

# Virtual Japan Regional Meeting

18<sup>th</sup> November 2022

## Event Summary

### Panel Session:

***Traditional Financial Markets vs Crypto Asset Markets – Evolving Market Landscape in the Future***

### Speakers:

- **Hiroshi Matsubara**, Co-Chair Japan Regional Committee, **FIX Trading Community**, Representative, **Pine Grove Research (Moderator)**
- **Hiroshi Kamiwaki**, Chief Crypto Officer, **Fintertech Co. Ltd.**
- **Yoshikazu Abe**, Chief Strategy Officer, **HYPERITHM Co. Ltd.**

### **Highlights**

WEB3, along with buzz words like NFT (Non-Fungible Token), and the metaverse, has become a big topic for the financial industry including the regulator in Japan.

Both panellists, who moved to the crypto industry after having worked for traditional financial firms, expressed their concern over the legacy market infrastructure systems which exist across the total trading value chains of the traditional markets. As a result, the market participants are forced to spend more cost and resources on non-competitive areas (i.e. the market infrastructure) rather than to a real-competitive business activity which differentiates themselves in competing in the market.

The panel agreed that there will be distinct benefits of adopting DLT/Blockchain technology, especially in the post trade (settlement/ clearing and depository) work flows (i.e. moving into the T+0 atomic settlement, the automatic management of the corporate actions such as dividend/coupon payments) of traditional securities (stocks and bonds). Having said that, an effort of tokenising securities assets should make much more sense in those illiquid underlying assets (e.g. real-estate, private equities) to generate a new liquidity to see a real benefit of moving into the DLT/Blockchain-based infrastructure. In that sense, the panel felt that it is unlikely that those traditional markets (e.g. listed equities), where the market efficiency has already been established by the whole round of electronification, will be completely replaced by the digital assets at least in the foreseeable future.

In the wake of the ongoing turmoil around the crypto currencies by the FTX scandal, it will take some time for the traditional market participants (especially the institutional buy-side) to come back to crypto assets for their portfolio building. However, the latest FTX scandal would not deteriorate the intrinsic value proposition of the innovating the financial system structure made by the crypto assets.

The panel sees that crypto assets will eventually grow as a new asset class even for traditional market players to play the role of “digital gold”, if the optimal regulatory framework is successfully implemented into the markets.

Regulation of balancing the benefit of bringing in innovation of new technology by ensuring the investor protection, will be the key for success. A panellist commented that the FTX scandal has actually demonstrated some resiliency of

# Virtual Japan Regional Meeting

18<sup>th</sup> November 2022

## Event Summary

the crypto regulation already in place by the Japanese regulators (by protecting the Japanese retail investors) and this could lead to the resurrection of the Japanese crypto markets in the future.

### Panel Session:

***Best Execution 3.0 – Impact of the Coming Regulatory Change in Japan***

### Speakers:

- **Junya Umemo**, Co-Chair Japan Regional Committee, **FIX Trading Community**, Managing Director, **BlackRock Japan Co. Ltd. (Moderator)**
- **Shuichi Uchida**, General Manager and Head of Trading Department, **Nissay Asset Management Corporation**
- **Kei Okazaki**, Senior Manager, Head of ETF secondary Trading, **Tokyo Stock Exchange, Inc.**
- **Takeya Kamei**, Vice General Manager, Equities & Derivatives Business Division, **Rakuten Securities, Inc.**
- **Kaoru Hisaeda**, Head of Business Development, **Cboe Japan Limited**

### **Highlights**

Additional requirements of defining best execution policy are going to be enforced by the relevant regulation in Japan from the beginning of the new year. This comes in the context of the FSA's effort of reinforcing retail investor protection by considering that the market structure of the Japanese securities market has been diversified in the advent of PTS (the Japanese MTF), broker dark venues in recent years. Given that new best execution is to require brokers to give clear explanations to retail investors about the transparency with use of its SOR and how to cope with those high-frequency orders associated with latency arbitrage, it can be labelled "Best Execution 3.0" by renewing the previous phases of defining best execution in the Japanese market.

The broker panellist pointed out the difficulty of establishing a comprehensive measure towards completely diversified segments of the retail investors in terms of their trading size/styles and market knowledge. This is related to the ongoing debated issue of the needs of improving "finance education" in Japan.

The venue panellists mentioned that they face the issue of a trade-off between providing price discovery function and reduction of the trading cost, given that the market demands for executions are getting more and more diversified. Both primary exchange and PTSs are providing multiple execution venues (e.g. RFQ venue for ETF by TSE, block matching system by PTS) to tailor various needs of those execution demands with the potential cost reduction of on-screen liquidity. The forthcoming introduction of Conditional Order type was mentioned by the PTS panellist as the latest initiative of meeting those diversified execution demands.

The buy-side panellist talked about the dilemma facing that the traders have to depend on the IS (Implementation Shortfall) transaction cost measure on the assumption that the executions consist of Day and Outright orders, despite in reality, a large amount of orders turn out to be contingent with multi-day orders.

# Virtual Japan Regional Meeting

18<sup>th</sup> November 2022

## Event Summary

Buy-side firms will need to keep up with an agile effort of fine-tuning the concept of execution cost analysis by considering coming regulatory and market structure changes. It was also suggested for analyzing execution cost to incorporate the investment time horizon difference between portfolio managers and traders.

The panel agreed that given diversification of execution venues and investor demands, lack of the consolidated tape for the price discovery (unlike NBBO in the US) will continue to be a big challenge of how to define the best executed prices for all the market participants in Japan.