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## CHAIRMAN'S MESSAGE

### Overcoming Japan's "Silos" -- Government Action?

Japan's historic regulatory and market "silo" structure, together with other tax and regulation issues, resulted in the failure of Japan to become Asia's financial center. While the other global exchanges have grown exponentially, the Japan markets have fallen far behind. However, Prime Minister Kan's Cabinet recently announced a strategy to help Japan become an Asian hub for global business. This strategy includes the formation of a "comprehensive exchange" for East Asia, which would trade all types of financial instruments and commodities. The separate regulators - FSA, METI and MAFF - are requested to meet together to work out a framework for this development.

The subject of forming a "comprehensive exchange" was taken up several years ago by the Abe administration, but nothing materialized. However, the laws were amended that now permit the trading of products across the existing silos. Exchanges would be permitted to merge or form holding companies or otherwise cooperate both domestically and internationally. The problem is that there still exist separate rules, reporting requirements and other jurisdiction issues separating these silos making it difficult for market users.

Notably, changes are currently taking place in the commodity exchange sector. C-Com announced they will cease operations of its market and TOCOM will prospectively take over trading of some of its products. Further, TGE, the agricultural products exchange, was asked by the commodity market industry association to also turn over its trading to TOCOM. If so, then TOCOM would become the only significant commodity exchange. However, within the commodity sector alone, there are two separate independent regulatory agencies overseeing futures trading of (1) agricultural and (2) industrial products, so it is not easy to eliminate the silos even within this sector. The recent Cabinet proposals could overcome regulatory resistance in this area.

There are other positive developments among Japan's exchanges. There are new FSA requirements that mandate clearing certain OTC financial products on a clearinghouse. Both TSE and TFX have proposed to take this on. Similarly, clearing of OTC commodity products should be considered. Some discussions regarding cooperation among financial and commodity exchanges have been reported in the past. A Joint Venture between TSE and TOCOM was already established to plan for trading of emissions contracts. These are positive developments, but we still have a long way to go yet to make the changes necessary to position Japan in the global markets. To do this, we need the government and regulators to cooperate, and the exchanges to act aggressively.

FIA-Japan will consider the proposals announced by Kan's Cabinet and we will offer our comments and recommendations. The current marketplace needs change. The requirements of the users of the markets must be the focus leading to change. Market users today are not well served due to the silo structure and the onerous regulatory requirements that are a part of this structure. The existing tax and regulatory problems will continue to keep Japan from becoming a global financial center. Change is needed now.

Mitch Fulscher  
Chairman, FIA-Japan

The Japanese government is taking the lead in mandating CCP facilities for OTC products. The clearing of Interest Rates Swaps via JSCC (planning a link to LCH.Clearnet) is on the agenda with a target date of Q4-2012, as well as the clearing of CDS on I-Traxx via JSCC for which JSCC is planning to be ready early (expected from Q2-2011). FIA Japan FIC will work closely with the Clearing-House task force on this issue.

Risk Management and High Performance Direct Market Access in Japan remains high on the agenda of the committee. In coordination with the Risk Management Committee of FIA Asia, FIA-J FIC held a third round of discussions with Japanese exchanges in April and May 2010, and plans to meet again with them in the third quarter.

The recommendations paper issued by FIA in April ([http://www.futuresindustry.org/downloads/Market\\_Access-6.pdf](http://www.futuresindustry.org/downloads/Market_Access-6.pdf)) was the basis of discussions with exchanges which are now considering whether and how to implement these recommendations.

Japan Exchanges Night Sessions that are to be extended this year (OSE until 11:30pm from July, and TOCOM until 4am from September) raised an issue that FIA-J FIC is looking to clarify. In particular it remains unclear whether securities firms were subject to rules / regulations that would require the physical presence of a Registered Representative on site during the extended trading hours.

The issue was raised with Japanese exchanges (TSE, OSE, TFX, TOCOM), and replies received did not clearly confirm a strict requirement for member firms during extended market hours (except for execution purposes), suggesting further confirmation need to be sought from JSDA and CFAJ.

On a separate and positive note, all exchanges did take into account the importance to have English speaking staff at exchanges during evening sessions to support foreign trading participants and member firms, as well as improving the availability of products and procedures information on their exchange website in English to further enhance the necessary level of support.

## People Interview

### ***Interactive Data 7ticks - Mr. Adam Florzak Director of Business Development***



**EB: Tell us about Interactive Data's 7ticks' business and your plans in Japan?**

Interactive Data 7ticks is actively building its 7ticks business' co-location, proximity hosting, and direct exchange access offerings in the Asia Pac region, and Japan is a central part of that plan. The first phase of this expansion involves linking Tokyo to the Hong Kong and Singapore markets, as well as extending services across our global backbone from Tokyo to the U.S. and London. This expansion can help our clients in Asia to benefit from the cost-effective deployment and management of our global electronic trading infrastructure.

**EB: your website shows that 7ticks was recently acquired by Interactive Data. Can you tell us about what this means to you and your clients?**

We're excited to join the Interactive Data team. 7ticks built a solid reputation for the insight and transparency of our managed services, and since our ultra-low latency network was primarily U.S. centric, the acquisition by Interactive Data can give us the opportunity to replicate this expertise in the global markets. Interactive Data also provides some powerful offerings that our clients can benefit from, including global exchange data on over 6 million securities from more than 450 sources as well as extensive reference data.

**EB: As you expand in Japan and the region, could you share with us any thoughts that you have on the experience – Positive or negative?**

Our expansion into Japan is a "work-in progress", and so far we are extremely pleased with the welcome and cooperation we have received. When many traders in the U.S. or Europe think of trading in the Asia Pac region, it is often assumed that the barriers to entry are very high. However, our goal is to help simplify these complexities by offering a managed service that can bring additional order flow to the region, while also enabling traders in Asia to have efficient access to electronic exchange destinations in the U.S. and Europe.

**EB: As a highly successful global entity, what steps do you think could be taken in Japan to encourage foreign investment and market participation?**

Japan seems to be headed in the right direction. The TSE’s Arrowhead platform has received worldwide accolades for its capacity and latency profile, which seems to be spurring other exchanges to take similar steps towards improving performance. It would be fantastic to see Japan continue this trend by taking the lead in innovative risk controls and access requirements that can help streamline the process for market participation.

**EB: Any additional thoughts?**

We’re entering Japan with a humble spirit, desiring to learn and enthusiastic to participate. FIA Japan has been an encouraging resource to us, and we hope to continue this collaboration and knowledge to share with other firms in the region. We look forward to meeting and working with many of you in the coming weeks and months.

## Past Events

### **FIA FOA IDX 2010**

The Futures Industry Association and the Futures and Options Association held the third annual International Derivatives Expo in London on June 8-9. This year’s event boasted more than 45 exhibits, plus high profile speakers (including Xavier Rolet, the chief executive of the London Stock Exchange) and information-packed workshops. The conference ended with a gala dinner that raised over £120,000 for Futures for Kids, the charity working to improve the lives of children around the world.

OSE, TFX, TOCOM and TSE held an InformationXchange on the Japanese markets and representatives of TGE were also present at the session.



**“Japanese Exchanges” IX Speakers**

(left to right)

Tony Crane, TOCOM (Chair)

Hidefumi Moriyama, TOCOM

Mitsuo Miwa, TSE

Masayuki Nakajima, TFX

Matthias Rietig, OSE

### **ASEAN Rubber Conference 2010**

The ASEAN Rubber Conference (ARC 2010), organized by the International Rubber Research and Development Board (IRRDB), was hosted in Kuala Lumpur, Malaysia from 17-19 June 2010. Delegates from the natural rubber and synthetic rubber industries representing about 25 countries attended the conference, where a number of sessions were held along with the exhibition hall.

TOCOM also participated as a sponsor and held an event on the 17th (“ARC 2010, AN EVENING WITH TOCOM”) in collaboration with Okachi (Malaysia) to present its rubber market to conference participants.



The FIA-Japan Chapter was organized in 1989 as a nonprofit organization by foreign and Japanese futures industry participants. It is the only organization in Japan of its type with a membership drawn from the entire cross section of the futures industry. We have approximately 70 members representing all of the corporate sectors participating in the futures and options industry in Japan.

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