



**Report and Proposal Concerning the
Creation of a Comprehensive Market in Japan
Executive Summary**

Following is the Executive Summary of the Futures Industry Association Japan (FIA Japan) Report and Proposal Concerning the Creation of a Comprehensive Market. FIA Japan prepared this report based on an analysis of the current structure of the derivatives market in Japan and the proposals for action which will significantly help to develop this market.

Executive Summary

The Japanese derivatives market is positioned between the U.S. and European markets, and is the market, along with Australia, that opens earliest in the world's trading day. Following the New York market, Japan is an extremely important market for indicating reactions to economic indicators and to determine the trading direction for the coming market day. Despite being in such a fortunate position, the international commodity derivatives market in Japan has not only failed to reap the benefits of participating in the rapid growth of the expanding global market, but also has fallen far behind. This was caused by Japan remaining an old-fashioned business environment compared to the rapidly changing global market environment and needs. Japan has failed to establish an environment as an international market, and has very few market participants able to promote the Japanese commodity market internationally due to the current market participant structure. As a result, the Japanese commodity market has reached a state in which its share of liquidity between international markets has been continually declining for many years and without the primary value of the commodity industry being recognized in the Japanese economy.

The Futures Industry Association Japan (FIAJ) has considered the possible structure of a Comprehensive Market considering the opinions of the FIAJ Comprehensive Market Strategy

Committee, made up of representatives from various parts of the industry, and expert market participants in Japan and overseas.

We would like to express our gratitude to the following: members of the FIAJ Comprehensive Market Strategy Committee who worked and collaborated on the proposal; the industry players who provided survey responses, the Japan Commodity Futures Industry Association for their input, the FIA headquarters and other relevant persons who collaborated and supported the survey. We sincerely hope that this proposal will be of assistance in the development of the derivatives market in Japan.

Following are our proposals for the development of the derivatives market in Japan:

1. Proposal for market supervision to be conducted by a single comprehensive regulatory organization, based on unified laws and regulations

(1) The current regulatory environment vertically segmented by product group (so called “silos”) presents a variety of obstacles to market participants, functioning of listed products, market design, clearing transactions and global access to the market. Eliminating this segmentation is essential to support the development of a Comprehensive Market.

(2) All derivative products should be recognized as types of financial instruments, and all market participants and exchanges should be permitted to handle all listed derivatives if they satisfy certain criteria.

2. Proposal for the creation of a market structure that is a foundation for the development of an Asian core commodity derivatives market in Japan

(1) Listed commodities in Japan should include international commodities and not only those specific to Japan. The market must create a foundation, serving as part of the international market, based on highly transparent and sound transactions, opening its doors as a place for secure clearing, and the participation of diverse trading participants, and be a market that can be depended upon between international markets, especially within the Asian time zones. This would lead to the creation of a market where global players gather together.

(2) The Comprehensive Market should be able to consolidate commodities traded on individual exchanges into a single market and apply the same rules as other listed derivatives and under a unified governance system in order to operate an effective and highly convenient market.

3. Proposal for the creation of an integrated clearing organization for clearing all transactions in the Comprehensive Market

(1) In addition to the creation of a Comprehensive Market, the creation of an integrated clearing organization that will contribute to the diversification and mitigation of market risk, and also support the orderly management and operation of the market, is recommended.

(2) Mitigating the costs of clearing participants and simplifying comprehensive and customer-specific risk management increases convenience and the security of clearing participants and lowers barriers to entry. Based on the survey we have implemented, FIAJ sees comprehensive clearing in a unified clearing organization to be one of the greatest factors determining the success of the Comprehensive Market.

4. Proposal for a survey regarding the separation of the regulatory administration of the futures market and spot market

A commodity derivatives market regulatory organization that designs and supervises the regulatory environment for the smooth functioning of the derivatives market should be separated from the spot market regulatory organization. However, there must be sufficient cooperation and exchange of information with the spot market regulatory organization, facilitating the smooth operation of the spot commodities market. To achieve this, it is vital to establish a collaborative arrangement between relevant regulatory organizations and staff.

5. Proposal for a Strategic Approach amid Competition between International Markets

(1) Japanese International brokers are expected to participate in the

commodity derivatives market and create a global service network promoting the diversification and globalization of market access.

- (2) Reconsider product design and development of new listed commodities that meet the needs of commercial investors, global market participants and investors.
- (3) Promotion of strategic intermarket cooperation in an international market environment.
- (4) Reduction of costs for clearing participants through the realization of clearing functions in a unified clearing organization.
- (5) Utilization of effective risk funds such as cross margining across a diverse range of financial derivatives.