mifid2 impacts. If you wish to join the committee, please contact the FIAJ office.

EXCHANGE NEWS

(JPX) Osaka Exchange: Introduction of Flexible Options

Osaka Exchange – JPX Group (OSE) announced that it would introduce Flexible Options, as a new listed options trading method, for securities options trading and index options trading on September 27. After the global financial crisis, under international agreements, regulators in Japan and other countries have moved forward in adopting rules for OTC derivatives, encouraging the need to trade standardized derivatives on exchanges.

Flexible Options allows flexible setting of exercise dates and strike prices to satisfy said need. OSE will also list the TOPIX Banks Index and the TSE REIT Index, for which only Flexible Contract Months will be traded.
Click here for more details.

(JPX) Osaka Exchange: 10th Anniversary of Stock Index Futures and Options Nighttime Trading

OSE is celebrating the 10th anniversary of the nighttime trading of stock index futures and options. Since nighttime trading of stock index futures and options started on September 18, 2007, the trading hours have been extended to adapt to the growing needs of investors. In July 2016, trading was made available until 5:30 a.m. (JST) at the time of the launch of the new derivatives trading system. With the globalization of the Japanese stock market, many investors are using the nighttime trading hours as a risk hedging tool. As a result, the nighttime market has grown substantially over the past decade, and the trading volume during the night session is currently poised to account for approximately 40 percent of that of the whole day.
Click here for more details.

(JPX) Osaka Exchange: Won the Exchange of the Year - Derivatives Award

On September 21, OSE won the award for “Exchange of the Year - Derivatives” at the FOW (Futures & Options World) and Global Investor magazines’ Asia Capital Markets Awards 2017. This award is presented to the most active derivatives exchange in Asia. The award recognizes not only OSE's successful launch and new functionalities of its trading platform New J-GATE in July 2016, but also the simultaneous adoption of extended trading hours and expanded trading opportunities in the form of new products, such as TSE Mothers Index Futures.

OSE remains committed to its mission of improving market liquidity and price discovery through further introduction of highly convenient systems and services.

Click here for more details.

CME Group and JPX Enter into Agreement to Launch Japanese Yen-Denominated TOPIX Futures Contract on CME

On October 18, CME Group and Japan Exchange Group (JPX) announced the launch of Japanese Yen-denominated Tokyo Stock Price Index (TOPIX) futures contracts to begin trading on CME Globex by Q1 2018, pending all relevant regulatory review periods.

The launch of this TOPIX futures contract follows the license agreement between CME Group and JPX, under which CME Group has a worldwide exclusive license outside of Japan to the TOPIX Index for use as a reference rate in listed Japanese Yen-denominated futures and options on futures.

CME Group and JPX also collaborate on promoting connectivity between their respective co-location facilities located in Aurora, IL and Tokyo. Both companies engage in marketing activities to provide awareness of the telecommunication providers who offer connectivity services to customers of each Exchange's co-location facilities.

Click here for more details.

TFX "Traders Club"

Tokyo Financial Exchange Inc. (TFX) held the annual event "Traders Club" on November 9. This year, about 30 people including market participants and other parties concerned attended, and it ended on a high note. The event was utilized for promoting relationship and networking among the guests. Presentation for new strategies for Three-month Euroyen futures, Packs and Bundles, which were released on November 27, attracted attention from the market participants. Explanation for Packs and Bundles release date (February 2018) was provided to the participants as well as a presentation to give an update on Three-month Euroyen futures market.

TFX Click 365 MEX/JPN Released

TFX launched MXN/JPY (Mexican Peso / Japanese Yen) to Daily Futures contract (Click 365) on October 30. Volume traded on the first day was 5,386 (7% of overall trading or the 4th largest volume among all currency pairs) indicating a strong start. While Mexican Peso's interest rate remains at a high level, as well as the South African Rand and Turkish Lira, the creditworthiness of Mexico is relatively high, and its political scene and economy are regarded as being stable. Trading unit is 100,000 and the tick size is 0.005 (tick value is 500 JPY), as is the case with ZAR/JPY.

TOCOM Welcomed Holly Su Futures as Remote Broker Member

Tokyo Commodity Exchange, Inc. (TOCOM) announced on October 20 that the Exchange granted Remote Broker Membership in the Rubber, Precious Metals and Oil Markets to Holly Su Futures (Hong Kong) Co., Ltd. This is the second Remote Broker Membership granted by TOCOM, following the one granted to HGNH International Futures Co., Ltd. in December 2015.

TOCOM will continue working with Holly Su Futures (Hong Kong), through joint seminars and the like, to encourage participation from Chinese investors into its markets.

Additionally, TOCOM will continue to build collaborative relationships with other Chinese FCMs, focusing on the ongoing development of the Chinese markets, and is planning to hold a networking event in Hong Kong for Japanese and Chinese FCMs, after participating in the China (Shenzhen) International Derivatives Conference in December.

TOCOM Targeting to List TSR Futures in Fiscal Year 2018

TOCOM is planning to list a Technically Specified Rubber (TSR) futures contract in the middle of fiscal year 2018. TSR is a type of natural rubber and joins Ribbed Smoked Sheet (RSS) in TOCOM's listed product lineup. TSR is an important material in the production of automobile tires. TSR production has been rising in recent years, and its share has grown from 40 percent to 80 percent of natural rubber imports in Japan over the past ten years.

TOCOM will list TSR futures contracts to satisfy this increased demand and provide market participants with more flexibility in the Rubber market. While TOCOM's RSS contract will continue to provide benchmark prices to the industry, the Exchange expects to further enhance its presence with the new TSR futures.

TOCOM Supports International Commodity Events

TOCOM has been deepening its interaction with global commodity players by participating in various international events, either as a speaker or exhibitor, on energy and precious metals,.

Regarding the former, TOCOM participated in the APPEC energy event organized by Platts, a price reporting agency, in Singapore in September, and regarding the latter, in the LBMA/LPPM Precious Metals Conference held in Barcelona in October. In both events, informative discussions were held with global industry players over recent trends and common issues facing the industry.

TOCOM aims to maintain its position as a market benchmark by developing close relationships with industry players, by supporting such events where commodity professionals gather, including producers, distributors and wholesalers, and in addition to participating to derivatives-focused events such as FIA Expo or FIA Asia.

HK Regulators Issue New Cybersecurity Guidelines in Response to Increased Cyber Risks

As our society goes digital, cybercrimes are inevitably on the rise. Without any surprise, 34% of respondents to the last DTCC Systemic Risk Barometer survey conducted in Q1 2017 cited cyber risks as the single biggest risk to the global financial system. 71% ranked it within the top five risks list, a 15% increase compared to the prior survey…

Under this systemic threat for the stability and integrity of the financial system, regulators of the financial services industry across the globe are taking a stronger stance, asking financial institutions to define and implement proper cybersecurity measures and policies. Looking at our Asian region, the Hong Kong Securities and Futures Commission (SFC) was the last one (at time of publication) to give further guidance on cybersecurity, focusing on internet trading-related businesses. Indeed, on October 27, the SFC issued the "Guidelines for Reducing and Mitigating Hacking Risks Associated with Internet Trading".

On the same day, the Hong Kong Monetary Authority (HKMA) issued a circular requiring registered institutions to enhance the security of their internet trading services in relation to the requirements mentioned in the SFC's guidelines.

These guidelines set baseline requirements in three distinct categories: the "Protection of clients' internet trading accounts", the "Infrastructure security management" and the "Cybersecurity management and supervision." Along with technical requirements like two-factor authentication or data encryption, a notable point is that the accountability for the design of a proper cybersecurity framework is clearly put on the top of the concerned entities. The guidelines stipulate indeed that, while it can be delegated to a committee or operational unit, the overall accountability for the definition of a cybersecurity risk management framework remains with the responsible officer(s) or executive officer(s) in charge of the overall management and supervision of the internet trading system.

The guidelines also cover another critical point: as it is commonly acknowledged, a cybersecurity policy is only as strong as the weakest link. And it turns out that the weakest link is often an individual, either directly employed by the organization or working at a 3rd party service provider, when not the client himself! Thus, requirements to properly establish relevant Service Level Agreements with 3rd party service providers, regularly review them and adjust them as necessary, have also been included in the SFC document. In addition, the guidelines also require specific Cybersecurity awareness training for the company internal system users as well as a continued client education on cyber risks through Cybersecurity alert and reminder.

While this example is one among others of a regulator putting a stronger focus on cyber risks, we can expect for sure other regulators in the region and across the globe to complement as well their existing cybersecurity requirements in the coming months.

FIA Expo 2017: Innovation, Regulatory Challenges as Key Topics

FIA convened the 33rd Annual Futures and Options Expo in Chicago from October 17 to 19. This year's program delved into new technologies and firms that are driving innovation for the cleared derivatives industry, as well as major regulatory challenges stemming from MiFID II go-live in early 2018. The always-popular Exchange Leaders panel brought together Thomas Book (Eurex), Terry Duffy (CME), Adena Friedman (Nasdaq), Jeff Sprecher (ICE), and Ed Tilly (CBOE) to talk about their strategies for expanding the business. Craig Phillips, a senior adviser to Treasury Secretary Steven Mnuchin, provided an update on Trump Administration's plans to revamp the US financial regulatory framework.

Additional highlights included a fireside chat with two new members of the US Commodities Futures Trading Commission. Rostin Behnam, a Democrat, and Brian Quintenz, a Republican, discussed how regulation can balance innovation and growth with safety and security. In addition, Daniel Gorfine, the newly appointed chief innovation officer for the CFTC and LabCFTC director, shared how the agency is transforming into a 21st-century regulator. He went on to moderate a transatlantic debate about the pros and cons of the leading fintech hubs in Europe and the US, and a discussion about the boom in fintech startups. Conference attendees also had the opportunity to hear legendary journalist and Pulitzer Prize winner Bob Woodward give his take on the Trump presidency so far, based on his decades of reporting on American politics.

Fintech and innovation served as anchor points for the program and key features on the trade show floor. FIA hosted 19 fintech startups in the Innovators Pavilion, whose technologies ranged from indices for political risk and cropland values, to artificial intelligence and augmented reality for market data. Five of these firms participated in the "Meet the Innovators" pitch competition which TellusLabs won, being named the FIA Innovator of the Year and receiving $20,000 in cash and other resources. The judges unanimously chose TellusLabs for their innovative approach to predicting crop yields through a combination of earth imaging data and machine learning. The Expo program also had sessions related to the future of trading, including applications for machine learning and artificial intelligence, the nascent bitcoin trading market as well as emerging quant trading platforms.

Two major announcements from FIA during Expo included the launch of its FIA Training online courses and a new industry initiative called Futures Fundamentals. FIA Training (fia.org/fia-training) currently features four courses covering market conduct fundamentals, rules and regulatory guidance for CME Group Markets, exchange trading and regulatory fundamentals for electronic traders and rules and regulatory guidance for ICE Futures US. FIA has additional courses in development and will continue to grow this new offering. Futures Fundamentals (futures-

New US CFTC commissioner Rostin Behnam comments during the fireside chat with his fellow commissioner Brian Quintenz and FIA president & CEO Walt Lukken.

Investigative journalist and two-time Pulitzer Prize winner Bob Woodward gives the luncheon keynote address.

fundamentals.org) provides information for learners of all levels to understand the role that derivatives markets play in the global economy and our everyday lives. This online resource launched with initial support from the FIA, CME Group, NFA, The Institute for Financial Markets (IFM) and CME Group Foundation.

More highlights from Expo 2017 as well as video and audio recordings are available at expo2017.fia.org.

Fernando Rodriguez-Villa from TellusLabs (center) accepts the 2017 FIA Innovator of the Year Award from FIA president & CEO Walt Lukken (left) and Innovators Pavilion selection committee chairman Matt Haraburda of XR Trading (right).

Special Speech by CFTC Chief of Staff of the Chairman Mike Gill to FIAJ Members

CFTC Chief of Staff of the Chairman, Mr. Mike Gill delivered a speech to FIA Japan Members on November 10 at the TSE Hall, on behalf of CFTC Chairman Giancarlo who had to cancel his visit to Tokyo. Through a Commission order, Mike has been designated as the Chief Regulatory Reform Officer for the CFTC whereby he is leading an agency-wide review of its rules, regulations, and practices to make them simpler, less burdensome, and less costly. He is also responsible for coordinating the hiring, development and evolution of the Commission's fintech initiative, LabCFTC.

CFTC was visiting Asian regulators and industry leaders

to discuss the importance of the reforms now underway globally. During his speech, Mr. Gill discussed current priorities at the CFTC, including some of the following points.

・Global regulations: "Organization without necessarily standardization". Regulations can be harmonized between Japan and the US, while respecting legal differences. The ultimate goal is financial stability and growth.

・Project KISS: "Keep It Simple, Stupid" seeks to simplify existing rules to ensure efficient and effective regulations.

・Swaps Reform 2.0: the reform will introduce more flexibility to support market durability.

・LabCFTC: new technologies are coming out, such as machine-learning, that will impact the way CFTC supervises markets. CFTC is looking at FinTech and RegTech solutions to help their supervisory function.

・Cybersecurity: this is most serious threat to our markets and should be a priority for all regulators.

During the Q&A session, moderated by FIAJ Vice Chairman Michael Ross, the following questions and answers were made:

・Can Fintech help with rules harmonization? CFTC Answer: "LabCFTC could help harmonize data reporting for example."

・Is there a rift between CFTC and EU counterparts? CFTC Answer: "Absolutely not. We have strong relationships with our counterparts in Europe, knowing that there are always some differences between jurisdictions. After the crisis, CFTC quickly came out with regulations, some of them having been extra-territorial, but we can now pick and choose which ones work. The reforms implemented since Dodd-Frank, such as moving to clearing, are working and will not be rolled back."

・SEC never finalized its own set of regulations after the crisis. Is there any coordination between CFTC and SEC to harmonize their regulations? CFTC Answer: "We are addressing the lack of coordination between the two regulators which may have caused confusion to market participants. Both Chairmen meet on a regular basis. Things will improve."

・CFTC met with regulators and exchanges during this trip to Japan. What are your main take-aways? CFTC Answer: ""We have long standing relationships with Japan and we are broadly in line with the reforms that need to be made."

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CME Group

CFTC Chief of Staff of the Chairman, Mr. Mike Gill, delivering his speech.

FIA Japan Vice Chairman, Mr. Michael Ross, moderating the Q&A session.

CME Group Chairman Emeritus Leo Melamed Japanese Award and Reception

On November 3, the Emperor of Japan bestowed on Leo Melamed, CME Group Chairman Emeritus, the Order of the Rising Sun, Gold and Silver Star, for initiating financial futures markets worldwide, for his outstanding contribution to Japan-US relationship, and for promoting recognition of the then Consul General Chiune Sugihara's life-saving deeds during World War II. The award represents one of the highest awards the Government of Japan can confer on an individual who is not a Head of State or Royalty, comparable in the US to the Presidential Medal of Freedom.

Mr. Melamed has contributed greatly to the foundation of Futures Industry Association Japan (FIA Japan) and is globally recognized as the founder of financial futures. In 1972, as Chairman of the Chicago Mercantile Exchange, he launched currency futures with the creation of the International Monetary Market (IMM) – the first futures market for financial instruments, which subsequently paved the way for the further development of the financial futures markets in Japan.

FIA Japan was pleased to co-host a reception with CME Group on November 8 for Mr. Melamed during his visit to Japan in recognition of his leadership and achievements in the development of financial markets and his significant contributions to the futures markets in Japan.

Mr. Melamed commented: "I am both honored and humbled to be bestowed the Order of the Rising Sun, Gold and Silver Star decoration by the Emperor of Japan. My ties to Japan run deep. And it was at my urging that CME Group set up its first Asian office in Tokyo exactly thirty years ago. Since then, we have been working very closely to further the development of Japan's futures markets."

Mr. Mogi, Chairman of FIA Japan, commented: "I wish to express my sincere congratulations to Dr. Leo Melamed on receiving one of the highest awards the Government of Japan can confer on someone who is not a Head of State or Royalty: "The Order of the Rising Sun, Gold and Silver Star."

As far as I know, this is the greatest honor that has been bestowed to a member of our industry, recognizing the Futures & Derivatives Industry in Japan and abroad. We are very proud of you, knowing that you were also instrumental in the formation of FIA Japan back in 1988. Through your leadership, we believe this prestigious award could also become the foundation of further growth for the industry."

Visit the CME Group website for further details.

CME Group

FIA JAPAN

Leo Melamed enters the reception venue, followed by his wife Betty, daughter Idelle, grandson Jared and together with the US Ambassador to Japan, Mr. William Hagerty.

Mr. Melamed with Ms. Sugihara, grand-daughter of Consul General Chiune Sugihara, during his speech on the events that occurred during WWII.

Mr. Melamed with Mrs. Fulscher (left) and Mr. and Mrs. Mogi (right)

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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 70 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.

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