FIA JAPAN Newsletter

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PRESIDENT'S MESSAGE

New World Order?

Donald Trump was elected to become the next President of the United States. On election night, the world was taken by surprise. Markets plummeted around the world and then bounced right back up leading to a bull market. The media seems to be fueling many doom and gloom stories. This may sell papers, magazines and advertisement, but what does this mean to the financial industry.

Talking to experts, the immediate impact will be that US regulators will become more conservative as replacement regulators will be appointed by the new administration. This mean the "factory of manufacturing new regulations" (as described by JFSA Commissioner Mori) will slow down considerably in the US. Enforcement of existing laws that do not actually reduce market risk or hamper market growth will most likely be discouraged. A new rule that would have allowed CFTC to force submission of Algo Trading Firm's source codes to the regulator without the use of subpoenas will most likely not be passed. Instead, a process known as a "special call", an existing surveillance tool agency staff use occasionaly to obtain granular information about the markets they oversee, will be used or the regulator will resort to obtaining a subpoena (read more about the CFTC proposed rule in this newsletter).

Will this mean that there will be a more fragmented approach to regulation around the world? While the US will slow down, Europe will most likely continue to add regulations. JFSA Commissioner Mori warned us that this fragmentation will sow the seeds of the next financial crisis….

Over the last year, FIA Japan has been actively monitoring the new laws and regulations being crafted in Japan around High Frequency Trading. We found JFSA's approach to be refreshing. Rather than crafting regulations specific to Japan, the approach has been to draft regulations that reflect the general intent of US and European regulations and at the same time contribute to the growth of the industry. In the past, Japan was considered to be a very difficult country to operate a financial business. We can see from JFSA's actions that they are striving to rid this perception. JFSA is looking to craft regulation that lowers the cost for global participants and at the same time provide required transparency. This is a prudent approach and all in the industry should encourage the JFSA to continue to travel down this road.

The Trump administration will be inaugurated on January 20, 2017. Let's hope the regulatory factory will start to slow down and that prudent implementation will become the norm globally.

This issue of the FIA Japan newsletter features an interview with Shozo Ohta, the President & CEO of Tokyo Financial Exchange. He served as the President of FIA Japan from 2007 to 2013. TFX's strategy to support the administration's effort to shift from savings to investment can be perceived in this interview. Enjoy!

I hope the holiday season will be festive and a safe one.

Michael Ross
President - CEO, FIA Japan

Shozo Ohta

President & CEO, Tokyo Financial Exchange Inc.

TFX: Aiming to become a Comprehensive Exchange of Financial Derivatives

Covering Three Major Sectors of Financial Derivatives: Interest Rate, Foreign Exchange and Stocks

Shozo Ohta is President & CEO of Tokyo Financial Exchange Inc (TFX), a position he has held since October 2009. Having joined TFX in 2002 as a senior managing director, he has been leading the exchange for various projects such as the demutualization of TFX, internationalization of interest rate futures market and establishment of retail markets (FX and equity index margin contracts). He served as President of FIA Japan from 2007 to 2013 and now supports the Association as an Adviser to the Board. He started his professional career at Ministry of Finance where he held prominent positions such as Councilor of Minister's secretariat and Director–General of the Printing Bureau. He graduated from Tokyo University with a degree in Law in 1969.

Developing attractive products that meet the needs of investors

FIA Japan: You have been heading TFX with strong leadership and have actively worked on launching new markets and products. Can you give us again an outline of TFX and what role it plays in the financial industry?

Following the abolishment of the Financial Futures Trading Law and the enactment of the Financial Instruments and Exchange Law in September 2007, TFX transformed from a “Financial Futures Exchange”, which only handled financial futures for wholesale clients, into a more comprehensive “Financial Exchange” which offers various types of financial products.

If I may briefly touch on the history of TFX product development, in July 2005, we launched the world’s first listed FX margin contracts market "Click 365" in order to introduce a fair and transparent retail FX market in Japan and in November 2010, we introduced Exchange Equity Index Margin Contracts (Click Kabu 365) that trades major global stock indices such as Nikkei 225. We have been expanding the product line of these markets since then, adding a Turkish Lira / Japanese Yen currency pair to Click 365, launching a large product of Click 365 (Click 365 LARGE) as well as Dow Jones Industrial Average (“DJIA”) margin contracts to Click Kabu 365.

As an advanced and comprehensive exchange for financial derivatives which covers three major sectors of financial derivatives, “Interest Rate”, “Foreign Exchange” and “Stocks”, we seek to develop attractive products that meet the needs of investors and aim to contribute to the development of financial market in Japan.

FIA Japan: Can you tell us about recent developments in the TFX interest rate market? The Bank of Japan introduced negative interest rates early this year. Is there any notable change or effect on the TFX market?

Interest rate derivatives are leading products in the global derivatives market. TFX's Three-month Euroyen futures are also recognized both by domestic and foreign investors as an essential part of the infrastructure for short-term Yen markets.

It is often said that short term interest rate futures are like a “mirror” that reflect investors' expectations on monetary policies of central banks. Therefore, in the overseas markets, short term interest futures are actively traded on the back of various speculations and considerations. However, in Japan, short term interest rates have had little movement for more than 7 years under the ultra-low interest rate environment created by the BoJ's quantitative and qualitative monetary easing policy. As a result, our Euroyen futures market has been stagnating for quite some time.

When the BoJ announced the introduction of the negative interest rate policy in January this year, the price of the leading contract month for Three-month Euroyen futures exceeded 100.00 for the first time since its launch and the yield curve steepened slightly because of the abolishment of the 0% floor.

Moreover, after the introduction of the new policy framework “Quantitative and Qualitative Monetary Easing with Yield Curve Control” in September, we observed a shift in trading activities from the front contract months to the back contract months as the market expects the money-easing would continue for the foreseeable future. Also, prices of the contract months beyond mid-2017 indicate the market's prediction on the possibility of deepening interest rates.

Facilitating participation of overseas investors in Euoyen futures

FIA Japan: Euroyen futures market may be in a prolonged slump, but short term Yen interest rate markets have been attracting international attention lately. Is there any measures planned to revitalize the Euroyen futures market?

The market share of foreign-based financial institutions in Three-month Euroyen futures is quite high, maintaining 70-80% of the total trading volume for the last several years. Though trades from Asia, mainly from Singapore, have been rising, most of the international flow comes from either proprietary accounts of foreign banks or prop houses trading as clients of our members. In recent years, the latter's presence has become stronger as financial institutions have been leaning towards a risk-averse position with the advancement of tougher derivatives regulations.

In order to further facilitate participation of overseas investors, we are ready to offer a fee discount program for trades (including strategy trades) on back contract months and a special incentive program for new market participants who have little or no experience of trading on our market.

Having said that, as the Euroyen futures market is part of the infrastructure for the Japanese financial market, we would also like to see more participation from Japanese financial institutions such as megabanks.

FIA Japan: In the foreign exchange market, the presence of Japanese retail FX investors, the so called “Mrs. Watanabe”, is becoming increasingly larger, covering nearly 30% of trades of the whole Tokyo foreign exchange market. It has been more than 10 years since TFX launched the exchange FX margin market “Click 365”. Looking back on its development path, what are your thoughts?

When we launched Click 365 in 2005, FX trading had been rapidly gaining in popularity in Japan but at the same time various troubles between some retail FX brokers and investors had also increased. Responding to a suggestion from the Financial System Council, we launched Click 365 to help restore the soundness of the retail FX market and help with its further development. We have been working to promote Click 365 ever since.

In 2013, we introduced zero commission trading for Click 365 as was the case with OTC FX trading. With this measure, deposited margins that were once down, increased significantly, surpassing 500 billion yen at one point this year. Click 365 has now grown into a market with more than 760,000 accounts, being traded by a large number of retail investors every day.

FIA Japan: Some overseas OTC FX brokers were forced to close their businesses after the Swiss Franc's dramatic surge in January 2015. If a trading/clearing member of Click 365 defaulted, do you think it would trigger a domino effect, leading to the default of other members?

In the aftermath of the Lehman's collapse, CPMI-IOSCO drew up the "Principles for Financial Market Infrastructures" and later the Financial Service Agency of Japan released "Comprehensive Guidelines for Supervision of Financial Market Infrastructures". In compliance with these guidelines, TFX maintains sufficient financial resources to cover stress scenarios such as defaults of clearing members under extreme but plausible market conditions. Also, the investors' margin deposits are protected 100%.

FIA Japan: Last year, TFX launched Click 365 LARGE. What is your objective with this launch?

In November 2015, we launched Click 365 LARGE, which has a contract size 10 times larger than Click 365 (100,000 currency unit) and finer spread sizes, with 5 currency pairs (USD/JPY, EUR/JPY, GBP/JPY, AUD/JPY EUR/USD) to accommodate the needs of active and spread-conscious traders such as institutional/overseas investors. We hope to attract these investors into our market where currently retail and domestic investors dominate and to elevate it to a global market where a variety of investors participate. There has already been some participation from proprietary trading teams of securities firms.

FIA Japan: DJIA margin contracts were added to Click Kabu 365 in June.

Click Kabu 365, which we launched in 2010, is a derivatives product which has the same settlement method as Click 365 (cash settlement, CFD or Contract For Difference) and which trades equity indices such as Nikkei 225 instead of currency pairs like USD/JPY. Other than Nikkei 225, we offer overseas equity indices, namely DAX of Germany and FTSE 100 of Britain. In June this year, we added the long-awaited DJIA to the market. These overseas equity indices are tradable in Yen. We believe that the investors' convenience has much improved as users can now trade major equity indices from the US, Europe and Japan with the same account, making it possible to diversify their investments without currency risk.

Click Kabu 365 is a unique and innovative product which has the characteristics of both equity index futures and equity index ETFs and has been well received by a wide range of market participants since its debut.

Click Kabu 365: a unique and innovative product

While "Futures" contracts have expiries and cannot receive dividends (which are already included in prices), Click Kabu 365 has no expiration and buyers are able to receive dividend cash flow like cash equity. Also, "ETF" is, in general, not a leveraged product. There are some leveraged equity ETFs, however, their leverage ratios are low (around two times) and trading hours are limited. Click Kabu 365 allows investors to usually apply 20 – 30 times leverage and is available for trading almost 24-hours a day including on national holidays. This means that Click Kabu 365 can serve a wide variety of investment needs from short-term leverage trades making profits from changes in the markets to mid-long term investments by earning dividends.

FIA Japan: In October, FIA Japan has signed an affiliation agreement with FIA. You were the President of FIA Japan in the past, and you now play a key role as an Advisor to Board. What do you expect from our Association going forward?

While FIA Japan, as an independent General Incorporated Association, has always had a cooperative relationship with FIA, I believe this affiliation further facilitates the sharing of human and physical resources between the two organizations. Under the stronger relationship, I expect FIA Japan will contribute to the development of the Japanese financial and commodity markets.

FIA Japan: Finally, what is your vision for the Exchange in the future?

The Japanese government places economic growth as its top priority and has implemented various measures. When it comes to finance, for example, it has been promoting a shift from savings to investments. As a publicly authorized exchange, TFX supports this strategy from the financial services and we will continue our efforts to provide financial products that meet the needs of clients and to establish efficient financial systems.

FIA Japan: Thank you very much.

FIA Special Report: CFTC Proposes Changes to Proposed Automated Trading Rules

The CFTC voted to release for public comment a supplement to its proposed automated trading rules that were issued nearly a year ago. The proposed supplement revises the treatment of proprietary source code, modifies the structure of risk control requirements and establishes a volume-based threshold for determining which firms will be subject to new registration requirements.

The supplemental was approved by a vote of 2 to 1. Republican Commissioner Christopher Giancarlo voted against releasing the proposal mainly because of his concerns about a provision that would allow the CFTC to obtain proprietary source code without a subpoena. Giancarlo said this would undermine the protections around intellectual property, would expose confidential information, and could be challenged in court.

CFTC Chairman Tim Massad emphasized the supplement is part of a broader effort to bring the CFTC's regulations up to date with modern markets, and specifically to update its methods for market surveillance, in line with feedback from market participants. "We should not have a regulatory regime where those who still trade at human speed are subject to effective surveillance, but those who use machines are not," he said. "Our rules should not favor one method over another, and nobody should be able to hide behind their machines.

FIA issued a statement in response to the CFTC's decision, citing concerns with the source code requirement and questioning the special call process that the CFTC has proposed as an alternative.

Click here for further details.

FIA and FIA Japan Sign Formal Affiliation Agreement

Walt Lukken, president and CEO of FIA, and Yasuo Mogi, Vice Chairman of FIA Japan (FIAJ) signed a formal agreement affiliating the two organizations at the 32nd Annual Futures and Options Expo in Chicago.

FIA and FIAJ have had a relationship since FIAJ was formed in 1988 as the Japan chapter of FIA (a volunteer-based association) with participation of professionals from both the Japanese and foreign futures industry. The Chapter was reorganized as an independent General Incorporated Association in 2010 to help it succeed with its mission. The affiliation creates a more formal relationship between the two organizations in order to better coordinate policies and promote the cleared derivatives industry. “We have a long history of working with FIA Japan toward our shared goals. This affiliation allows us to expand and improve our partnership,” Lukken said. “Our affiliation allows FIA members to have greater access to information and analysis on critical policy issues. By sharing our resources, we can strengthen our advocacy strategies. We’re looking forward to leveraging FIA Japan’s specialized knowledge and relationships in combination with our broader regional efforts in Asia and our global work to promote the strength of the cleared derivatives industry. “

Mogi commented, “This affiliation will be the foundation of an even stronger relationship and we look forward to working with FIA for the betterment of the Japanese derivatives market, as well as for the development of global markets. FIA Japan members now have greater access to FIA resources and publications. We’re already seeing the benefits of affiliation and shared resources, particularly on the work being done by our Technology Committee and Market Development Committee. I look forward to seeing this partnership continue to grow.”

From left to right: FIA President and CEO Walter Lukken, FIA Chairman Michael Dawley, FIAJ Vice Chairman Yasuo Mogi, FIAJ Secretary Koichiro Ohashi and FIAJ Chairman Emeritus Mitch Fulscher

JSCC Enhanced Loss Compensation Framework for Listed Derivatives

JPX

With respect to listed derivatives trading, Japan Securities Clearing Corporation (JSCC) revised its margin system on July 19, 2016, and also changed the update frequency of the Clearing Fund requirement from monthly to weekly on August 10, 2016.

Specifically, a more secured scheme in which margin add-on is charged to a Clearing Participant with excessively large risks (biased positions) was established and the add-on charge is calculated based on the risk amount, in order to cover losses emerging upon a default of such Clearing Participant. In addition, with the revision of the update frequency of the Clearing Fund requirement, the Clearing Fund (i.e. loss compensation resource) at the time of the emergence of risk due to market fluctuations, etc. can be adjusted promptly.

Through these initiatives, JSCC aims to improve the sufficiency of the financial resources, as well as the robustness and safety of the loss compensation framework.

JSCC Authorized by Hong Kong SFC as ATS-CCP and Designated CCP subject to Interest Rate Swap Clearing Service

JPX

With regard to IRS Clearing Services, in August 2016, JSCC was authorized by the Securities and Futures Commission (SFC), pursuant to the Securities and Futures Ordinance of Hong Kong, as an ATS-CCP, which is the qualification required for JSCC to provide OTC derivatives clearing services to Hong Kong corporations, and as a designated CCP, which makes JSCC available for trading parties to fulfill their mandatory central clearing requirements.

As a result of the ATS-CCP and designated CCP authorizations granted to JSCC, Hong Kong financial institutions have been able to fulfill their clearing mandate for OTC derivatives trades in Hong Kong by clearing through JSCC.

Since the financial crisis in 2008, each country has been taking necessary steps to further develop central clearing of OTC derivatives. In order to provide clearing services to overseas financial institutions, JSCC has obtained necessary recognitions, etc. as a CCP from overseas regulatory authorities including in the US, EU and Australia.

Now Providing New J-GATE, Clearing System, etc. to TOCOM

JPX

Osaka Exchange–JPX Group (OSE) began providing multiple JPX systems to TOCOM, such as the derivatives trading system launched in July 2016, or New J-GATE, on September 20, 2016. Now that Tokyo Commodity Exchange (TOCOM) and JPX are sharing important systems, including the trading system, JPX is planning to implement activities that lead to promoting and developing their markets, via co-marketing, joint promotions and other engagements with TOCOM.

To Host Annual Click Festival 2016 Event

TFX

Tokyo Financial Exchange Inc. (TFX) is hosting an annual special event called “Click Festival 2016 – Stock & FX: Investment Strategy Forum” on November 23. 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. This year, in collaboration with Nikkei Money, Nikkei CNBC and Stock Voice TV, the contents of the event will be delivered to investors who cannot physically attend the event. Motoshige Itoh, Professor, Graduate School of Economics, University of Tokyo is scheduled to give the keynote speech with regards to the effects of the US presidential election on Japan and the global economy.

Starts Providing Market Data of Click 365 via Bloomberg ······ TFX

From October 27, TFX has started providing market data of its Exchange FX margin contracts ("Click 365") to Bloomberg LP. TFX expects that the dissemination of Click 365 market data via Bloomberg, who has a broad global client base covering financial institutions and professional investors both at home and abroad, will help increase exposure and recognition of the market.

SBI Securities Acquires Trading & Clearing Membership for Click Kabu 365 ······ TFX

On October 27, TFX announced that SBI SECURITIES Co., Ltd. has applied for trading and clearing membership of Exchange equity index margin contracts (Click Kabu 365) and its application has been approved on November 1.

To Launch Platinum Rolling Spot in March 2017 ······ TOCOM

TOCOM will launch a Platinum Rolling Spot futures contract on March 21, 2017. As with the Gold Rolling Spot, Platinum Rolling Spot will trade without an expiry date. Gold Rolling Spot started trading in May 2015 and is now a leading TOCOM contract. The Exchange will promote the new product specifically to market participants who trade financial and foreign exchange products including retail investors.

Platinum is drawing attention as a good outlet for long term investments, as prices have remained relatively low while supply is expected to shrink in the future.

To Add New Cash-Settled Futures Contracts to Oil Portfolio in May 2017 ······ TOCOM

TOCOM plans to launch new cash-settled futures contracts for Gasoline, Kerosene and Gas Oil on May 8, 2017 to meet industry needs. The existing oil product contracts for physically delivered futures transactions will remain unchanged.

TOCOM aims at providing new benchmark prices that more closely match trading practices, such as delivery period and pricing on monthly average prices, of the local physical oil market. The new cash-settled futures are designed to help hedge price fluctuation risk for commercial players and to attract other market participants, such as institutional and retail investors. The Exchange plans to implement promotional activities to speculative investors.

TOCOM also expects that arbitrage between existing oil markets and newly developing markets will become active and translate into enhanced liquidity for the Oil market as a whole.

Membership Committee Chairman Shin Shinozuka

FIA Japan welcomed the following company as a new member: IMC Pacific Pty Ltd is part of IMC Financial Markets, a Netherlands based global proprietary trading firm. Established in Amsterdam in 1989, IMC now also has offices in Chicago, Sydney, and Hong Kong. IMC specializes in making markets for a range of financial products, including derivatives, equities and ETFs, on exchanges worldwide. Collectively, IMC trades in markets across Europe, the United States and the Asia Pacific region, including Japan, Singapore, Australia, Hong Kong and Korea.

Commodity Study Group Chairman Mac Sugitani

At its September meeting, CSG members have elected Mac Sugitani to take over Mitsuhiro Onosato's role as Group Leader, a role he had already held until a couple years ago. Mac recently returned to Japan and has been a valuable participant to FIA Japan activities throughout the years. Members thanked Mr. Onosato, who will continue as a member of CSG, for his leadership and contributions. In October, the Group also welcomed two new members: Ramir Cimafranca of Societe Generale and Akira Tagaya of JPX.

In the past couple of months, CSG has been discussing fee issues related to certain commodity futures industry organizations. There has been some complains received, particularly from offshore market participants, from time to time on transparency and fairness of the fees. As overseas market participants in the Japanese commodity futures markets continues to increase over the past several years, they have become indispensable to these markets. In order to achieve the goal of establishing a primary comprehensive commodity market with global standards in the Asian region, CSG believes this issue needs to be solved in a timely manner.

Following FIA Japan Board's authorization to proceed, CSG intends to draft by year end a letter to the organization and to the regulators (METI and MAFF) to suggest a review of the current system.

Proprietary Trading Study Group Chairman Michael Ross

Having gathered feedback from the European-based EPTA and US-based PTG on regulations planned to be rolled out in their jurisdictions, FIA Japan PTSG finalized its response to the request for public comments regarding the FSA's Working Group on Financial Markets (the response is available for download on the FSA website), focusing on the points raised around HFT.
After having submitted its response, FIA Japan was invited to participate to a meeting of the Financial System Council on October 19. FIA Japan CEO – President Michael Ross and FIA Japan Vice-President Richard Clairmont, who both have a leading role within PTSG, made a presentation to the Council expressing support for prudent regulations and going over some of the points raised in the response provided by PTSG, including on risk controls and transparency.

Supported by:

Cloud Computing Services: Usage by the Financial Services Industry Business Models and Regulatory Approach

FIA Japan Technology Committee and Legal & Compliance Committee along with the Asia Cloud Computing Association (ACCA) co-hosted a discussion in Tokyo on November 1. The evening's discussion was in three parts: first, key regulatory updates from the US and from Asia Pacific, followed by a focus on Japan's regulatory landscape most pertinent to Japan's financial services industry (FSI), and finally, an open discussion on the business risks to FSIs moving to cloud, and the regulatory approaches which have been taken to manage both the risks as well as technology compliance requirements.

Part I: Cloud Computing Use and FSI Regulations Around The World

The programme started with a review of Japan FSI cloud technology usage by Atsushi Miyawaki from KPMG Consulting. A key observation he made was that the use of cloud computing for mission-critical systems was almost non-existent for public cloud, and relatively low for private cloud deployments. The usage of cloud increases as the perceived "risk" to the FSI's mission decreases.

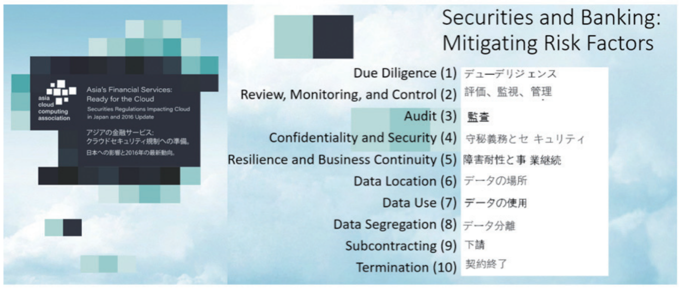
This was followed by a review of Asia Pacific' FSI regulations, and how "cloud friendly" they are, and was led by Lim May-Ann from the Asia Cloud Computing Association. She shared that over the last year, there have been several notable updates, changes, and consultations in Asia Pacific which show that regulators are making some effort to accommodate technology changes and the introduction of cloud computing. For example, South Korea's banking and securities regulators updating the technology use guidelines specifically for cloud computing usage; also the changes in outsourcing policies from the financial regulators in Australia, Singapore, and Hong Kong, with the Reserve Bank of New Zealand currently holding public consultations on this as well.

Koichi Ohashi from venue-host Greenberg Traurig LLP, and Chairman of the FIA Japan Legail & Compliance Committee, then introduced Lori Nugent and Jonathan Beckham, who in a pre-recorded video message, presented the US regulator's concerns around cyber risks to the financial system when FSIs move to new technologies such as cloud, and how FSIs could put in strong risk management systems to reduce this business risk to the organisations.

Part II: FSI and Cloud Computing Use in Japan

The discussion then turned to a focus on cloud-specific regulations in Japan's securities and trading sector, where Lim May-Ann from the ACCA shared the findings from a new report released by the ACCA with the support of Equinix Asia Pacific, "Asia's Financial Services: Ready for the Cloud - Securities Regulations Impacting Cloud in Japan, and 2016 Update" (This report may be downloaded for free on the ACCA's website).

The report reviewed all the key regulations impacting securities and trading companies, such as The Act on the Protection of Information, The Banking Act, The Insurance Business Act, the Financial Instruments and Exchange Act, the various Manuals for FSI institutions, and the Centre for Financial Industry Information Systems (FISC) Security Guidelines on Computer Systems. Ms Lim covered which regulations needed to be adhered to when considering cloud computing use, by overlaying Japan's regulations with ten key principles for cloud computing use in the financial services sector (see Figure 3 below).



An important update on the upcoming scheduled update to Japan's Data Privacy Act was then covered by Koichiro Ohashi from Greenberg Traurig. Mr Ohashi focused on major amendments which would be made, especially the changes which would impact cross-border data flows. These updates were met very positively by audience members, many of whom were from multinational companies who may need to share information between local and foreign branches of their companies.

Part III: Panel Discussion on Cloud Risks and Rewards in the FSI Sector

The evening's discussion was rounded up by a panel discussion on how to balance the risk with regards to FSIs moving to cloud computing. Moderated by Lim May-Ann of the ACCA, the panel featured Pieter Franken, Executive Director of the Monex Group; John Knuff, Senior Vice President and Global Head of Payments from Equinix; and Masakazu Narita, Senior Customer Compliance Director with Microsoft Japan.

Four main topics were discussed:

1. FSI issues and concerns when implementing cloud computing. Here panellists agreed that FSIs should not move to cloud computing for the sake of it, but rather seek to fulfil a business purpose when moving to cloud – e.g. better efficiency or to improve business continuity. This will better justify the cost and issues of moving to cloud when the inevitable unexpected issues arise when migrating to cloud.
2. Global harmonization of laws and regulations? Despite work done at the OECD and APEC levels, true harmonization of laws and regulations around technology use and privacy laws looks unlikely, especially since FSI regulations are still jurisdictionally-based. Panellists advised the audience not to wait for harmonization to happen, and to deploy public cloud where possible. With new technologies like containerization and better disaster resilience services offered by cloud computing, there is a strong argument to be made for moving to cloud.
3. Recent regulatory engagement. All panellists have been engaged with regulators in the scope of their jobs, be it in or out of Japan. They all agreed that with new technology, there is a greater need for regulators and industry to share information, especially in new sectors which need to be nurtured with conducive "balanced risk-taking" regulation, such as the fintech sector. All panellists also agreed that they have seen small actions where the financial regulators have started to reach out for specific industry advice such as that around cybersecurity for FSI.
4. Balancing cybersecurity with regulator's role in risk management. Panellists observed that there have been some prescriptive regulations which have emerged recently around cybersecurity, such as the CFTC's cybersecurity rules, which prescribe that the organisations under their supervision must conduct five sets of cybersecurity testing: (1) vulnerability testing, (2) penetration testing, (3) controls testing, (4) security incident response plan testing, and (5) enterprise technology risk assessments. They felt that while there was a need to ensure resilient and available systems, international standards for cybersecurity such as those released by the ISO could be leveraged to ensure international compliance.

Panellists also observed that there were some FSIs who needed to take better steps in ensuring that the role of the Chief Information Security Officer (CISO) was credibly staffed. There was a need to ensure that the CISO be responsible for ALL information security in the FSI, and not just technological security.

The panel concluded with panellists advising the audience to "get off the sinking ship of old technology", and to embrace cloud computing as it is the "ultimate incubator of innovation." The audience was advised to avoid being left behind, and to adopt cloud computing to "help your company and country be more agile."

The evening ended with a round of networking drinks, where audience members and all speakers had the opportunity to meet and chat informally.

Tech Corner

Rakuten FINTECH CONFERENCE 2016 Report

In September, Rakuten Inc. and Rakuten Financial Group (Rakuten Card, Rakuten Securities, Rakuten Bank, Rakuten Life Insurance, Rakuten Edy, Rakuten Insurance Planning, Rakuten Investment Trust) held the "Rakuten FINTECH CONFERENCE 2016".

Approximately 2,000 people attended the event that was kicked off with a business review given on Rakuten's financial businesses and the Rakuten FinTech Fund, which was then followed by a look back at the "Rakuten Financial Conference 2015" (held in February 2015). After that, the main conference theme on "FinTech Innovation" took center-stage and many interesting sessions, including lectures, panel discussions and a summary of the conference, were given by various FinTech industry experts and innovators.

In a keynote speech, Columbia University professor Takatoshi Ito talked about the Japanese economy and how new growth opportunities can be found by actively promoting deregulation and what kind of role FinTech will play. Next, Ling Tang (Tencent Assistant GM, Strategy Development) and Jorn Lambert (Mastercard Executive Vice-President) took the stage and explained how FinTech is being used and how it is affecting their respective industries.

In the panel discussions, keeping with the theme of the conference, much talk was given over robo advisers (asset management), data lending (related to finance), block chain, bit coin, remittance and financial regulation.

In the final summary session, Waichi Sekiguchi of Nikkei, Inc. acted as moderator and the CEO of Rakuten Inc., Hiroshi Mikitani and Joichi Ito of MIT Media Lab talked about and exchanged views on "FinTech, changing Japan and the world". They closed the session by discussing what kind of influence FinTech is having now and will have in the future on lifestyle, society, finance and business as a whole.

The conference was very well received by the attendees and was followed by a dinner buffet.

Future Events

FIA Japan New Year Party

17 January, Tokyo

1/17

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 mark your calendar and check for further details in the email invitations to be sent by the Executive Secretary.

Gold Sponsors:

JPX OSAKA EXCHANGE

TFX TOKYO FINANCIAL EXCHANGE

Nasdaq

TOCOM Tokyo Commodity Exchange

12th Annual Asia Derivatives Conference

6 - 8 December, Singapore

12/6

The FIA Asia event focuses on the derivatives industry in the Asia-Pacific region, featuring information exchange sessions as well as panel discussions with industry leaders from around the region. Over 700 senior-level executives, managers and regulators attend. The three day conference provides ample opportunities for interaction with distinguished speakers and networking with fellow participants.

Further details are available here.

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FIA JAPAN

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 Board of Directors

* Executive Committee Members

Officers / Board Members

Chairman and Representative Director

* **Junichi Maruyama**
Citigroup Japan Holdings G.K.
Executive Officer, Head of Government Affairs

Vice Chairman and Representative Director

* **Yasuo Mogi**
Nissan Securities Co., Ltd.
Vice Chairman of the Board

President - CEO and Representative Director

* **Michael Ross**
Omgeo K.K.
Representative Director

Vice President

* **Peter L. Jaeger**
Citigroup Global Markets Singapore Pte. Ltd.
Managing DIrector, Regional Head Asia Pacific
Futures, Clearing & Collateral

Vice President

* **Richard Clairmont**
ABN AMRO Clearing Tokyo Co., Ltd.
Chief Executive Officer

Secretary and Representative Director

* **Koichiro Ohashi**
Greenberg Traurig Tokyo Law Offices.
Attorney at Law, Partner

Treasurer

David Wilkinson
Equinix Japan K.K.
Asia Pacific Lead, Financial Services

Other Board Members

* **Bruno Abrioux**
FIS Japan K.K.
Senior Vice President, Head of Sales Japan/Korea

Ramir Cimafranca
Societe Generale Securities Japan Limited.
Managing Director, Head of Prime Services

Takato Hirai
Colt Technology Services Co., Ltd.
Vice President/Head, Capital Markets Sales Asia Pacific

Wataru Ito
Tokyo Financial Exchange Inc.
Senior Managing Director

Izumi Kazuhara
CME Group.
Executive Director Head of Japan

Yuji Kusunoki
Rakuten Securities, Inc.
President

Walter L. Lukken
Futures Industry Association
President and CEO

Mitsuhiro Onosato
Tokyo Commodity Exchange Inc.
Executive Officer

Shin Shinozuka
Individual Member

Mikio Sugihara
Nasdaq, Tokyo Office
General Manager

Akira Tagaya
Osaka Exchange, Inc. - JPX Group
Director, Market Planning & Business Development, Derivatives

Toru Tsukahara
Daiwa Securities Co. Ltd.
Executive Director, Global Markets Planning Dept.

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Advisors to the Board

Shozo Ohta
Tokyo Financial Exchange Inc.
President & CEO

Bob Takai
Sumitomo Corporation, Executive Officer
Sumitomo Corporation Global Research Co. Ltd.
President & CEO

Advisor to Executive Committee

Mitch R. Fulscher
FIA Japan Chairman Emeritus, and Business Consultant

Auditor

Nagayoshi Miyata