

## *Tokyo Governor Initiative: "Global Financial Center"*

(Background picture: FIA Japan conference at Palace Hotel)

### Topics of the month

FIA Japan Financial Market Conference 2015

LMAX Exchange Launches FX Platform in Japan

Government Discusses Early Implementation of Comprehensive Exchange

### Regulatory news

Electricity Futures Market: Aiming at Launch as soon as 2016

Japan Improving Corporate Governance

### People Interview

Governor Working to Establish Tokyo as a "Global Financial Center"



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## PRESIDENT'S MESSAGE

# Persistence Pays Off

Mitch Fulscher, President - CEO, FIA Japan

Many critics claim that Prime Minister Abe has failed in the promises of his third arrow under Abenomics. But once again he relentlessly moved into his third year of office with the same policy statement to the Diet stating: "...what is demanded of us in the current Diet is to push through reforms". Last month, Minister of Finance Taro Aso officially promised the following in his statement to the House of Councillors: reform of taxation and abolition of bedrock regulations, support for child care, reduction of income taxes and other actions that have all been part of Abe's strategy for Revitalization of the Japanese Economy. There are no changes in these messages since Abe came back into office more than two years ago.

Indeed, some of the results of the first two arrows are astonishing. The rise in the Nikkei average to a level not seen in 20 years, and the Yen / Dollar rate dropping to 120 from 80 has everyone's attention. But the critics note that the tough challenge of "reform" is yet to be realized. Nevertheless, some have said "energy and persistence conquers all things." Abe seems to have energy, and he is persistent!

There are many reforms that were initially announced by the government including areas of free trade, corporate taxation, deregulation in labor markets, healthcare and agriculture sectors, childcare facilities, women in the labor markets. We understand that each of these initiatives are still part of the government's stated agenda. All of them are controversial. None of them are easy. Abe and his Cabinet continue to talk about them and many are under active negotiation.

Japan and Abenomics continue to grasp the world's attention, unlike the prior 20 years of international indifference. Our markets are viewed with great interest by global investors as shown by investment activity. The government looks strong by recent opinion polls and elections. We have hope. This strength and persistence can bring the change we are eagerly waiting for. *Ganbaro!*

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Under the direction of Governor Yoichi Masuzoe, the Tokyo Metropolitan Government established the "Tokyo Global Financial Center Initiative". See the Governor's interview in this edition of the newsletter for discussion of his plan to help make Tokyo into a financial center.

# Governor Working to Establish Tokyo as a “Global Financial Center”



**Yoichi Masuzoe**  
Tokyo Governor

Yoichi Masuzoe graduated from the Faculty of Law of Tokyo University in 1971. He started his career as a scholar in international politics, appearing on many radio shows and the like, and becoming very popular. In 1989 he established the Masuzoe Institute of Political Economy, before starting his career in politics in 2001 when he became a Member of the House of Councillors (serving two terms). In addition to being a member of the Budget Committee, he chaired or was a Director of numerous other committees, before being appointed Minister of Health, Labour and Welfare in August 2007. He was elected Tokyo Governor in February 2014.

**FIAJ : Over a year has passed since your inauguration as the Governor of Tokyo in February last year. What is your current vision for the development of Tokyo?**

I have been stating publically that I will “make Tokyo the best city in the world”. I wish to make Tokyo such an attractive city that people looking back at their lives will think “I’m really glad to have been born, lived and spent my golden years here”, or “I really want to visit Tokyo” whether for pleasure or on business.

Tokyo is a very convenient city to live in. It is well known for its safety, good environment and convenient transportation network. The tap water is delicious and great dishes from all over the world are available here. We will continue to enhance such charms of Tokyo.

With regard to welfare, low birthrate is an issue to be overcome, while the city needs to be considerate to seniors as well. As real-estate is rather expensive, we plan to utilize parks in order to accommodate childcare centers and rebuild public housing to create more space for other welfare facilities. We are also working on training the personnel needed as nurses and care givers. On the environment side, we will make use of hydrogen energy. Taking the opportunity of the Tokyo Olympic and Paralympic games in 2020, we aim at the early realization of a hydrogen-based society utilizing as much as possible this clean energy, through hydrogen cars and the like.

To ensure an abundant life style, we must accelerate economic activities, which will in turn strengthen the economy of Tokyo and eventually of Japan. Within the entire industry, we especially focus on fields with high added value. We will press forward to become a hub for life-science businesses, starting with the pharmaceutical industries development, making use of the concentration of associated companies in the city.



**FIAJ : Within your plans, how does your “Initiatives for the Tokyo Global Financial Center”, announced in July last year, fit in?**

Activating the economy and creating wealth are necessary to secure the funding needed to support our policies intended to make Tokyo the number one city in the world and provide its resident with a prosperous lifestyle. Among others, I consider the field of finance of particular importance as it is the lifeblood of any economy. Tokyo was one of three financial centers in the world, along with New York and London, before our 20-year deflation pushed back its position.

That said, Tokyo is still strong thanks to its high concentration of financial firms. Using this advantage and the hosting of the 2020 Olympics and Paralympics, we will reclaim our former position, making Tokyo a financial center gathering professionals, information and funds from all over the world. As the nation’s “engine”, Tokyo’s renewed status as a financial center will revive not only the city, but also the economy of the entire nation. In essence, these are our Initiatives for the Tokyo Global Financial Center.

*“I consider the field of finance of particular importance as it is the lifeblood of any economy.”*

*“we will reclaim our former position, making Tokyo a financial center”*

**FIAJ : It has been a while since Tokyo lost its position as a financial center. What do you think is needed to make Tokyo reclaim its position?**

In a nutshell: human resources and information. I visited London last year for a financial round-table meeting at Chatham House. What I witnessed was the strength of London: there is information available and business opportunities. Tokyo must become a city with similar appeal.

The first step is to create a work-friendly environment for foreigners working in Japanese firms, in order to attract highly qualified professionals in the financial industry. One of the biggest hurdles to living or working in Japan is probably the fact that it is difficult to communicate in English. We will increase the number of multi-language street signs as well as hospitals and clinics where foreign language service is available. The next step is to create an environment where foreign companies can conduct their businesses with much ease: under the national strategic special economic zone program, we will promptly initiate 10 dedicated business hubs in Tokyo, while setting up “one-stop business-opening centers” where foreign companies can process all their filings and registrations at once. We want to provide administrative procedures in English as well.

Finally, the most important target is enhancing business opportunities in Tokyo. The field of life-science and the hydrogen-

*“Japan still has a number of advantages: a convenient living environment, outstanding technology, huge financial assets and a dedicated work force.”*

based society I mentioned earlier will be the leading tools to achieve this. By utilizing city-owned real estate to build public facilities and financing infrastructure funds contributing to welfare, the Tokyo Metropolitan Government itself will push business opportunity creation forward.

**FIAJ : At the moment, most people perhaps consider Singapore and Hong Kong as the Asian financial center. Can Tokyo actually reclaim that position?**

Japan still has a number of advantages: a convenient living environment, outstanding technology, huge financial assets and a dedicated work force. Tokyo is a sophisticated city where foreign businessmen can enjoy a high level of inspiration.

I also felt during my visit to London last year that the pickup in the Japanese economy under the Abenomics policy is drawing global attention recently. I believe that this timing, along with the Olympic and Paralympic games in 2020 towards which the eyes and ears of the world come to focus on, is a rare opportunity to revive Japan.

I understand that fostering human resources and other initiatives will take time and that a long road lies in front of us, but I am confident that we can achieve this objective.

**FIAJ : How much power does the Tokyo Metropolitan Government actually hold as a local authority? Financial regulations fall under the National government's jurisdiction, so what can Tokyo do under this situation?**

Let me answer that in two folds.

First, Tokyo can play a leading role in promoting the whole idea. It is true that the main players in the field of finance are the National regulators and the private sector financial institutions, but since we are not a regulator, we can actually carry related discussions openly with any party. When we called both state and private institutions to the table, all answered and were positive about moving forward with discussions. Upon announcing our Initiatives last September, we established a "Promotion Council" regrouping both the state and private sector.

Second, while collaborating with other entities, Tokyo can push forward its own agenda. As mentioned earlier, we will utilize Tokyo-owned real estate to enhance business opportunities, while working on living and business environments. Additionally, recognizing that it is time consuming to nurture human resources and that "all things must have a starting point", we will be launching a course in advance finance at the Tokyo Metropolitan University Graduate School starting from the 2016 fiscal year.

In an effort to convey Tokyo's determined intention to reclaim its status of a world financial center, we plan to hold an international financial conference in 3 years, gathering the financial industry, regulators and media from around the world. In cooperation with the state and private sector, we will start the preparations for this event.

**FIAJ : Your agenda for Tokyo is ambitious. How is it working so far?**

At the aforementioned "Promotion Council", we have heard some encouraging comments towards the realization of the Tokyo Global Financial Center from a gathering of central governing agencies, such as the Financial Services Agency, Ministry of Finance, Ministry of Economy, Trade and Industry, and other ministries, as well as from the financial sector, such as banks and securities companies, and from industry associations, such as the Japan Federation of Economic Organizations,

This objective is to be tackled with the government and private sector working together as one. The Financial Services Agency in particular is working hard to realize the Tokyo Global Financial Center. In the private sector, the Japan Securities Dealers Association, for example, is appealing to the financial industry to establish further discussions. Overall, steady actions are being implemented one after the other.

In the end, "all of Japan" is moving towards realizing the Tokyo Global Financial Center, so I rest assured that we will make this a reality.

***"all of Japan" is moving towards realizing the Tokyo Global Financial Center"***

### **Electricity Futures Market: Aiming at Launch in 2016 METI Starts Deliberation Process – To be Summarized in June**

The Ministry of Economy, Trade and Industry (METI) has started actual deliberations towards the launch of an electricity futures market. Aiming at an overhaul reform of the electricity industry, METI formed a council on electricity futures market composed of 16 organizations, including electric power companies, wholesale dealers and exchanges, whose first meeting was held on March 6. The council will study market structure and actual trading conditions based on previous similar launches overseas, looking at a possible listing on TOCOM. The deliberation results should be summarized in June, in order to move forward with the realization of a comprehensive energy futures market.

There already are successful electricity futures contracts overseas, such as in Northern Europe, where liquidity is high with trading volumes reaching over twice the actual physical electricity consumption. Other contracts are traded in the US, Germany, France and the UK. In all of these countries, the electricity futures markets were launched in parallel with the overall deregulation of the retail markets, Japan plans to completely deregulate the electricity retail market in April 2016, and therefore it is expected that TOCOM will launch an electricity futures market that same year.

However, concerns have been raised by several parties involved in the process. There are many areas to be further considered, such as how to avoid price distortion and how to secure sufficient liquidity. On the other hand, both METI and TOCOM wish to push forward with the creation of a comprehensive energy market that would include LNG and the current oil products in addition to electricity, and plan to accelerate such preparations to help revive the Japanese commodity markets.

### **Japan Improving Corporate Governance**

On March 15, the Council of Experts Concerning the Corporate Governance Code (joint secretariat: FSA and Tokyo Stock Exchange) finalized “[Japan’s Corporate Governance Code](#)”. The Tokyo Stock Exchange is scheduled to revise its listing rules and related regulations and formulate its corporate governance code, which is expected to have the same content as the final version of the proposal.

The Code aims to realize a “growth-oriented governance” which could contribute to the accountability of the Board of Directors in terms of clarifying its objectives, where a company aims to increase its profitability and capital efficiency, and is seeking sustainable growth of its corporate value through appropriate risk-taking.

Furthermore, “[Japan’s Stewardship Code](#)” was finalized and published in February 2014. The Code defines principles for institutional investors to behave responsibly in fulfilling their stewardship responsibilities with due regard both to their clients and beneficiaries and to investee companies. As of the end of February 2015, 184 institutional investors had signed up to such code and disclosed their policies on how they fulfill their stewardship responsibilities.

The above-mentioned two codes do not adopt a rule-based approach, as typically seen in laws and regulations, but instead adopt a principle-based approach and “comply or explain” approach (either comply with a principle or, if not, explain the reasons why not to do so) in order to ensure the effective application of these codes.

It is hoped that the two codes will work as “the two wheels of a cart” and facilitate constructive actions from both companies and investors that will contribute to sustainable corporate growth.

### **EU Regulatory Update: Derivatives Under MIFID II**

As reported in our previous editions, FIA and FIA Europe are issuing a series of special reports in response to several documents published by the European Securities and Markets Authority (ESMA) that define rules affecting European securities and derivatives markets. The Special Reports issued this time are the fifth and sixth in the series, and provide an overview of ESMA's proposals on the specific requirements for [commodity derivatives](#) and for [CCPs and trading venues to have non-discriminatory and transparent access to one another](#).

In addition, FIA Europe submitted its response to ESMA’s latest MIFID II Consultation Paper on March 2. The [response and annex](#) covered a wide range of issues and followed a period of extensive dialogue with members. Additionally, FIA affiliates, including FIA Europe, FIA and FIA EPTA, submitted a separate response on microstructural issues.



## **IOSCO Issues Favorable Report on Japanese CCPs**

In February 2015, IOSCO issued its report on its assessment of Japan's CCPs and trade repositories, which are under the jurisdiction of FSA and BOJ. In its key findings, the report notes that the "Principles for financial market infrastructures" which were established by IOSCO and related organizations, have been implemented in a complete and consistent manner, and through a high-level policy-based approach, in the Japanese legal, regulatory and policy frameworks.

As background, in April 2012, the Committee on Payments and Market Infrastructures and IOSCO published a report entitled "Principles for Financial Market Infrastructures." These principles set expectations for the design and operation of key financial markets infrastructures, including central counterparties (CCPs), to enhance their safety and efficiency and more broadly, to limit systemic risk and foster transparency and financial stability. IOSCO and the Committee agreed to monitor the implementation of the Principles among member jurisdictions including Japan. The above mentioned report is a result of their monitoring.

## **Topics of the Month**

### **FIA Japan Financial Market Conference 2015 - Japan Mission: Primed to be the Top Market in Asia -**

On May 12-13, Futures Industry Association Japan (FIA Japan) welcomes you to join industry leading experts at the FIA Japan Financial Market Conference 2015 to be held at the prestigious Palace Hotel in Tokyo. We are building on the tremendous success of the previous event held in 2012, which attracted more than 400 attendees from the Japanese and international financial market community. The 2015 conference will address the key issues, challenges and opportunities impacting both the global and Japanese trading environment today.

The conference will focus on the following points:

- (1) "Japan's Unique Position in Asia – the Growth Region": Japan is the only Mega Economic center in Asia meeting global standards with the size of its economy, its open markets, its totally reliable legal system and "rule-of-law". All of the significant requirements are present.
- (2) The "New Government Attitude": the government and regulators have a "new attitude" and are working to take the actions for Japan to assume its proper role as Asia's leading Financial Center.

The FIA Japan event has the support of FSA, MAFF, METI and Tokyo Metropolitan Government, as well as from major industry associations, including FIA, AIMA and FIX Trading Community. Keynote speakers will include top officials from the government, regulators, as well as from the Bank of Japan. For further details, including program and registration, please visit the [FIAJ conference webpage](#).

We are looking forward to welcoming you to this unique event!

## **LMAX Exchange Launches FX Platform in Japan**

Launched in 2010 and based in London, LMAX Exchange is a leading MTF for spot FX authorized and regulated by the FCA. The exchange model is the most efficient and cost effective way to trade liquid products, like spot FX, and in an industry driven by regulatory reforms and pressure for increased transparency, the exchange execution model solves key industry challenges, such as lack of transparency or precise execution.

In December 2014, LMAX Exchange expanded into Japan with the launch of a matching engine in the Equinix IBX Data Centre in Tokyo (TY3). The objective was to provide brokers, asset managers and funds in Asia Pacific access to streaming, firm limit order liquidity (i.e: no so-called "last look" rejections) at execution speeds of less than 4ms. Adding a matching engine in Japan, the market accounting for over 40% of the global retail FX volumes, is a major milestone in global expansion for the LMAX Exchange.

LMAX Exchange CEO, David Mercer, commented: "Over the past couple of years, we have witnessed a real shift in FX trading towards transparent price discovery and a level playing field. With clients in over 80 countries, our main objective is to deliver consistently low latency and exchange quality execution around the globe. With the launch of the Tokyo matching engine, we can now offer the same low latency execution that all our clients enjoy in the London data center (LD4) to our clients in Asia-Pacific."

David Wilkinson, Senior Director, Financial Services and Enterprises, Equinix Asia Pacific, commented: "The deployment of LMAX Exchange in Japan signifies the exuberant growth in the region, as more and more financial services providers and FX trading platforms are expanding into Tokyo. It also further strengthens TY3 as our FX hub in the region, demonstrating our global financial ecosystem inside Equinix."

## Market Trend: Shared Industry Utility for Derivatives Clearing Processing

Increased regulations, such as those mandated by the Dodd-Frank Act (DFA), European Market Infrastructure Regulation (EMIR) and Basel III, have created an operating environment that continues to erode profit margins. According to a Tabb Group study, the challenging market conditions in recent years has resulted in a reduction in the number of CFTC-registered Futures Commission Merchants (FCMs) by 49%. The Tabb Group study also found that these ongoing structural changes and regulatory pressures are driving remaining FCMs to look into more efficient and cost-effective ways to manage their back office operations.

Recently, SunGard has launched a new industry utility for post-trade futures and cleared over-the-counter (OTC) derivatives operations. This industry utility will provide derivatives brokers, including FCMs, with derivatives clearing operations and technology services for trade clearing, trade lifecycle management, margin processing, brokerage, reconciliation, data management and regulatory reporting, allowing them to achieve greater efficiency, reduce operational risk and total cost of ownership (TCO) by leveraging economies of scale in middle and back office processing and technology.

Larry Tabb, founder and CEO of Tabb Group, said: “With well over half of post-trade derivatives processing replicated in each clearing firm, consolidating a majority of these non-differentiating operations into a single shared industry utility will positively change the economics of the industry by increasing efficiency, simplifying regulatory compliance and altering the cost structure for industry participants. Reframing the existing business model will enable FCMs to focus efforts and investments on clients and risk-facing activities. The introduction of a derivatives utility is expected to be transformative because it will essentially re-define the cleared derivatives operating model for the industry and drive sustainable efficiency improvements through standardization and best practice implementation, automation and scale, as well as ongoing TCO savings for utility customers.”

## Government Discusses Early Implementation of Comprehensive Exchange

On February 25, at a session of the House of Representatives Budget Committee, a committee member from the *Komeito* Party, Mr. Higuchi, raised questions on the government’s will to establish a Comprehensive Exchange by merging Japan Exchange Group and Tokyo Commodity Exchange.

In response, three of the Ministers concerned made the following comments. Mr. Aso, Minister in charge of financial affairs (FSA), said that “We wish to continue to work proactively [towards establishing the Comprehensive Exchange]”, while Mr. Hayashi, Minister for agriculture (MAFF), stated that “We are aiming for an implementation as early as possible”, asserting that the government’s basic intentions haven’t change. On the other hand, the Minister of Economy, Trade and Industry (METI) pointed out that the listing of new contracts, including electricity and LNG futures, is a first priority matter.

## Leo Melamed Award From Waseda University

On April 1, 2015 Mr. Leo Melamed, Chairman Emeritus of CME Group, was awarded an Honorary Doctorate by Waseda University in Tokyo. The event was conducted by Waseda President, Kaoru Kamata during the University Entrance ceremony. During the ceremony, Mr. Melamed was recognized for his achievements in business as the “founder of financial futures” a most significant international business and economic development.

Leo delivered a presentation to the audience honoring Mr. Chiune Sugihara, the Japanese Counsel General to Lithuania during WWII who saved thousands of Jews from the Holocaust by issuing life-saving transit visas through Japan. Melamed and his family were among those saved. Leo acknowledged Sugihara’s bravery and humanitarian action and referred to him as a “true hero” of Japan. Sugihara was a prominent graduate of Waseda.

At a celebration dinner, Mr. Toyoo Gyohten, former Vice Minister of Finance, spoke about Leo’s work and encouragement to the Japan financial market over many years. As head of the CME, Leo helped to support the development of financial derivatives in Japan 30 years ago. Executives from JPX and the Tokyo Commodity Exchange joined the dinner together with FIA Japan officers and other friends from the futures industry.



Leo Melamed (right) receiving an Honorary Doctorate at Waseda University

## Committee Activities

### Legal & Regulatory Committee (L&RC)

Chairman Peter L Jaeger

The Legal & Regulatory Committee (L&RC) was founded to continue where our previous committee, the Comprehensive Exchange Committee, left off. With the completion of the JPX merger, the Abe government's comprehensive exchange project seems to have reached at least a temporary state of stability. Now we will turn our attention to studying and understanding legal and regulatory challenges specific to doing futures business in Japan, with attention to all aspects of the market but no specific focus on exchanges, CCPs, or other entities.

In 2014, the focus on capital and risk have intensified from already elevated levels. Capital charges and capital controls are more onerous, and there is more scrutiny on risk management than ever before seen in the futures industry. These trends are driven by regulation which, when taken to its logical endpoint, threaten to drive a wholesale reduction in the amount of leverage and liquidity in the markets.

In this environment, the L&RC is studying issues such as the unlimited liability of CCP members in Japan due to the way FIEL treats the structure of a CCP. Another issue which looks to be a theme for the L&RC in 2015 is Japan's ancient Commercial Code, which dates from the 32nd year of the Meiji Emperor (1899) and has been recently interpreted as forcing brokers to guarantee the obligations of CCPs. The L&RC doubts that the writers of this law had CCPs in mind back in Meiji 32, but in any case, because the law exists and has been interpreted to be relevant to the futures industry, it has become another hot topic that the L&RC is planning to study.

### Market Development Committee

Chairman Yoshio Kuno

#### Looking back at FY 2014...

##### HFT

MDC's update (in September) about HFT related issues stressed the following points:

- HFTs have to be defined in a generic term rather than in the physical technological set ups.
- HFTs are a beneficial and essential part of market providing the market with more good than harm by improving liq-

uidity and narrowing bid/offer spread.

•There is a lack of transparency about HFTs which caused unnecessary concerns and some misunderstandings. Our industry, including HFTs themselves, market operators and brokers have to improve transparency about HFTs activities to gain a correct understanding.

##### Education

MDC has been working to develop an "easy to understand" derivatives trading content targeting individual investors. The first beta version of an educational series on options is being planned to be up in a Webinar format shortly

#### And looking ahead at FY 2015...

##### Options-Market Development

As an ongoing project, MDC continues to develop educational series with the priority on options.

##### Comprehensive exchange issues re-visited

FIA Japan has been following the "Comprehensive exchange" initiative for several years, while we have yet to see this happening. MDC will re-visit and discuss this issue.

##### The cost of doing business

With help from the Technology committee, MDC plans to look into the costs of doing business and discuss ideas on how to reduce them.

### Technology Committee

Chairman Bruno Abrioux

Looking back at the 2014 Fiscal Year, our Technology Committee has remained loyal to its two guiding principles: "Educate" and "Provide Thought Leadership" in relation to any technological development impacting the Financial Services Industry.

First, educative articles were published throughout the fiscal year in the FIA Japan Newsletter Tech Corner, covering topics as diverse as the commoditization of cloud computing resources or the latest initiatives in terms of cybersecurity.

In addition to those news brief, our committee has regularly participated to the FIA Asia Technology Working Group meetings reviewing among others topics the definition of Disruptive Trading Practices by ICE or the Restriction on Test Orders by CME.

Finally, our committee was also actively involved in supporting the activities of the Market Development Committee by providing comments on the technical definition of Automated Trading Systems and High-Frequency Trading. It is to be noted that, as a follow-up action of those



discussions, a dedicated Market Research on the Technology Risks inherent to Automated Trading Systems has been initiated.

As far as the 2015 Fiscal Year is concerned, our committee intends to continue its education effort through the Tech Corner of the newsletter, webinars and ad-hoc roundtables inviting experts who can share their thoughts on the potential impacts of the recent technology developments on the Financial Services Industry. Beyond the coverage of the coming domestic Exchange / Clearing Houses System enhancements, the Technology Committee also foresees broader discussions or sessions on themes like the cost of doing business for FCMs and Brokers in relation to technology in collaboration with the Market Development Committee.

As Chairman of the Technology Committee, let me thank here all the committee members who have actively contributed to the committee's activities by sharing openly and constructively their experience, ideas and views for the benefit of FIA Japan and of the whole Financial Services Industry.

## Membership Committee

Chairman Izumi Kazuhara

FIA Japan membership is drawn from all of the sectors involved with the futures industry in Japan, as well as related financial market sectors of various types of companies and individuals, including financial institutions such as FCMs, and banks, commodity trading houses, exchanges, IT providers, and law firms who are interested in the Japanese derivatives markets. We are a unique Association and the only organization of its type with a cross-section of industry players being represented across borders.

Some of our members are based overseas but are interested in Japan. Such firms are welcome to join FIA Japan. If you are interested in membership, please [contact us through our contact form on the website](#).



- ✓ JPX Nikkei 400 Futures
- ✓ Nikkei 225 Weekly Options

OSE

TSE

JSCC



IRS Clearing

# Your Exchange of Choice

The Most Preferred Exchange  
in the Asian Region Providing High-Quality  
Services With Creativity, Reliability, and a  
Dedication to the Public.

### ***Japan Exchange Group (JPX)*** **To Launch Weekly Options**

Osaka Exchange announced that Nikkei 225 Weekly Options will be launched on May 25, 2015. The expiry of the Weekly Options will take place on the week where the regular Nikkei 225 Options' expiry does not take place, which allows market participants to add variety to their options strategies. OSE will also implement market making opportunities, where market makers will place continuous quotes during the day session. The weekly options market has been growing and has become widely used in other exchanges such as CBOE, EUREX, and TAIEX. With the globally well-known and actively traded Nikkei 225 market, OSE aims to expand its options market through the launch of this new weekly options contract.

### **OTC Clearing Updates**

JSCC will start providing Foreign Currency IRS Clearing and Cross-Margining of Listed and OTC products, which is planned to be launched in September. In addition to the current JPY=LIBOR and JPY=TIBOR, JSCC will start clearing USD=LIBOR, EUR=EURIBOR, and AUD=BBSW. In addition to new IRS Clearing lineup, JSCC will also start cross margining between JGB Futures, both large and mini futures, listed on the OSE derivatives market, and JPY IRS positions.

### ***Tokyo Financial Exchange (TFX)*** **Extension of Incentive Programme**

Tokyo Financial Exchange (TFX) extended the Three-month Euroyen Futures Back-month incentive programme until September 30, 2015. The programme was first introduced in September 2013, aiming to revitalize its Three-month Euroyen futures market that has been affected by the Bank of Japan's monetary easing policy. With this programme, TFX trading members are able to receive fee discounts (up to 90%) for trading back month contracts in Euroyen futures where currently a Market Maker provides prices and liquidity. In order to enhance the programme further, TFX is in the process of appointing a new Market Maker sometime in the first half of this fiscal year.

### **Considers Launching Click 365 Large**

TFX announced its plan to introduce a "Click large" market which offers contracts 10 times larger than existing Exchange FX margin contracts (Click 365). Complementing the existing Click 365 line-up, TFX aims to launch the new market within this year. Initially, it will be offered in five major currency pairs including non-Japanese yen (cross-currency) pairs with a contract size of 100,000 currency units respectively. With the introduction of Click large, TFX will accommodate the trading needs of large/wholesale investors. TFX also plans to promote the new market to overseas investors.

### ***Tokyo Commodity Exchange (TOCOM)*** **To Launch Gold Daily Futures Contract**

The Tokyo Commodity Exchange, Inc. (TOCOM) announced on March 24 the launch of its Gold Daily Futures contract planned on May 7, 2015.

Gold Daily Futures contract has no maturity date. Those trading foreign exchange or financial products without a maturity date should find Gold Daily Futures easy to trade. TOCOM is developing this new contract to be a top product at TOCOM by taking advantage of growing interest in commodity investment.

The Contract Specifications for the new contract can be found on the TOCOM [website](#).

### **Off-floor Trading System Updated**

On April 1, TOCOM revised its rules to improve the Off-Floor Trading System, which consists of three types of transaction: Block Transactions, EFP/EFS and Posted Settlement Transactions. Some Block Transaction Rules have been eliminated and block transaction and posted settlement transaction were combined to create an "Off-Floor Transaction". Restrictions on EFP/EFS transactions related to the requested price were also relaxed. Retail investors have also become eligible to trade EFPs on Gold Daily Futures and Gold Mini Futures. Additionally, a "TOCOM Window" was created to facilitate off-floor transactions. All Members can use the platform to exchange information on the transaction they are interested in executing.

### ***CME Group*** **To Close Most Trading Pits**

On February 4, CME Group announced that it will close most of its futures trading pits in Chicago and New York by July 2, 2015, as open outcry futures trading has fallen to

just one percent of the company's total futures volume. That said, the floor-based S&P 500 futures market will remain open on CME Group's Chicago trading floor. Options on futures contracts will also remain open on both trading floors except for the DJIA (\$10) and NASDAQ-100 open outcry equity index options markets.

With the exception of the S&P 500 futures and options pits which will remain open, equity index futures pits and the DJIA (\$10) and NASDAQ-100 options pits will close following the expiration of the June 2015 contract on June 19, 2015. All other futures pits will close on July 2, 2015. In addition, in Chicago, all options pits will be located on a single floor in the company's Financial Room by September 2015.

In 2014, CME Group's Average Daily Volume (ADV) reached almost 14 million contracts.

## SGX

### Expands FX Footprint

Singapore Exchange (SGX) will add new Asian currency futures contracts on the Taiwanese dollar (TWD/USD) and Renminbi crosses (SGD/CNH, CNY/SGD, EUR/CNH) to expand its current suite of foreign exchange (FX) futures in

the third quarter of 2015, subject to regulatory approval. This is in line with global G20 regulatory reforms in the over-the-counter (OTC) derivatives sector to encourage trading on electronic platforms and exchanges, if appropriate.

The SGX Asian FX futures suite has registered exponential growth over the past year to reach over US\$37 billion in aggregate notional value traded since its launch, with key contracts such as the Indian rupee and Singapore dollar contracts continually setting new volume records. The significant uptake in SGX's Asian FX futures closely reflects the growing demand by global investors to trade Asian FX derivatives on a regulated exchange platform providing greater market transparency and robust price discovery in the Asian time zone.

"Global market participants can continue to draw on SGX's unique platform to fulfil their investment needs and effectively manage their Asia-wide exposures across multiple asset classes in the Asian time zone. We remain focused on product innovations and strategic partnerships to push new grounds in the Asian FX markets," said Magnus Böcker, CEO of SGX.

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# Tech Corner

By Bruno ABRIOUX, FIA Japan Technology Committee Chairman

## “Cloud-Computing“? Back to the fundamentals with some basic technical definitions

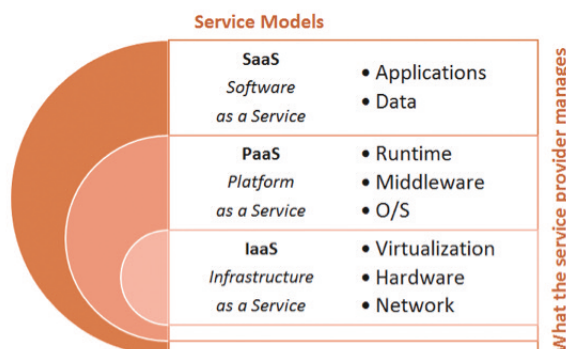
As a follow-up to its January 2015 Tech Corner article, “Toward the commoditization of cloud computing resources”, the FIA Japan Technology Committee has decided to discuss at the FIA Japan Financial Market Conference 2015 the business benefits of adopting cloud-computing technologies for the financial services industry. For the purpose of the panel discussion, “Cloud” was then defined in its broad business sense of moving from a Traditional IT Capital Expenditure model (CAPEX) to an Operating Expenditure (OPEX) model for Technology solutions.

What about the basic technical definition of cloud-computing technologies? Based on the inputs of two of our Technology Committee members, KVH and Equinix, and referring to the NIST (US National Institute of Standards and Technology) definition of Cloud Computing, please find below the fundamentals technical constituents defining cloud-computing technologies at a high-level.

\*Cloud-Computing has five essential characteristics:

- ① On-demand self-service: computing capabilities (CPU, storage...) can be provisioned automatically to the consumer without requiring human intervention with each service provider.
- ② Broad network access: capabilities are accessible at any time in a standardized manner through a variety of client platforms (workstations, laptops, mobile phones...).
- ③ Resource pooling: regardless of their location, the physical or virtual computing resources are dynamically assigned /reassigned based on consumers’needs.
- ④ Rapid elasticity: capabilities can be provisioned automatically in a very short term, matching sudden consumer demands and easing the longer term capacity planning activities.
- ⑤ Measured service: resource usage are monitored and controlled by the service provider and transparently reported to the consumer of the utilized service.

\*Cloud-Computing is composed of three main service models. In a traditional IT management model, all the below components are directly managed by the consumer.



Five deployment models of Cloud-computing coexist:



Cloud infrastructure made available to the general public



Cloud infrastructure operated solely for an organization



Cloud infrastructure composed of two or more clouds that interoperate or federate through technology



Cloud infrastructure shared by several organizations and supporting a specific community



Cloud services that simulate the private cloud experience in public cloud infrastructure

Those high-level technical definitions remains at the core of many discussions and debates amongst technologists themselves and, in any case, are subject to changes or adjustment based on the most recent technology advancement...

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# Future Events

## [FIA/FIA Europe International Derivatives Expo 2015](#)

[June 9-10, London](#)

The FIA/FIA Europe International Derivatives Expo (IDX) convenes over 1,700 global thought leaders for a two-day program showcasing diverse perspectives from exchange leaders, clearinghouse leaders, regulators, traders and the buy-side on a range of issues impacting the derivatives industry worldwide.

## **FIA Japan Annual General Meeting**

**June 2, Tokyo**

We will hold the 27th Annual General Meeting and a reception at the International House in Roppongi on June 2, 2015 from 17:00. This past fiscal year, FIA Japan expanded its activities and programs and plans to continue to grow in the future. We thank our members for their continuous support and would like to seek your active participation in our activities. We look for-

ward to seeing you at the AGM. For more details please contact the Executive Secretary at [morizono@fiajapan.org](mailto:morizono@fiajapan.org)

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## [FIA Asia – Taipei 2015](#)

[May 7, Taipei](#)

FIA Asia is pleased to present our second event in Taipei on May 7, 2015. Join some of the leading players in regional markets, as they discuss post-trade, clearing and collateral management developments as well as RMB internationalization.



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## “Because It Is a New Year”

Japan actually has a couple of “New Year” celebrations within a year. The first one is January 1st following the western calendar. This is the most important day of the year. People tend to be more religious and usually celebrate with their extended families. It is similar to a Christmas and Thanksgiving Day combined. The second important date is April 1st following the educational and fiscal cycle. It also has to do with seasonal factors: The smell and the colors of blooming flowers stimulate all creatures to become more active. At that time, freshmen and new graduates especially are facing big changes and challenges.

When these “New Year” days come up, people tend to start something new as a New Year resolution. This phenomenon applies to the changes in regulations and rules within various fields. On April 1st this year, it was announced on the news that quite a few numbers of food items had their prices increased, mainly due to price hike in ingredients. This is a result of the weakening Japanese yen and the policy changes of the Japanese government that favors inflation in the economy.

The financial industry also faces increased business costs. Due to tightening regulatory requirements to seek a safer environment for investors, not only Japanese Clearing Houses, but also every Central Counter Parties (CCPs) around the world have increased their financial requirements for members and the amounts of default funds for investors. In the meantime, depending on the currency, funding costs have increased due to liquidity and credit factors. Without a doubt, the business environment has become much harder for all participants, as if all were trying to go through the eye of a needle. These changes are quite drastic and accelerating in the recent environment.

Through open forums, FIAJ discusses with regulators and authorities or even other participants to discover how we could ease the burden on all participants to create a fair and transparent market. We are eager to receive innovative ideas and support from our new members and newsletter subscribers. As a new year begins, why don't you join us for a new challenge? Your specialty could contribute to the activities of one of our committees. In return, you may also learn new things in other areas from our own group of specialists.



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# Past Events

## FIA Boca 2015

A record 1,300+ senior-level executives from brokerage firms, asset management firms, international exchanges and regulatory bodies convene in Boca Raton, Florida for the FIA Annual Conference. This is a most prominent and leading strategic conference on the global exchange-traded industry landscape. The three-day conference format contained informative session topics, along with great networking opportunities and social events. FIA Japan President and Vice Chairman also attended this event, and also joined the FIA Board of Directors meeting, discussing our FIAJ activities in Tokyo as well as our planned conference in May. A private Regulators' meeting was also held among international regulators from markets around the world, including representatives from Japan.

The severe problems associated with Dodd-Frank and EU regulations and new capital requirements was a theme reoccurring during the conference. These problems and issues are continuing to plague the industry and will take much more work to resolve.

## 16th Japan International Banking & Securities System Forum 2015

The 16th Japan International Banking & Securities System Forum 2015 organized by G-MAC (ICS Convention Design, Inc.) was held at Royal Park Hotel on February 24. OTC derivatives was the main topic based on the theme of this year: "New trend and risk management under the regulated environment".

The panel discussion on "OTC clearing and regulation, and clearing houses", which was moderated by Mr. Kazuhara, Board Member of FIA Japan and Head of Japan Representative Office CME Group, and the panel discussion on "OTC derivative's shift to electronic trading" attracted a number of participants and made this forum end successfully.

## Market Forum in Osaka 2015

Around 150 persons from security companies of the Kansai area participated in this trader gathering organized by the NPO Market Forum in Osaka on February 27. FIA Japan newsletter flyers were also distributed, including at the CME Group exhibition stand.



Participants networking at the Market Forum in Osaka

## Investment Strategy Fair - Expo 2015

On March 14, the Investment Strategy Fair - Expo 2015, organized by Panrolling, was held at the Tokyo Dome City Prism Hall and attracted 4,668 investors. Keynote speakers included Larry Williams and other foreign experts well-known even in Japan, in addition to over 30 Japanese speakers. The event, supported by 23 exhibitors, featured numerous seminars and made for a very exciting fair.



FIA Japan was originally established in Tokyo in 1988 as a nonprofit organization by foreign and Japanese futures industry participants and later reorganized as a “General Incorporated Association” (“Ippan Shadan Hojin”). It is the only organization in Japan of its type with a membership drawn from the entire cross section of the derivatives industry. It has approximately 60 members representing the various corporate sectors participating in the derivatives industry in Japan. Their Mission is to encourage the growth and success of the Japan financial marketplace and its development as a regional and global financial center.

## FIA Japan Recent Activities

### FY2014 Editorial Board Report

In fiscal 2014, the Editorial Board published five 16-page bilingual editions (bi-monthly except July). In addition to our usual contents, we were able to include regulatory updates from Europe thanks to the collaboration of FIA Europe as well as SFOA. We have printed roughly 2,100 hard copies of either the full newsletter or 1-page bilingual flyers that were distributed at 15 major industry events globally. Our electronic circulation has been stable at 28,000 contacts thanks to the collaboration of FIAW, FIAA, JPX, TFX, TOCOM and KVVH. We also have started a [newsletter blog function](#) that we will continue to develop and animate this year.

In FY 2015, our objectives are:

- 1/ Increase our electronic circulation by developing our network of partner companies
- 2/ Reconsider our sponsorship offering and sponsor approach to rebalance our budget
- 3/ Continue with the new “Newsletter Blog” function on the FIAJ website
- 4/ Improve our translation quality through the hiring of professionals, minding costs

Apart from improving communication within the Association, the larger objective of the Editorial Board is to promote the development of the Japanese markets, to the benefit of all of our members, by publishing/distributing concise and pertinent information to a broad audience. We welcome participation in our Board by any professional who share this objective. Finally, we'd like to extend our deepest appreciation to our group of volunteers, without whom our Editorial Board would not function, as well as to all who have participated in the making of these editions by either providing fact-oriented contents or by spending valuable time working on the editorial process and/or translations.

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