Japanese Economy and Securities Market

1． Japanese Economy

(Macro-Economic Overview)

The Japanese economy maintained a moderate recovery trend from 2015 to the first half of 2016. While real GDP growth increased 1.2% over the previous period in the first quarter of 2015, it decreased by 0.4% in the second quarter. This decline was primarily due to the impact of slowdown in the growth of emerging economies. In the third quarter, consumer spending began to recover, and growth increased by 0.5%. However, in the fourth quarter demand remained weak in many categories, and growth fell by 0.4%. In the first quarter of 2016, factors such as growth in consumer spending due to the leap-year effect contributed to growth, which was up 0.5%. In the second quarter, though, business confidence declined due to factors such as the strong yen, which prevented growth in capital expenditures, with the result that growth remained flat from the previous period.

Corporate profits (ordinary profits) maintained high levels throughout fiscal 2015 and reached a record high of ¥69,168.0 billion. The ratio of ordinary profits to sales was also high at 5.3%.

Consumer Price Index (CPI) continued to rise as in the previous year and achieved year-on-year growth of 0.5% in 2015. The Corporate Goods Price Index (CGPI) fell 2.3% year on year in response to a decline in the oil price. Regarding employment conditions, the unemployment rate has been decreasing steadily since 2009, when it was the highest after the bankruptcy of Lehman Brothers. It has fallen to approximately 3.4%, and the ratio of job offers to seekers rose to 1.20 times.

<Table 1> Major Economic Indicators

Change from the previous period (Quarterly is seasonally adjusted)

(Major Economic Indicators) (%)

	2015				2016		CY2014	CY2015
	1-3	4-6	7-9	10-12	1-3	4-6		
GDP(Expenditure Approach)	1.2	-0.5	0.5	-0.4	0.5	0.2	0.0	0.5
Private Consumption	0.1	-0.6	0.4	-0.8	0.7	0.2	-0.9	-1.2
Consumption of Households	0.0	-0.7	0.4	-0.8	0.7	0.2	-0.8	-1.3
Excluding Imputed Rent	0.0	-0.9	0.5	-1.1	0.8	0.1	-1.2	-1.7
Private Residential Investment	2.6	1.7	1.1	-0.5	-0.1	5.0	-5.3	-2.5
Private Non-Resi. Investment	3.1	-1.0	0.8	1.2	-0.6	-0.1	3.1	1.5
Government Consumption	0.2	0.4	0.2	0.8	0.9	0.1	0.1	1.2
Public Investment	-1.4	0.9	-1.8	-3.2	0.2	2.6	0.4	-2.5
Exports	1.7	-4.2	2.6	-0.9	0.1	-1.5	8.3	2.8
Imports	1.1	-1.8	1.2	-1.1	-0.5	0.0	7.2	0.3

(Note) Data published on September 8, 2016

(Source) Cabinet Office

<Table 2> Employment Conditions

	2015				2016		CY2014	CY2015
	1-3	4-6	7-9	10-12	1-3	4-6		
Unemployment Rate (%)	3.5	3.4	3.4	3.3	3.2	3.2	3.6	3.4
Job-offers to Seekers Ratio(Ratio(Times))	1.15	1.18	1.22	1.26	1.29	1.36	1.09	1.20

(Note) Date is seasonally adjusted

(Source) Ministry of internal Affairs and Communications, Ministry of Health, Labour and Welfare

<Table 3> Price Trends

(Corporate Goods Price and Consumer Price)

		2015				2016		CY2014	CY2015
		1-3	4-6	7-9	10-12	1-3	4-6		
Corporate Goods Price	Index	103.3	103.7	102.6	101.2	99.8	99.2	105.1	102.7
	YoY	0.5	-2.2	-3.6	-3.7	-3.5	-4.2	3.2	-2.3
Consumer Price (excluding fresh food)	Index	102.7	103.4	103.4	103.4	102.6	103.0	102.7	103.2
	YoY	2.1	0.2	-0.1	0.0	-0.1	-0.4	2.6	0.5

(Source) Ministry of Internal Affairs and Communications, Bank of Japan

2. Financial Assets of Households

At March 31, 2016, the end of fiscal 2015, household financial assets amounted to ¥1,705.5 trillion, declining approximately ¥10.2 trillion or 0.6% from fiscal 2014. The financial assets of households had been growing amid the long spell of yen depreciation and rising stock prices caused by the BOJ’s monetary easing policy. However, the financial assets of households at the end of fiscal 2015 showed the first year-on-year decline for seven years, mainly due to the drop in stock prices from August, reflecting concern over the slowdown in China and the impact of falling oil prices.

Looking at a breakdown, stocks and other equities decreased around ¥16.7 trillion, or 9.9% year on year, to ¥152.9 trillion, and investment trusts fell ¥3.4 trillion, or 3.7% from last year, to ¥91.9 trillion. Cash and deposits, on the other hand, expanded approximately ¥11.3 trillion, or 1.3%, to ¥893.5 trillion, continuing on from last year in posting another record high on a year-end basis.

In terms of the composition of household financial assets, cash and deposits reached a record high as previously mentioned, and the proportion of cash and deposits rose 1.0%, to 52.4%, exceeding the level of the end of the previous fiscal year for the first time in five years. Conversely, the proportions of stocks and other equities and of investment trusts decreased 0.9%, to 9.0% and 0.2%, to 5.4%, respectively.

<Table 4>The Composition of Financial Assets of Households (¥ trillion)

	FY2013	FY2014	FY2015(E)	FY2015 (E) (Amount)
Financial Assets of Household	1,638.4	1,715.7	1,705.5	1,705.5
Currency and deposits	52.8%	51.4%	52.4%	893.5
Debt securities	1.8%	1.6%	1.6%	27.0
Shares & Other Equities	9.2%	9.9%	9.0%	152.9
Investment trust beneficiary certificates	4.8%	5.6%	5.4%	91. 9
Insurance, pension and standardized guarantees	29.9%	29.6%	29.9%	509.3
Others	1.6%	1.9%	1.8%	30.6

(source) Bank of Japan

3. Equities

(1) Primary Market

In 2015, 104 companies went public on the Tokyo Stock Exchange (TSE), largely due to the recovery in corporate earnings and strong stock market performance driven by the results of Abenomics. This figure represented an increase of 14 companies from a year earlier and the sixth consecutive year of growth. In 2016, partly due to stock market weakness reflecting deterioration in emerging economies, the number of companies going public on the TSE as of the end of July was 49, falling below the year-ago level for the first time in seven years. By industry category, service companies, information and communications, and retail continued to take the top spots, and one noticeable feature was the large number of new listings by companies related to BigData, which has attracted attention in recent years.

The highlights of the IPOs were three companies belonging to the Japan Post Group, Japan Post Holdings Co., Ltd., Japan Post Insurance Co., Ltd., and Japan Post Bank Co., Ltd. listed their stocks on the First Section of the Tokyo Stock Exchange on November 4, 2015. Totally, the three companies raised around ¥1,463.2 billion, making this the biggest initial public offering since NTT DoCoMo Inc. in 1988. Another big new listing was Line Corp., in July 2016. The simultaneous listing in Japan and the US caused a stir as the world's biggest tech listing this year, with a market capitalization based on TSE closing prices on the first day of around ¥910 billion. In addition, the second large IPO this year was the new listing of JR Kyushu in October, raising around ¥496 billion.

In 2015, the total amount of capital increases through public offerings on all stock exchanges in Japan shrank 30.5%, or ¥421.7 billion, to ¥963 billion, dipping below one trillion yen for the first time in three years. In 2016, during the first seven months from January to July, the amount fell to ¥184.5 billion, below the year-ago level. In 2015, the total amount of capital increases through primary offerings decreased sharply, plunging 73.6%, to ¥913 billion. In 2016, during the first seven months from January to July, public offerings amounted to ¥153.6 billion, far exceeding the year-ago level, due to the new listing of Line Corp.,

<Table 5> Key Statistics for Stocks (TSE 1st, 2nd, Mothers, JASDAQ)

	2013	2014	2015
No. of Listed Companies (Note 1)	3,406	3,456	3,502
Newly listed	75	90	104
Total Market Value (¥billion)	477,509	524,899	589,788
Trading Volume (millions of shares)	887,952	709,104	709,718
T. Volume (daily avg) (millions of shares)	3,624	2,906	2,908
Trading Value (¥billion)	682,702	643,105	745,955
T. Value (daily avg) (¥billion)	2,786	2,635	3,057
TOPIX (Note 2)	1,302. 29	1,407.51	1,547.30

Note 1: The companies newly listing on the TSE as a result of the merger (July 16, 2013) of the cash markets of the TSE and OSE (1,099 companies) were excluded from the Newly Listed figure for 2013.
Note 2: As of end of year
(Source) Japan Exchange Group

(2) Secondary Market

Taking a general view of the stock market in 2015, in the first half of the year, stocks showed an even stronger upward trend on the back of improvement in corporate earnings supported by a weak yen and low oil prices, and expectation for corporate governance reforms. However, through the second half of the year, gains narrowed amid rising concern about China’s economic slowdown.

In the first quarter of 2015, the stock market was bearish on concern about the Greek debt crisis. However, from the latter part of the quarter, the market rebounded as listed companies announced favorable financial results and the government announced that Japan’s GDP had turned positive. On March 31, the Nikkei Average closed the fiscal year at 19,206.

In the second quarter, the upward trend continued and on April 22, the Nikkei 225 index rose to 20,133, closing above the 20,000 level for the first time in 15 years since April 2000. The index subsequently fell back at the beginning of May, dipping below 20,000 by mid-May. However, at the end of the month, the weakening of the yen to below ¥120 against the dollar lifted the shares of exporters, and on May 29, the Nikkei index reached 20.563, closing above 20,000 at the end of a month for the first time since March 2000. The market then remained firm, with the Nikkei Stock Index closing at 20.952 on June 24, its highest close for 18 years since December 1996. The aggregate market value of the companies listed on the First Section of the Tokyo Stock Exchange also hit a record high.

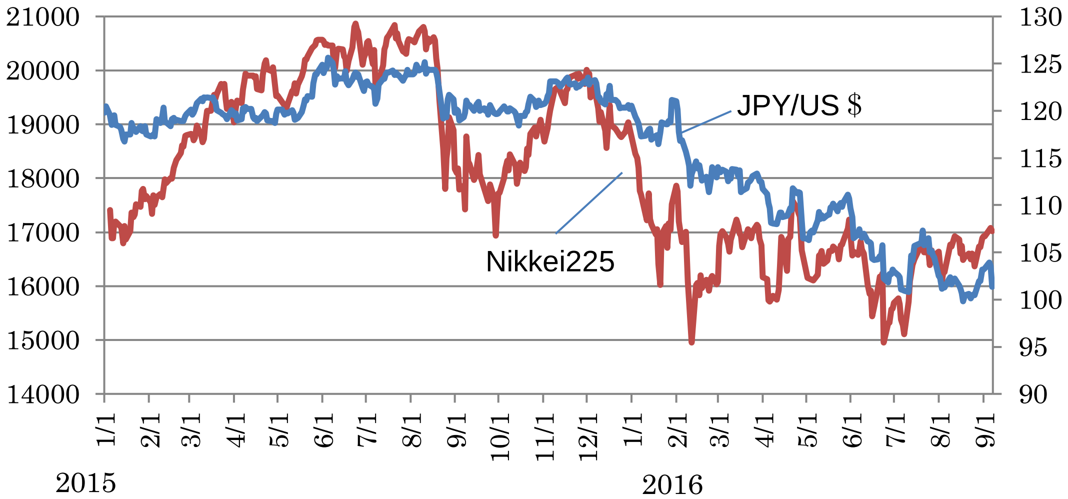
In the third quarter, the stock index remained generally above the 20,000 level during July. In August, the aggregate market value of the companies listed on the First Section of the Tokyo Stock Exchange hit a new high of ¥609 trillion, but stock prices plummeted amid rising concern over China’s economic slowdown triggered by the devaluation of the Chinese Yuan. In September, the year-to-date decline came close to 20% at one point and at times the index dipped below 17,000. Net sales of Japanese stock by overseas investors (Cash and futures transactions combined) for September came to ¥3 trillion, which was the highest level since records began.

In the fourth quarter, the stock index regained some lost ground thanks to depreciation of the yen amid growing certainty that the Fed would raise interest rates before the end of 2015 as well as additional monetary easing in China and Europe. In January, the index traded above the 20,000 level for a time, but then fell back again after the BOJ’s monetary easing on 18 December ended in supplementary measures, closing at 19,033 at the end of the year.

In the first quarter of 2016, the downward trend that began the year before continued amid concerns of a global recession. In March, the stock index began to rise, as the weakness of the dollar against all major currencies allayed economic concerns for emerging economies and resource rich countries. However, the gains were limited due to yen appreciation and uncertainty over corporate earnings.

In the second quarter of 2016, following a large drop at the beginning of April, the stock index remained firm thanks to rising oil prices and expectations for further monetary easing by the BOJ. However, when the BOJ decided to maintain the status quo at its monetary policy review meeting on April 28, previous expectations faded, causing sharp adjustments in stock prices. Subsequently, with the yen weakening against the dollar after the FOMC hinted at a June rate hike on May 18, stock prices recovered. After reaching the 17,000 level, the stock index seesawed, swayed by the BOJ's monetary policy and exchange rates. However, when Britain voted to leave the EU in the referendum held on June 23 (local time), this sent shock waves through the market, and on June 24, the day after the vote, the stock index hit 14,864, its lowest level since the beginning of the year.

<Chart 1> Nikkei225 Stock Average and Yen/US Doller Exchange Rate



<Table 6> Market Shares & Trading Balance by Types of Investors—Tokyo, Nagoya—

	Market Share			Net Selling(-)/Buying(+)(¥billion)		
	2013	2014	2015	2013	2014	2015
Member Account	12.5%	13.0%	13.8%	-585	288	1,558
Individuals	28.0%	23.3%	20.0%	-8,750	-3,632	-4,999
Foreigners	50.8%	55.5%	58.4%	15,119	852	-250
Investment Trusts	1.5%	1.8%	1.8%	426	-210	242
Non-Financial Companies	1.0%	0.9%	1.0%	629	1,101	2,963
Life & Non-life	0.2%	0.2%	0.2%	-1,075	-503	-584
Citi BK & Regional BK	0.1%	0.1%	0.1%	-282	-129	-309
Trust BK	3.1%	3.3%	3.2%	-3966	2,784	2,007
Other Financial Institutions	0.1%	0.1%	0.2%	-468	8	260

Note: Figures up to and including the second week of July 2013 are the totals of the three markets of Tokyo, Osaka, and Nagoya.

(Source) Japan Exchange Group

4. Bond Market

(1) Primary Market

In 2015, public and corporate bond issuance in Japan decreased ¥4.7 trillion, or 2.3%, from 2014, to ¥200.2 trillion. Looking at a breakdown, public debt securities, straight corporate bonds and Yen-denominated non-resident issues all fell year on year, with JGBs down ¥1.3 trillion, to ¥174.5 trillion, straight corporate bonds down ¥1.5 trillion, to ¥6.8 trillion, and non-resident issues down ¥0.7 trillion, to ¥1.8 trillion.

During the period from January to July 2016, public and corporate bond issuance in Japan amounted to ¥114.7 trillion, which is less than in the same period of the previous year. While JGB issuance during this seven-month period decreased year on year, issuance of straight corporate bonds rose sharply from the same period a year ago, increasing 30.8% to ¥5.6 trillion.

Turning to JGB issuance, which accounts for the largest share of the market, issuance of long-term and super long-term bonds increased and issuance of medium-term and short-term bonds decreased, reflecting efforts to control refinancing risks and reduce financing cost in the medium and long term.

In 2015, issuance of straight corporate bonds fell to its lowest level in nine years, amid weak demand for capital from the corporate sector and widening corporate bond spreads. With widening corporate bond spreads, the cost of raising finance by issuing corporate bonds was high relative to bank loans, and there was a noticeable tendency to delay issuance among companies that traditionally issue corporate bonds such as trading companies, real estate and non-banks. In such an environment, a trend toward product diversification was evident, with Mitsubishi Corporation issuing hybrid bonds (bonds positioned between debt and equity). At the beginning of 2016, with the yield on short- to long-term JGBs in negative territory under the BOJ's negative interest rate policy, demand for corporate bonds still issued at positive yields grew among investors hard-pressed to find investment opportunities. Noticeable market features include the issuance of super long-term bonds with higher yields, hybrid bonds, and TLAC bonds by financial institutions for compliance with Basel standards.

<Table 7> Public and Corporate Bonds (¥ trillion)

		2013	2014	2015
Trading Volume (face value)	JGB	8,968.6	10,075.4	10,393.4
	Others	89.3	106.9	142.8
	Total	9,058.0	10,182.3	10,536.3
Issuing Amount	Public Debt Securities	197.7	191.4	188.7
	(JGB) (Note 1)	(181.0)	(175.8)	(174.5)
	Straight Corporate Bonds (Note 2)	8.7	8.4	6.8
	Non-Resident Issues	1.6	2.5	1.8
	Total (Note 3)	210.8	205.0	200.2

Notes: 1. JGBs do not include bonds placed in the public sector or financial bills (including financial bills that are accounted for under treasury bills). Public bonds other than JGBs comprise municipal, government-guaranteed, and FILP agency bonds (including regional public corporation bonds).

2. Straight corporate bonds include asset-backed corporate bonds.

3. The total figures are not equal to the sum of individual categories because they include bank bonds, private placement corporate bonds and private placement government bonds.

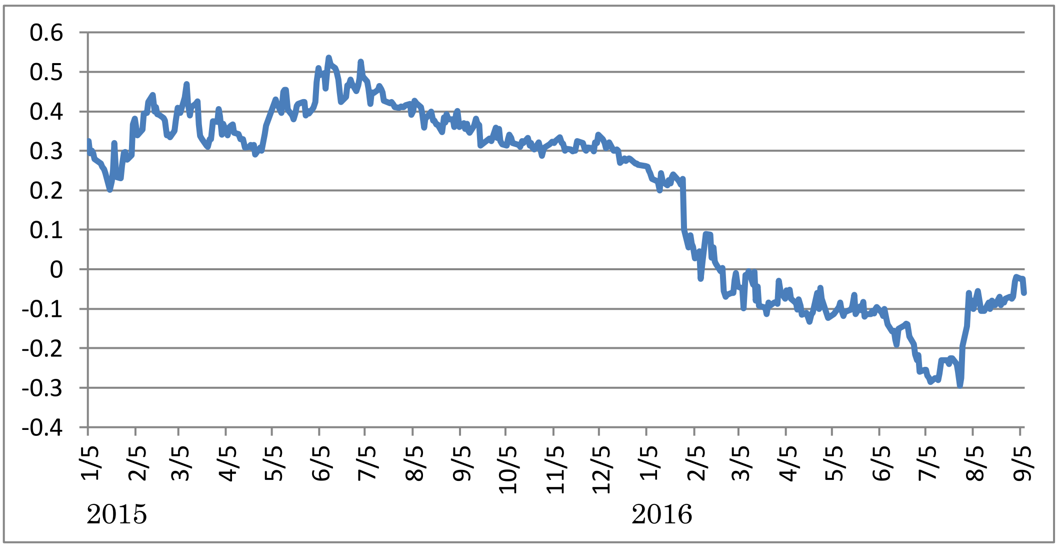
(2) Secondary Market

Taking a general view of the movements of the long-term interest rate (rate for newly issued 10-year JGBs) during 2015 and the first half of 2016, the rate temporarily rose to around 0.5% in the first half of 2015 but then hovered at a low level from the second half of the year. Following the BOJ's introduction of a negative interest rate policy in January 2016, the rate fell below zero for the first time and has since remained in negative range.

In 2015, the rate started out at 0.325% at the beginning of the year and then trended down, temporarily falling below 0.2%, amid expectation for further monetary easing in light of the slowing of the year-on-year rate of increase in the consumer price index. However, from late January, with no change in the BOJ's monetary policy and higher U.S. long-term interest rates, the rate rose to the mid 0.4% range and subsequently hovered between 0.3% and 0.4%. In June, following a sudden increase in German long-term interest rates, the rate temporarily climbed further into the mid 0.5% range. From the summer, against the backdrop of the global stock market plunge triggered by the Chinese stock market crash and the falling oil price, the rate generally hovered at a low level. Although the FED raised its key interest rate on December 16, the increase in U.S. long-term interest rates was limited due to low oil prices, among other factors, and consequently Japan's long-term rate also showed no increase and continued to hover around 0.3% through to the end of 2015, closing at 0.265%.

In 2016, the long-term rate remained in the lower 0.2% range at the beginning of the year. However, with the BOJ's decision to adopt "quantitative and qualitative monetary easing with a negative interest rate" on January 29, the interest rate dropped sharply, falling 0.129 percentage points from the previous day to 0.1%, and, on February 9, the rate fell to -0.035%, dropping below zero for the first time ever. It then hovered between 0% and -1% but, following Britain's decision to leave the EU on June 24, the rate fell further into negative territory as investment funds flowed into JGBs, which are safe assets, and in July, the rate temporarily dropped to -0.3%. The rate subsequently rose on expectation of a U.S. rate hike, and hovered around -0.1%.

<Chart 2> Long-term Interest Rates in Japan



5. Investment Trust

In 2015, the net assets of publicly offered investment trusts continued to show an upward trend, topping ¥100 trillion yen in May, but registered sharp decline in August as a result of the plunge in stock prices caused by concerns over China's economic slowdown. At the end of 2015, the net assets of publicly offered investment trusts reached a new high of ¥97,756.2 billion, up ¥4,251.6 billion from ¥93,504.5 billion a year earlier. Total net assets of stock investment trusts reached a new high of ¥81,738.1 billion compared with ¥77,095.4 billion, an increase of ¥4,642.7 billion. Total net assets of bond investment trusts, including MMFs, decreased for a second consecutive year, down ¥391.0 billion year on year from ¥16,409.1 billion, to ¥16,018.0 billion.

The number of publicly offered investment trust funds rose significantly over the year, increasing by 439 to 5,843. The number of stock investment trusts increased by 442 to 5,684, and the number of bond investment trusts decreased by 3 to 159.

The balance of investment trusts held by Japanese households rose steadily from ¥92,475.7 billion at December 31, 2014 to ¥98,287.2 billion at June 30, but declined to ¥90,808.6 billion at September 30. The balance then recovered to ¥96,268.3 at December 31, 2015.

Looking at capital flow, there was a net capital inflow throughout the year. Capital inflow was ¥2,786.3 billion in the first quarter (January to March), ¥2,770.0 billion in the second quarter (April to June), ¥2,385.0 billion in the third quarter (July to September), and ¥1,329.7 billion in the fourth quarter (September to December).

In 2016, the number of publicly offered investment trust funds has continued to show an upward trend, reaching 5,960 at August 31. However, the net assets of publicly offered investment trust funds have trended down since the beginning of the year, reaching ¥88,110.8 billion at August 31. This downward trend is mainly due to decline in net asset value due to the weak stock market, and the cancellation and redemption of publicly offered investment trust funds including MMFs due to the BOJs adoption of a negative interest rate policy.

<Table 8> Changes in Assets of Investment Trusts (¥ trillion)

Year		2013	2014	2015
Total		81.5	93.5	97.7
Stock Investment Trusts	Sales	40.0	38.4	44.1
	Repurchases	34.8	31.1	30.7
	Assets	65.0	77.0	81.7
Bond Investment Trusts	Sales	12.3	12.9	9.7
	Repurchases	11.8	13.0	9.9
	Assets	3.3	3.3	3.1
MMFs	Sales	0.6	0.7	0.5
	Repurchases	0.5	0.6	0.8
	Assets	1.9	1.9	1.6
MRFs	Sales	54.2	43.0	49.4
	Repurchases	49.4	43.1	49.3
	Assets	11.1	11.1	11.1
Number of Funds		4,922	5,404	5,843

(Source) The Investment Trusts Association, Japan

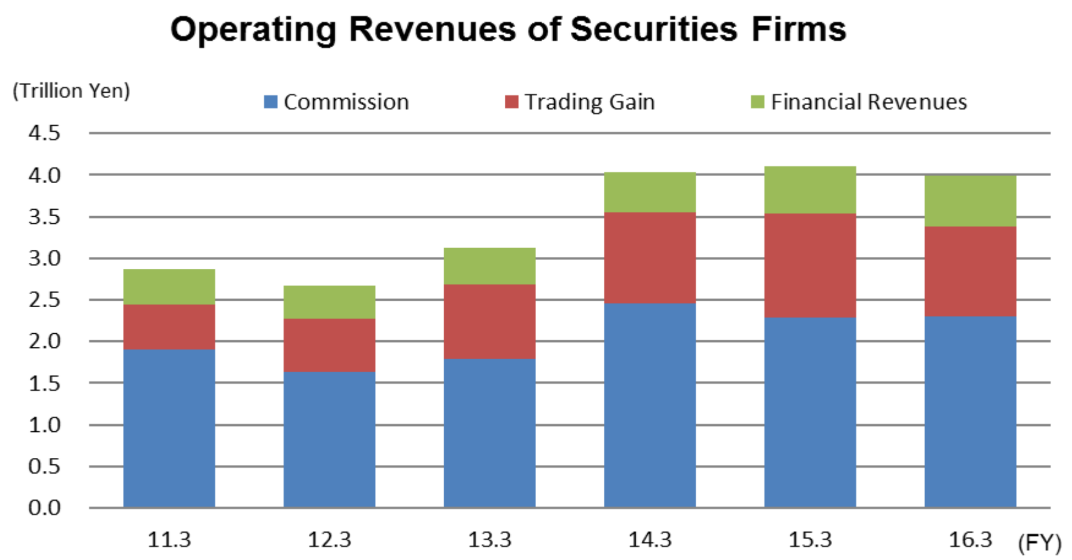
6. Overview of Securities Industry Performance

Annual performances by securities firms in Japan in the fiscal year ended March 31, 2016 were favorable, though slightly down on the previous fiscal year when the stock market was generally robust. The proportion of securities firms posting profits (companies reporting profits on a current net profits/losses basis) remained at a high level, despite falling to 75.2% from 82.9% the previous fiscal year.

Overall, the industry recorded operating revenues of ¥4,038.4 billion, decreasing 2.8%, or ¥117.8 billion, from the previous year.

Looking at a breakdown of operating revenues (see Chart 3), commissions increased 0.1%, or ¥1.7 billion, to ¥2,295.6 billion, and trading gain declined 12.1%, or ¥149.0 billion, to ¥1,088 billion, mainly due to poor performances in equity operations, which were down 35.9%, or ¥82.4 billion, and bond operations, which were down 35.3%, or ¥324.9 billion.

<Chart 3> Members' Operating Revenues

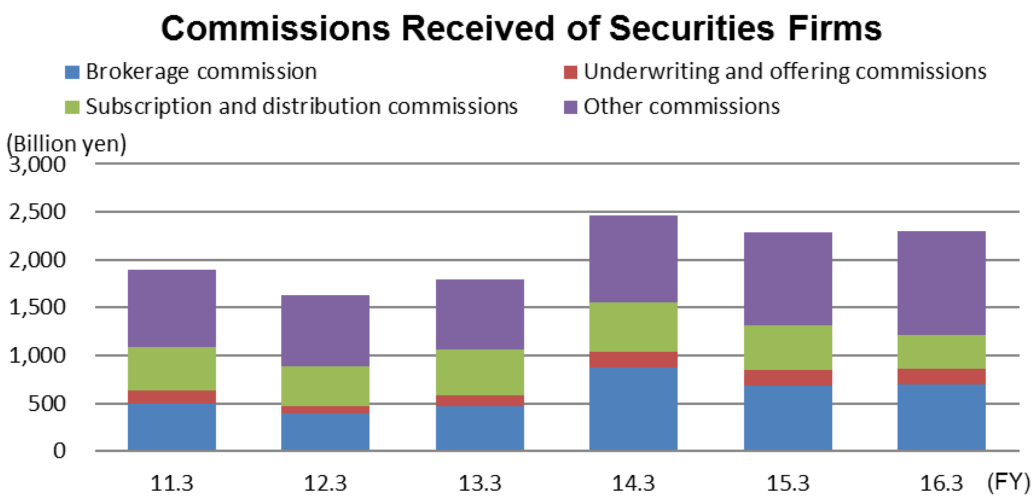


Note: Securities firms that were not in business as of the end of March in each year are excluded.
(Source) JSDA

Looking at commission in more detail (Chart 4), brokerage commission increased 0.3%, or ¥2.0 billion, to ¥690.0 billion. Underwriting commission rose 9.0%, or ¥14.5 billion, to ¥176.8 billion. However, distribution commission decreased 25.7%, or ¥119.5 billion, to ¥345.9 billion.

Net operating income after subtracting the financial expenses explained below amounted to ¥3,657.5 billion, a 3.9% or ¥149.5 billion decrease from a year earlier.

<Chart 4> Breakdown of Members' Commission



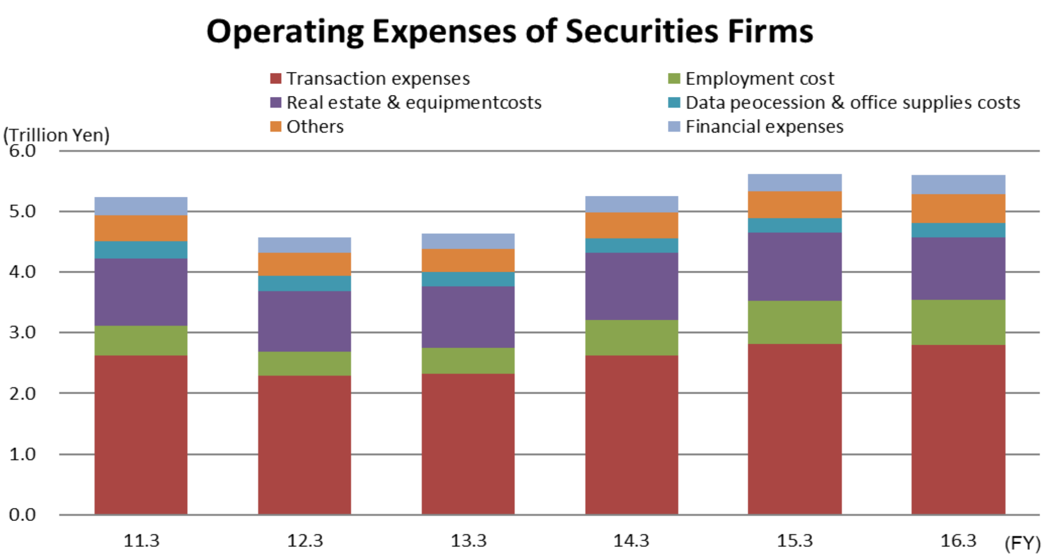
Note: Securities firms that were not in business as of the end of March in each year are excluded.
Figures for fiscal 2015 ended march 2016 are on a preliminary report basis.
(Source) JSDA

Compared with the decline in operating revenues, operating expenses of securities firms in the fiscal year ended March 2016 showed a slight upswing, increasing 0.6%, or ¥17.9 billion, to ¥3,180.2 billion (see Chart 4).

Looking at separate categories, selling and general administrative costs fell 0.5%, or ¥13.7 billion, to ¥2,799.3 billion, while financial expenses rose 9.1%, or ¥31.7 billion, to ¥380.8 billion.

Breaking down selling and administrative costs, driven by the higher trading volumes of the robust market, transaction expenses increased 3.5%, or ¥24.8 billion, to ¥742.5 billion, and data processing and office supplies expenses climbed 5.7%, or ¥25.5 billion, to ¥477.2 billion. However, employment cost fell 7.4%, or ¥83.1 billion, to ¥1,033.6 billion, and real estate and equipment expenses sank 2.1%, or ¥4.8 billion, to ¥230.3 billion.

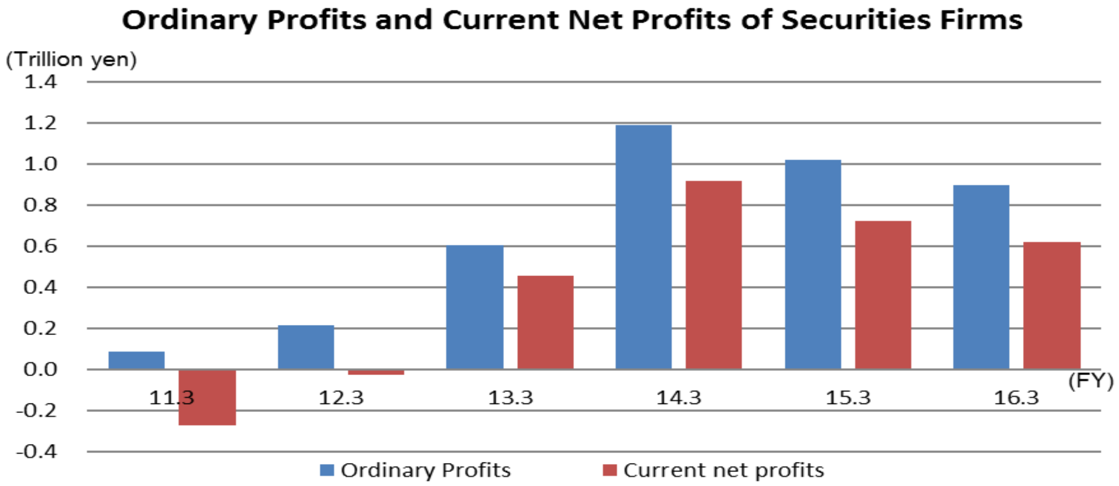
<Chart 5 > Members' Operating Expenses



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

As a result, the current net profits/losses of the securities firms in Japan in the fiscal year ended March 2016 amounted to ¥618.0 billion, down 14.7%, or ¥106.8 billion year on year.

<Chart 6> Members' Ordinary Income and Current Net Profits



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

7. Regulatory and Legal Revisions, Industry Topics

1. Partial Revision of the Banking Act, etc. to Respond to the Changing Environment Due to the Development of Information and Communication Technologies

An Act to Partially Amend the Banking Act, etc. for the Purpose of Responding to the Changing Environment Due to the Development of Information and Communication Technologies (FinTech) was enacted in May 2016 and promulgated in June 2016.

The revision amends the Banking Act and other relevant acts aiming to ease the restriction on investment in companies up to 5% for banks and up to 15% for their holding companies to encourage banks to cooperate with IT companies. Also the revision of the Payment Services Act requires exchanges for virtual currencies to be registered with the Japan Financial Service Agency (JFSA), to separately manage customers' assets and their own assets, and to be periodically audited by auditing firms or certified public accountants.

2. Partial Revision of the Defined Contribution Plan Act

The Act for the Partial Revision of the Defined Contribution Plan Act was enacted in May 2016 and promulgated in June 2016. The revision was aiming to address the issues such as diversification of working styles, make corporate plans more widespread, and assist individuals' self-reliant efforts in asset formation for old age.

(1) Expansion of eligibility for participation in individual DC plans (to include non-working spouses of employees, public-sector employees and other groups previously only covered by defined benefit plan)
(2) Introduction of simplified DC plans which relax the procedure necessary to introduce a DC plan for smaller employers with 100 employees or less
(3) Enabling small employers to contribute to individual employee DC plans
(4) Requirement for employers to provide continuous investment education to DC plan

participants, and restriction on 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

3. Self-Regulation

(1) Shortening the settlement cycle of JGBs

In November 2015, based on the "Grand Design towards Shortening of JGB Settlement Cycle (T+1)" released by "The Working Group on Shortening of JGB Settlement Cycle" in November 2014, the JSDA made partial revisions to "The Japanese Government Securities Guidelines for Real Time Gross Settlement" to prepare for migration to a T+1 JGB settlement cycle. The JSDA also made partial revisions to the "Rules Concerning Handling of Conditional Sale and Purchase of Bonds, Etc." in June 2016 to introduce "new GC repos under the subsequent collateral allocation method" and "a new form of repo with the aim of further globalizing the JGB market" as measures to be addressed for migration to the T+1 settlement of JGB trades. (These revisions will come into force on the effective date of shortening of JGB settlement cycle (T+1), which is scheduled to be introduced during the first half of FY2018)

(2) Deliberating a unified audit process for segregation of customers' assets

In July 2016, based on the findings of the Working Group on Segregation Audit of Customer Assets, the JSDA abolished the "Agreed-upon Procedures Engagement" concerning the type of engagement of the segregation audit of customer assets. The JSDA also partially revised the "Rules Concerning Appropriate Implementation of Separate Management of Customer Assets by Regular Members," to bring them into line with the "Compliance Assurance Engagement" and to introduce the requirement for disclosure of the results of such audits. (The revision will come into force on March 31, 2017, in principle. The requirement for disclosure will apply from announcements relating to audits conducted on or after April 1, 2018.)

(3) Developing fair practices for information provision by analysts to the market

In September 2016, the JSDA enacted the "Guidelines regarding Interviews, etc. with Issuers and Information Conveyance by Association Members' Research Analysts." The promulgation of the Guidelines is in response to the recent practice where Member Analysts obtain non-public information from an issuer at preview meetings and provide such information to certain investors. This practice deviates from the primary role of the analyst and is problematic in terms of ensuring market fairness and transparency. The Guidelines are also in response to the inappropriate distribution of information which may be in violation of laws and regulations, such as the distribution of corporate information to investors, etc. by analysts in Japan and overseas and the provision of analysis, evaluation, etc. that is not consistent with the information contained in published analysts' reports. The Guidelines discusses the nature of preview meetings and the nature of provision of information obtained from an issuer and the provision of analysis and evaluation based on such information.

4. Industry Topics

(1) Revisions to Financial and Securities Taxation System, etc.

The Nippon Individual Savings Account (NISA) system, introduced in January 2014, allows individuals 20 years of age or older domiciled in Japan to invest up to¥1 million annually for up to five years in listed stocks, stock investment trusts, and other eligible securities with capital gains and dividends earned on those funds being tax free. Effective January 2016, the maximum annual investment amount allowed under NISA was increased from ¥1 million to ¥1.2 million, and effective April 2016, “Junior NISA” was introduced, making it possible for minors aged 0 to 19 to open Junior NISA accounts (maximum annual investment amount: ¥800,000). According to a survey by the Financial Services Agency (FSA), at March 31, 2016, there were ¥10.12 million registered accounts through which a total of ¥7.7554 trillion in assets had been purchased.

The government is also progressing with unification of the taxation system for financial income. Effective since January 2016, investors are able to file their earnings on public and corporate bonds, etc., in the same way as can be done currently with listed stocks, etc., expanding the range of financial products for which losses and gains can be offset to include public and corporate bonds. Further unification of the taxation system for financial income, including derivatives, is under discussion mainly from the viewpoint of facilitating investment in diverse financial products and contributing to the realization of a comprehensive exchange that handles all securities and financial products as well as commodity products.

In addition, the following tax exemptions relating to beneficiary interests issued by special purpose trusts (known as J-Sukuk) were extended for three years: (i) exemption for profit distribution received by non-resident individuals or foreign corporations; and (ii) exemption for registration tax when the originator repurchases real estate from the trust assets.

(2) Shortening the settlement cycle of stocks, etc.

In July 2015, JSDA, the Tokyo Stock Exchange (TSE) and Japan Securities Clearing Corporation (JSCC) established the “Working Group on Shortening the Stock Settlement Cycle (WG)” as its secretariat to conduct discussions amongst market participants and related parties regarding shortening the stock settlement cycle in Japan (change of the settlement cycle to T+2). In December 2015, the WG published “Interim Report of the Working Group on Shortening the Stock Settlement Cycle,” which included the results of the discussions held by the WG and the target schedule. The WG then published the final report in June 2016. The expected implementation date is set as the business day after the consecutive non-business days in April or May 2019.

5. Launch of Tokyo Stock Exchange Mothers Index futures and JPX-Nikkei Index 400 options, etc.

In July 2016, the Osaka Exchange introduced new products, trading rules, and functionalities and revised some existing rules with the launch of the next-generation derivatives trading system (Next J-GATE).

(1) Launch of Tokyo Stock Exchange Mothers Index futures and JPX-Nikkei Index 400 options

(2) Extension of the Night Session by moving down the close from 3:00 am to 5:30 am

(3) Move-up of the start of the Day Session for index futures from 9:00 am to 8:45 am

(4) Introduction of time periods during which no order amendment/cancellation will be accepted (Non-Cancel Period: NCP) for some products

(5) Provision of pre-trade risk management tools which are similar to those commonly available at major overseas exchanges