Japan Securities Dealers Association
November 2017

The Japanese Economy and the Stock Market

▪ I. The Japanese Economy

(Economic conditions)

The Japanese economy maintained a moderate recovery trend from 2016 to the first half of 2017.

Q1 saw 0.5% growth year on year as both private and government consumption rose sharply due to ramifications from the leap year. While capital expenditures fell into negative territory under the impact of overseas economies, exports showed signs of recovery.

Q2 witnessed moderate growth with increased investments in housing with declining mortgage interest rates, while prolonged sluggish capital expenditures put a damper on the uptrend.

Q3 ended with 0.2% growth, as a recovery in exports pushed up growth rates. Despite improving employment and income, private consumption was up only slightly as prices for fresh food surged due to unfavorable summer weather and because consumers remained thrift minded and stock prices plummeted, both of which reinforced conservative spending habits.

Q4 saw 0.4% growth as the world economy gained momentum on the recovery track, leading to a rebound in exports. While the recovery of private consumption was moderate, companies became more confident about new investments, which led to increased capital expenditures.

In 2017, Q1 witnessed 0.3% growth on sustained increases in exports. Q2 ended with 0.6% growth as the IT sector completed its recovery process, and private demand grew significantly due to the recovery of private consumption, offsetting the negative effect of overseas demand on growth rates. As a result, the economy grew for six quarters in a row.

(Employment conditions)

Employment conditions in 2016 continued on a recovery track, with improvements in the unemployment rate and the job-offers-to-seekers ratio.

The unemployment rate hovered around 3.1% throughout the year. On a full-year basis, the rate improved from 3.4% to 3.1% from the previous year. It improved further in 2017, standing at 2.8% as of July.

The job-offers-to-applicants ratio has improved steadily since the 2008 global financial crisis, picking up 0.16 points to 1.36 times on a full-year basis from 1.20 times in the previous year. In 2017, the ratio remained above 1.4 times, standing at 1.52 times as of July.

By sector, employment showed noticeable growth in the medical and welfare fields. The unemployment rate improved as a whole. However, by age group, for the highest bracket, those between 15 and 24, the unemployment rate was 4.9% (as of July 2017), making unemployment among the young a serious issue.

(Price fluctuations)

The Corporate Goods Price Index (CGPI) in 2016 fell 3.5 points year on year to 96.5 points (from the level in 2015) under the combined impact of lower crude oil prices and a strong yen. The CGPI was on an uptrend in 2017, standing at 98.8 points as of July, which was an increase of 0.3 points over the previous month.

The Consumer Price Index (CPI; excluding fresh produce) in 2016 fell 0.3 points year on year to 99.7 points (from the level in 2015). This was the first time that the CPI declined from the previous year since 2013, when the Bank of Japan (BOJ) initiated quantitative and qualitative easing, thus reflecting a delay in overcoming deflation. The CPI was on an uptrend in 2017, standing at 100.1

points as of July (a preliminary figure).

<Chart 1> Major Economic Indicators

Change from the previous period (Quarterly is seasonally adjusted)

(Major Economic Indicators) (%)

	2016				2017		CY2015	CY2016
	1-3	4-6	7-9	10-12	1-3	4-6		
GDP (expenditure approach)	0.5	0.5	0.2	0.4	0.3	0.6	1.1	1.0
Private consumption	0.3	0.1	0.4	0.1	0.4	0.8	-0.3	0.4
Consumption by households	0.3	0.1	0.4	0.1	0.4	0.8	-0.5	0.3
excluding imputed rent	0.3	0.1	0.4	0.1	0.4	0.9	-0.8	0.1
Private residential investment	1.0	3.2	2.8	0.2	1.0	1.3	-1.6	5.6
Private non-residential investment	-0.1	1.4	-0.3	2.0	0.5	0.5	1.1	1.3
Government consumption	1.4	-1.3	0.2	0.0	-0.1	0.4	1.7	1.3
Public investment	0.0	-0.6	-0.9	-2.4	0.4	6.0	-2.1	-3.0
Exports	0.0	-0.9	2.1	3.1	1.9	0.5	2.9	1.2
Imports	-2.0	-1.2	-0.2	1.4	1.3	1.4	0.8	-2.3

(Note) Data released on September 8, 2017

(Source) Cabinet Office

<Chart 2> Employment Conditions

	2016				2017		CY2015	CY2016
	1-3	4-6	7-9	10-12	1-3	4-6		
Unemployment rate (%)	3.2	3.2	3.0	3.1	2.9	2.9	3.4	3.1
Job-offers to seekers ratio (times)	1.29	1.35	1.37	1.41	1.44	1.49	1.20	1.36

(Note) Data is seasonally adjusted

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

＜Chart 3＞ Price Trends

(Corporate Goods Price and Consumer Price)

		2016				2017		CY2015	CY2016
		1-3	4-6	7-9	10-12	1-3	4-6		
Corporate goods price	Index	97.0	96.4	96.1	96.5	98.0	98.4	100.0	96.5
	YoY	-3.7	-4.5	-3.8	-2.0	1.0	2.1	-2.3	-3.5
Consumer price (excluding fresh produce)	Index	99.5	99.8	99.6	99.8	99.7	100.2	100.0	99.7
	YoY	-0.1	-0.4	-0.5	-0.3	0.2	0.4	0.5	-0.3

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

▪ II. Financial Assets of Households

The financial assets of households at the end of 2016 rose about ¥4.7 trillion (+2.7%) year on year to ¥1,809.3 trillion, making it the second highest figure after that in 2016. Positive expectations of the Trump administration in the wake of the US election in November 2016 encouraged a weaker yen and stronger stock prices, which raised the appraisal value of stocks and foreign currency-denominated assets, pushing up the financial assets of households.

Broken down to components, shares & other equities increased about ¥13.1 trillion (+7.9%) year on year to ¥180.8 trillion, while investment trust beneficiary certificates rose about ¥6.6 trillion (+7.2%) to ¥98.5 trillion. Currency and deposits were up about ¥21.0 trillion (+2.3%) to ¥932.0 trillion, a record year-end high for two successive years.

Regarding the composition ratio, cash and deposits, which had reached a record high (as shown above), fell 0.2 points year on year to 51.5% of total financial assets of households, which continued to be high, as in the previous year. Both shares & other equities and investment trust beneficiary certificates had increased composition ratios: up 0.5 points to 10.0% and up 0.2 points to 5.4%, respectively.

<Chart 4> Composition of Financial Assets of Households

	FY2014	FY2015	FY2016(E)	FY2016 (E) (Amount) (¥ trillion)
Financial assets of households	1,755.9	1,761.5	1,809.3	1,809.3
Cash and deposits	51.2%	51.7%	51.5%	932.0
Debt securities	1.5%	1.4%	1.4%	24.6
Shares & other equities	9.7%	9.5%	10.0%	180.8
Investment trust beneficiary certificates	5.4%	5.2%	5.4%	98.5
Insurance, pension and standardized guarantees	29.3%	29.3%	28.8%	521.6
Others	2.9%	2.8%	2.9%	51.7

(Note) Data released on June 27, 2017

(Source) Bank of Japan

▪ III. Equities

(1) Primary market

The number of newly listed companies on the Tokyo Stock Exchange in 2016 declined by 14 from the previous year to 96 in a sluggish stock market under the impact of worsening economies in emerging markets. This was the first decline in seven years. As of the end of July 2017, the number of new listings stood at 54, down six from the previous year. By industry categoly, service and information & communications were the top two sectors, comprising about 60% of all the newly listed companies. As in the previous year, real estate-related businesses, such as real estate, construction, and other financial businesses, were prominent among the newly listed companies, reflecting the prolonged low interest rates. By business themes, the following businesses were noteworthy: ① staffing-related services reflecting a labor shortage stemming from an aging society with fewer children, ② real estate-related businesses reflecting prolonged low interest rates, and ③ consumer-oriented businesses focused on diversity, reflecting changing lifestyles.

The capital raised through public offerings of shares *by listed companies* nationwide in 2016 declined 73.2% (¥704.9 billion) from the previous year to ¥258.1 billion, the lowest figure since 2002. The first seven months of 2017 (January–July) saw an increase to ¥261.2 billion. While this figure was higher than in the same period in the previous year, it is still struggling to grow.

The capital raised through public offerings of shares by *newly listed companies* in 2016 surged 108.8% from the previous year to ¥190.6 billion. The first seven months of 2017 (January–July) saw a decline of 73.9% year on year to ¥40.0 billion. Notable fundraising in the 2016-1H 2017 period was for Line Corp., listed on TSE1 on July 15, 2016. This listing drew attention because it was listed simultaneously in Japan and the US, and the market capitalization at the closing price on the TSE came to about ¥910.0 bullion, making it one of the largest IT companies in the world.

<Chart 5> Main Stock Indexes (TSE1, TSE2, Mothers, JASDAQ, TOKYOPRO)

	2014	2015	2016
No. of listed companies	3,456	3,502	3,533
Newly listed companies	92	110	96
Market capitalization (¥ billion)	524,899	589,788	579,596
Trading volume (million shares)	709,104	709,718	665,769
Average daily trading volume (million shares)	2,906	2,908	2,717
Trading value (¥ billion)	643,105	745,955	691,102
Average daily trading value (¥ billion)	2,635	3,057	2,820
TOPIX (Note)	1,407.51	1,547.30	1,518.61

(Note) As of the year-end

(Source) *Monthly Statistics Report* by the Japan Exchange Group

(2) Secondary market

An overview of the 2016 stock market shows that in the stock market in the first half of 2016 there was a decline in the risk tolerance of investors, leading to lower stock prices due to a confluence of factors: a sharp appreciation of the yen from the beginning of the year, a slowdown in the economies in emerging markets under the impact of prolonged lower prices for crude oil and the UK's decision to exit the EU. However, after the US presidential election in November, expectations for US economic expansion led to a correction of the strong yen / weak dollar imbalance, which brought on improved projections for company earnings. As a result, stock prices rose robustly over the year-end period.

Q1 FY2016 saw stock prices decline further, falling below ¥15,000, as the tendency for risk aversion made the yen stronger. Moreover, the BOJ adopted a negative interest rate policy at the end of January. Later, stock prices picked up moderately in March as economic uncertainties of emerging markets and resource-rich countries were relaxed. The Nikkei 225 stood at ¥16,768 on March 31, the end of the fiscal year.

Q2 FY2016 began with a serious fall in stock prices at the beginning of April, followed by robust growth due to a rise in crude oil prices and expectations of additional easing by the BOJ. However, the bank's decision at the meeting on monetary policy on April 28 to leave the policy unchanged had the effect of invalidating these expectations, resulting in a significant adjustment in stock prices. Later, when the US Federal Open Market Committee (FOMC) on May 18 hinted at a rate hike in June, the yen weakened while the dollar strengthened; as a result, stock prices were back on a recovery track. After reaching levels in the ¥17,000 range, the Nikkei 225 fluctuated under the impact of the BOJ's monetary policy and currency fluctuations. The UK's referendum on June 23 (local time) and the decision to exit the EU shook the market, driving it down to ¥14,864 on the June 24, a record low for the year up to that time.

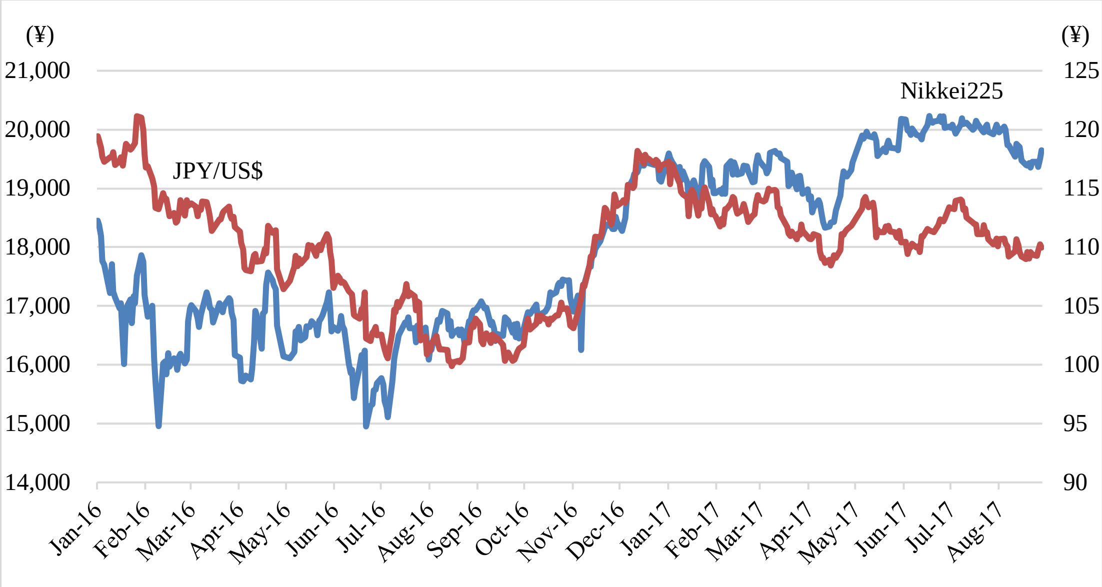
Q3 FY2016 saw stock prices back on an uptrend thanks to better-than-expected US employment figures for June (released on July 8) and to the victory of the ruling parties in the upper house election. The robust uptrend continued, partially aided by the BOJ's purchase of ETFs (exchange-traded funds). Although the Nikkei 225 was temporarily restored to the ¥17,000 benchmark in September, it fell to the mid-¥16,000 levels under the impact of a strong yen, and it fluctuated in that range.

Q4 FY2016 saw increasing expectations of an interest rate hike in the US on healthy business indicators for US manufacturing and non-manufacturing industries, which led to a weaker yen and higher stock prices, pushing the Nikkei 225 up to the mid-¥17,000 levels. In November, uncertainties surrounding the US presidential election drove the yen higher, pushing the Nikkei Stock Average below ¥17,000 at one point. The election of President Trump temporarily caused the average to plummet nearly ¥1,000. However, expectations of US economic expansion led US stocks to sustain noticeable growth, while the yen kept weakening significantly under the influence of US interest rates. As a result, the Nikkei 225 was on an uptrend. It recovered to the ¥19,000 level in December, ending the year at ¥19,114.

Q1 FY2017 saw stock prices rise at the beginning of the year on expectations of the Trump administration's deregulation and economic initiatives. While stock prices were projected to bounce back to the ¥20,000 level, the president's statement about difficulties between Japan and the US on automobile trade between the two countries and the confusion regarding Trump's immigration policy brought on fear, driving the Nikkei 225 below ¥19,000 at one point. The ensuing stock trading under shifting speculations over US economic and monetary policies regarding tax reform, interest rate hikes, etc. led to the Nikkei 225 fluctuating in the ¥18,900 to ¥19,600 range.

Q2 FY2017 saw stock prices fall to around ¥18,300 in April due to geopolitical risks concerning North Korea. However, after the French presidential election in May, risk aversion seemed to weaken, pushing stock prices back on an uptrend. The Nikkei 225 recovered to the ¥20,000 level in the second half of June thanks to a global rise in stock prices and to robust company earnings.

〈Chart 6〉 The Nikkei 225 and the Foreign Exchange Rate



(Source) Bloomberg

<Chart 7> Transaction Rate by Investor Type (in Value Terms)

—Tokyo and Nagoya—

	Market share			Selling on balance (-) / Buying on balance (+) (¥ billion)		
	2014	2015	2016	2014	2015	2016
Securities company self-dealing	13.0%	13.8%	15.2%	288	1,558	2,412
Individual	23.3%	20.0%	17.4%	-3,632	-4,999	-3,162
Foreigner	55.5%	58.4%	59.6%	852	-250	-3,688
Investment trust	1.8%	1.8%	2.0%	-210	242	-389
Business company	0.9%	1.0%	1.0%	1,101	2,963	2,223
Insurance company	0.2%	0.2%	0.2%	-503	-584	-573
Major city bank / regional bank	0.1%	0.1%	0.1%	-129	-309	-493
Trust bank	3.3%	3.2%	3.2%	2,784	2,007	3,265
Other financial institution	0.1%	0.2%	0.1%	8	260	261

(Source) Japan Exchange Group

▪ IV. Bond Market

(1) Primary market

In 2016, public and corporate bond issuance in Japan declined ¥3.0 trillion (1.5%) from the previous year to ¥197.2 trillion. The breakdown was ¥168.8 trillion (down ¥5.6 trillion from the previous year) in government bonds, ¥10.7 trillion (up ¥3.8 trillion) in straight corporate bonds, and ¥1.1 trillion (down ¥0.7 trillion) in bonds issued by nonresidents. Issues of straight corporate bonds reached a remarkably high level, unparalleled in recent years.

Domestic public and corporate bond issuance in the first seven months (January–July) of 2017 came to ¥111.3 trillion, falling short of the same period in the previous year. While the issuance of government bonds, etc. declined from the same period in the previous year, straight corporate bond issuance surged 24.5% year on year to ¥7.0 trillion.

For government bonds, which make up the majority of all public and corporate bonds, the ratio of long- and super long-term issuance has risen, while medium- and short-term issuances have fallen, as measures were taken to minimize refunding risks and to reduce the costs of medium- and long-term procurement.

Straight corporate bonds saw an increase of over ¥10 trillion in 2016 as interest rates on corporate bonds declined significantly. This occurred after a negative interest-rate policy was adopted by the BOJ and demand increased for corporate bonds issued from a positive interest rate by investors struggling with investments. This reaction led to measures taken by financial institutions to regulate equity, resulting in an increased issuance of hybrid bonds. The corporate bond issue market of 2016 was characterized by longer terms and increased hybrid bonds.

<Chart 8> Public and Corporate Bonds

(¥ trillion)

		2014	2015	2016
Transaction volume (face value)	Government bonds	10,075.4	10,393.4	9,291.1
	Other	106.9	142.8	82.0
	Total	10,182.3	10,536.3	9,373.2
Issuance volume	Public bonds	191.4	188.7	183.3
	(Government bonds) (Note 1)	(175.8)	(174.5)	(168.8)
	Straight bonds (Note 2)	8.4	6.8	10.7
	Issuance by nonresidents	2.5	1.8	1.1
	Total (Note 3)	205.0	200.2	197.2

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

(Note 2) Straight corporate bonds include asset-backed corporate bonds.

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

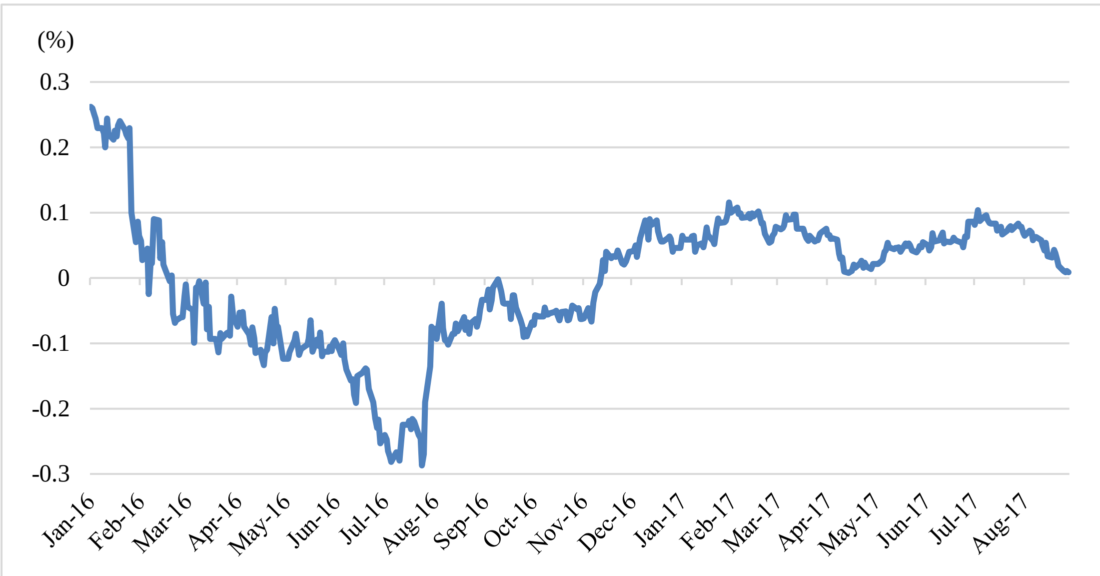
(Source) Japan Securities Dealers Association

(2) Secondary market

An overview of the long-term interest rate (simple interest yield on newly issued 10-year JGBs) from 2016 to the first half 2017 follows: In the first half of 2016, the rate dipped into negative territory after the BOJ adopted in January a negative interest-rate policy. During the summer and afterward, the rate fluctuated between positive and negative areas. It then stayed in positive territory from the US presidential election in November through to the year-end. The long-term interest rate has been stable at a low level in positive territory during 2017 (as of the end of August).

In 2016, the long-term interest rate started at 0.262% and remained in the 0.20-0.25% range, but when the BOJ decided at the end of January to introduce "quantitative/qualitative monetary easing with a negative interest rate," it dropped steeply to 0.1%, -0.129 points from the previous day and by February 9, it dropped to -0.035%, the first-ever negative figure. The negative range has widened slightly since then, dropping to -0.3% at one point due to risk-averse behavior when the Brexit vote was decided in June. However, the long-term interest rate rose slightly when the BOJ did not increase the negative interest rate levels but increased their ETF purchases in July. Further, when the BOJ's flexibility in their JGB purchasing methods through yield curve control was decided in September, JGBs were sold and long-term interest rates momentarily recovered to positive levels for the first time in six months. The rates continued hovering in the negative range after that, but US Treasury yields rose after the US presidential election in November from strong expectations for President-elect Trump's announced policies, which heightened upward pressure on yen interest rates, and long-term interest rates went into positive territory. After that, though the level of the rise was limited, rates remained in the positive range and long-term interest rates stayed around the 0.05% level towards the end of the year with 2016 trade closing at 0.040%. Coming into 2017, long-term interest rates remained low and steady in the 0% to 0.1% range due to the BOJ's continuing yield curve control and other programs (as of the end of August).

<Chart 9> Long-Term Interest Rates



(Source) Bloomberg

▪ V. Investment Trusts

Net assets of publicly offered investment trusts in 2016 turned to net capital outflows in February after the BOJ announced its decision to adopt a negative interest rate policy. After wavering between net inflows and outflows on a monthly basis, inflows continued from September, reaching ¥96.6 trillion at year-end, which was a high level, although this represented a decrease of ¥1.1 trillion from the previous year’s ¥97.8 trillion.

Net assets of stock investment trusts saw consecutive capital inflows from May to September 2016, and then witnessed continued capital outflows as profits were realized from November onward with higher stock prices in the wake of the US presidential election. However, stock investment trusts increased ¥1.3 trillion from the previous year’s ¥81.7 trillion to ¥83.2 trillion by the end of the year, reaching their highest level ever. On the other hand, the net assets of bond investment trusts significantly declined to ¥13.6 trillion from the previous year’s ¥16.2 trillion (-¥2.4 trillion) as lower interest rates created a challenging environment for investors. As a result, MMF companies moved to repurchase bond investment trusts.

The number of publicly offered investment trust funds rose 217 in one year to 6,060. Most of these were stock investment trusts, which increased by 255 to 5,939, while bond investment trusts decreased by 38 to 121.

Household holdings, which had reached ¥96.2tn in balance by the end of December 2015, declined to ¥86.8 trillion by the end of June 2016. Then, they were on an uptrend, reaching ¥96.5 trillion by the end of December, surpassing the previous year by ¥256.3 billion.

In terms of capital flow, Q1 (January–March) FY2016 saw outflows of ¥232.9 billion and Q2 (April–June) outflows of ¥177.6 billion; Q3 (July–September) witnessed inflows of ¥1.6 trillion and Q4 (October–December) inflows of ¥258.6 billion.

The number of publicly offered investment trust funds continued on an upward trend in 2017, reaching 6,146 as of the end of August with net assets of ¥102.6 trillion.

<Chart 10> Changes in Assets of Investment Trusts

(¥ trillion)

Year		2014	2015	2016
Total		93.5	97.7	96.6
Stock investment trusts	Sales	38.4	44.1	31.7
	Repurchases	31.1	30.7	26.3
	Assets	77.0	81.7	83.0
Bond investment trusts	Sales	12.9	9.7	0.7
	Repurchases	13.0	9.9	1.9
	Assets	3.3	3.1	0.8
MMFs	Sales	0.7	0.5	0.06
	Repurchases	0.6	0.8	0.9
	Assets	1.9	1.6	0.06
MRFs	Sales	43.0	49.4	36.6
	Repurchases	43.1	49.3	35.1
	Assets	11.1	11.1	12.6
Number of funds		5,404	5,843	6060

(Source) The Investment Trusts Association, Japan

▪ VI. Performance Overview of Securities Companies

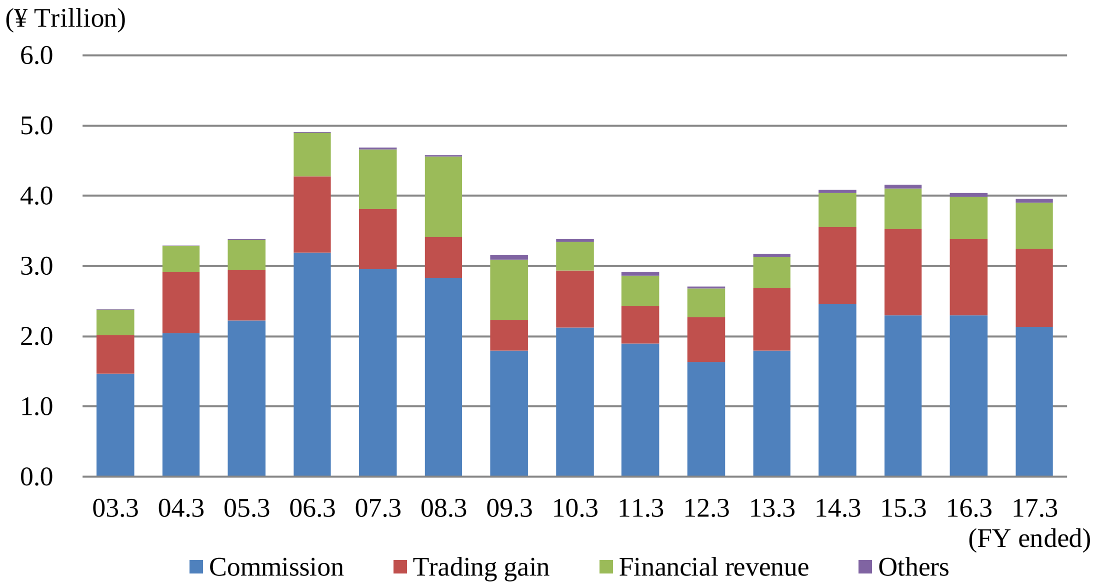
Annual performance by securities firms in Japan in the fiscal year ended March 31, 2017 were robust, though they fell slightly short of the previous year. Of all the securities companies, the ratio of those in the black (companies that turned a profit in the fiscal year) declined from 75.2% in FY03/16 to 68.2%.

Operating revenues fell 2.0% (-¥81.9 billion) year on year to ¥4.0 trillion. A breakdown of revenues (Chart 11) follows: Commissions went down 7.0% (-¥161.6 billion) year on year to ¥2.1 trillion, while trading gains as a whole went up 2.3% (+¥25.1 billion) to ¥1.1 trillion as the growth in the bond division (+52.0%, or +¥308.8 billion) offset the fall in the stock division (-40.2%, or –¥59.1 billion).

A breakdown of commissions (Chart 12) follows: Brokerage commissions were down 19.0% (-¥131.3 billion) year on year to ¥558.6 billion; underwriting commissions fell 5.8% (-¥10.3 billion) to ¥166.4 billion; and subscription and distribution commissions declined 13.7% (-¥47.2 billion) to ¥298.6 billion.

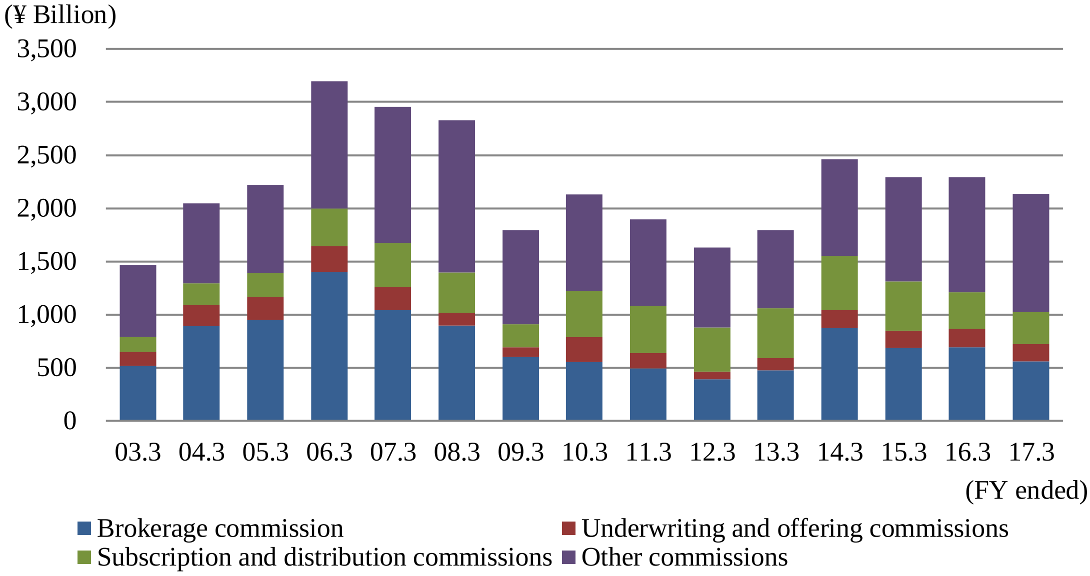
Net operating revenues, obtained by subtracting financial costs (discussed below) from operating revenues, went down ¥117.6 billion (-3.2%) year on year to ¥3.5 trillion.

<Chart 11> Operating Revenues of Regular Members



(Notes) Securities firms that were not in business as of the end of March in each year are excluded.
(Source) Japan Securities Dealers Association

<Chart 12> Commissions Received of Regular Members



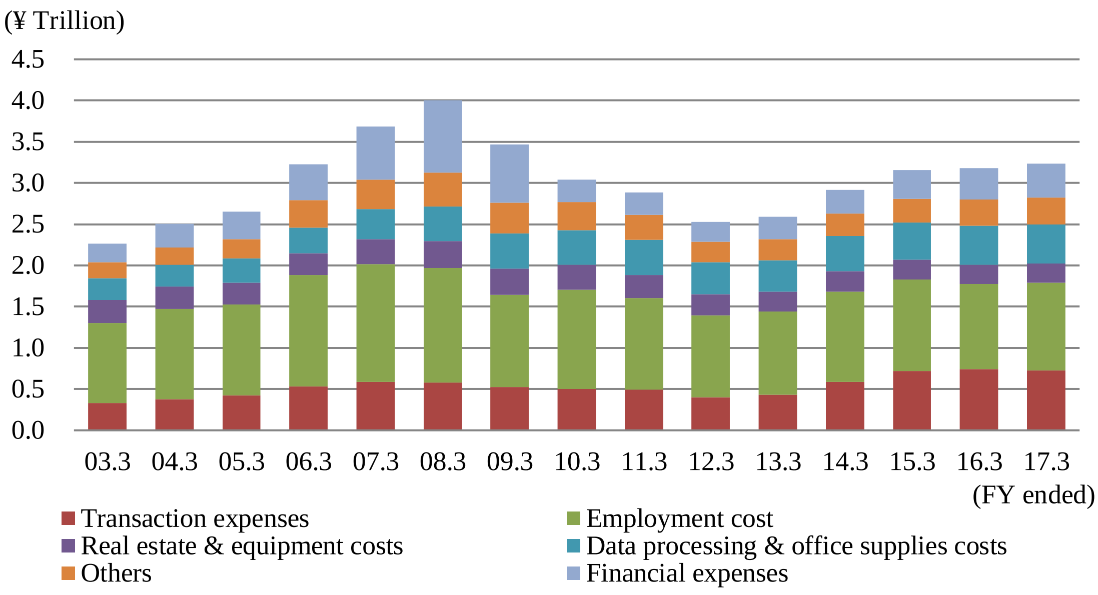
(Notes) Securities firms that were not in business as of the end of March in each year are excluded.
(Source) Japan Securities Dealers Association

Against the backdrop of lower operating revenues, operating costs in the fiscal year ended March 31, 2017 were up 1.9% (+¥59.4 billion) year on year to ¥3.2 trillion (Chart 13).

The breakdown is as follows: SG&A costs were up 0.8% (+¥23.7 billion) to ¥2.8 trillion, while financial costs went up 9.4% (+¥35.7 billion) to ¥416.6 billion.

Among SG&A costs, transaction-related costs declined 1.7% (-¥12.4 billion) to ¥730.0 billion; office costs fell 1.0% (-¥4.7 billion) to ¥472.5 billion; and real estate-related costs were down 2.5% (-¥5.8 billion) to ¥236.1 billion. On the other hand, personnel costs rose 2.5% (+¥25.5 billion) to ¥1.6 trillion.

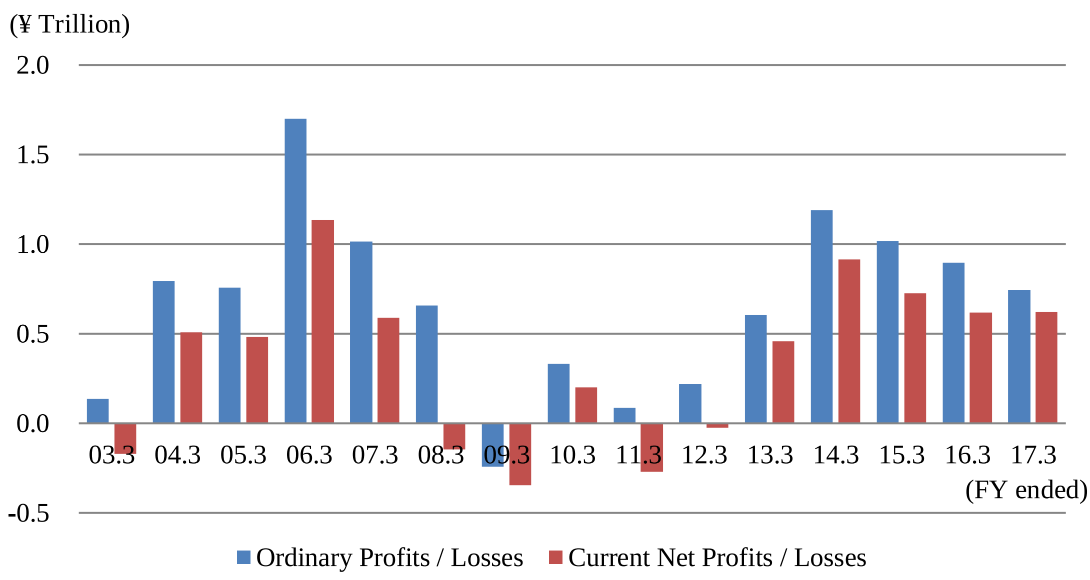
<Chart 13> Operating Expenses of Regular Members



(Notes) Securities firms that were not in business as of the end of March in each year are excluded.
(Source) Japan Securities Dealers Association

As a result, net profit in the fiscal year ended March 31, 2017 picked up 0.7% (+¥4.5bn) year on year to ¥622.5 billion.

<Chart 14> Ordinary Profits / Losses and Current Net Profits / Losses of Regular Members



(Notes) Securities firms that were not in business as of the end of March in each year are excluded.
(Source) Japan Securities Dealers Association

▪ VII. Regulatory and Legal Revisions, Industry Topics

1. Partial revision of the Financial Instruments and Exchange Act

In May 2017, a bill that partially revised the Financial Instruments and Exchange Act was enacted and promulgated.

This revision includes the following measures and is intended to make institutional reforms in response to changes in the environment surrounding the financial and capital markets brought about improvements in information and telecommunications technologies. (The revisions will be implemented from a date determined by a government ordinance within one year of the promulgation.)

(1) Streamlining laws, regulations and systems related to high frequency trading (HFT)
  ① Introduction of a registration system for HFT traders
  ② Institutional streamlining and risk management measures for HFT traders
  ③ Measures related to data submission to the authorities that are concerned (e.g., performance of HFT and trading strategy)

(2) Flexibility in the business scope of the Exchange Group
  ① Aggregation of common or duplicate businesses within the Exchange Group
  ② Flexibility in regulations regarding the financing of overseas exchanges

(3) Introduction of the fair disclosure rule (obligating a company to promptly provide the same information to other investors in a fair manner if it has disclosed critical information, such as unpublished earnings data, to a securities analyst)

2. Partial revision of the Banking Act

In May 2017, a bill to partially revise the Banking Act was enacted and promulgated.

This revision covers the following measures to protect consumers and to promote open innovation (innovation through partnerships and collaboration) between financial institutions and fintech companies in response to the accelerating development of fintech worldwide. (The revision will be implemented from a date determined by a government ordinance within one year of the promulgation; items (3) and (4) below may be postponed to a date determined by a government ordinance within two years from the date of the implementation.)

(1) Introduction of a registration system for electronic payment intermediate service providers

(2) Institutional streamlining and risk management measures for electronic payment intermediate service providers
  ① Institutional streamlining for consumer protection
  ② Responsibility for secure data management, etc.
  ③ Securing a financial basis

(3) Contract between electronic payment intermediate service providers and financial institutions, etc.

  To sign a contract to cover the following items in providing services:
  ① Sharing of liability for damages to a consumer
  ② Secure data management concerning a consumer

(4) Measures related to the promotion of open innovation at financial institutions
  ① Enactment and promulgation of policies on partnerships and collaborations with electronic payment intermediate service providers and of standards relating to the connection
  ② Responsibility of good faith efforts for the introduction of open API

3. Establishing Principles for Customer-Oriented Business Conduct

In March 2017, the Financial Services Agency published *Principles for Customer-Oriented Business Conduct*.

These principles lay out the following rules deemed necessary to ensure best practices for customer-oriented business behavior by financial businesses based on the results of deliberations on stable asset building by the public, as well as customer-oriented business conduct (fiduciary duty), etc., from the Working Group on Financial Markets under the Financial System Council.

(1) Establishment and announcement of policy concerning customer-oriented business conduct
(2) Pursuit of the best interests of the consumer
(3) Proper management of conflicts of interest
(4) Clarification of fees, etc.
(5) User-friendly provision of important information
(6) Provision of customer-oriented services
(7) Framework of effective incentives for staff, etc.

When adopting these principles, financial businesses are required to establish a clear policy for customer-oriented business behavior and to perform business based on that policy. Should a financial business decide not to implement part of the principles under certain circumstances, it must provide an adequate explanation.

4. Revision of financial and securities tax system, etc.

The NISA (Nippon Individual Savings Account) program was launched in January 2014. Under this program, residents of Japan at age 20 and above are exempted from taxation on dividends and capital gains from listed stocks, stock investment trusts, etc. with an annual upper limit of ¥1.2 million in investments for a maximum of five years. A Junior NISA was also launched in April 2016 exclusively for minors age 19 and under, authorizing them to open a NISA account (with an annual investment limit of ¥800,000).

Some measures were taken to fine-tune and expand this program. For instance, the Installment-type NISA will be launched in January 2018 to promote regular and diversified investments of a small sum of money (with an annual investment limit of ¥400,000; nontaxable for up to 20 years). Moreover, the upper limit of the rollover amount at the end of the nontaxable period was removed from NISA and Junior NISA so that the full amount may be rolled over to the following year's nontaxable investment limit.

According to a survey by the FSA, the number of NISA accounts at the end of March 2017 was 10.77 million with a total purchase amount of ¥10.5 trillion. Junior NISA had 210,000 accounts with the total purchase amount of ¥40.5 billion

5. Self-regulation

The Japan Securities Dealers Association revised part of the self-regulatory rules, etc. A summary of the main revisions are as follows:

In May 2017, the JSDA established a policy concerning "Disclosure of Explanatory Documents on the Status of Business and Property." This will promote disclosure via online publishing of the *Disclosure* booklet, designed for easy public inspection by investors of the financial health, etc. of financial instruments business operators. (The policy was enacted on June 1, 2017 [to be applied to the release of the first issue of *Disclosure* about the fiscal year following from that date].)

The FSA and the JSDA jointly established an investigative commission on stock IPO underwritings for deliberations on the appointment of a brokerage lead manager at the time of a new listing and of relisting an issuing company on government revitalization support. Based on the deliberations, the JSDA in June 2017 conducted a partial revision of the "Regulations Concerning Underwriting of Securities, etc." in order to more strictly manage conflicts of interest on the appointment to lead management members by limiting the number of shares held by the issuing company concerning the appointment to lead manager at the time of relisting. (The revision was enacted on July 1, 2017.)