

Midterm Management Plan

(April 2010 – March 2013)

Tokyo Commodity Exchange, Inc.

1. SWOT Analysis (1) Strengths

TOCOM's Strengths

- An Asian commodity futures market with high liquidity
- Listed commodities (gold, platinum, rubber) with market sizes among the largest in the world
- Japan's economy, which boasts the second largest GDP in the world
- Japan's well-developed financial infrastructure and 1,400 trillion yen in household financial assets
- Japan's long history of futures trading, which dates back to the 18th century

TOCOM's Weaknesses (and Responses)

- Insufficient depth of market participants (→Strengthen sales and marketing operations)
- Trading system capabilities and functions that cannot satisfy the needs of market participants (→Already rectified by launching the new trading system)
- Trading rules that are inconsistent with global standards (→Introduce trading rules in line with global standards)
- A business model that relies on Exchange Fees as the sole source of profits (→Provide an OTC trading platform and/or clearing services)

Growth Opportunities

- Increasing hedging needs due to rising volatility of commodity prices
- Commodity futures attracting attention as a alternative investment
- Rising investor interest in gold, which is TOCOM's largest market
- Increasing interest from the oil industry, as shown by market entry of major oil companies
- Transition from OTC trading to exchange-based trading following the credit contraction
- Changes in the commodity industry legislation
 - (1) Commodity Exchange Act (⇒ “Commodity Futures Exchange Act”)
 - (2) Act on Investment Trust and Investment Corporations
(⇒ added commodity spot and futures transactions as specified assets)
 - (3) Banking Act (⇒ removed the ban on commodity derivative transactions physically settled)

Threats to TOCOM

- Intensifying worldwide competition among commodity exchanges, and commodity exchange restructuring developments
- Capital flight from riskier financial products due to an excessive increase in volatility
- An insufficient awareness of hedging
- Reduced exchange trading along with reduced OTC market trading
- Excessive regulatory risk

Market Design

- (1) Provide a trading system equipped with world-leading capabilities and functionalities in line with international standards
- (2) Adopt trading rules in line with global standards
- (3) Improve trading environment to boost market liquidity

Listed Commodities

- (1) Revitalize the Oil Market by building an oil market that responds to the needs of the oil industry
- (2) Establish the Precious Metals market as a primary source of earnings for the company, and maintain our Rubber market as the world benchmark
- (3) List new commodities which meet the needs of various market participants

Market Participants

- (1) Attract a variety of market participants
- (2) Develop stronger relationship with FCMs and/or brokers
- (3) Increase the number of commercials hedging in the market
- (4) Reach new types of "Liquidity Providers" such as prop houses

(1) Extension of trading hours

- Extend trading hours until 4:30am (JST) except rubber (September 2009), and make every effort to ensure stable operations of the trading system

(2) Adoption of trading rules in line with global standards

- Expand block trading
- Introduce TAS (Trade at Settlement)

(3) Improve trading environment to encourage entry of new liquidity providers

- Provide DMA (after completion of necessary approval from overseas regulators)

(4) Development of partnerships with related markets

- Promote the listing of ETFs linked to prices of TOCOM's listed commodities
- Foster linkage with OTC trading and commodity CFDs
- Consider providing an OTC trading platform and clearing services, in the future

- (1) Re-open Gas Oil contract (May 2010)
- (2) Study measures to revitalize options trading
- (3) Consider re-designing the Oil Market
- (4) Study the establishment of a carbon emissions exchange
- (5) Study feasibility of listing commodities such as LPG, LNG, coal, copper, and electric power
- (6) Consider listing commodities linked to OTC trading, commodity CFDs, and OTC clearing

Intensify Marketing Activities

- Conduct marketing activities according to the types of market participant such as commercial players (mainly oil commercials), financial institutions, institutional investors, and market intermediaries including Futures Commission Merchants
- Launch overseas marketing operations targeting overseas commercials, overseas funds, and proprietary trading houses
- Execute promotional activities aimed at individual investors
- Encourage asset management companies to develop more TOCOM price-linked ETFs and investment trusts

(1) IPO Target Date: Fiscal 2013

(2) Examine how the clearing system should function in the future

(1) Current state of the trading volume

- The downward trend in trading volume, which had continued since fiscal 2004, came to a halt as trading volume hit a bottom line in May 2009 and then started to recover
- The financial situation for fiscal 2009 is still difficult

(2) Trading volume targets

- For FY2010: Make our marketing initiatives produce tangible results to increase liquidity to an average daily trading volume of 170,000 contracts in the second half of FY2010, and then sustain that momentum to reach an average daily trading volume of 200,000 contracts (the profitability level) in FY2011.
- For FY2012: Targeted y-on-y growth at 15%

Target for FY2010	150,000 contracts
Target for FY2011	200,000 contracts
Target for FY2012	230,000 contracts

(Average daily trading volume)

<Reference>

- The average y-on-y growth rate from FY1991, when electronic trading was introduced, to FY 2007 was 7.7%.
- The average y-on-y growth rate from FY1991, when system trading was introduced, to FY2003, when the highest trading volume was recorded, was 15.8%.

- Build a strong organization through continued cost reduction efforts

Targeted Profit

FY2011: Return to profitability with an ordinary profit of 100 million yen or more

FY2012: Strengthen our competitiveness further with an ordinary profit of 500 million yen or more

Market Design

- Launched a new trading system with world's highest level of performance and functions which meet international standards (May 2009)
- Extended trading hours to 23:00 (JST) (for Rubber until 19:00) (May 2009)
- Implemented Circuit Breaker (May 2009)
- Adopted Market Maker program (October 2009)
- Launched Block Trading (February 2010)
- Introduced Co-location service (May 2009)
- Introduced Remote Membership system (October 2009)
- Relaxed position limits for investment trusts (October 2009)
- Had TOCOM price-linked ETFs and investment funds set up (Feb 2010)

Listed Commodities

- Listed the Nikkei-TOCOM Commodity Index (March 2010)

Market Participants

- Conducted marketing activities to encourage entry into TOCOM markets

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