

Tradeweb_Taichi_Shibuya_TRANSCRIPT

Dan Barnes Welcome to Trader TV, your insight into institutional trading. I'm Dan Barnes. Liquidity provision in the Japanese Yen rates market is changing. Here to discuss how and why it's changing is Taichi Shibuya, Head of Japan at Tradeweb. Taichi, welcome to the show.

Taichi Shibuya Thank you for having me, Dan. Pleasure to be here.

Dan Barnes To start with, what have been the traditional dividers of liquidity provision in the Yen rates market?

Taichi Shibuya One of the obvious dividers of liquidity is the time zone. Core market hours for Yen rates is from 8:45 a.m. to 3:02 p.m. Tokyo time. With more international clients starting to trade Yen rates, we frequently receive questions from our international client base; when will be the right time to trade certain JGB issuances or certain types of Yen swaps? And our data clearly shows best performance can be achieved inside core market hours. Another divider of liquidity unique to Yen swaps is major Japanese institutions can only clear at JSCC, and U.S. clients cannot clear at JSCC, which causes differences in depth of liquidity at certain curve points, leading to a clearing basis between JSCC and other clearinghouses. There's also an operational difference on how to clear at JSCC versus other CCPs, which causes complexity for clients who can clear at both.

Dan Barnes How are you reducing that fragmentation?

Taichi Shibuya For the time zone issue, we have seen more clients to be physically in the time zone, or waking up early or setting up night shifts. But for some clients who do not have that resource, at Tradeweb we were the first to roll out a solution called AiEX "time release". That allows clients to time their RFQs to be sent during core market hours, which works like a leave order, but using the RFQ protocol, which is working very well, especially for clients who have best execution policies. On the swaps side, we are working closely with our buy-side clients, clearing brokers, and the clearinghouses to reduce fragmentation; for example, we recently worked with the JSCC and clearing brokers to go live with SEF MTF trading, so now international investors can trade, process, and then clear Yen swaps in the same manner as they do for other currencies that are cleared at other CCPs, and we are witnessing rise in interest and usage.

Dan Barnes Can execution be improved in other ways?

Taichi Shibuya Yes. Compared to other DM currency markets, the Yen rate space is definitely behind the curve in terms of using technology to improve ways of execution. However, we think the overall ecosystem of the Yen rates market and the dynamics of participants are all gradually moving towards a world where international investors are becoming the major player. This in turn influences how Japanese government bonds or Yen swaps are traded, so, for a technology firm like us, it's definitely an opportunity to leverage the capabilities in other markets and adapt them to Yen rates. For example, JGB asset swaps were predominantly traded over voice chat, but we are working to electrify this market by allowing the JGB leg and the

swap leg to be executed separately with a best dealer combination that gives you the best spread, which cannot be easily done by voice or chat.

Dan Barnes What else are you doing to combat fragmentation?

Taichi Shibuya I think electronic trading solves one of the major fragmentations in Yen rates market, which is the language barrier. Most of the global dealers have English speaking salespeople who support international investors, but not all dealers have sufficient resources. End of the day, clients are looking for better liquidity, better execution, so our role is to provide a universal trading platform where domestic and international participants can be connected without that barrier. But we are working further to break down fragmentation and create a more seamless trading experience that allows our clients to capitalize further on operations; some examples would be onboarding more domestic dealers who have a large presence locally, but not internationally; another would be further connecting with local CCPs and exchanges to enhance our Japan market offerings.

Dan Barnes Taichi, that's been fantastic. Thank you.

Taichi Shibuya Thank you very much.

Dan Barnes I'd like to thank Taichi for his time today and, of course, you for watching. To catch up on our other shows, including Trader TV This Week at 6:45 a.m. UK time every Monday morning, go to tradertv.net.