

Covering all the Angles:

FIXGlobal brings you the perspective of a Proprietary Trading System (PTS) operator.

PTS IN JAPAN 日本の代替市場

Yoichi Ishikawa of kabu.com Securities navigates the developments of PTSs in Japan and their effects on markets, traders and regulators.

(1) Could you tell us about the history of PTS in Japan and its growth over the past 3 years?

The history of Proprietary Trading Systems (PTS) in Japan began with the launch of PTS trading in September 2000 as the country's first alternative stock trading platform. Initially, two brokerages developed and launched PTS operations geared primarily toward after-hours trading for retail investors, using the closing price at exchanges and VWAP for certain institutional investors. As a result, until April 2007, PTS trading never accounted for more than 0.2% of overall market volume (monthly basis). PTS trading volume, however, gradually began to expand starting in the second half of 2007 owing to the added liquidity provided by new link-ups between PTS operators and brokerage houses. In 2008, PTS mid-day trading was launched, offering smaller minimum price movements than the exchanges. PTS operators expanded to six firms, and a small number of international brokers began smart-order routing (SOR) operations. 2009 brought even smaller minimum price movements - less than 1 yen - and the launch of PTS stock price streaming through major information vendors such as Thomson Reuters, Bloomberg and QUICK. As a result of these advances, PTS trading exceeded 1% of overall market volume (monthly basis) for the first time in October 2009. Although the launch of the Tokyo Stock Exchange's (TSE) advanced trading platform, Arrowhead, at the start of 2010 resulted in reduced latency and reduction of tick size, overall market trading value, including

the Tokyo bourse, has not witnessed a significant increase. While PTS trading value, too, has not seen much in the way of growth, PTS trading is now primarily used by brokerage houses for algorithmic and electronic trading to capitalize on arbitrage trading opportunities to leverage the price discrepancy between the Arrowhead System and the smaller PTS price ticks. Arbitrage trading will likely grow to represent over half of all trading on the kabu.com PTS platform.

(2) What are the implications of the growth of alternative platforms/PTS - On clients?

Since 2009, Japan Consolidated Tape, which displays the best price from multiple markets (traditional exchanges and PTSs) using streams from major information vendors, has become the focus of attention regarding the trend toward a reduction of tick size, including less than 1 yen. While institutional investors are considering using SOR to efficiently execute trades at this best price, the challenges faced include: developing systems (OMS, back office administration, etc.) to link with PTSs, which have not been used until now; the formulation of internal rules and regulations; and dealing with environmental changes arising from greater liquidity in the Japanese equities markets, including PTSs.

- On sell-side firms?

Brokerage houses have focused attention on organizing internal policy governing PTS usage, the pursuit of reduced latency using collocation and the review of whether PTSs represent a viable



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alternative market trading platform and the capabilities of SOR, such as whether orders can be routed efficiently to multiple markets. From a policy perspective, after the start of 2010 several brokerage houses in Japan have revised their best execution policy to clarify SOR connections to PTSs.

As for settlement cost and counterparty risk, a growing number of firms, including those who previously avoided connecting to PTSs, are now considering using PTSs more intently because the Japan Securities Clearing Corporation (JSCC) will offer clearing services to alleviate these risks from July 2010. On the other hand, in terms of technology, the ability to develop advanced and sophisticated IT systems, including reduced latency networks and direct feeds from the markets, represents a pressing need in the battle for best execution, especially considering prices can fluctuate by the millisecond in SOR.

- On the venues, including exchanges?
In July 2010, JSCC plans to offer

clearing for PTS trades. Of the six PTS operators in Japan today, the brokerage house-centered PTSs Kabu.com Securities, SBI Japannext, and Chi-X Japan (a planned market entry) are to participate in the JSCC clearing system. With JSCC as the central counter party (CCP), PTS-based trading can expect more efficient settlement through netting of exchange trades as well as reduced counterparty risk. On the other hand, compared to the 105 listed firms on the TSE, each PTS contains less than 10 securities, so PTS operators will need to use JSCC clearing as a means to expand the number of participating securities to increase liquidity going forward.

- And on the regulators?

In March 2010, the Financial Services Agency (FSA) revised part of the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. Regarding PTSs, these revisions clarify guidelines on the need for PTS licensing through order matching within firms, specify that margin trading is not allowed using PTSs and set forth the need to match PTS short selling practices with short selling regulations implemented by the exchanges. In May 2010, the Japan Securities Dealers Association (JSDA) set up the Equity Trading on Alternative Trading Platforms Policy Development Working Group to address short selling on PTSs by seeking to develop its own and other regulations.

(3) Looking forward, how do you see competition playing out? What will be the impact of increased competition on technology?

Starting in 2010, firms have moved forward with SOR operations that link to viable alternative markets for the buy-side and sell-side, and policy development has also progressed regarding the role of JSCC and short selling on PTSs, etc. In addition, Chi-X, with its experience operating alternative trading platforms in Europe, plans to launch its own PTS in Japan on the premise of JSCC clearing. Neither trading volume nor

value has seen an uptick since the TSE Arrowhead System went into operation in January 2010, but the evolution of market infrastructure, such as collocation, new alternative trading systems and SOR brings the possibility that high frequency trading (HFT) may grow more active in Japan as well. Amid these changes, we believe there will be significant growth in the roles of PTS operators and brokerage houses with the ability to respond quickly to policy changes and the competencies to provide trading platforms that reduce latency in matching systems, OMS, and networks with speeds in the sub-millisecond to millisecond level. We also feel that it will be important for the entire securities industry in Japan to grasp and practice the idea of “best execution in multiple markets,” which is such an integral part of markets in Europe and North America, to generate new and enhanced competition amongst equities markets.

(1) Could you tell us about the history of PTS in Japan and its growth over the past 3 years?

2000年9月に日本で初めて代替市場 (PTS; Proprietary Trading System) が開始して以降、2業者により、取引所終値での売買の夜間時間帯でのリテール向け提供やVWAPの特定の機関投資家向けのみへの限定的な提供が中心であったため、2007年4月まで、市場全体 (月次) でPTS取引の占める割合は0.2%を超えることはなかった。2007年後半から、PTS業者とブローカー証券の接続による流動性の提供、2008年から取引所取引と同時間帯による昼間のPTS取引の開始、取引所よりも狭い呼値の刻み、PTS業者数の6社への拡大、および一部の外資系ブローカーによるSOR (SOR: Smart Order Routing) の稼働、2009年から小数点も含めた呼値の刻みやThomson Reuters、Bloomberg、QUICKといった大手情報ベンダーによるPTS株価の配信が開始され、2009年10月には、市場全体 (月次) でPTS取引の占める割合は初めて1%を超えるまでに至った。2010年以降、東京証券取引所の新システムであるアローヘッドが稼働し、低レイテンシと一部呼値の刻みの縮小等がなされたが、東京証券取引所を含む市場全体の売買代

金は大幅な増加基調にまで至っていない中、PTSの売買代金も大幅な伸びはないものの、アローヘッドとPTSの小数点の価格差を利用したアービトラージ取引が、約半数以上(kabu.comPTSの場合)となるなど、ブローカー証券のアルゴリズム取引・電子取引を中心に利用されている。

(2) What are the implications of the growth of alternative platforms/PTS

- On Clients?

2009年以降、PTSにおける小数点を含めた呼値の刻みの縮小の普及に関して、大手情報ベンダーによる複数市場(取引所とPTS)内の最良値段を表示する日本版統合板モニター(Japanese consolidated tape)が注目されつつある。機関投資家は、この最良値段での効率的な執行のため、SORの活用の検討を進めているが、一方これまで取引をしていなかったPTSに対するシステム構築(OMSとバックオフィスでの管理)や社内規則の整備、さらにPTSを含めた日本市場全体の流動性拡大への環境の変化が課題となっている。

- On sell-side firms?

ブローカー証券では、PTS利用上の制度面の整理の他、コロケーションの活用による低レイテンシの追求や有力な代替市場につながっているかという点、さらに複数市場に効率よく注文回送できるかというSORの提供力が注目されている。制度の面では、ブローカー証券の中には、2010年に入り、最良執行方針を改訂することで、SORによるPTS接続を明確化する会社もでてきた。さらに、これまで決済コストやカウンターパーティーリスクの面でPTS接続を敬遠してきた業者も、2010年7月以降のPTSにおける日本証券クリアリング機構(JSCC)対応を前提に、PTS利用の本格検討を進める会社も増えてきている。一方、テクノロジー面では、SORにおいて、数ミリ秒レベルでの価格変動がある中、最良価格で執行できるかが競われるため、各市場からのダイレクト・フィードや、さらなる低レイテンシ・ネットワークの構築など、高度なIT構築力が競われている。

- On the venues including exchanges?

2010年7月からはJSCCにおけるPTSの清算開始予定であり、現在日本におけるPTS6社の内、ブローカー証券参加型であるカブドットコム証券、SBIジャパンネクスト証券、Chi-X Japan(参加予定)の3社が参加予定である。JSCCによるCCP(Central Counter Party)対応

により、取引所とPTSでのネットワーキングした決済の効率化の他、CCPによりPTSのカウンターパーティーリスクが低減される。一方、参加証券数は、東証の会員数が105社に対し、1つのPTSの参加証券は10社以下である。JSCCを前提とし、PTS業者は流動性拡大のため、より参加証券を拡大していく必要がある。

- And on the regulators?

2010年3月に金融庁にて「金融商品取引業者等向けの総合的な監督指針」の一部が改正された。PTSに関しては、業者内マッチングでPTS認可が必要になるか否かのガイドラインの明確化や、PTSでは信用取引を扱わないこと、およびPTSでの空売りについては取引所取引における空売り規制との整合性を図る必要があることが明記された。このPTSでの空売りに関しては、日本証券業協会(JSDA)にて、5月に「取引所外売買など株券等の取引の制度整備に関するワーキング・グループ」が立ち上がり、協会の自主規制と規則について整備が図られている。

(3) Looking forward, how do you see competition playing out, what will be the impact of increased competition on technology?

これまでみたように、2010年より、パイサイドやセルサイドで有力な代替市場とつながるSORの活用が進み、PTSではJSCCや空売りなど制度面の整備が進んできている。また、欧州で実績を持つChi-Xは、JSCCを前提に、日本のPTSに参入しようとしている。2010年1月の東京証券取引所におけるアローヘッドの稼働以降、大幅な取引増はまだ見られないが、コロケーション、新たな大手代替市場の参入、SORなど取引市場インフラ環境の進化もあり、日本でもHFT(High-Frequency Trading)が活性化する可能性がある。このような環境の変化の中、サブミリ秒～数ミリ秒レベルにおけるネットワーク、OMS、およびマッチングシステム等について低レイテンシを追求した取引システムの提供力と、制度変更への迅速な対応能力のあるPTS業者およびブローカー証券の役割が一層重要になってくると考える。さらに、業界全体では、欧米で浸透している多市場における最良執行の考え方が、より日本に根付き、あらためて市場間競争が本格化することが重要と考える。

Any thoughts about this or other articles?

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