July 29, 2011

To: Committee on Payment and Settlement Systems
To: Technical Committee of the International Organization of Securities Commissions

Re: Comments on Consultative Report on Principles
for Financial Market Infrastructures

Tokyo Financial Exchange Inc. ("TFX")[1] appreciates the opportunity to submit these comments to the Committee on Payment and Settlement Systems ("CPSS") and the Technical Committee of the International Organization of Securities Commissions ("IOSCO"). TFX offers the following comments on the Principles for Financial Market Infrastructures ("Principles") issued for public consultation on March 10, 2011 by CPSS and IOSCO.

1. Comment on "Principle 4: Credit risk" and "Principle 7: Liquidity risk"

TFX believes that CCPs should have a "cover one " minimum requirement in response to the question of whether CCPs should have a "cover one" minimum requirement versus a "cover two" minimum requirement.

i) We do not reject the possibility of simultaneous defaults by multiple participants, however, this requirement includes affiliates of a defaulting participant, such default of which would directly cause defaults of its affiliates. We believe that a "cover one" minimum requirement is more than adequate to cover scenarios that could realistically occur.

ii) CCPs in Japan have never experienced the default of even one participant that would cause the largest credit exposure and an event even more severe than this has not occurred either. We believe that the "cover two" minimum

[1] Tokyo Financial Exchange Inc. ("TFX") was established in April 1989 under the Financial Futures Trading Act of Japan. In April 1989, TFX was established as a membership organization with the capital provided by large sized financial institutions from around the globe, and in April 2004, was demutualized and incorporated in order to strengthen corporate governance as well as to enhance convenience and transparency of the market. In addition, because the Financial Futures Trading Act was abolished and the Financial Instruments and Exchange Act, which was revised with the Securities and Exchange Act, was enforced in September 2007, TFX transformed from a "Financial Futures Exchange" that handles only financial futures, into a more comprehensive "Financial Exchange" that handles any kind of financial product.

requirement is excessive for CCPs in Japan. (In the case of Lehman Brothers' bankruptcy, Lehman Brothers was not a participant that caused the largest credit exposure for any of the CCPs in Japan)

iii) Furthermore, the probability that a participant may default depends on the level of the qualification requirements for participation in the CCP. In light of the actual record of defaults at this exchange in relation to the current qualification requirements, we believe that the "cover one" requirement is sufficient.

iv) Moreover, the number of participants that would default depends on the total number of participants in the CCP. It is not appropriate to take western CCPs as a standard in Japan since they have accumulated hundreds of participants through reorganizations, mergers, acquisitions and other means.

2. Comment on "Principle 6: Margin"

With respect to the requirement stipulated in "Key Considerations 3" requiring that an "initial margin should meet an established single-tailed confidence level of at least 99 percent…", TFX believes that an initial margin should be set taking into account the qualification requirements for participation and the credit risk of the participant. It is inappropriate to uniformly apply the "single-tailed confidence level of at least 99% rule" to all participants.

Since the probability of default of a participant differs depending on the requirements for participation in the CCP and the credit risk of the participant (for example, registered rating agencies' issuance of a credit rating), it is unreasonable to uniformly apply the "single-tailed confidence level of at least 99% rule" to all participants.

i) Each CCP establishes its own qualification requirements for participation. If a CCP sets stricter requirements, this would decrease the probability of default of a participant.

ii) Credit ratings issued by registered rating agencies are regarded as measurements of credit risk of participants. According to Moody's, the yearly default rate for Aaa, Aa, A and Baa ratings are 0.00%, 0.02%, 0.06% and 0.20%, respectively. It is not appropriate to treat these highly rated firms, where expected default rates are low, in the same manner as those firms with either poor or even no ratings, where credit risk is appreciably higher. Applying the same level of margin requirements for all of them is inappropriate.

3. Comment on “Principle 17: Operational Risk”

With respect to the requirement that an FMI ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events, it is not only inappropriate but also unrealistic to stipulate this requirement in the Principles. Each FMI should be able to determine a time period within which IT systems can be expected to resume operations, taking into consideration, among others, market characteristics, the structure of IT systems and the impact on participants.

If this requirement is stipulated in the Principles, an adequate preparatory period should be set (at least 3 years) allowing for the time and costs required for improving IT systems so that they satisfy this requirement.

4. Comment on “Principle 22: Communications Procedures and Standards”

With respect to the requirement that an FMI should use internationally accepted communication procedures and standards, it is inappropriate to stipulate this requirement without exception in the Principles. Each FMI should be allowed to choose communications procedures taking into consideration market characteristics and customary practices.

Even if this requirement is stipulated in the Principles, an adequate preparatory period (at least 3 years) should be stipulated to avoid imposing an excessive burden on FMIs and participants.