FIA Japan Newsletter

January 2014

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Corporate Officer, Sumitomo Corporation
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C O N T E N T S

JANUARY 2014

CHAIRMAN'S MESSAGE

Vitalizing Japan's Financial Market

Mitch Fulscher, Chairman, FIA Japan

As a part of Abenomics and the third arrow of structural reform, in October the Government requested FSA and MOF to set up a panel to make a plan to vitalize the financial markets as a key part of the Government reform movement. On December 13, they issued their report stating the importance of developing Tokyo into the regional financial center for Asia. But its conclusion is that for the Tokyo market to develop into a global financial center surpassing other competing markets such as Singapore, Hong Kong and Shanghai, "Japan's operations cost, living environment, regulations and the tax system needs to be improved to make Tokyo competitive".

The report recognizes the importance of the Asian markets and how Japan needs to be well positioned to cooperate, help and participate in the growth of those markets, but at the same time, it must further internationalize and expand its Tokyo market. There is an important need for expansion of the stock and bond markets and making it easier to encourage new listings from overseas. Also the derivatives markets including commodities must be further developed. In each area the report specifies that regulations and rulings must be eased. In a separate important area they focus on the need to mobilize the Japanese household financial assets (US $ 16 trillion) and the very large Government pension funds. There should be a re-allocation of some of these funds for growing businesses and earning higher yields.

Abe's strong action and leadership this past year has had significant positive results. His first and second arrows pretty much hit their targets in terms of improving many aspects of the economic picture in Japan as well as improving the public mood in Japan. The most recent "Tankan" survey of Japanese business confidence reached a six year high showing growing optimism. Also, the government and business leaders and the labor unions recently agreed to work together on raising salaries which is an important part of the government's initiative. Abe's approval rating remains high. Nevertheless, a growing concern about the third arrow of economic reform – deregulation and structural change- are much harder to accomplish and take much more time. Continuous follow-up and perseverance is essential for the success of this third arrow.

We are pleased to see the Government report on vitalizing the financial market. Indeed, FIA Japan has cited many of the same points in our recommendations and whitepapers in past years. What is important about this report is its timing and consistency with the Prime Minister's overall Abenomics policy. Continued strong action by the government and regulators can make it happen. As the philosopher Goethe said – "Boldness has genius, power and magic in it. Begin it now…"

"Bob Takai Shares Insight on Japanese Commodity Markets"

Bob Takai
Corporate Officer, Sumitomo Corporation
President & CEO, Sumitomo Shoji Research Institute, Inc.

Bob Takai graduated from Kobe University and joined Sumitomo Corporation in 1980. He spent 17 years in Non-Ferrous Metals industry including 7 years of overseas assignment in London as manager trading precious and base metals. The rest of his 16 years of carrier in Sumitomo was spent in Finance and Energy industry, where he led each Division as General Manager responsible for Sumitomo's global business activities. He moved to his current position as the head of research in June 2013, responsible for economic research of markets/industries and international/domestic politics. He is a regular writer for Nikkei Newspaper. He also holds advisory positions for futures exchanges and commodity markets, and is also an Advisor to FIA Japan.

FIAJ: As a top executive of Sumitomo Corporation, you have had a long history and experience in the global commodities industry. Having also served on the Board of Directors of Tocom, please tell us about your view of the role that the Japanese commodity markets should play.

I have been involved in the commodity business for the last 34 years, witnessing various crises and booms over the years. I have also been involved in running commodity futures market by having served on the Tocom Board since the late 1990s until a few years ago when I changed my responsibility within Sumitomo.

I always have believed that Japan is a country that should play a much bigger role in the commodity trading space in Asia, not just as a large consumer but also as a market place where buyers and sellers meet in both futures and physicals trades.

"Japan is a country that should play a much bigger role in the commodity trading space"

Asia has a bigger potential of growth than Japan in terms of commodity trades for the coming decade. China, being the largest consumer of industrial commodities already, will grow further in the commodity area as the nation's GDP grows to western standards. The potential of Asia also lies in the ASEAN nations. Being the producer of certain resource commodities like base metals, oil and gas, ASEAN nations will become big consumers of commodities as their economies grow into the upper range of the "middle income" group of countries.

Having said that, I have to say most regrettably that Asia does not have an active commodity exchange of its own. Most of the trades are priced outside of the region where active exchanges are located such as New York, Chicago and London.

I think that countries like Japan, China and Singapore should play a much bigger role as pricing centers for commodities. We should have our own Asian benchmarks for commodities such as metals and energies, of which we Asians are the largest consumers in the world.

I think competitive environment among several centers would benefit the Asian players the most, thus benefiting the Japanese economy. We should also cultivate the potential for financial investors of Japan origin to enter the commodity asset class. For that to happen, the financial and commodity exchanges in Japan must consolidate.

FIAJ: Then what sort of reform is needed in Japan in order to compete with other potential candidates to become the Asian financial/commodity trading center?

Harmonization of regulatory regime is the thing we need the most in this country.

The silo structure of regulation must be reformed. FSA, METI and other related ministries should work together to enable Japan to compete with other Asian cities. Rivalries must be played not within the same country but with outside competitors.

How about creating an international multi-asset class exchange in a Tokyo Free Economic Zone? A tax free exchange where residents or non-residents can equally trade futures products on a cash-settled basis in US Dollars or in Japanese Yen. Commodities, currencies and equity derivatives should all be listed and open to the Japanese public as well as Gaijin players from abroad.

It may sound very unreal, but if we don't do it I am sure that Shanghai will.

"Harmonization of regulatory regime is the thing we need the most in this country."

FIAJ: METI is currently working to pave the way to launch an LNG futures contract on Tocom. METI views this as an important strategic action for Japan. Can this work?

Very Difficult! Why? Because LNG is not a commodity yet. Natural Gas in the US is the commodity where people trade gas very actively that is delivered in Henry Hub through pipelines across the nation.

Liquefied Natural Gas is the full name for LNG. Natural Gas and LNG are two very different things, where the former is an actual commodity and the latter is the processed product of natural gas. In order for LNG to be "commoditized", we need to go through the following steps:

1) An active spot market must grow further globally among LNG players.
2) Oil indexation must be changed to create a new international LNG benchmark.
3) An Asian LNG hub must be established

Currently the spot or short-term contract of LNG is only about 25% of all LNG trades in the world. In other words 3 out of 4 cargos are tied up by long-term supply contracts with major utilities across the globe. This is very different from commodities like oil, metals and grains where spot contracts are very common. The reason being that in the LNG business huge investments are needed to supply LNG on a long / stable term of 20 to 30 years. Therefore projects must be backed by long term sale and purchase commitments from both the sellers and the buyers. LNG is the most inflexible commodity/product in the resource trading world.

But I think this will change. The Shale Revolution will change this in 4 to 5 years time. As we all know well, the Shale Revolution is changing the landscape of natural gas over the last several years. The US is now the top gas producer in the world and will ship some of its gas in the form of LNG from around 2017. The US LNG is destination-free and will be priced based on Henry Hub NG price. About 60 million tons of LNG is estimated to be supplied from the US projects starting from 2017. This is about a quarter of the LNG cargos currently traded across the globe.

US-produced LNG will be a game changer in terms of its flexibility and availability. The spot trading of LNG will grow much further in 4 to 5 years time, when some form of LNG derivatives may arise among financial players. So we need to be patient for a while.

FIAJ: In your new role as the head of Sumitomo Shoji Research Institute, what type of activities and projects do you anticipate related to the financial Japan markets.

"LNG will be a game changer [and] spot trading will grow much further"

I have spent 17 years in the metals industry trading precious and base metals in Tokyo and in London. The next 14 years have been spent in the financial business area trading equity, currency and commodity on a prop basis as well as providing hedging products to customers. I also was involved in Private Equity investment and aircraft leasing business before moving on to the oil and gas industry.

My two-year experience in oil and gas in both trading and E&P [Exploration & Production] was fascinating. I would like to thank Mr. Susumu Kato, the late president of the company, for giving me this chance. The most exciting part of my time there was definitely the shale oil and gas business. I've completed a 2 billion dollar investment in Texas's most promising shale oil field called the Permian Basin. I have also signed a deal with Dominion Resources in Cove Point LNG Project, starting shipments in 2017.

I have done all of that in 33 years and 6 months of my commodity career. I think I have a birds' eye view of the commodity industry right now and perhaps my profile is quite unique in this country. Now as the head of research, I would like to utilize my knowledge to be instrumental in the commodity exchange/market space for the rest of my career. I still follow the market everyday from a researcher's view point. I now more frequently meet with the media to share my views on the market and on various issues affecting commodities with the hope that some of my input may help with the prosperity of the market in Japan and also in the world.

For that I would like to thank FIA Japan to give me this chance to state my views on these important subjects. Thank you and all the best.

FIAJ: Thank you for sharing your insights with us.

Regulatory News

Japanese Regulators to Relax Solicitation Rules

At a meeting of the Cabinet Office and Consumer Commission held on November 26th, the ministers of FSA, MAFF and METI clarified their intention to revise solicitation rules by March 2014, stating that "There is a policy to remove the regulatory barriers for the Comprehensive Exchange. A revision of the solicitation rules applicable to on-exchange transactions and commodity derivatives transactions is under consideration".

The Commission is mainly comprised of the Consumer Affairs Center and lawyers, and considers a wide array of proposals in relation to issues affecting consumers. On that particular day, the Commission members shared view points on the relaxation of solicitation rules for commodity derivatives trading. Some of the lawyers opposed said relaxation, pointing out that "Even if the number of complaints has decreased, there were still 66 complaints recorded for a mere 32 commodity brokers. If the rules are relaxed, and if more problems arise, our responsibility for proper supervision may be questioned".

In response, the FSA (who will also regulate commodity derivatives at the Comprehensive Exchange) pushed for the revision, stating that "We believe that the current rules, which ban solicitation of even potential customers, are an ultimate solution in a matter of speaking. Financial brokers are allowed to introduce financial derivatives when recommending a portfolio to customers, but not commodity derivatives. This is possibly detrimental to investors".

FSA Overhauls Short Selling Rules

On November 5, 2013, Japan's FSA implemented a partial amendment to the Order for Enforcement of the Financial Instruments and Exchange Act, which contained comprehensive revisions to the rules regarding short selling.

The uptick rule was changed from being a constant measure, which applies to all short sale orders, to a trigger-type measure, like in the US, which only applies to issues that have declined by 10% or more from the previous day's closing price. The price restrictions after a stock falls below the trigger price remain unchanged, meaning that short sales below the last execution price are prohibited.

Formerly, a securities firm was required to report and publicize short positions over 0.25% of the total amount of outstanding shares in a “One-tier Model.” The revision changed this to a European-like “Two-tier Model,” where they must report short positions of 0.2% or more and only publicize those over 0.5%. In addition, the revision introduced a 0.1% buffer, meaning that a report is required at every 0.1% change, in contrast to the previous rule which required reporting of any minute changes in a short position. The scope of calculation was also expanded from on-exchange executions during trading sessions to include on-exchange off-auction short sales (such as in the ToSTNeT market) as well as those executed on other trading venues. Derivative trading continues to be excluded from reporting requirements.

The revision also made the ban on naked short selling and the reporting and publication regime on short positions permanent. Furthermore, while short selling executed on proprietary trading systems (PTS) used to be subject to similar restrictions (except restrictions on short selling related to public offerings) under JSDA (Japan Securities Dealers Association) rules, they are now also covered under the revised law.

It has only been two months since the revision was implemented and, while more data is needed to verify any assumptions on its impact, the number of stocks for which short selling price tests were triggered has remained low and short sale trading value has increased in percentage after the revision. Based on these figures, the revisions to the short selling regulations seem to have significantly increased the flexibility of trading strategies that involve short selling.

U.S. CFTC Moves Forward with Key Regulations

The Commodity Futures Trading Commission in recent months has moved forward with critical regulations including the release of additional guidance on the application of Dodd-Frank rules on cross-border transactions as well as final so-called Volcker rules, which prohibit banks from proprietary trading and limits their ability to own and invest in hedge funds and private equity funds.

The final implementing Volcker rules were written and approved on December 10th by the Federal Reserve, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Securities and Exchange Commission and the CFTC. The rules become effective April 1, 2014. However, banking entities will have until July 21, 2015 to come into compliance

In terms of the cross-border application of the Volcker rules, regulatory officials said they apply to U.S. banking entities with operations outside the U.S. as well as foreign banking entities that have dealings with U.S. entities. Activities among foreign banking entities conducted entirely outside the U.S. are not subject to the rules.

On Nov. 14, the CFTC issued a staff advisory on the applicability of transaction-level requirements in certain cross-border situations. The advisory stated that a non-U.S. swap dealer generally will be required to comply with the CFTC’s transaction-level requirements even when trading with non-U.S. entities if it regularly uses personnel or agents located in the U.S. “to arrange, negotiate or execute” the swap. Subsequent to that guidance, CFTC staff issued a no-action letter on Nov. 26 providing relief to foreign swap dealers registered with the CFTC from certain transaction-level requirements until Jan. 14.

EMIR Implementation Update

The European Securities and Markets Authority (ESMA) recently approved the registration of six trade repositories under the European derivatives regulatory reforms (commonly known as EMIR), thereby inaugurating the start of reporting of all derivatives transactions with a European Union (EU) counterparty. ESMA is also currently considering applications from a number of Japanese clearinghouses for recognition as non-EU central counterparties (CCPs).

Although the reporting obligation under EMIR only applies to EU entities, non-EU entities trading with EU entities may find themselves having to provide their counterparties with certain additional information. EU entities might also request non-EU counterparties complete an ISDA reporting protocol or EMIR protocol in that respect. For transactions between two non-EU entities, ESMA reporting requirements should not apply.

On the clearing front, ESMA is considering applications for recognition as a CCP from the Japan Commodity Clearing House Co., Japan Securities Clearing Corporation and Tokyo Financial Exchange, Inc. Market participants subject to EMIR will only be able to use these non-EU CCPs if they have been recognized under EMIR.

In that respect, a Committee of the International Organization of Securities Commissions (IOSCO) recently commented that in recognizing non-EU CCPs, European regulators should not apply the same standards and conditions as those applicable to European CCPs since the "requirements and standards which may be relevant, appropriate and feasible for an EU based CCP may not necessarily be relevant, appropriate or even feasible for a non-EU CCP." Imposing irrelevant conditions and standards on non-EU CCPs could give rise to severe problems, including EU financial institutions and subsidiaries finding it prohibitively expensive to use the services provided by non-EU CCPs – thereby leading to market fragmentation, contraction of market liquidity and disruptions for EU financial institutions and subsidiaries in the Asia Pacific markets – or in a worst case scenario, EU financial institutions could find themselves shut out of Asian markets altogether. Stay tuned.

This update was prepared by the New York and Paris offices of Kramer Levin Naftalis & Frankel LLP. Please contact Fabien Carruzzo (fcarruzzo@kramerlevin.com) with any questions.

Topics of the Month

TOCOM Starts Discussions on Collaboration in Energy Field

At a press conference held on December 13th, TOCOM CEO Ezaki announced that the Exchange is discussing with a foreign exchange towards the establishement of a possible collaboration in the energy field, including LNG futures.

Asked about the details of said collaboration, Mr. Ezaki replied "It is too early to say as discussions are on-going" and continued stating that "We have the back up of the Japanese government to establish futures markets, including LNG and electricity". The establishement of this new "Comprehensive Energy Market" will be one of the main business objectives for TOCOM.

CEO Ezaki also touched upon how the Exchange will handle its trading platform as the current contract will expire in 2015, stating that "If the next generation system planned by JPX can handle commodity derivatives, such as LNG and electricity, we will consider sharing that platform as it would bring value to market participants."

JPX plans to merge the TSE and OSE derivatives trading into its J-Gate platform on March 24th, 2014, but also plans to switch to a new system in 2016. This is why TOCOM does not see a benefit in sharing J-Gate at this point in time. The Exchange will continue to use its current system for three years, and will consider during fiscal 2014 if it should share the new system to be introduced by JPX. During said three years, TOCOM plans to set the stage for this potential change by working towards establishing new energy markets (LNG, Electricity, etc.), setting up any necessary framework and reinforcing its financial base among other things.

There had been discussions since 2012 around TOCOM possibly using the CME Globex platform, but "Currently, the use of the Globex system is no longer an option. (CEO Ezaki)"

Finally, there have been comments that a joint use of the trading system may lead to a merger between TOCOM and JPX, but Mr. Ezaki replied that "We consider the use of the JPX system and a merger with JPX as different matters."

ICE completed its acquisition of NYSE Euronext

On November 13, IntercontinentalExchange completed its acquisition of NYSE Euronext, creating a leading network of global derivatives and equity exchanges.

The stock and cash transaction had a total value of U.S. $ 11 billion on close and has propelled ICE to the third largest exchange operator in the world based on market capitalisation. Recognised among investors as a growth company, ICE management states that they are "committed to remaining focused on driving benefits for markets, customers and its shareholders, despite its transformation into one of the world's largest exchange groups". Importantly, the deal has brought diversification with ICE now operating 23 markets, 16 exchanges and five clearing houses spanning interest rates, equities and equity derivatives, credit, bonds, foreign exchange, energy, metals and agricultural commodities.

Jeffrey Sprecher,
ICE Chairman and CEO

On the day of closing the NYSE Euronext deal, Jeffrey Sprecher, ICE Chairman and CEO said that "This is a game changing transaction. ICE now leads in terms of the breadth and depth or services, best-in-class technology, and access to markets and capital."

Recently, ICE has turned its focus to Asia with the announcement last month that it is to acquire the Singapore Mercantile Exchange (SMX). While a small transaction compared to the multi-billion dollar NYSE Euronext deal, the acquisition is a strategic move extending ICE's exchange and clearing network to Asia for the first time and bringing ICE closer to its expanding customer base in Asia. While ICE has not yet confirmed strategic plans for SMX, it has said that new product opportunities include a variety of Asian financial and commodity derivatives and SMX members will benefit from ICE's best-in-class technology and trading platform.

FIA Japan Tokyo Conference

FIA Japan plans to hold a major conference in Tokyo next year. The Board of Directors is now considering the optimal timing for this event with a current target date of February 2015. There are many new developments unfolding in the Japan financial markets over this year which will set the stage for an exciting program that will be of interest to global Asia Regional and domestic market players. Stay tuned.

Committee Activities

Market Development Committee Chairman Yoshio Kuno

MDC has been meeting monthly and spent time to deepen our understanding of the issues surrounding HFTs/ATSs.

As part of its learning process, MDC invited KCG Asia (Farid Moslehi M.D. and Rebecca Weinrauch Legal & Compliance) to its November meeting and received their valuable inputs from an HFT/ATS market user point of view. Their view and our discussions since September have been summarized in an interim report which has been presented at the December FIAJ Board meeting. The contents of the report were intended to highlight and summarize in a simple way the issues related to HFT/ATS and their related parties (including Trading Platform/Exchanges, Clearing Organizations, Brokers and Technology Vendors).

Technology Committee Chairman Bruno Abrioux

In the last two months of 2013, the FIAJ Technology Committee has been focusing on gathering inputs on industry practices related to Trading and Clearing Test environments. The objective is to share by the end of the fiscal year a whitepaper summarizing the best practices supporting superior quality deliveries. If you have a valuable experience on this topic, feel free to contribute to our effort of promoting high class standard to the industry by answering our open questionnaire (available upon request).

With several members from FIA Asia, our committee has also joined a conference call initiated by Greg Wood, Chairman of

FIA W IT Division. Essentially, this first cross-border call aimed at introducing the key activities of each respective IT committees in order to increase the collaboration between the various FIA entities by identifying themes of mutual interest. It also proved to be a quality forum to share update on regulation changes and their impacts on technology. Among others, an overview of the new “Testing of software used in or related to Trading and Risk Management” circular enforced by SEBI (the Securities and Exchanges Board of India) and effective since October 1st was provided (for more details, refer to http://www.sebi.gov.in/cms/sebi_data/attachdocs/1376969894633.pdf). Similarly, technical implications of the new electronic trading regulation directly based on the conclusions of an earlier consultation run by the Hong Kong SFC (Securities and Futures Commission) and taking effect January 1st 2014 were discussed (for further information, consult http://www.sfc.hk/edistributionWeb/gateway/EN/consultation/conclusion?refNo=12CP3). As far as the US regulation is concerned, Greg Wood also provided a progress update on the FIA W draft answer to CFTC Concept Release on Risk Controls and System Safeguards for Automated Trading Environments.

In any case, our FIAJ Technology Committee looks forward to building further a fruitful collaboration with the global FIA community through 2014 for the benefit of all members.

Commodity Study Group Makoto (“Mac”) Sugitani, Group Leader

Commodity Study Group (CSG) held its second meeting to discuss ideas raised by the group members that could help bring liquidity to the market. There is now a great sense of urgency resulting from the deterioration of local business volumes in the second half of 2013. During the meeting, members considered potential immediate business measures, but also acknowledged the time and resource constraints on the exchange to implement any possible proposal.

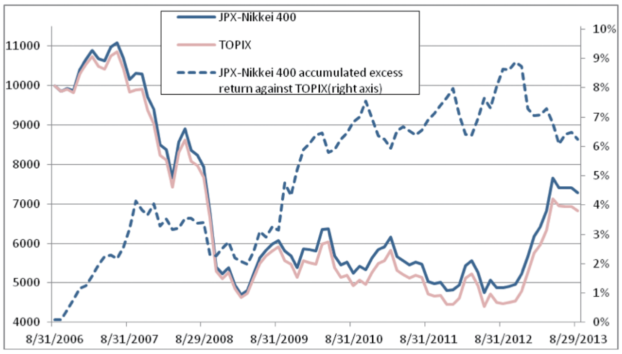
The Group discussed immediate actions as well as long term perspectives, such as exchange system migration and consolidation of the exchange business. Several ideas were considered in details, which we plan to bring to other FIAJ members for further input. The CSG believes that TOCOM ought to seek various business collaborations from other exchanges, and should take an active role in coordinating discussions within the industry to help promote business in 2014.

Exchange News

JPX

Started New "JPX-Nikkei Index 400"

Japan Exchange Group, Inc. and Tokyo Stock Exchange, Inc. and Nikkei Inc. will start calculating and publicizing a new index, called "JPX-Nikkei Index 400", from January 6, 2014. The new index is composed of highly appealing companies for investors, which meet the requirements of global investment standards, such as the efficient use of capital and strong investor-focused management. The criteria for including a company's shares in the index includes quantitative indicators, such as ROE, as well as qualitative factors, such as corporate governance structure and financial disclosure practices. The new index promotes the appeal of Japanese corporations domestically and abroad, while encouraging continued improvement of corporate value, thereby aiming to revitalize the Japanese stock market.



This new index came under the spotlight of the government’s committee on pension management, and was proposed to be used as a benchmark by the GPIF (Government Pension Investment Fund, Japan)

Details of the Index can be found here: http://www.tse.or.jp/english/market/topix/jpx_nikkei.html

Derivatives Markets Integration

As part of consolidating the functions of the JPX Group exchanges, the derivative markets of both Osaka Securities Exchange (OSE) and Tokyo Stock Exchange (TSE) are scheduled to be combined on March 24, 2014.

On the same day, Yen denominated futures contract based on CNX Nifty are planned to be launched. CNX Nifty is a major Indian stock index used as a benchmark in various financial instruments. OSE's Yen denominated CNX Nifty futures should be able to respond to customer investment needs and hedging requirements in a rapidly growing Indian economy

In addition, the re-launch of 20-year JGB futures is scheduled on April 7, 2014 following the system integration.

Stared New JGB Futures Volatility Index

TSE started calculating and publishing a new index called "JPX JGB Futures Volatility Index", which is based on the volatility of 10-year Japanese Government Bond Futures contracts, from November 1, 2013.

The Index is calculated based on the settlement prices of JGB futures options contracts listed on TSE, and it indicates the future volatility of 10-year JGB futures contracts. The index aims to serve as a benchmark for market estimates of 10-year JGB futures market volatility over a certain period of time by aggregating the settlement prices of all strike prices within a certain time to expiry.

TFX

Publishes Nikkei 225 CFD Positions

Starting on October 22, TFX has been publishing aggregated long/short positions outstanding for Nikkei 225 CFD [Contract For Difference] of the Click Kabu 365 twice a week, at the end of Wednesday trading and Friday trading respectively. The data are well accepted among investors and journalists as they represent a good reference in analyzing and predicting the developments of the Japanese equity market. TFX has already been publishing outstanding positions for each currency pair of Click FX 365, which is actively referred to and quoted by the media and market participants.

Back-months Euroyen Volume Increase

Trading in the 7th and 8th contracts, or the so-called mid-term back-months contracts, is becoming active in TFX's Euroyen Futures market. A successful market-making program since September and a trading incentive scheme have contributed to the good activity of these contracts which now represent nearly 20 percent of the overall transaction volume. The order flow is increasing and the bid-ask spread is tightening.

TOCOM

Established Japan OTC Exchange (JOE) with Ginga Energy Japan

TOCOM and Ginga Energy Japan, a Japanese subsidiary of the Singapore-based energy broker Ginga Petroleum, jointly established the Japan OTC Exchange (JOE) on November 29. This joint venture will start by offering swaps on petroleum commodities such as gasoline, kerosene, gas oil and crude oil in fiscal 2014.

TOCOM expects that the development of the new OTC market will support the exchange-listed futures contracts by creating and increasing demand for risk hedging. Additionally, the new platform is designed to help develop new listings and push into new frontiers that benefit both the OTC market and the futures market. Before the end of Fiscal 2013, JCCH, which is the wholly-owned clearinghouse of TOCOM, plans to launch OTC clearing services, and the new trade environment should profit all market participants.

Asked about the launch, Mr. Araki, JOE Representative Director, said: "One of the virtues of OTC market is greater flexibility, compared to the futures market. Taking advantage of such flexibility, at JOE, we are excited to venture into a wide range of new products which would be hard for TOCOM to launch directly as a futures contract.“

FIA's 29th Annual Futures and Options Expo a Success

More than 5,800 individuals registered for FIA's 29th annual Futures and Options Expo in Chicago this November, with individuals attending from several different countries across the globe. The conference panels covered a wide range of issues including Dodd-Frank implementation, OTC clearing and market structure.

Gary Gensler, the outgoing chairman of the Commodity Futures Trading Commission, kicked off the event with his keynote address. In what was his fifth and final speech at Expo, Gensler reviewed the progress made in bringing more transparency to the swaps markets and offered several thoughts on what lies ahead for the agency and the industry. Gensler suggested that the agency's next chairman will pivot from writing new rules toward enforcing those new rules.

On the sidelines of Expo, over 200 people attended the "Japan Returns" reception organized by KVH and jointly hosted with JPX, TOCOM, TFX and Nissan Century Securities. Guest interested in the Japanese markets had a chance to network while enjoying handmade Sushi!

FIA Asia Derivatives Conference
December 3-6, 2013

FIA Asia held its 9th annual conference at the St. Regis Hotel in Singapore December 3-6. Over 700 delegates were registered, making it a record event. Just prior to the conference a separate private meeting hosted by FIA Asia was held among regulators from the Asia Region with guests from other financial centers. This serves to provide a valuable forum for communication among regulators from the region as our markets in Asia develop. CFTC Commissioner Scott O'Malia took a leading role in the conference program, speaking most candidly about the frustrations stemming from Dodd-Frank regulations and "extraterritorial reach". Masamichi Kono, Vice Commissioner of Japan FSA, also was an important speaker at the conference. From FIA Japan, our Board of Directors member, Peter Jaeger, gave an outstanding performance in the "Great Debate" panel on "Financialization of Commodities". Several of our members served as sponsors and exhibitors and attended this very successful event.

Market Forum 2013

Now in its 9th edition and organized by the NPO Japan Financial Security Industry Market Forum, Market Forum 2013 was held in Tokyo on November 8th. The event started as a minor networking event between young financial brokers, but has now grown to become a major event regrouping not only financial brokers, but also exchanges, system/data vendors, media etc. Over 330 people attended and 11 companies sponsored and exposed at the event, including JPX, TOCOM, CME, Eurex, Newedge Japan, Sungard and KVH.

Market Forum attendees discussing recent financial industry issues around the buffet

CX Market Lecture Meetings

The commodity industry held a series of "CX [Commodity] Market Lecture Meetings" in Tokyo and Osaka on December 4 & 6, inviting Mr. Akio Shibata, president of the Natural Resource Research Institute as a keynote speaker. Mr. Shibata presented his projections for the 2014 grain markets to over 130 commodity brokers and traders, in conjunction with other important macro economic issues including TPP, Abenomics and the energy revolution. The meetings were co-sponsored by Tokyo Commodity Exchange, Osaka Dojima Exchange and Japan Commodity Futures Industry Association.

JPX Derivatives Market System Merger Quiz!

The TSE / OSE derivatives trading system integration is around the corner. But how fit are you with the coming changes. Take a chance to test (or refresh) your knowledge by answering the below quiz!

But first, let's "warm-up" with a couple True or False questions in those cold 2014 early days (at least in Japan)…

1) System integration of TSE and OSE derivatives markets will be made on J-GATE system.

   TRUE

2) Integration of derivatives trading systems will occur March 31st 2014.

   FALSE

The derivatives market system integration is scheduled for March 24th 2014. Note that March 21st 2014 is a bank holiday in Japan.

Neurons now up to speed? Then, GO!

Q1) After the derivatives trading system integration, all products currently listed on the TSE derivatives market will be available for trading on the OSE derivatives market and all products currently listed on the OSE derivatives market will remain available for trading.

FALSE

Some products currently listed on TSE (eg S&P/TOPIX150 futures…) and on OSE (eg Nikkei 300 index futures and index options…) will be discontinued after the integration.

Q2) After integration, trading in 20-year JGB Futures will resume.

TRUE

20-year JGB futures will resume on April 7th, 2014. Also, CNX Nifty futures will be listed on JPX on the integration date.

Q3) There will be no change to the current TSE Trading hours for JGB futures after the system integration.

FALSE

The end of trading for the night session will be extended to 3:00a.m. on the next day. Closing auctions will also be adopted for options on JGB futures in line with that for JGB futures.

Q4) After the TSE / OSE derivatives integration, the Dynamic Price Limit currently applied under TSE rules will be abolished, and the Dynamic Circuit Breaker currently applied under OSE rules will be applied with partial revisions..

TRUE

Q5) After the derivatives systems integration, Delta Neutral strategy will be made available.

FALSE

Strategy trading that combines futures and options will not be available.

Q6) Off-auction trading hours over J-NET will remain unchanged as per current OSE rules after integration.

FALSE

The start of J-NET night trading for index futures and options will be changed to 4:15 p.m. The end of the J-NET night trading for JGB&TOPIX futures and options will be changed to 3:00 a.m. on the next day. Individual securities options trading hours will remain unchanged from 8:20 a.m. to 4:00 p.m.

Q7) OSE futures, etc. trading participants will be able to trade all derivatives products listed on the TSE derivatives market and TSE general trading participants which do not hold OSE futures, etc. trading qualification will be granted the OSE futures, etc. trading qualification from the integration date.

TRUE

Q8) After the derivatives trading system integration, give-up notification at order submission will still be permitted as is the case currently for OSE-listed derivatives product.

TRUE

Q9) Regarding clearing systems, full integration will occur on the same date as the derivatives trading systems integration.

FALSE

Unification of margin systems has already happened since July 2013. Margin offset between TOPIX and Nikkei has been available since then. Full integration of clearing systems to JSCC clearing system is expected around November 2014.

Q10) TSE will not hold an evening session on the business day prior to the integration date.

TRUE

On the business day prior to the integration date, trading in Tdex+ System will cease following the end of the afternoon session, and the night session at OSE will be held as per a normal business day.

What is your score? 10 out of 10? You are ready for a successful migration! If not, we recommend you to consult the following TSE document used as a basis for our quiz:

http://www.tse.or.jp/rules/comment/b7gje600000186jz-att/130618_a-en.pdf

Future Events

FIA Japan New Year Party- January 15

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

We thank the following sponsors:

JPX JAPAN EXCHANGE GROUP

TFX TOKYO FINANCIAL EXCHANGE

TOCOM Tokyo Commodity Exchange

15th Annual Japan International Banking & Securities System Forum 2014

February 27, Royal Park Hotel

Japan International Banking & Securities System Forum has been building upon the big success of the previous events held for over 10 years, which attracted more than 400 attendees from the Japanese capital market community including more than 180 buy-side representatives.

FIA Japan directors will participate in the 12:50 panel titled "Trends of Financial Regulatory Reform and Financial Market Infrastructure ～Issues related to Clearing Houses～"

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 over 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

Bringing More to our Members

FIA Japan is currently considering a number of ideas to help expand our service to our members. With this in mind, we will soon organize a broad survey of our members to gather feedback on their needs and expectations, as our organization continues to grow.

On the education side, we plan to organize a series of seminars during this year, with high profile industry and regulatory leaders presenting timely and important developments in the financial industry, as we did in the fall of 2013 with the very successful seminar featuring a prominent FSA official. An "event roadmap" is in the works and more information will be made available as details unfold. This series of seminars will lead to our holding of a major Financial Market Conference in the beginning of 2015 that will be a regional and global event attracting market players from the major financial centers.

FIAJ is planning to establish a "Proprietary Trading Group" to gather further insights as to what improvements could be made to our markets to expand and grow. Once a "core group" is established with a basic work format, we plan to reach out to other prop firms and would welcome their participation in our activities.

We are also about to revamp our website, which was started in 2009, to make it more attractive and we will consider starting a blog to better communicate with our members and others.
Finally, we would like to seek your feedback on this Newsletter so please take a few moments to answer our online survey at: https://jp.surveymonkey.com/s/2RH6L8T

Wishing all of our members and readers a happy and successful new year!

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