
Legal Revisions Allow Exchanges To Be Formed As Joint-Stock Companies

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On 23 May 2000 the Diet passed legislative revisions to the Securities & Exchange Law and Financial Futures Law allowing securities and futures exchanges to turn themselves from member-based organizations into joint-stock companies, or to set up new exchanges with joint-stock status. These revisions were also aimed at allowing securities reports and prospectuses to be submitted in electronic format rather than the current paper. This report will however focus on the legislative revisions that permit exchanges to be formed as stock companies.

We envisage Japan's financial exchanges taking advantage of these legislative revisions to move quickly to ditch their member-based organizations in favour of establishment as stock companies. We also believe that these revisions will have an effect on the setup of PTS (Proprietary Trading Systems). By 30 June 2000 however, before these legislative revisions were to take effect, already two securities brokers in Japan had received approval to set up PTS. This report will also examine the approval of these systems and what significance this holds.

1. Background To The Legislative Revisions

1) International Developments

Since the 1948 Securities & Exchange Law in Japan the only type of securities exchange allowed for trading bonds and equities were corporations as recognized under the Securities & Exchange Law with a membership structure. The operation of an exchange by a regular profit-seeking stock company was therefore prohibited (Articles 80-1,2 and 86 of the Securities & Exchange Law). This rule reflected the government's position that a securities trading exchange played a significant public role, and this thinking was reiterated in the framing of the 1988 Financial Futures Law (Article 5).

Outside Japan at the time most exchanges had also traditionally been run as non-profit-making membership organizations. Even in cases where joint stock companies were operating exchanges, generally the company was prohibited from anyone but its members holding its shares by either legislation or its articles of incorporation, making them in effect closed membership organizations.

Appearing first in the US in the 1980s however, proprietary electronic trading systems (PTS) and ATS (Alternative Trading Systems) run as for-profit stock companies began to compete for trades with the existing members-based exchanges. Against this new

competition the member-based exchanges began to clamour for the legal means to change their membership structure to a stock company in order to attract funds from outside its membership group, giving the following as their main reasons:

- (1) As a joint-stock company an exchange is able to finance the large-scale investment in trading systems that are a major determinant of success in an era of intensifying competition.
- (2) As the securities industry becomes ever more diverse the interests of securities firms tend to diverge and conflict with each other. As a result exchanges run solely by members drawn from the securities industry find it hard to reach a timely consensus when decisions need to be taken quickly. Further, as a stock company, both listed companies and investors are able to participate directly in the operation of the exchange as shareholders in addition to the securities industry.
- (3) In the form of a stock company issuing shares, an exchange will have higher standards of disclosure, leading to more transparent management.
- (4) Using stock options and other forms of equity incentives the exchange can raise the morale of its directors, and thereby boost its operating efficiency.

Since around 1995 exchanges in Europe were being subjected to greater levels of competition than elsewhere in the world due to the faster pace of regional economic integration, and so were among the first to start reforming their organizational structures. This movement turned into a worldwide phenomenon as it spread to the US and Asia in 1998 (Table 1).

Table 1 Organizational Restructuring At World Securities Exchanges

Organizational structure		Exchange	Details
Membership		New York Stock Exchange Tokyo Stock Exchange	Non-profit making individual membership organization. July 1999 announced intention to list as a stock company. February 1999 report mentioned possibility of considering change to a stock company
Stock company	Share ownership restricted to exchange members	Paris Stock Exchange Hong Kong Stock Exchange	Became stock company in 1988. Currently considering listing Individual membership system. Plans to open share ownership to non-members and list during 2000
	Share ownership open to non-members	Frankfurt Stock Exchange Stockholm Stock Exchange Helsinki Stock Exchange Copenhagen Stock Exchange Amsterdam Stock Exchange Australia Stock Exchange London Stock Exchange Toronto Stock Exchange	Owner German Stock Exchange became stock company in 1991 Became stock company in 1993, with shares freely tradeable since 1994. Became stock company in 1995 Became stock company in 1996 Became stock company in 1997 allowing share ownership by non-members. Plans to list in 2002. Became stock company in 1998, listing own shares on itself. Became stock company in 1986. From March 2000 shares can be owned by non-members. Became stock company in 1999. Members have agreed in principle to allow sale of shares to non-members.

	Other	American Stock Exchange Nasdaq Singapore Stock Exchange	Became stock company in 1998, with 100% of shares owned by NASD (owner of Nasdaq) NASD has traditionally owned 100% of shares but as of April 2000 it decided to allow outside participation December 1999 came under holding company SGX together with the futures exchange
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Source: NRI

2) Developments Inside Japan

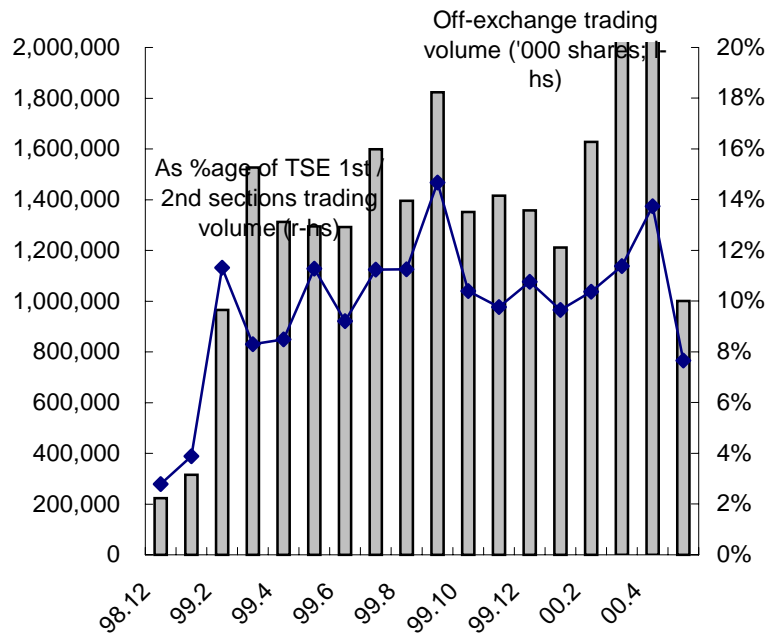
The Financial System Reform Law that ushered in the program of financial sector deregulation collectively known as the “Big Bang” in December 1998 also made substantial changes to legislation governing securities exchanges in Japan, the details of which are as follows¹:

- (1) The “Over The Counter” market run by the Japan Securities Dealers Association (JSDA) was upgraded to the status of “Over The Counter Securities Market,” putting it on a par with the main stock exchanges with which it had previously been regarded as only “complementary.”
- (2) Regulations governing procedures for establishing a new stock securities exchange were delineated, licensing criteria revised, and exchange mergers allowed.
- (3) Regulations requiring trades to be concentrated on the exchange were relaxed, and regulations governing off-exchange trading of listed equities and other products devised. Regulations regarding the pricing of off-exchange trades were included in the JSDA self-regulatory rules.
- (4) Operation of electronic trading systems, so-called “PTS,” basically allowed for securities firms, and regulations devised to govern the pricing methodology on such electronic trading systems.
- (5) Strict regulations governing the types of business activities permitted to organizations operating securities exchanges relaxed, and the operation of more than one exchange permitted. Listing approval changed to a notification system.

After the above legislative changes were implemented, large-lot cross trades and VWAP (Volume Weighted Average Price) trades by mainly institutional investors started to be conducted off-exchange (Figure 1). These reforms also brought about major changes to Japan’s existing securities exchange landscape, such as the closing of the Hiroshima and Niigata exchanges and their incorporation into the Tokyo Stock Exchange. However, the Financial System Reform Law revisions to the Securities & Exchange Law left untouched regulations requiring securities exchanges to be member based corporations under the Securities & Exchange Law and the prohibition on exchange operating corporations being involved in for-profit activities.

1 S. Osaki “A Reexamination of Japan’s Securities Exchange Regulations” (Capital Research Journal, Autumn 1998)

Figure 1 Off-Exchange Trading Of Listed Equities



Source: JSDA, TSE

A report entitled "The Future of the Tokyo Stock Exchange - The Way Forward" by the TSE's Securities Policy Committee was published in February 1999 subsequent to the passing of the Financial System Reform Law. Based on the above developments, this report floated the idea of the TSE changing to a stock company structure as one possible course of action for the TSE to revitalize itself. At first this was interpreted as a medium to long-term option, but after the announcement in June 1999 of the Nasdaq Japan venture in which the private company Softbank would be deeply involved and the real possibility that this project would be realized, and the movement to convert member-based exchanges into stock companies previously limited to Europe spreading to the US and Asia, the TSE began to consider this option much more seriously.²

The Financial System Council started to move towards allowing exchanges to change to stock companies by setting up a working group in November 1999 formed under its first subcommittee and chaired by Hideki Kanda, a Tokyo University Law Professor. The proposals of this working group formed the basis of the later legal revisions.

Draft revisions to the Securities & Exchange Law were drawn up unusually quickly, submitted to the Diet in March 2000 and enacted on 23 May. From 1 December 2000 exchanges will be able to be set up as stock companies (according to the first supplementary provision of the revised law).

2 Later Nasdaq Japan came to be organized as part of the Osaka Stock Exchange. Readers should refer to S. Osaki "New Markets Enter The Battle For Japan's Venture Businesses," (Capital Research Journal, Spring 2000).

2. Revisions To The Securities & Exchange Law

1) Revisions To Securities Exchange Regulations

(1) Recognition Of Stock Company Status For Securities Exchanges

The current legislative revisions allow securities exchanges to be formed as joint-stock companies in addition to member-based corporations. This involved a change in the definition of a securities exchange in the law to “a securities trading exchange approved by the Financial Reconstruction Commission and established by either a member-based securities corporation or joint-stock company” (Securities & Exchange Law Article 2-14, to avoid repetition clause numbers mentioned below refer to this same law). A “member-based securities corporation” was a new term introduced in the revisions which equates to the previous member-based exchange.

According to the existing Securities & Exchange Law, an exchange could be established by Japanese or foreign securities companies on approval by the relevant authorities, and the procedure for so doing was detailed from Article 81 onwards. However, since the current revisions recognize exchanges in the form of stock companies set up under the Commercial Code, the stock exchange licensing system has been changed to an approval of an established exchange to set up a trading market (Article 80). Further, the new member-based securities corporations can be set up by virtually the same procedure as for membership-based exchanges under the old Securities & Exchange Law (Article 87-8 to 89).

As the law stands only a licensed exchange can operate a securities trading market (Article 80-1). However, this requirement may be waived if: (1) a securities association sets up an over-the-counter market; (2) if a securities firm has received approval to operate a PTS (Article 80-2). Trades undertaken on markets in infringement of these regulations are subject to penalties (Article 167-2, 200-16), which replace regulations prohibiting the operation of market-like exchanges.

(2) Conversion of membership based exchanges to stock companies

The legislative revisions did not only allow for the establishment of new exchanges as joint-stock companies, but also provided for existing member-based exchanges to convert themselves to joint-stock companies (Article 101).

In order for member-based exchanges to convert their status they have to draw up an organization conversion plan and have the plan approved at a general meeting of the members (Article 101-2). The conversion plan must include such items as timing, allocation of shares to members, type and number of new shares to be issued (Articles 101-2-5, 101-9). The general members meeting must also decide on the articles of incorporation of the new stock company and nominate its directors (Article 101-2-2).

Joint-stock exchanges make a clear division between shareholder status and trading member status, with trading member status defined in the operational regulations (Article 107-3). Under previous member-based exchanges, members automatically had the right to trade on the exchange. One problem with conversion to joint-stock status is how this will affect the rights of members to trade on the exchange. The revised legislation however did not particularly touch on this problem. All the Financial System Council report said was that

“the question of how the contractual status of members is to change on conversion must be discussed between the relevant parties.”

An exchange’s conversion to joint-stock status now has no legal force unless approved by the Financial Reconstruction Commission (Article 101-11). The approval criteria to be applied vary little from the existing legislation, though in addition to the existing criteria an applicant now needs to have the necessary organizational structure and expertise to be able to operate a securities exchange in an appropriate manner (Articles 83, 101-12).

(3) General regulations applying to securities exchanges

Exchanges under the revised legislation are subject to the following regulations regardless of whether they are stock companies or member-based securities corporations:

(1) Business title or trade name

Securities exchanges must include the words “stock exchange” in their business title or trade name, and the use of a name or title that might mislead people into thinking they are not a stock exchange is prohibited (Article 86).

(2) Business activities

Securities exchanges are prohibited from engaging in business activities outside “the establishment of a securities trading market and related activities” (Article 87-2). However, as the establishment of securities exchanges as for-profit stock companies is recognized, Article 86 of the existing law stating that “securities exchanges may not conduct their business for the purpose of profit” has been removed.

(3) Self-regulation

Securities exchanges must state in their articles of incorporation that members or trading members (in the case of exchanges structured as joint-stock corporations) of the exchange must abide by the relevant laws and regulations and that any infringements will be subject to penalties (Article 87). This regulation is included in order to make explicit the degree to which exchanges are responsible for regulating themselves.

(4) Regulatory supervision

Following current practice, securities exchanges in Japan are to be under the supervision of the Financial Reconstruction Commission, which has various powers such as to revoke licenses and order changes to articles of incorporation (Articles 151, 154, 155). Further, the approval of the Financial Reconstruction Commission is required for any changes to articles of incorporation, operating regulations or entrustment contract regulations (Article 152).

2) Regulations Governing Joint-Stock Exchanges

The revised legislation contains many regulations that apply solely to joint-stock exchanges, which are as follows:

(1) Restrictions on concentration of stock ownership with a single party

The revised Securities & Exchange Law stipulates that no single entity may own or obtain over 5% of the total outstanding stock issuance of a joint-stock exchange (Article 103). The purpose of this article is to protect investor interests by ensuring that all share ownership is minority interest. Comparable restrictions apply to joint-stock status exchanges of other countries, such as Australia.

In a large number of cases however the prime motivating factor behind an exchange’s converting from membership to joint-stock status is in order to strengthen shareholder based

corporate governance and thereby increase the efficiency of management. With share ownership restricted to a maximum 5%, some concerns have been voiced that this highly diversified ownership structure will diminish the ability to keep check on management activities.

(2) Self-listing of exchange stock

Joint-stock exchanges have the option of listing some or all of their stock on their own market. An inevitable concern here however is that the examination process to approve the listing would lack impartiality. In fact the Tokyo Stock Exchange, as a joint-stock company before the Second World War, became a popular place for long-term speculative trades on the exchange's stock which the exchange actively encouraged as it received commission on these trades.

The revised law therefore stipulates that if an exchange wishes to self-list, rather than the notification system applicable to other parties, the listing will be subject to approval by the Financial Reconstruction Commission (Article 110-2).

(3) Connection with PTS regulations

The Financial System Reform Law revisions to the Securities & Exchange Law enacted December 1998 recognized the operation of exchange-like electronic trading systems (PTS or ATS) by securities companies. As these electronic trading systems are operated as for-profit companies, they have similar properties to joint-stock exchanges.

The Securities & Exchange Law allows the following 4 methods of determining trade prices on a PTS: (1) the exchange-traded price for listed securities; (2) using the price announced by the securities dealers association for securities listed on the JSDA's OTC market; (3) price negotiated between two customers; (4) other method as determined by order of the prime minister's office or the finance ministry (Article 2-8-7).

Under guidelines published by the FSA (Financial Services Agency) regarding the approval of PTS operations, companies are told to avoid using a comparably complex price formation function to that of a regular securities exchange. Where prices are negotiated directly between customers, the customers need to be made fully aware that they must fulfil their legal duties regarding the disclosure of selling conditions on an issue of securities. It further added that this criteria (of not having a similar complex price formation mechanism as a regular securities exchange) should be made law (Operational Guidelines, Article 3-1-3).

Up to now securities companies approved under these criteria to operate PTS have been exempt from the regulations prohibiting operation of an exchange-like mechanism (the old Securities & Exchange Law, Article 167-2-3). The current revisions have removed the existing prohibition on operation of an exchange-like mechanism, though the basic character of these regulations is being maintained.

Therefore the approved PTS operations of securities companies are exempted from the law prohibiting securities exchanges being set up without a license from the Financial Reconstruction Commission (Article 80-2). The same article however excludes cases where the trading method is by auction or other trading method as stipulated by order of the prime-minister's office. This method is presumably a concrete instance of the "complex price formation function" of an exchange as mentioned in the FSA's guidelines. We therefore interpret this to mean that if a PTS is to adopt an auction-based trading and price formation mechanism then it would need to obtain a license to set up as a securities exchange.

Here “auction” based trading system is taken to mean the *itayose* (auction) and *zaraba* (continuous day trading) price formation methods used by the Tokyo Stock Exchange as defined in the pre-war Exchange Law and related explanatory materials.

3. Evaluation and Outlook

1) Issues Concerning The New Joint-Stock Exchange Regulations

The current legal revisions will allow exchanges to be set up in Japan as joint-stock companies. Further, with the regulations in place governing conversion from membership status to joint-stock status, Japanese exchanges can also convert as has happened in many cases overseas. It is also possible for joint-stock exchanges in Japan to boost capital through a share issue and to list their shares. The current revisions therefore should be applauded as a timely response to an era of global inter-exchange competition, giving Japan’s exchanges the ability to restructure themselves to best meet this challenge.

However, we think it is important to note that the motive for this legislation is not so that member-based exchanges in Japan can convert to a joint-stock structure as soon as possible. The Financial System Council in its own report stated that the merits (or otherwise) of conversion to a joint-stock structure would depend on the market’s size and the specific environment in which each exchange operates. With the new definition of securities membership corporations recognized by the legislation, we believe each exchange should examine carefully the question of whether it is in its interests to restructure its organization.

However there remain concerns over whether the current legal revisions are enabling the management of exchanges to be sufficiently flexible. For example the concept of a holding company controlling a number of exchanges seems not to have even been contemplated. A recent trend overseas is for companies (such as the German Stock Exchange or Sweden’s OM Group) adopting a holding company structure and operating a number of securities exchanges both at home and abroad while also being involved in a wide spectrum of ancillary activities such as development of trading systems. Given the 5% ceiling on single entity share ownership it is unlikely that any company in Japan could effectively “manage” such broad group-based operations under the revised law. Further restrictions on scope of business will also constrain the potential for Japan’s exchanges to diversify their business activities.

On 3 July 2000 the Tokyo Stock Exchange announced it was setting up a special commission to examine the whole question of the future organizational structure of the exchange from a broad perspective, including whether to convert to joint-stock status. Similarly the Osaka Stock Exchange is also considering conversion.

2) Issues Regarding PTS Regulations

The current legal revisions have to a large extent clarified the regulations concerning PTS, an area that had previously been fairly vague. However there are still certain questions over whether these changes are actually desirable from the viewpoint of promoting competition between exchanges and/or trading systems.

In the US, where internet based securities trading is more advanced, sparked off by the enactment of rules by the Securities and Exchange Commission (SEC) concerning the handling of limit order trades by brokers, trading on exchange-like ECNs (Electronic Communications Networks) has rapidly taken off to now account for around 30% of total trading volume on the Nasdaq exchange.

In order to legally separate regular exchanges and electronic trading systems such as ECNs (previously called PTS but now referred to as ATS – Alternative Trading Systems), since the 1970s the SEC has through a process of trial and error determined the difference by reference to various attributes such as trading method, existence of a trading floor or market-makers, and allegiance of market participants. However with the sudden rapid growth in ECNs and their increasing market influence, the SEC introduced the concept of a “Regulation ATS” which clearly differentiated them at a conceptual level from regular stock exchanges. This abolished the previous system whereby stock exchanges had to be registered as such and ATS were regulated as securities companies and instead directly recognized that ATS were equivalent to securities exchanges, and gave the exchange or ATS system operator the option of whether to register as an exchange or ATS depending on under which system they preferred to be regulated.

A Regulation ATS is determined not on the basis of differences in price-setting mechanisms or how advanced are the price formation functions. Attributes focused on are whether the system operator is self-regulating with regard to its members (if so then it is a securities exchange), what proportion of total trading volume it has in the securities it handles (if the proportion is large then even if its an ATS it is subject to the same disclosure, fair participation, system capacity and security requirements as an exchange). This ensured that the greater the public role of the exchange / ATS (the greater the market’s influence), the more heavily regulated it became.

In contrast the recent legislative changes in Japan have decided to keep the focus on price-setting mechanisms, stipulating that markets with a certain trading method are to be categorized as “exchanges” and regulated more heavily than PTS. Perhaps the only progress in this regard that the recent legislation has made is to clearly state that an auction system is the price-setting method which distinguishes an exchange from an ATS.

However it seems rather strange to decide purely on the basis of a trading and price-setting mechanism whether an organization ought to be subject to the heavier regulation necessary when playing a significant public role. The SEC obviously understands this point and permits “exchanges” with small trading volumes to be exempt from exchange registration requirements. The US system recognizes that exchanges with relatively small trading volumes and therefore relatively little impact on the public as a whole do not necessarily need to be regulated as heavily as major exchanges, even if strictly speaking they conform to the definition of an “exchange.” The concept of a Regulation ATS further applies this idea by firstly including all “private” electronic trading systems under the definition of an “exchange” but providing various exemptions from the strict duties of exchanges as and where necessary.

The intention of the Japanese system appears to be to regulate electronic trading systems as heavily as full exchanges if it uses a “complex price formation function” price-setting mechanism such as an auction system. As there are quite a few ECNs in the US that would have trading systems corresponding to Japan’s auction system, if a Japanese company were to

set up a US type ECN in Japan, it would have to be run under the status of an exchange. Even though the current revisions allow securities exchanges to be run as joint-stock companies, as they would be subject to strict regulations governing their shareholder structure and barred from engaging in other business areas, the effective barriers to entry are high. Securities companies are also not allowed to run ECNs on their own. It is difficult to understand or agree with the reasoning behind why electronic trading systems with small trading volumes and with little impact on the overall market should be subject to the same strict regulations as major stock markets due solely to the fact that they use a particular price-setting mechanism.

The other side of the coin however shows the new regulations in a more positive light. One securities company is already running a computer network in Japan hosting quotes from a number of securities companies for equities trading (basically the same set up as the US Nasdaq OTC market), without even needing to register as a PTS. This is D-Brain Securities' VIMEX (venture investment exchange). If this does not need approval because the price-formation mechanism of this market structure is not "complex" (because trades are conducted directly between investors and the securities companies providing the quotes), then surely a company adopting the Nasdaq structure wholesale would still not be regarded as either an exchange or a PTS. As long as the regulations determine whether a market falls into the category of either an exchange, a PTS or a regular securities company providing a go-between service on the basis of the price-setting mechanism alone, then this sort of distortion seems inevitable.

4. Approval of Japan's First Private Trading Systems

1) Overview Of Approved PTS

On 30 June 2000 the Financial Supervisory Agency (now renamed the Financial Services Agency) gave approval for "BB Super Trade" run by Japan Bond Trading Co., and "E-Bond Securities," a joint-venture between Softbank Finance and Lehman Brothers, to operate private trading systems (Table 2). These are the first two instances of PTS being given approval since the passing of the Securities & Exchange Act in December 1998 ushered in Japan's "Big Bang" program of financial sector reforms.

Table 2 Overview Of Approved PTS

	BB Super Trade	E-Bond
Operated by	Japan Bond Trading Co. (a securities broker specializing in inter-dealer broking of bonds)	E-Bond Securities (joint-venture between Softbank Finance and Lehman Brothers)
Securities traded	Exchange listed equities, top 200 traded OTC stocks	Bonds with relatively low liquidity such as govt. guaranteed bonds, govt. associated organization bonds, municipal bonds, corporate bonds, samurai bonds
Participants	Mainly securities companies, though some institutional investors also have terminals installed	Securities companies and institutional investors
Trading method	Price, volume etc. are negotiated directly between participants, and once trade conditions are agreed the trade is done with Japan Bond Trading as counterparty	Trading system is highly transparent and with E-Bond Securities as counterparty the trading parties can maintain anonymity
Trading hours	7:50~8:50 11:10~12:20 15:10~17:00 17:10~19:00	to be announced
Purpose	To allow trading of listed and OTC securities outside stock exchange trading hours. Currently demand is from the same securities companies trading between themselves outside exchange trading hours and via off-floor trading systems such as ToSTNet	To provide a trading system that links buyers and sellers over the internet, maintaining liquidity and enhancing both transparency and trading efficiency

Source: NRI

The PTS run by Japan Bond Trading is for trading of equities outside of regular exchange trading hours, and focuses on the trading needs of institutional investors and securities companies. In the US an ECN called MarketXT also specializes in extended-hours trading, though it differs through its tie-up with an online broker enabling it to trade for retail investors. E-Bond Securities' system on the other hand specializes in bond rather than equity trading. Recently a number of bond e-trading systems have sprung up in the US and Europe (Table 3).

Table 3 Major Bond E-Trading Systems In The US and Europe

<p>(1) Single Dealer Systems: Computer based trading between dealer securities companies and their clients. Bear Stearns, Goldman Sachs and others have set up systems to trade US Treasuries.</p> <p>(2) Multi-dealer systems: Where a number of bond dealers act as market makers. TradeWeb, MTS etc.</p> <p>(3) Inter-dealer Broker Systems Electronic IDBs. eSpeed, Instinet, Liberty Direct etc.</p> <p>(4) Institutional investor matching systems BondLink etc.</p>
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Source: NRI

2) Significance And Future Outlook

The two private trading systems so far approved in Japan are both quite different from the US type ECNs where equities trading orders are automatically matched on an auction basis. Accordingly the previously mentioned problem with auction-based trading systems did not arise.

However the success of these new PTS is being closely watched, marking as it does the first appearance of such systems in Japan. This success is hard to predict as there are as yet many unknowns, such as how many market participants they will be able to attract.

Japan Bond Trading's system is likely to find it easier to attract attention in the beginning, trading as it does in stock types that already have significant liquidity. On the other hand it is facing competition from established trading systems (out-of-hours trading by securities companies and the off-exchange trading system run by the TSE), and so unless it can prove itself to be superior in terms of trading cost and execution reliability, it may find it cannot provide sufficient market liquidity to maintain its attractiveness.

E-Bond Securities however enjoys the advantage of dealing in products that are now relatively thinly traded and therefore has few competitors. On the other hand unless institutional investors and securities companies really feel the need for such a service it may also suffer poor liquidity problems.

In addition to the above systems, the press has reported that Mitsui & Co. is contemplating opening a US ECN style system in conjunction with another online broker. Further, both Instinet Securities and Bloomberg Tradebook Japan Securities have set up shop in Japan, and though they are not running private trading systems there they do operate ECNs in the US. In the area of bond trading it appears that eSpeed of the US and European operation MTS are considering moving into the Japanese market. Further, reports have surfaced of the successful equities crossing system POSIT having increased interest in the Japanese market. It would seem likely that Japan will see a number of new private trading systems before long.

While it would seem that given the restrictions in Japan on price-setting mechanisms of PTS as mentioned before, and the fact that the US Nasdaq market and the TSE use such widely different trading methods, that even if a number of new private systems are set up it is unlikely that they will rapidly take substantial market share as have ECNs in the US. A more likely scenario is that private trading systems catering to the specific requirements of Japan's institutional investors will be established, but remain niche players.