



Winds of Change

Photo: "Japanese Koinobori"; see page 15 for an explanation.

Topics of the month

New Risk Management Regulations and Reporting Requires Enhanced IT Tools
JPX Derivatives Markets Successfully Integrated



Regulatory news

Commodity Regulators Proposal to Relax Customer Solicitation Rules

People Interview

Sean Lawrence, CEO ABN AMRO Clearing Tokyo, Co., Ltd.

Comments on the Growth of the Japanese Financial Markets



Sean Lawrence

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CHAIRMAN'S MESSAGE

Moving Forward ... But Much More Needed

Mitch Fulscher, Chairman, FIA Japan

As I read the articles in this edition of the newsletter, I can't help but feel a sense of positive movement in the development of the Japan financial market. For example, the JPX successful integration of the TSE and OSE derivatives markets. Consolidation of the markets on the J-Gate platform was completed right on time as originally scheduled. This followed the consolidation of the clearing operations of the two exchanges enabling cross margining, and completing the merger of operations of the two exchanges. The clearinghouse, JSCC is now also acknowledging the need to strengthen its risk management functionality in response to user needs.

New products are also being developed by the exchanges, including the new JPX- Nikkei Index 400. This is significant in Japan since its basis includes company criteria, such as ROE and corporate governance.

In the commodity sector, METI just announced a proposal to relax their very restrictive sales solicitation rules which has impeded the growth of the commodity markets. Clearly METI recognizes the importance of working to help the commodity industry in Japan to further develop and become more successful. They are also working to amend the laws to permit the development of new energy products including LNG and electricity. The commodity regulators and the financial market regulators are even meeting regularly with each other in order to work together for the growth of the financial markets overall. This is certainly a positive development!

FSA also is working to enhance both supervision and communication related to cross border activities. They signed a new memorandum of cooperation with the CFTC to help facilitate this cooperation. Also very recently, FSA established their "Asian Financial Partnership Center" in order to reach out and take leadership to strengthen partnerships and cooperation among Asian countries. These developments should be viewed as a part of the broader movement strongly influenced by the Government with its plan to establish Tokyo as a financial center for Asia.

But there is more to do

As pointed out by Sean Lawrence in our People Interview article following, "there are a lot of problems within our industry that we are not focusing on." He notes that there is much to be done by industry members and exchanges to deal with inefficiency and outdated practices which result in high costs of doing business in Japan and creates "barriers of entry". At the same time, Prime Minister Abe and his growth strategy is now often criticized by overseas commentators as "moving too slow" or "less than successful" to date. We are all watching to see if the significant "third arrow" will materialize. Particularly the need for action to address corporate taxes and the agriculture reforms as well as the other structural improvement targets stated in his government manifesto.

So indeed, things are actually moving in the right direction. But so much more to do. Let's all work together to make things happen. Japan's future is at stake.

Commodity Regulators Proposal To Relax Customer Solicitation Rules

On April 5, METI and MAFF announced a proposed amendment (Ministerial Ordinance) to the Cabinet Order for the Commodity Derivatives Act, which includes the relaxation of solicitation rules over commodity futures trading. The current rules in the commodity sector have been in place for a number of years but are much more restrictive than the comparable rules for securities solicitation. Under the proposed amendment, the number of cases that can be exempted from the solicitation rules is increased. For example, solicitation of new customers is permitted for persons experienced in “high-risk transactions”, such as FX or derivatives, or margin transactions in securities etc. However, for persons without experience in commodity derivatives, solicitation is only allowed on the condition that the customer is less than 70 years old and the contract includes a “cooling-off period” clause of 7 days.

In response to this proposal, on April 8, the Consumer Commission of the Cabinet Office submitted written comments stating its opposition to the proposed amendment expressing certain concerns.

Meanwhile, the FSA decided not to include a solicitation ban on commodity derivatives trading on a “Comprehensive Exchange”. However, its other restrictions and regulations will apply: Obligation to verify consent for solicitation; ban on continued solicitation after a refusal; obligation to verify consent before soliciting customers with no trading experience (by any methods other than phone or visits. i.e: holding investment seminars, advertising, E-mail, direct mail, etc). For existing customers with a trading experience, the solicitation consent can be obtained through any method, including phone and visits.

FIA Japan has recently responded to the regulators’ request for public comments (FIAJ comments are available upon request to the FIAJ office).

FSA and CFTC Sign MOC to Enhance Supervision of Cross-Border Regulated Entities

On March 10, 2014, the Financial Services Agency of Japan (“FSA”) and the US Commodity Futures Trading Commission (“CFTC”) have entered into a “Memorandum of Cooperation related to the supervision of cross-border covered entities” (“MOC”), in relation to cooperation and the exchange of information for the supervision and oversight of regulated entities that operate on a cross-border basis both in Japan and in the US. With a particular emphasis on “protecting investors and customers”, “fostering the integrity of and maintaining confidence in the financial markets” and “reducing systemic risk”, the FSA and the CFTC expressed their willingness to work together to fulfill their respective regulatory mandates regarding the derivatives markets.

The scope of the MOC extends into regulated markets and organized trading platforms, central counterparties, trade repositories, and intermediaries, dealers or other market participants. The MOC is comprised of 10 Items, including those prescribing the conditions and procedures for information sharing and periodic meetings between the authorities, and on-site visit by an authority to a Cross-Border Covered Entity residing in the other authority’s jurisdiction.

Financial Futures Association of Japan (FFAJ)

The Japanese financial market historically has been structured with separate laws with separate regulators overseeing the market participants based upon the individual product being traded (i.e. silo structure). As a result, there are also separate self-regulatory organizations ("SROs") protecting the marketplace. For example, securities markets versus commodity markets versus interest rate and foreign exchange futures markets (formerly part of the banking sector) are separately covered. Similarly, trust products and insurance products are treated separately.

The following article focuses on the so-called "financial futures" sector which initially covered interest rate and foreign exchange futures when they were originally introduced in Japan by TFX. FFAJ is the self-regulatory organization overseeing this sector. Recently we visited with Keizo Goto, the managing director of this SRO, together with his senior management, and asked them to describe their organization and the changes and improvements they have been making.

FFAJ was founded in 1989, turning into a “General Incorporated Association” in 2012, and was originally dedicated to exchange-listed financial derivatives trading. Its primary mission is to ensure the protection of investors and its activities include

audit and mediation as well as conducting research on the markets. FFAJ has been extensively enhancing its operations, following the addition of OTC financial derivatives under its jurisdiction in the late 2000's. It is one of five SROs prescribed by the Financial Instruments and Exchange Act (FIEA) and is also mandated by the regulator for the registration of sales representatives. FFAJ publishes various trade statistics on financial derivatives on its website (<http://www.ffaj.or.jp>), such as monthly statistics on the OTC FX market, or quarterly statistics for listed financial derivatives traded by its members (on both foreign and domestic exchanges). FFAJ also conducts other related studies. Mr. Yamazaki, head of the Research Department said: "We particularly focus on analyzing currency trades."

Since the market turmoil in 2008 and the massive regulatory changes that followed, the FFAJ office has been busy drafting a number of rules for OTC products, such as OTC FX trades and currency binary options, with the involvement of FFAJ members. "We are always making rules while enforcing existing ones. We've also developed various ways for auditing and monitoring," explains Mr. Yamashita, the head of the Audit Department.

FFAJ finalized its Annual Business Plan for fiscal year 2014 at its General Meeting held on March 28. The plan calls for preparing educative programs for investors to be, as well as the further enhancement of investor protection measures prescribed in the Personal Information Protection Law.

Currently, the Association is now tackling various tasks to keep compliant with the new legal regime as well as to balance its budget in the medium term. "We are always trying to be more effective in terms of monies and time. We need to do so in order to secure resources to tackle new objectives," declares Mr. Mugishima, the head of the Executive Department.

Mr. Goto, FFAJ's Senior Managing Director, concluded: "We are clearly a small SRO. We are aware of this and always welcome suggestions to offer a better service to our members. 'Better Service' is one of our fundamental commitments and keeps our organization going."



From left : Tetsuo Yamazaki, Head of Research Dept. Hiroshi Yamashita, Heade of Audit Dept. Keizo Goto, Managing Director. Kouichiro Mugishima, Head of Exective Dept.

Topics of the Month

New Risk Management Regulations and Reporting Requires Enhanced IT Tools

Following the global regulatory changes, the industry in general has been faced with the challenge to respond to this new environment (in terms of analyzing data, reporting etc.) and technology providers have been rolling out new products in response. For example, the Basel III regulations on capital have convinced many market players to outsource some of their IT infrastructure to specialized vendors. Asked about these developments, SunGard CTO Steven Silberstein commented: "For speed of implementation, cost and simplicity, we are seeing more clients shifting towards our hosted solutions, leveraging our build-in cloud SOA (Service Oriented Architecture) solutions, and this trend is well on its way in Asia, now our fastest growing region. The regulatory complexities have also made our risk management solutions, such as Adaptiv, very attractive to our clients." Looking deeper into the details, the challenge brought by those regulatory changes lies in the ability for systems to process more and more data, over an increasing number of complex scenarios, while shortening the time delays in order to recognize risks in the most accurate manner. From Silberstein's point of view, coping with this technological challenge requires ISVs to move toward advanced technologies such as HPC (High-Performance Computing) or GPU (Graphical Process Unit)-based computing method.

Even though Japan is still seen as a high-tech country, the trading industry has been lagging behind other major financial centers in terms of technology. The reasons for this are multiple, but the traditional approach of managing IT environments through intermediates, such as System Integrators, as well as the deeply-entrenched closed legacy systems may be obstacles to the deployment of packaged solutions interfacing with existing systems in place. Moreover, approaching risk comprehensively (be it credit risk, counter-party risk or market risk) requires financial institutions to think and work transversally, often on a global scale, much

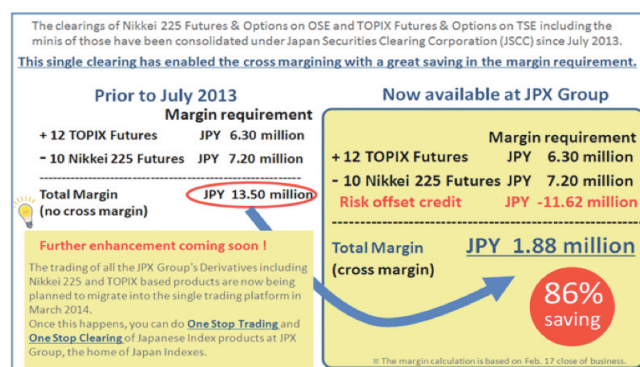
beyond the traditional business silos. This has usually come as a challenge for certain Japanese organizations to adjust their approaches toward a comprehensive view of risk. However, this is all changing: the Japanese financial industry is now moving towards a revamping and upgrading of their various IT solutions. Mr. Silberstein noted that “as the market evolves, the technological environment is maturing in Japan.”

JPX Derivatives Markets Successfully Integrated

On March 24, Japan Exchange Group (JPX) successfully integrated the derivatives market operated by Tokyo Stock Exchange into that of Osaka Exchange (formerly Osaka Securities Exchange), and all trading operations have been consolidated onto J-GATE. The integration significantly enhances market convenience by bringing a wide range of derivatives products, including those based on Nikkei 225, TOPIX, and Japanese government bonds, onto a single platform and aligning the close of the night sessions of all derivatives products to 3:00 a.m. the next day.

After the integration, daily average volume of mini-TOPIX Futures notably increased by approximately 75%, compared with before the integration.

Following last July's cash equity market integration and consolidation of self-regulatory and clearing operations, the derivatives market integration completes the consolidation of JPX's operations. The single clearing, which was achieved prior to the derivatives market integration, has enabled cross margining between TOPIX Futures and Nikkei 225 Futures, resulting in savings for the margin requirements. Market participants are expected to enjoy a further convenient and reliable market infrastructure.



Diversification for Changes By Chika Nakamura, ABN Amro Clearing

A recent TV program explained that various industries in Japan have grown their profits by diversifying into side businesses. For example, Audio-technica--a leading company producing microphones and headsets--is the second largest manufacturer of Sushi making machines for 'conveyor belt sushi' [Kaiten Sushi] restaurants. As another example, the photo film maker Fuji Film is making large profits from cosmetic products. These products were introduced because they had to survive when the demand on their main products drastically dropped. Even if the new products are totally different, they were actually created based on their core technologies and knowledge. Audio-technica used to produce record players, but following the birth of CDs, the demand went down significantly. But thanks to the technologies used in making record players, they were able to create machines which can produce sushi rolls with a certain amount of air included, in order to maintain both the softness and an attractive form. In the other example, Fuji Film remodeled Collagen, which is the main element used in photographic film, and expanded its applications into beauty products.

In the financial industry, we have seen a few paradigm shifts in the past - from open outcry to system trading, from the stock bubble to the commodity boom, from voice executions to online trading, from domestic retail investors to foreign corporate investors, from click trading to automated algorithmic trading etc. It is a natural phenomenon led by innovation and technological progress. One of FIA Japan's role is to inform participants of changes occurring in the financial industry – how regulations could be amended to accommodate the shifts in the industry, or how changes in regulations will impact the industry.

Recently, FIA Japan itself is realizing the necessity to expand its activities and reform to ensure the continued success in meeting our mission and goals. The explosion of new global market regulations and extraterritorial reach, requires us to have greater interaction and communication with the FIA Global organization (FIA Washington recently restructured into a global association encompassing FIA Europe and FIA Asia). Our FIA Japan study groups and committees were already reformed to recognize the changing environment. For instance, the Commodity Study Group is focusing on how to increase trading volumes in Japan, and the Technology Committee is analyzing required updates to trading systems in order to comply with recent regulatory changes. As the industry is changing, FIA Japan is also diversifying to help reinvigorate innovation and mindsets in the financial industry.

Lawrence Shares his Thoughts on the Growth of the Japanese Financial Markets



Sean Lawrence

CEO of ABN AMRO Clearing Tokyo, Co., Ltd.

Sean Lawrence is CEO of ABN AMRO Clearing Tokyo, Co., Ltd. He has worked in Asia since 1997, most of the time in Japan but also in Singapore, Hong Kong and partly in the UK. ABN AMRO Clearing specializes in high frequency, high volume, straight through processing clearing for market makers and proprietary trading firms and ranks #1 by clearing volume on many global exchanges.

Sean is also a Director on the Board of FIA Japan and the Chairman of the Market Operations Committee.

FIAJ: What growth do you foresee in the Japanese financial markets?

ABN AMRO Clearing is the largest volume clearer and creator of ETFs in Japan, and we see growth of ETFs as a major development for the next few years. You may recall that ETFs have only been active for 2 or 3 years since the issuers began providing more accurate underlying data in digital form, and asset managers began adopting common procedures and protocols to allow for easier processing of creation/redemption. We very much welcomed both of these ‘market reforms’.

However, ETFs still only occupy a 5% market share of traded volume of equities in Japan, which we think could grow much more. Particularly if the institutional buy side (Japanese asset managers) were to enter the market, they might be a more active user of ETFs which can be ‘tailored’ to their individual risk appetite requirements.

Plus we anticipate some organic growth in JGB and Topix derivatives, since they have migrated to the OSE, because of the

simple fact that the marginal cost to trade JGB and Topix derivatives has fallen so much. For investors of OSE Nikkei, it is almost ‘zero cost’ to add the JGB and Topix contract to trading engines and so you should see more investors enter JGBs and Topix as a result.

“we see growth of ETFs as a major development for the next few years”

FIAJ: Do you see any limitations to growth?

There are a lot of problems within our industry that we are not focusing on. Problems that will limit growth and we should be addressing them.

When we compare the prices charged by US and European brokers equivalent to 1 jpy per lot, we see that prices charged by brokers in Japan are unreasonably high. Why is that? The reason is due to inefficient and outdated practices in the Japanese financial market. Some broker firms use old systems and services, and pay for those on a ‘per transaction’ basis, rather than on the basis of single annual license cost. This matters because if software and services are purchased instead on a ‘license’ basis, then an economy of scale with a self reinforcing motivation is created (i.e: the more volume generated, the

“prices charged by brokers in Japan are unreasonably high, due to inefficient and outdated practices in the Japanese financial market”

cheaper the cost per trade. And then the cheaper the cost per trade, the more volume is created. And so on). Some broker firms are unwilling to change for a variety of reasons. Partly because they cannot afford to reinvest since volume has been low for so long and partly because they have not invested in technology in

the past, and so they don't have the skill set and experience to do so. But also because the whole industry suffers from the problem of inertia.

Take for example the problem of pricing by the Central Clearing Parties and Depositories. They have arcane and incredibly complex pricing schedules. Investors cannot understand these pricing schedules and have long complained to change them; CCPs and Depositories should simplify their pricing to make it understandable and cheaper to code/process. This would facilitate growth and lower cost per trade. But the CCPs and Depositories won't change because some broker firms have old systems and can't afford to upgrade to a new scheme.

Another structural inefficiency in the market is the different clearing processes for different assets underlying within the same asset class. For example, taking only the securities law (for which there is a common law), there are large differences in process and practice between clearing JGB securities at JGBCC and clearing equity securities at JSCC. Or processing derivatives at TFX compared to equity derivatives as JSCC, and also (separately again) fixed income derivatives at JSCC. Also, very large differences between clearing 'on exchange' equity securities at JSCC and 'OTC' equity securities at JASDEC [Japan Securities Depository Center].

These examples demonstrate the inefficiency and high cost which is a barrier to creating economies of scale that the Japanese financial market needs to grow. The current situation does not allow a marginally decreasing cost to trade that investors require.

FIAJ: What improvements to the market should be made?

Take the good example of exchange execution pricing. Generally, exchanges have adopted either simple per unit pricing (e.g. yen per lot) or even better, progressive pricing where the price gets cheaper if more volume is transacted. Whilst these schemes still have some complexity, they demonstrate a pricing model which facilitates growth. I think many participants in the Japanese financial market should consider similar changes.

Additionally, I think there are still many 'barriers to entry' which make it harder to attract new investors and the list is well known: the Permanent Establishment tax liability question, the absence of meaningful bust rules, the inefficient market for goods and services in technology, the absence of meaningful 'remote membership' scheme in Japan. Plus of course the 'silo' between securities and commodities remains in a practical sense. This is another demonstration of the structural inefficiency that exists in the Japanese financial market. Consider for example a commodity broker that wishes to diversify into securities. Whilst the law now theoretically allows the broker to diversify into securities, the broker still has to reinvest in separate systems, another guarantee deposit fund, another compliance officer, etc, etc, in order to clear securities. The 'barriers to entry' would be far lower if commodity derivatives and securities derivatives were cleared with the same rules, process and practice at the same single CCP. Such an arrangement would provide a lower marginal cost for the broker who wanted to diversify, and would promote growth by allowing more brokers to offer more products.

Lastly I would like to think that there are two noticeable absences in the Japanese financial market:

Firstly the absence of the large brokers in Japan in the discussion of growth strategy for the industry. It seems like all the initiatives are coming from the FSA,

“The current situation does not allow a marginally decreasing cost to trade that investors require”

who is a regulator. This situation is like JP Morgan or Goldman Sachs not being present in debates on the growth strategy of the US financial market. The large brokers need to be more visible and active in the discussion of growth strategy.

Second is the absence of the Japanese institutional asset managers in the revival of the Japanese financial markets.

Whilst the government is making a huge effort to kick start the economy and support the development of the capital markets, the institutional asset managers are not participating in investing Japanese money into Japanese companies. Japanese institutional asset managers need to be more active in investing in the future of Japanese Companies.

“Japanese institutional asset managers need to be more active in investing in the future of Japanese Companies”

FIAJ: Thank you for sharing your valuable insights with FIA Japan.

Committee Activities

Market Development Committee

Chairman Yoshio Kuno

To reach out to retail investors, Market Development Committee (MDC) joined the Investment Strategy Fair organized by PanRolling on March 15, together with some FIAJ member firms exhibiting at the event. Our speaker, Mr. Kosaka of HSBC, made a presentation for approximately 250 retail investors on the subject of High Frequency Traders and Algorithmic Trading, explaining the general characteristics of HFTs and Algo Trading. The event itself had over 3,400 visitors.

This was the very first time for FIAJ to join an activity focusing on retail investors.

Technology Committee

Chairman Bruno Abrioux

As previously reported, the FIA Japan Technology Committee conducted market research on Trading and Clearing Test Environments and gathered recommendations supporting higher quality deliveries for any company involved in the development and Quality Assurance of trading/clearing solutions. The document was finalized on

April, 16. You can find an executive summary of this report in the « Tech Corner » section of this edition and the full report on the FIA Japan website ([Click here to Download The Report](#))

In parallel to the Market Research activity, our Committee is finalizing the invitation for its first 2014 roundtable set for May 22. The selected topic is « How to recognize "Risk" due to investment or trading time horizon when using ATS (Automated Trading Solutions)? ». The roundtable will feature a presentation by Dr Yoon, researcher specialized in ATS and Risk and founder of CMDLab and aims at generating constructive discussions among attendees. If you are interested in joining this event (Japanese language only), do not miss out the coming invitation and check out the « Future Events » section of the newsletter!

Commodity Study Group

Makoto (“Mac”) Sugitani, Group Leader

FIAJ Commodity Study Group (CSG) supported a couple of domestic seminars and one webinar held by TOCOM to promote energy contracts and spread transactions at the exchange. The CSG participated in discussions for the events, reviewing the agendas and contents of the presentations, and also provided speakers for each event held in February and in March. We received positive feedback

from participants, requesting more seminars on other topics like gold, rubber, etc. and also requesting a rerun of the energy seminar but “in-house” for those who could not attend at TOCOM.

The first webinar was also held in April with a live presentation made to overseas participants, located in the APAC region. The initial part of the presentation was introducing our commodity markets, and was followed by a more specific part on energy and spread transactions.

The Group continues to focus on communicating with the exchange members, sharing ideas to improve sales and trading activities, amongst a still tough business environment. We are also working aggressively to attract international business and raise global awareness of our commodity markets. Following up on our above-mentioned seminar series, we are currently planning similar events in May and in June.

Exchange News

JPX

Launch of JPX-Nikkei Index 400 Futures

OSE will be launching JPX-Nikkei Index 400 futures to respond to strong investor demand. The contract will start trading by the end of November 2014, depending on the state of preparations among trading participants. The JPX-Nikkei Index 400, jointly developed by JPX, Tokyo Stock Exchange, Inc. and Nikkei, Inc., was launched on January 6, 2014 and is composed of companies considered as highly appealing for investment purposes, which were selected based on criteria including ROE and operating profit.

Since the launch of its publication, more than 20 new ETFs, publicly offered investment trusts and other products track the index. With a market whose total NAV has already grown to nearly JPY 90 billion (as of April 24, 2014), demand has been rising for a futures market to facilitate more sophisticated asset management operations.

Japan Securities Clearing Corporation - Highlights of Business Review

In FY2013, JSCC achieved a number of key business objectives aimed at enhancing the competitiveness of markets by improving the efficiency, serviceability and safety of Japanese post-trade processing infrastructure.

JSCC began clearing derivatives contracts executed on OSE, enabled the off-setting of margin as well as unifying settlement operations, which has resulted in improved funding efficiency and a reduced operational burden for Clearing Participants. Additionally, JSCC started clearing OTC JGB transactions, following its merger with JGBCC, and expanded the scope of its client base by launching IRS client clearing.

JSCC is striving to strengthen its risk management functionality, and as such has increased the frequency of risk exposure revaluation for listed derivatives and implemented real-time clearing for IRS transactions.

In order to facilitate the use of JSCC by overseas clearing participants, JSCC began its applications for registration as a DCO, with the CFTC in the US, and for recognition as a Third Country CCP by ESMA in the EU.

TFX

Mid-term Business Plan

On April 23, Tokyo Financial Exchange Inc. (TFX) announced its new three-year mid-term business plan starting from fiscal year 2014. As a comprehensive exchange for financial derivatives, TFX stated that its mission is to contribute to the promotion of economic growth from the financial business side, by offering attractive products and services, and by vitalizing the financial markets. With regards to its business strategies, TFX sets out such goals for its interest rate futures business as revitalizing the mid-term delivery contracts of 3M Euroyen futures and developing a product on interest rate swaps. For Exchange FX margin contracts (Click365), it aims at expanding its user base to institutions and overseas participants, as well as establishing a new currency futures market for institutional investors.

TOCOM

SCO Trades on Inter-Commodity Spreads in Oil Markets

TOCOM started offering Standard Combination Orders (SCO) on Inter-Commodity Spreads in the Oil and Chukyo-Oil Markets on March 24. This implementation enabled market participants trading crack spreads, which aims at profiting from the differential between the price of crude oil and petroleum products extracted from it, to simultaneously execute orders at the intended spread. TOCOM hosted seminars and webinars to promote a better understanding of the benefit of crack spreads.

Update on Trading Hours and First Trading Day from July 2014

TOCOM will update trading hours and contract specifications to offer increased trading opportunities in July 2014, pending regulatory approval.

Firstly, trading hours will be adjusted from July 22 so that the break between the day session and the night session will be between 15:15 JST and 16:30 JST, or shortened by 15 minutes. The new overnight opening corresponds better with active European trading and the adjustment should be of particular benefit to these market participants.

Secondly, TOCOM will adjust the First Trading Day for a New Contract Month. From July 25, it will start from the night session immediately following the Last Trading Day of the current contract month (currently, trading begins with the day session on the first business day following the Last Trading Day of the current contract month).

TOCOM and DME Agreed on Collaboration in Energy Area

TOCOM and DME signed an MoU on March 12 to strengthen their cooperation in promoting the development of energy contracts, in particular crude oil which is listed on both exchanges. The two exchanges will explore several areas of cooperation ranging from joint marketing activities to collaboration to enhance their respective role as providers of key benchmark Asian crude, with the objective of boosting trading activities in both markets.

As part of its priority business initiatives, TOCOM strives to establish a comprehensive energy market, on

which LNG and electricity futures will be listed, as well as to launch an OTC trading platform and OTC clearing services. The strengthened relationship with DME is expected to contribute to the achievement of such goals and benefit the energy industry.

OTHERS

CME Europe Officially Opened

On April 27, CME Europe has officially opened for business, launching with a full suite of FX products as well as biodiesel. Building on the capabilities of CME Clearing Europe and its European Trade Repository, CME Group can now provide its European and Asian customers with a complete offering tailored to their specific trading, risk management and regulatory needs.

CME Group Launches Educational Website

CME Group has launched FuturesFundamentals.com, an innovative educational website to help explain the role of futures markets in everyday life. With easy-to-understand content that everyone from students to experienced market participants will find useful, Futures Fundamentals.com takes investing concepts like futures, hedging and speculating and shows how they play an essential role in the world around us. The site incorporates interactive elements like video and quizzes, as well as a host of infographics designed to simplify complex market topics. The goal of the site is to make financial education an engaging experience for anyone, regardless of how well versed they are in the world of finance.

NASDAQ OMX – JPX System Integration

NASDAQ OMX Group finalized the system integration project for J-Gate of Osaka Exchange, which has been using its prominent trading system CLICK XT™, for Japan Exchange Group to integrate two derivatives markets into one. The new J-Gate successfully started its operations on March 24. NASDAQ OMX Group is pleased to provide support services to J-Gate and would like to contribute to the further expansion of the market.

Future Events

FIA Japan Annual General Meeting

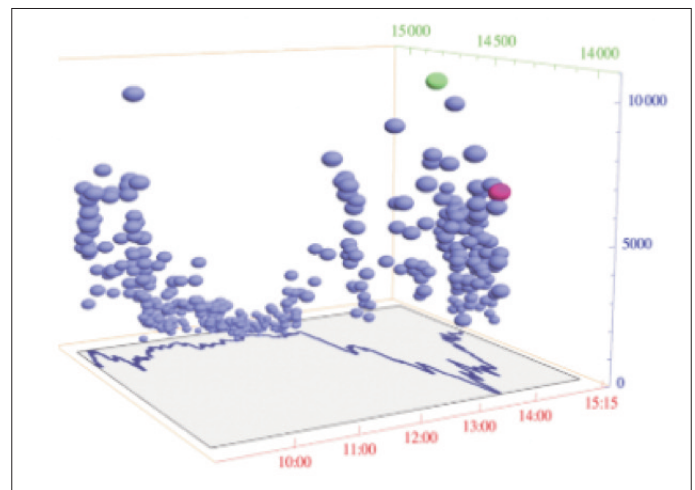
May 28, International House

FIA Japan will hold its 26th Annual General Meeting at International House in Roppongi on May 28, 2014 from 17:00. The meeting will be followed by a reception starting at 18:15 and we invite all of our members and guests to this event. FIA Japan expanded its activities and programs and continues to grow further. We thank you for your continuous support of FIAJ and would like to encourage your active participation in our activities. We look forward to seeing you at the AGM. For more details please contact the Executive Secretary at morizono@fiajapan.org

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agers subject matter experts on ATS. Attendees should show a good command of the concept of Demand and Supply in "Principles of Economics" by Alfred Marshall and of Black-Sholes equation (Partial Differential equation form). The roundtable participants will be invited to share their views and expertise after the presentation is conducted (in Japanese only). For more details please contact events@fiajapan.org



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2014 will be an important year for cross-border rules as Europe becomes the next frontier in global regulation. Join FIA and FIA Europe to discuss current issues, network with colleagues and meet with exhibitors to see the latest industry products and technology.

More than 1,300 senior-level executives from intermediaries, exchanges, clearinghouses, regulatory agencies, service providers and members of the press will be in attendance. Join this distinguished group of delegates today!

FIA Japan Tech Roundtable "How should we recognize "Risk" due to investment or trading time horizon when using Algorithmic Trade Solutions (ATS)?"

May 22, SunGard Japan Offices

Our roundtable will feature a presentation by Dr Yoon, researcher specializing on Algorithmic Trade Solutions and Risk and president of CMD Laboratory Inc., and aims at gathering engineers, advanced investors, researchers or risk man-

FIA Asia Seminar

May 20, Hong Kong

FIA Asia is holding an interesting seminar at the Exchange Auditorium in Hong Kong on May 20. An impressive group of experts will be assembled to discuss two of the most relevant issues in our industry today: High Frequency Trading and the recent developments in Cross-Border trading.

Past Events

FIA Japan Legal and Regulatory Committee Seminar

As a part of our seminar series, FIA Japan's Legal and Regulatory Committee held a seminar titled "Outside Looking In: the Territorial Reach of Regulatory Reform & the Re-Shaping of the Financial Markets" on February 25 at Merrill Lynch Japan Securities Co., Ltd.

Senior officers from Bank of America Merrill Lynch in New York delivered presentations for FIA Japan members and their guests on OTC clearing, followed by a panel discussion where they were joined by senior officials from Depository Trust & Clearing Corporation and Japan Securities Clearing Corporation.

After the seminar, members and guests enjoyed networking time along with drinks. FIA Japan will continue to hold similar events for its members in the future.

Thank you to our sponsors:



Top: FIAJ Chairman, Mitch Fulscher
Mid-left: BoAML Peter Jaeger; Mid-right: DTCC Andrew Douglas
Bottom: Panelists relaxing at the reception (left) and sharing their views on the panel (right)



FIA in Boca Raton Florida

FIA Boca is the major annual international event held by FIA in Boca Raton Florida each March. This year's event was a major success with over 1,000 delegates attending. Most participants are senior management, with over 55% of the delegates VP level and higher. Over 20% of the delegates are from outside the US. There were over 50 exchanges represented and there is a growing number of participants each year representing the buy-side of our industry.

In addition to the timely subjects relating to risk management and the regulatory turmoil affecting our industry, the conference program included a private session for international regulators, with 42 international regulators joining the meeting.

15th Annual Japan International Banking & Securities Systems Forum

On February 27th, FIA-Japan hosted a keynote panel discussion on Trends in Financial Regulatory Reform, at the 15th Annual Japan International Banking & Securities Systems Forum, held at the Royal Park Hotel. Yasuo Mogi kicked off the discussion, which focused on Clearing and CCPs. The distinguished panelists were Toshihide Endo, Deputy Director-General of the Planning and Coordination Bureau of the FSA; Hironaga Miyama, President and CEO of the JSCC, Sean Lawrence, CEO of ABN Amro Clearing Tokyo Co. Ltd., and Satoshi Yoshida, MD, Corporate Planning Dept, Daiwa Securities. Peter Jaeger moderated the discussion, which was animated, informative, and received much positive feedback from attendees.

Release of Market Research Report on Trading and Clearing Test Environments

FIA Japan Technology Committee is glad to share the results of its Market Research on Trading and Clearing Test Environments. The recommendations gathered in the report aim at supporting higher quality deliveries by companies involved in the design, coding, implementation and maintenance of trading and clearing systems. The feedback and practices have been collated over the past months from Japanese and Foreign brokers and Financial Industry Technology companies and firms who are operating in overseas markets, through survey, internet research and direct feedback. Comments from FIA Japan Market Operations Committee and Market Development Committee have also been taken into account for the report. As such, FIA Japan considers that the ideas presented in the document are a fair, balanced and representative view of opinion.

The best practices and recommendations gathered during the Market Research have been classified under six distinct categories: Recommendations on Test Environments Types, Test Environments Accessibility, Test Environments Availability, Test Environments Functionality, Test Environments Cost and Other Recommendations not falling in the previous five categories. As a key take-away, we could quote the fact that all participants to the survey have stressed the importance of having access to both “exchange’s current version” test environment and “exchange’s next release version” test environment, especially during exchange migration preparation phases. Participants have also converged to say that, in order to be considered as offering “standard test capabilities”, test environments provided by exchanges should be an exact replica of production environment in terms of API versions and available features, including business process flows (as opposed to technically/functionally-restricted environments or simulators that only offer “basic test capabilities”). Market research participants have also expressed the common need for being able to extensively access the exchange test environment during critical phases of major exchange releases, implying as well the early access to a detailed test session calendar. Participants with non-Japanese speaking Development, Quality Assurance, and/or Project Management teams were also unanimous in recommending a timely release of English-written API specifications, exchange briefings in English, as well as the availability of an English-speaking support team on the exchange side.

By sharing those concrete suggestions, our objective is to further foster a constructive exchange of ideas between all market participants on how to reduce operational risks related to trading and clearing solutions, aiming thus at increasing the safety, stability and overall attractiveness of the Japanese financial markets. As a next step, the FIA Japan Technology Committee intends to present those recommendations to FIA Asia and FIA Washington so that this work can be used as a basis for further reflections much beyond Japan. The committee will also arrange some specific walkthrough meetings with the Technology Teams from any exchange interested in discussing further this topic.

[Download the full report by clicking here](#)



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

Seminar Series

Since our last edition, FIA Japan and its committees have organized or supported a number of successful seminars/webinars, which are in line with our stated mission to educate the marketplace. As reported in our Past Events section, the topics ranged from OTC trading to cross-border regulations, high-frequency trading to crack-spreads etc. Moving forward, our committees are already working on implementing numerous other events, with the support of FIA Japan.

Newsletter Update

At its last meeting, the Editorial Board agreed to modify its traditional bimonthly format and to move from a 6-edition to a 5-edition per year editorial schedule. Accordingly, please note that we will not issue a July edition.

Note: The FIA Principal Traders Group (PTG) based in the US has recently published a paper entitled “[Debunking the Myths of High Frequency Trading](#)”.



About the cover page picture -
“Koinobori”: meaning “carp banner” in Japanese, Koinobori are carp-shaped windsocks traditionally flown in Japan to celebrate Tango no Sekku, a traditional calendrical event which is

now designated as a national holiday (Children Day). These windsocks are made by drawing carp patterns on paper or cloth and are then hung outdoors to flutter in the wind. Landscapes across Japan are decorated with koinobori from April to early May, in honor of sons, for a good future and in the hope that they will grow up healthy and strong.

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*Actual records for fiscal 2013

Contact us: editor@fiajapan.org