

FIA Japan Newsletter

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Takayuki Sumita, *Director-General for Commerce, Distribution and Industrial Safety Policy, Ministry of Economy, Trade and Industry*



PRESIDENT'S MESSAGE

Thank You

As I prepare the President's message, I found myself being thankful for a lot of things...First of all, we have finalized our affiliation agreement with FIA.

The AGM held this past May and the subsequent FIAJ SGM in September, as well as the Board meetings of both FIA and FIAJ, will now allow the two organizations to sign an affiliation agreement at FIA Expo on October 19, 2016. The strengthening of the relationship is a culmination of work that involved many. Mitch Fulscher and Yasuo Mogi showed great leadership bringing consensus within FIA Japan over the years to make this all possible. Koichiro Ohashi provided needed legal advice and helped guide us through the legal agreement. Many others within FIA Japan provided advice and valuable time. Special appreciation goes to Walt Lukken, FIA President and CEO, who reached out to understand our needs and explained clearly the concerns of FIA, allowing the agreement to move forward quickly.

FIAJ has been instrumental in organizing Round Table Discussion sessions with JFSA and the members of the FIAJ Proprietary Trading Study Group. FIAJ felt that with HFT gathering attention in the news, a venue that will provide the regulators to ask frank questions to HFT participants will benefit the industry. The feedback from both the regulators and PTSG members proved that the forum benefited both parties. Walt Lukken flew in from the US to participate in the first round table this past May and added great value to the meeting. PTSG will be submitting their response to the Public Comment request of JFSA on HFT in the coming days. Chip Clairmont has been the moving force in driving this effort as he leads the PTSG.

We see new activities taking place in the market. METI and TOCOM have been actively engaged in the development of new energy markets for LNG and Electricity. We believe that price discovery and a risk hedging vehicle is a must. TFX has started to consider engaging in OTC FX clearing, addressing a critical market need. We should be thankful that the Japanese exchanges are engaged in new business activities as this will lead to business opportunities for everyone in the financial industry.

Finally, the FIAJ Technology Committee is looking to challenge our assumptions on Cloud Computing in the Financial Industry, in collaboration with our Legal & Compliance Committee. Utilizing Cloud resources in the financial sector is a balancing act between security/control and cost/flexibility. FIAJ understands that market participants must be accountable to the regulators in rolling out any new infrastructure. The Technology Committee has taken a bold step in starting to address the needs of the market to start utilizing Cloud Computer resources.

I appreciate the time and resources the members contribute to our efforts towards further developing the Japanese markets.

I truly appreciate the dynamic nature of FIAJ. The contribution made by its members is making FIAJ more and more relevant to the industry, helping Japan become “The Center” for financial markets in Asia. It is my strong belief that it will happen because the participants involved are working together to make it so.

Michael Ross,
President - CEO, FIA Japan

Takayuki Sumita

Director-General for Commerce,
Distribution and Industrial Safety Policy,
Ministry of Economy,
Trade and Industry (METI)



METI Discusses Road to Establish Comprehensive Energy Market Contributing to Stable Energy Supply

In May 2016, the G7 Kitakyushu Energy Ministerial Meeting was held ahead of the Ise-Shima Summit and the “Kitakyushu Initiative on Energy Security for Global Growth Joint statement” was adopted there. In response to the changes of the LNG supply and demand landscape, including the start of LNG exports by the US and the full liberalization of the Japanese electricity and gas market, the Ministry of Economy, Trade and Industry (METI) issued its “Strategy for LNG Market Development” regarding future actions for stable LNG procurement. FIA Japan had an interview with Mr. Takayuki Sumita on strategies surrounding the establishment of an energy market including LNG.

Changes in LNG trade leads to vitalize futures market

FIAJ: Japan is the largest LNG importer in the world. METI’s “Strategy for LNG Market Development” states its aim to develop Japan as a center of LNG transactions and price formation. Implementation of the market is important in the light of price formation. When do you think the market will become active?

The LNG futures contract was launched in September 2014 on Japan OTC Exchange (JOE), but it has not been actively traded. We have discussed with the Agency for Natural Resources and Energy and compiled the “Strategy for LNG Market

Development”. As you indicated, it states that Japan should endeavor to develop an internationally accepted LNG trading hub in terms of trading and price formation.

To your question on when LNG futures may become active, I understand we should look at several significant changes which could break the current situation lock. As Japan is the largest importer of LNG, what strategies the Japanese importers may have and what actions they may take would be key for the LNG futures market.

FIAJ: What are the significant changes happening to LNG trading in Japan?

One of the changes is the increase of spot trade after the

Great East Japan Earthquake in 2011. Due to the suspension of operations of nuclear power plants, Japan fell into a situation where it must import large amounts of LNG. A stable electricity supply is a must for the daily lives of Japan's citizens as well as for the industry. The amount of Japan's LNG import increased from 70 million ton before the Great East Japan Earthquake to 88 million tons. The increased amount was largely procured through spot and short term contracts. The change in LNG trades, where long term contracts had been predominant, could increase needs for LNG futures hedging.

If we look at an estimate of LNG trading for the next few years beyond next year, as new long term contracts were concluded responding to the increasing demand of LNG after the Great East Japan Earthquake etc., it is estimated that Japan's LNG supply through long term contracts will exceed the demand, therefore Japan may have excessive LNG. Japanese utility firms have always acted as buyers so far, but there could be a case where they may start to become sellers. This is the second important change in landscape. It has been said that Japanese futures markets lack sellers, therefore trades were difficult to execute, but large sellers may appear in Japan.

In addition, there is a change in the physical receiving terminals. The capacity of Japan's receiving terminals is about 18.5 million kilo liter today. This has increased by more than 5 percent in the last three years and will increase by another 5% in the next couple of years. This means that LNG storage facility will have more space and LNG owners could have more strategic stocks. This will back up spot and futures transactions and realize a physical market with delivery, which is different from theoretical trading. Moreover, we have started to consider how we could store vaporized LNG in depleted gas fields.

The "Strategy for LNG Market Development" indicates that most reliable price indices should be based on actual trades rather than on estimates. From this perspective, we are aware that TOCOM started to consider adding a spot trading function.

Those various changes have the possibility to vitalize the futures market. It is important for the futures market to prepare itself to implement functions when the physical transactions become active. The start of clearing services by CME in March 2016 is an example of such efforts.

When establishing electricity futures market, product design must be deliberated

FIAJ: Tokyo Commodity Exchange (TOCOM) is preparing to establish an electricity futures market. Electricity is an important part of a country's infrastructure as is LNG. Could you talk about the factors that can make an electricity futures market successful?

The biggest factor for the success of an electricity futures market is to provide a trading platform and product design that is required by those who have actually been trading and will be trading electricity. It is important to understand the current needs and predict future needs, and introduce systems which meet such needs and create an environment where it is easy to trade. TOCOM carried out a mock electricity futures trading session in mid-June where 19 companies participated, including electricity companies and trading houses. I heard that TOCOM will reflect this result into its systems and market design from now on, while participants get the knowledge and know-hows needed for trading futures.

FIAJ: Japan Electric Power Exchange (JEPX) has been operating physical power trade. Can you tell us about it?

JEPX operates a spot power market, which accounts for about 2% of the total amount of electricity sales. The spot trade is anticipated to increase from here on, and then demand of futures will also increase. If the futures market is structured based on the size of a 2% physical market, this may be insufficient in the future. We need to consider the market mechanism in case the spot market expands to 10%.

FIAJ: TOCOM targets listing electricity by March 2017. What are your thoughts?

I have heard that this is a target date. If reasonably achievable, that is fine, but more importantly, the market must satisfy the needs of the participants. Rather than making a snap decision just to achieve this target, I think designing a good market which is appreciated by many parties should be the priority, and such



market should be sustainable.

TOCOM should contribute to Japan's stable energy supply as a comprehensive energy exchange

FIAJ: Lastly, we would like to know your view on the vitalization of the commodity futures market.

TOCOM represents Japan's commodity futures market, but a premise is that TOCOM is a for-profit company operated soundly in a sustainable manner.

TOCOM listed a new type of contract, the so called Tokyo Gold Spot 100, in May 2015, which has been recording stable volume, and also launched a gold physical market at the end of July 2016. Healthy operation is more important than anything else for TOCOM as it revitalizes the market by expanding products and participants. Needless to say that marketing which adequately reflects the needs and requests of investors continues to be necessary.

With the idea that trading should not be impeded by over-regulation, while at the same time securing the safety of individual investors, we revised the Ordinance for Enforcement of the Commodity Derivatives Act and relaxed solicitation rules with regards to the restriction of unrequested solicitation last year. This is to secure investor protection as well as to increase liquidity which is fundamental to the market.

Energy is special among other commodities, as ensuring stable energy supply is an indispensable state responsibility for the life of citizens and economic activities. If energy futures markets

becomes solely speculative, the whole nation comes to face huge risks. Appropriate order must be ensured in futures market as well. On the other hand, it will be a problem if the market becomes unattractive to non-commercial players and does not become active. You might say that is a Japanese style, but I think we can only move forward step by step. It is ideal if we start a market with primarily commercial players and then have the percentage of non-commercial players gradually increase. I would expect to build mechanisms which facilitate the gradual increase of transactions; although trades are not extremely active from the beginning, the percentage of non-commercial players would steadily increase, and the market would not be volatile due to speculative trades and a certain level of market order is maintained.

Due to the nature of energy products as described above, it is necessary to have a comprehensive energy market listing various energy contracts. I expect TOCOM will act to revitalize commodity futures ideally as a one-stop energy futures exchange by adding LNG and electricity futures.

FIAJ: Thank you very much.

Mr. Takayuki Sumita has served as Director-General for Commerce, Distribution and Industrial Safety Policy responsible for oversight over commodity futures market among other duties since July 2015. Prior to this assignment, he was Director-General, Oil, Gas and Mineral Resources, Agency for Natural Resources and Energy of METI from June 2013 and engaged in new energy policy making after the Great East Japan Earthquake. From 2009 to 2013, he was Executive Director of Japan Machinery Center Brussels. He has experienced various responsibilities in METI, including in the area of environment policy, energy policy, innovation, specific industry policy for software and IT. Mr. Sumita received a B.A. in law from the University of Tokyo in 1985 and an M.S. from Georgetown University in 1993.

FSA holds “Fintech Seminar” jointly with Nikkei

The Financial Services Agency (FSA) and Nikkei partnered and hosted a global Fintech (i.e: Technology servicing the financial industry) Summit on September 20-21, 2016 in Tokyo. The

summit aimed to widen to a global audience the current and potential FinTech innovations happening in Japan and in Asia and to encourage the expansion of its ecosystem.

FIA Comments on Indian Regulator's Automated Trading Proposals

On 31 August, FIA responded to the Securities and Exchange Board of India (SEBI) discussion paper on algorithmic trading and co-location. FIA stressed the importance of establishing risk controls designed specifically for electronic trading and encouraged SEBI to consider the detailed risk control recommendations put forward by FIA in several recent white papers.

FIA also urged SEBI to reconsider measures that restrict the ability of market makers to adjust their pricing, saying this

would lead to reduced liquidity and higher costs for investors. A better approach, FIA said, would be to work with exchanges to improve surveillance and establish appropriate risk controls to prevent market disruptions.

FIA also urged SEBI to carefully consider the consequences before attempting to change market structure, and warned that even small changes can have wide-reaching effects.

Further details are available [here](#).

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Ignite your ambition

FIA Japan Affiliation with FIA: To be Formalized at FIA Expo 2016

We are very pleased to announce that FIA Japan will be formally signing a plan for affiliation with FIA. Leadership from FIAJ and FIA will share the details of the affiliation during the 32nd Annual FIA Futures & Options Expo in Chicago on October 19, 2016 (see details of Expo later in this edition). FIA is extending an invitation to the signing ceremony to all members

of FIAJ and their delegations who wish to attend (please contact the FIAJ Office for details). While at Expo, several FIAJ Officers and Committee Chairmen are planning to meet with their counterparts at FIA to consider how to further increase collaboration between the two Associations.



FIAJ New Directors

FIA Japan elected new board members and new officers for FY 2016 at its Annual General Meeting in May. Two additional board members were also elected at a Special General Meeting (SGM) held on September 8.

Mr. Yoshio Kuno, one of the founding members of the Japan Chapter of FIA in 1988, retired from the board. During his dedicated years at FIA Japan, he had led the Association as President and was actively involved in various committee activities as a chairman. After his retirement, he will stay as an Honorary Member to the Association.

Mr. Jay Sapsford also resigned from the board following his transfer to Washington D.C. In addition to having been on our Executive Committee, he was involved in several of our committee activities and played a central role in our Editorial Board.

Standing directors were reelected and the newly elected board members were as follows:

- Koji Shimamoto, Director and Executive Vice-President, Societe Generale Securities Japan Limited (replaced at the SGM by Ramir Cimafranca - Managing Director, Head of Prime Services)
- Takato Hirai - Vice President/Head, Capital Markets Sales Asia Pacific, Colt Technology Services Co., Ltd. (elected at the SGM)
- Farid Moslehi - Managing Director, KCG Asia Pacific (resigned from the board in August 2016)
- Shin Shinozuka - Individual Member
- Mikio Sugihara - General Manager, Nasdaq, Tokyo Office
- Akira Tagaya - Director, Derivatives Market Planning and Derivatives Business Development, Osaka Exchange, Inc. (part of JPX Group)

Mr. Bruno Abrioux was newly appointed as a member of the Executive Committee. For a full list of our new leadership, please refer to the FIAJ Board of Directors on the last page.

OSE's New J-GATE Launched JPX

Osaka Exchange–JPX Group (OSE) launched their new derivatives trading platform, New J-GATE, on July 19.

Along with the launch of the New J-GATE, OSE extended their Night Session (NS) by moving down the close from 3:00 am to 5:30 am. The NS covers not only equity trading hours in NY but also foreign events that may cause market fluctuations such as FOMC's statement announcements. These extended hours were utilized by investors immediately after the launch,

and 4.5% of NS trading volume came from these hours in August.

OSE introduced new products, rules, and functionalities with that launch. They continue to strive for reliable and convenient market and aim to fully utilize the new platform for further improvement of their market in order to contribute to all stakeholders.

Celebrated 10th Anniversary of Nikkei 225 Mini JPX

OSE celebrated the 10th anniversary of the Nikkei 225 mini on July 18. Since its debut in 2006, its average daily volume grew by around 20 folds to become one of the leading derivatives products worldwide (*1), with its popularity reaching both domestic and foreign institutions and also retail investors as an efficient and accessible tool for risk hedging. Also, trading during the Night Session, which reflects real time trends such as of US/European markets or currency exchanges, is expanding year after year.

Futures of Nikkei 225 are tradable at several exchanges. OSE accounts for more than 70% of the share (*2) and continues to provide trading opportunities for Japanese equities as the mother market of Nikkei 225.

*1 Nikkei 225 mini is the third most traded equity index futures in the world after E-mini S&P500 and Euro Stoxx 50 (FIA volume ranking, 2016 1Q)

*2 Trading volume in 2015 (OSE)

Sets Up FinTech Development Office TFX

On June 1, Tokyo Financial Exchange Inc. (TFX) has created a new specialized team: FinTech Development Office, which is driving services relating to financial technology (FinTech). At the same time it has established a cross-sectoral project team "FinTech Development Committee" within the organization.

While the financial industry has been actively investigating the

opportunities that FinTech presents, TFX will study blockchain, big data, AI, and digital currencies through communications and joint researches with firms that are strong in these fields and seek a way to utilize FinTech in order to improve convenience for its market participants.

Debuts DJIA-based Equity Index Margin Contracts TFX

On June 27, TFX has launched new equity index margin contracts based on Dow Jones Industrial Average (DJIA) on its Exchange equity index margin contracts (Click Kabu 365) market.

It is no doubt that the visibility of DJIA, one of the major world stock indices that Japanese retail investors follow daily with great interest, did contribute to draw attention to the new product, but a unique feature of Click Kabu 365 which enables its users to trade American and European equity indices in

Japanese yen, also helped attract trades from the first day. Just about one month after its debut, its total trading volume surpassed 100,000 contracts (20% share in the whole Click Kabu 365 market) and open interest reached over 45 billion yen (at market value on August 18, total of sell and buy trades). Taking advantage of the new product launch for the first time in nearly 5 years, TFX has stepped up its promotional campaigns on this unique market, appealing its features and usability via seminar events and media.

Organizes OTC FX Clearing Study Group TFX

On August 12, TFX announced the set up of the study group “FX Clearing study group” which discusses ways to improve the safety of OTC FX trading of today.

Leveraging its knowledge and experience gained through operating the listed margin FX market (Click 365), TFX aims

to establish a new clearing scheme for OTC FX trading which helps maintain stable liquidity in the market and strengthen its risk management mechanism. Representatives from 24 firms such as FX brokers, major securities firms and foreign financial institutions participated in its first meeting held on August 30.

Updates Gold Options Contract Specifications TOCOM

TOCOM updated Gold Option contract specifications in conjunction with the launch of a new trading system on September 20. A new feature is that they are now European-type options, meaning in part that the updated rules for final settlement method has positions settled in cash instead of being exchanged for the underlying commodity.

Also, buyers’ losses are limited to the total premium and designated fees. Such “stop loss transactions” are not subject to a

ban on unsolicited offers, and are suitable for marketing to retail investors. Additionally, the trading unit is now 100g and a six-contract-month system is in place, which extends the maximum length of trading to approximately one year. These changes have made options more attractive to retail investors.

TOCOM has embarked on an active promotion campaign that includes education for market participants including retail investors and FCM sales persons.

Accelerates Relationship Building with Chinese FCMs to Enhance Market Participation TOCOM

In view of the importance of the Asian markets and the Chinese economy in particular, TOCOM has made strong efforts to develop ties with exchanges and market participants in China. Since last year, such efforts have resulted in the signing of a Memorandum of Understanding (MOU) for building cooperative relationship with some of the leading futures brokerages of China and their subsidiaries in Hong Kong. Examples include Nanhua Futures, Huatai Futures and CITIC Futures International.

In the MOUs, TOCOM and the Chinese brokers agreed to collaborate on mutually beneficial business opportunities. They will also pursue projects to increase market liquidity, reliability and operational efficiency. The Chinese brokers have either acquired or are applying for remote broker memberships and the two parties intend to roll out marketing campaign including seminars.

Taiwanese Regulator Recognizes Gold Rolling Spot as “Eligible Foreign Futures” TOCOM

TOCOM’s Gold Rolling Spot Futures contract has been recognized by the Financial Supervisory Commission of Taiwan (FSC) as “Eligible Foreign Futures” for Taiwanese traders.

Since Gold Rolling Spot launched in May 2015, trading volume and open interest has steadily increased to make it one of the most actively traded commodities on the Exchange. In August, monthly volume accounted for 15.6 percent of the

Exchange's total volume. At the end of the month open interest was over 110,000 contracts.

At TOCOM, international customer trades constitute approximately half of exchange trading volume. TOCOM intends to capitalize on this development by actively promoting its market to Taiwanese investors with local brokers. This will include seminars and a marketing campaign.

Technology Committee **Chairman Bruno Abrioux**

With the collaboration of FIA Global, the Technology Committee has released an English / Japanese Executive summary of the comprehensive “Guide on the Development and Operations of Automated Trading Systems” published by the Automated Trading Committee of the FIA Market Technology Division. You can download it [here](#):

While looking at recent technology shifts that have helped accelerate the Fintech buzz, we can surely point to cloud computing that has seen an exponential adoption within the Financial Services Industry (FSI). Nonetheless, regulations surrounding the use of Cloud Computing in FSI still vary a

lot from one jurisdiction to another, leading to some obvious compliance concerns when operating technology at a global or even regional scale. Therefore, in association with the Asia Cloud Computing Association, the FIA Japan Technology Committee would like to propose jointly with the FIA Japan Legal & Compliance Committee a seminar and panel discussion covering this very specific topic of regulatory framework for the cloud computing use in the FSI. You will find more details on this event planned on November 1, 2016 in the “Future Events” section of this newsletter.

Commodity Study Group **Chairman Mitsuhiro Onosato**

Since the last edition of the newsletter, CSG has been meeting regularly to discuss several key issues, including the followings:

Impact of Brexit on Financial Industry:

Following the UK vote to exit the EU in June 2016, industry players including regulators and exchanges have been interested in the impact it may have on the markets. In particular, FX rates since then have been very volatile, but there seems to be less impact on commodities, except for a positive one on gold trading volume. The committee noted that London is still the main financial center in Europe, with a clear advantage in terms of time zone over other European cities. In the short term, uncertainty may yield trading opportunities, but if it continues in the long term, the whole industry may shrink as less investors would be trading.

Updates on Efforts to Launch an Electricity Futures Market:

METI established the Council on Electricity Futures Market in March 2015 and drafted contract specifications for an electricity

futures contract in June last year. Because of the existence of the two different grid frequencies--50Hz in eastern Japan and 60Hz in western Japan--only a limited amount of electrical power transmission is possible across the two regions. In the draft specifications, it was suggested to start with a “system price” (i.e: price determined based on nationwide supply and demand for electricity) and adopt an “area price” later. However, since the restart of nuclear power plants in western Japan, a significant difference of prices between the two regions began to emerge. Under such environment changes, as part of the preparation for listing electricity futures, TOCOM conducted mock-trading sessions in June 2016 using Nasdaq’s electricity futures trading system, X-STREAM, and as a result, TOCOM decided to reconsider introducing “area price” contracts from the start.

TOCOM keeps contact with the 19 companies that participated in the sessions in order to gather their opinions, not only on the system itself but also on the overall project.

Proprietary Trading Study Group **Chairman Michael Ross**

With the support of our Market Development Chairman, Richard (“Chip”) Clairmont, PTSG has been holding numerous meetings to discuss the contents of its response to the request for public comments regarding the FSA’s Working Group on Financial

Markets. The PTSG response focuses on the points raised by FSA around HFT.

A finalized response is planned to be submitted to FSA early this fall.

FIA Japan Annual General Meeting

FIA Japan held its 28th Annual General Meeting and reception at the International House on May 26.

At the meeting this year, the Budget and Business Plan 2016 and the Dues Structure were passed and approved by the members. New board members including five new directors were appointed.

At the reception following the meeting, we welcomed and enjoyed cocktails and buffet with about 90 of our members and guests. Mr. Takayuki Sumita, Director-General for Commerce, Distribution and Industrial Safety Policy, Ministry of Economy, Trade and Industry, made a speech on the energy market. Following that, the Board of Directors announced the retirement

of Mr. Yoshio Kuno from the Board. Mr. Yoshio Kuno is one of the founding members of the Japan Chapter of FIA in 1988. The Board of Directors thanked Mr. Kuno for his many years of contribution and presented him a gift and flowers. The Board also handed over a gift to a representative of Mr. Seiya Inoue who has retired from the board earlier this year. Mr. Ross, FIAJ President-CEO, commented that he would like to continue to make efforts to enhance services to our membership and to strive to add more value to our members.

Gold Sponsors:



FIA and FIAJ officers in the garden of International House



Top: retiring director Yoshio Kuno is presented with flowers by FIA and FIAJ officers
Bottom: FIA President and CEO Walt Lukken



Top: FIA Japan officers at the AGM
Bottom: FIAJ members and guests gathered at the reception

FIA Japan Special General Meeting and Summer Party

FIA Japan held its Special General Meeting (SGM) and Summer Party on September 8. Out of a total of 56 members, 35 members attended including 11 proxies and ballots. Chairman Junichi Maruyama welcomed the members and thanked the Gold Sponsors of the reception; JPX, TFX, TOCOM and Nasdaq, Tokyo Office.

As reported earlier in this edition, the first agenda was the proposal to approve the affiliation with FIA and amend the Articles of Association accordingly. Mr. Ohashi, Secretary, made

the proposal, which was unanimously passed and approved by the members. The members then unanimously authorized our Representative Directors to execute the License Agreement with FIA in October.

The second agenda was to elect directors. Mr. Izumi Kazuhara, Chairman of the Nominating Committee, proposed to elect Mr. Takato Hirai of Colt Technology Services Co., Ltd. as a director. Mr. Yasuo Mogi, Vice-Chairman, then made a motion to propose an additional candidate, Mr. Ramir Cimafranca of Societe Generale Securities Japan Limited, to be elected as a director following Mr. Koji Shimamoto's resignation from FIA Japan Directorship. Both proposals were approved by the members.

After the closing remarks by Mr. Mike Ross, President – CEO, the Summer Party was held at the same venue. There were 109 participants to the party, including members and their guests, including from regulatory bodies and representatives of industry organizations.

Gold Sponsors:



FIA Japan members at the Special General Meeting.
Below: FIAJ Vice-Chairman Yasuo Mogi

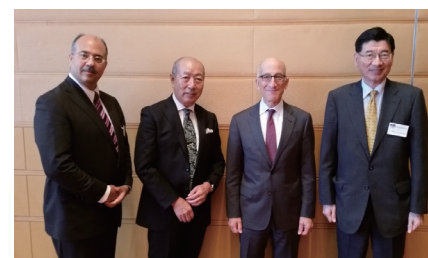


FIA Japan members and guests are welcomed to the Summer Party by FIAJ Chairman Junichi Maruyama (top left) and FIAJ President - CEO Mike Ross (top right)

FIA Japan Hosted CFTC Seminar

FIA Japan welcomed CFTC Chairman Massad for a keynote speech on June 3 at the American Club in Tokyo. Around 115 members and guests attended the event, during which Chairman Massad commented on issues ranging from clearing houses bilateral recognitions and margin harmonization, to international regulations on SWAPs, to the effects (or none thereof) of recent regulations over global market liquidity. During the Q&A session, questions covered the potential need for a “SWAP code of conduct”, unintended consequences of newly introduced regulations, and the coordination of regulations on Automated Trading Systems.

The seminar was very well received by attendees and was followed by a lunch buffet.



Top: CFTC Chairman Massad delivers a keynote speech to FIAJ members.
Bottom: Chairman Massad with FIAJ Officers (left to right: Mike Ross, Yasuo Mogi, Junichi Maruyama)

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

In the past couple of years, cloud computing services have been expanding exponentially, including in the financial industry, due to numerous factors such as the cost/benefit proposal and the flexibility it offers. However, the financial industry is one of the most tightly-regulated industries, and many companies have found it difficult to make the move to the cloud as a result. Also, regulations surrounding cyber security or the handling of customer data differ dramatically from one country to another, though policymakers are working to rectify this policy gap to ensure companies are able to innovate by adopting new technologies like cloud computing.

Join us on November 1 for this seminar on Cloud Computing Services Usage by the Financial Services Industry: Business Models and Regulatory Approach.

Date/Time: 1 Nov 2016, 16:30-19:00 followed by networking session

Venue: Greenberg Traurig Tokyo Law Offices (GT Law), 14F Meiji Yasuda Seimei Building 2-1-1 Marunouchi Chiyoda-ku, Tokyo Japan

Co-Hosted by: Futures Industry Association Japan (FIA Japan) and the Asia Cloud Computing Association (ACCA)

Supporting Organizations: Equinix, Greenberg Traurig Tokyo Law

This dialogue will observe Chatham House Rules. This dialogue will have simultaneous translation between English and Japanese. Registration is required (contact the FIAJ Office for details).

■ **32nd Annual FIA Futures & Options Expo 18 - 20 October, Chicago** 

Expo, held each fall in Chicago, is the largest futures industry event in the world. More than 5,000 people visit the exhibit hall that showcases the latest products and services. Seminars address regulatory and brokerage issues, trading systems and strategies, as well as operations and technology. Further details are available [here](#).

■ **12th Annual Asia Derivatives Conference 6 - 8 December, Singapore** 

The FIA Asia event focuses on the derivatives industry in the Asia-Pacific region, featuring information exchange sessions as well as panel discussions with industry leaders from around the region.

Over 700 senior-level executives, managers and regulators attend. The three day conference provides ample opportunities for interaction with distinguished speakers and networking with fellow participants.

Further details are available [here](#).



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Japan Domestic Exchanges: Follow-up on the Most Recent Initiatives

Last February, the FIA Japan Technology Committee released to a global audience a webinar created jointly with Osaka Exchange –JPX Group (OSE), TOCOM and TFX presenting the Japan domestic exchanges main initiatives for the following 12 months. (You can access the webinar [here](#))

Now that we have reached the middle of the Japanese Fiscal Year 2016, our committee went back to the three Japan domestic exchanges asking them to assess the progress on their previously announced plans.

First, on July 19, Osaka Exchange launched their new trading platform, New J-GATE. OSE has long recognized the importance of technology and has been adopting the trading system provided by Nasdaq since their former J-GATE in 2011. According to OSE, one of the main reasons for the decision to adopt Nasdaq's technology was to take advantage of what was then the state of the art in international derivatives markets. Now, OSE adopted their Genium INET Trading for the New J-GATE, bringing the exchange to the forefront of technology.

Here are some of the key benefits introduced by this system launch in more concrete terms:

- Bringing performance and reliability to the world's highest level

Adoption of Nasdaq Genium INET Trading

The New J-GATE provides better capacity and latency. The former J-GATE took two milliseconds to process an order message, but the New J-GATE takes 100 microseconds (average response), which is 20 times faster. The former J-GATE could process up to 12,000 orders per second, but the new J-GATE can process as many as 100,000 orders per second, which means order processing capacity has risen by eight folds.

Responding to the Global Demand of Risk

Management

OSE has implemented TradeGuard*, a Pre-trade Risk Check function which is mandatory for all trading participants, to further strengthen the reliability of the market.

* TradeGuard is a function which risk-checks the orders entered by trading participants before they are accepted by the Exchange. If the check result exceeds a defined threshold, the order will be automatically stopped.

- Improved accessibility

Connection Interfaces

OSE provides API* to make it easy for their users to connect to Genium INET Trading, the exchange's system.

* API (Application Programming Interface) facilitates the construction of systems through OSE providing the same procedure for the connection to the exchange's system.

Enrichment of Market Information

For Market Information provision to their investors, OSE supports ITCH protocol, the global standard protocol for Multicast Market Information distribution, making the New J-GATE the most deterministic trading platform.

Co-location Service

OSE provides JPX Co-location (all) Service. The service allows market participants to connect to all of the JPX trading systems and the Market Information System (arrowhead, J-GATE, ToSTNeT, and Market Information System).

Benefits of this migration extended to another exchange. TOCOM launched its new system on the New J-GATE on September 20. Network connectivity with JPX has enabled TOCOM to offer investors a one-stop marketplace for commodities and financial products. It is expected that the system upgrade will attract financial derivatives traders who participate on OSE.

As far as TFX is concerned, its spokesperson has highlighted that it had just started considering its next generation of exchange system as it had been almost three years since the last upgrade of the current system. For the new system, it is expected to include functions that improve usability of the market participants.

As a conclusion, if we were to compare the overall exchange-related technology and connectivity situations for the three main Japanese derivatives exchanges between 2006 and 2016,

we can only highlight the clear shift from a highly complex and fragmented landscape (different matching engines for each exchange with distinct APIs, access through point to point leased lines with no unified connectivity ring...) to a more homogeneous set-up, simplifying thus the technical access for every participants.



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FIA Japan Business Plan for Fiscal Year 2016

The FIAJ Business Plan for 2016 was presented and approved at the FIAJ AGM in May. It is structured to continue to aggressively support our mission to promote Japan as a regional and global financial center, as outlined below.

Information Dissemination and Education:

In 2016, we will continue to disseminate information on the Japanese markets to a wide audience and to educate both members and the general public on key issues affecting our industry. In addition to our well-received newsletter, we have put new tools in place to help us achieve this mission, such as a webinar capability and updated our website to offer a blogging function.

FIAJ will continue to organize or participate in live seminars on topics affecting both our members and the industry in general, inviting first-class experts to speak and share their views with the audience. Following the success of our major Financial Market Conference 2015, we will consider whether we should organize this type of international event on a regular basis to

attract attention to Japan and help grow its markets.

Committee Activities:

Our committees have a variety of important projects they plan to achieve in 2016, including educative objectives, tackling regulatory and operational/technical issues that currently impair the development of the Japanese markets. Under our Proprietary Trading Study Group (PTSG) initiative launched in May 2015, we have been able to attract more buy-side firms to the Association, who provide valuable input to our activities while expanding our overall membership.

Interaction with Regulators:

Consistent with our Mission to encourage the growth of the financial markets in Japan, we intend to continue to enhance our communication with the financial market regulators, particularly through regular meetings with officials from FSA, METI, etc. We offer views on behalf of the derivatives and financial market industry to help the industry expand and to help Japan become a leading financial center for Asia.

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If you have any questions regarding the contents of the newsletter, please contact the Editor (editor@fiajapan.org) or the FIAJ Executive Secretary.



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.

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