



Will Japanese Equity Market Structure Change?

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Sadakazu Osaki

Head of Research, Center for Knowledge Exchange
and Creation, Nomura Research Institute

Visiting Professor, University of Tokyo Law School



Main Trends in Equity Trading Systems

- Diversifying Trading Venues:
 - From market concentration rule to competition among exchanges and PTSs (or ATSS).
- High Speed Trading:
 - From seconds to milliseconds.
- Factors underlying changes in equity trading systems are:
 - Technological innovation
 - Regulatory changes promoting inter-market competition
 - Best execution as a part of fiduciary duties of asset managers



Changes in the U.S.

- Implementation of new Order-handling Rules (1997) resulted in growth of ECNs.
- Adoption of Regulation NMS (2005) forced NYSE into demutualization and merger with Archipelago, Euronext.
 - Its archrival Nasdaq also followed aggressive strategy to expand into a global market operator.
- Growth of high-frequency trading enhanced market liquidity and efficiency.



Changes in Europe

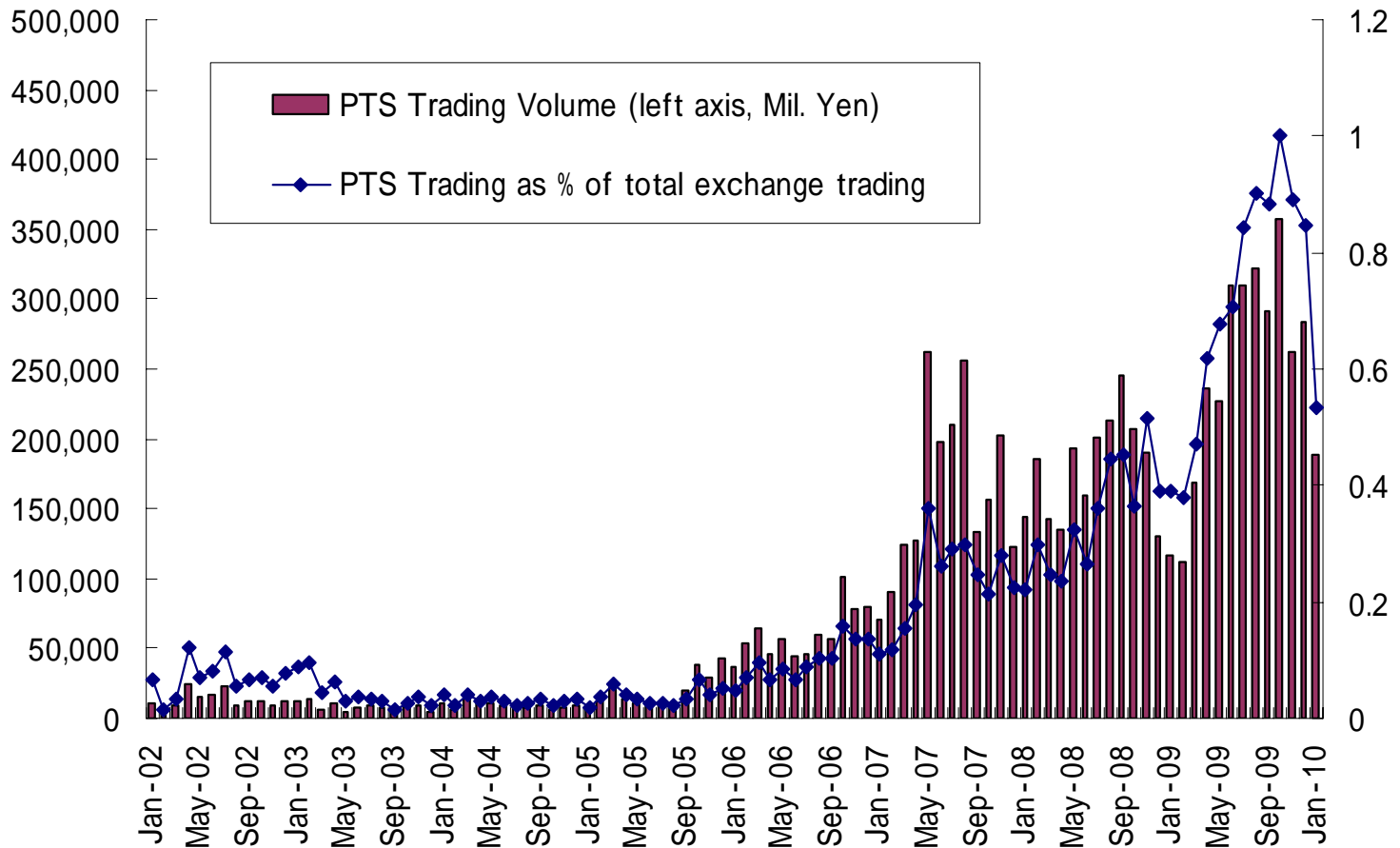
- US style inter-market competition has not spread until recently.
- EU Markets in Financial Instruments Directive (MiFID, 2007) has brought about dramatic change.
- Cross-border activities of multilateral trading facilities (MTFs) are now allowed, and fierce competition between MTFs and exchanges has become a reality.



Regulatory Changes in Japan

- 1998 amendments to the Securities and Exchange Act (now Financial Instruments and Exchange Act) abolished market concentration rule, and PTSs were allowed.
 - 1998 reform is commonly known as Japanese Big Bang.
- 2004 amendments allowed PTSs to employ auction system similar to the exchanges.
 - Currently, 6 PTSs are competing to attract Japanese listed equity transactions.

Weak Presence of Japanese PTSs





2010, Change in Japanese Equity Market Structure?

- TSE's new Arrowhead trading system was launched in January 2010.
 - Order processing speed dramatically increased.
- Some information vendors are now providing TSE, OSE, and PTSs quotes information in order to assist best execution.
- US and European style competition between trading venues may be a reality.
 - TSE's nominal market share may decline, but overall liquidity and efficiency of price formation will be increased.