Market Overview and Regulatory & Industry Updates in Japan

November 21, 2016

Japan Securities Dealers Association
1-1 Overview of Japanese Markets

**Equity Markets**

- Stock prices moved around the \$16,000-17,000 range during the 1st to 3rd quarters in 2016, affected by external factors such as the Chinese economy, foreign exchange rates, etc.
- Large-scale IPOs: Japan Post Group (Nov. 2015), Line Corp. (Jul. 2016), JR Kyushu (Oct. 2016)

**Bond Markets**

- While the total amount of new issuances of public and private bonds decreased, the issuance of straight corporate bonds rose sharply during Jan.-Jul. 2016 (up 30.8%).
- Influenced by the negative interest policy introduced by BoJ (Jan. 2016), long term interest rates shifted into the negative range.

Now under deliberation:
Shortening the settlement cycle of stocks, etc.

T+3 ➔ T+2
(present) April or May 2019
(planned)

Planned shortening of the settlement cycle of JGBs

T+2 ➔ T+1
(present) First half of 2018
(planned)

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Nikkei 225 Stock Average and Yen/US Dollar Exchange Rate

Long-term Interest Rates in Japan
Overview of Japanese Markets

Investment Trusts

• Improvements of policy schemes to encourage individual capital formation (expanded DC, NISA, etc.)
• The number of investment trusts increased, while the total assets invested have decreased (mainly due to weak market conditions)
• The negative interest rate environment led to the redemption of a number of MMFs

Performance of Securities Industry

Operating Revenues of Securities Firms

Ordinary Profits and Current Net Profits of Securities Firms

Note: Securities firms that were not in business as of the end of March in each year are excluded.
(Source) JSDA

Note: Securities firms that were not in business as of the end of March in each year are excluded. Figures for fiscal 2015 ended March 2016 are on a preliminary report basis.
(Source) JSDA
2-1 Regulatory Updates - Highlights -

1. Revision of the Banking Act, etc. to Respond to the Changing Environment Due to the Development of FinTech

**Responding to the changing environment due to the development of information and communication technologies (FinTech)**

1. Easing the restrictions on financial institutions regarding cooperation with IT companies
2. Requiring exchanges for virtual currencies to be registered with the Japan Financial Services Agency (JFSA), to separately manage customers’ assets from their own assets, and to be periodically audited by auditing firms or certified public accountants

2. Revision of the Defined Contribution Plan Act

**Addressing the issues surrounding DC plans**
- diversifying working styles
- expanding the use of corporate DC plans
- assisting individuals’ self-reliant efforts in asset formation for old age

1. Expansion of eligibility for participation in individual DC plans
2. Introduction of simplified DC plans that relax the procedures for smaller companies
3. Enabling small companies to contribute to individual employees’ DC plans
4. Providing continuous investment education to DC plan participants, and restricting the maximum number of investment options offered to plan participants
5. Amendment of provisions relating to investment in predesignated products (default funds), and requirement that plan participants be provided with at least three investment options with different risk/return characteristics

Nickname for *individual-type defined contribution pension plan* ➡ **iDeCo** (since Oct. 2016)
3. Developing fair practices for information provision by analysts to the market

JSDA enacted the “Guidelines Regarding Interviews, etc. with Issuers and Information Conveyance by Association Members’ Research Analysts.” (Sep. 2016)
4. NISA and Junior NISA

1. The maximum annual investment amount under NISA was increased: ¥1 million ➔ ¥1.2 million (Jan. 2016)
2. **Junior NISA** was introduced to facilitate asset formation and investment by the younger generation

- Minors under 20 years old living in Japan can open Junior NISA account
- Maximum investment amount is ¥800 thousand a year, up to ¥4 million for 5 years
- Like NISA, income from capital gains and dividends are exempted from 20% tax for 5 years