Japan Securities Dealers Association
JSDA

November 2019

The Japanese Economy and Securities Market

▪ I. The Japanese Economy

(Economic Conditions)

The Japanese economy on the whole maintained a moderate recovery trend from 2018 to the first half of 2019, supported by strong domestic demand despite the declining trend of net exports.

While real GDP had shown signs of growth for eight consecutive periods since the first quarter of 2016, the Q1 and Q3 of 2018 experienced negative growth, at -0.1% and -0.5% quarter-on-quarter, respectively. For Q3, in particular, such factors as the impact of successive natural disasters and the resultant drop in personal consumption brought about the negative growth rates.

Overcoming the decline in personal consumption due to the natural disasters, the real GDP for Q4 of 2018 (0.4%) and Q1 of 2019 (0.7%) showed signs of positive growth, backed and bolstered by domestic demand.

In Q2 of 2019, high growth in the private sector helped push the total growth to positive 0.4%, sustaining the economic recovery.

<Figure 1> Major Economic Indicators

Change from the previous period (Quarterly is seasonally adjusted)

(Major Economic Indicators) (%)

	2018				2019		CY2017	CY2018
	1-3	4-6	7-9	10-12	1-3	4-6		
GDP(Expenditure Approach)	-0.1	0.4	-0.5	0.4	0.7	0.4	1.9	0.8
Private Consumption	-0.1	0.4	-0.1	0.4	0.1	0.6	1.1	0.3
Consumption of Households	-0.2	0.3	-0.1	0.4	0.1	0.6	1.1	0.3
Excluding Imputed Rent	-0.2	0.4	-0.2	0.4	0.0	0.7	1.1	0.1
Private Residential Investment	-2.5	-1.9	0.8	1.3	0.6	0.2	2.1	-5.8
Private Non-Residential Investment	1.0	2.5	-2.6	2.7	0.4	1.5	3.9	3.9
Government Consumption	0.3	0.1	0.2	0.7	-0.1	0.9	0.3	0.8
Public Investment	-1.0	-1.2	-1.8	-1.3	1.4	1.0	0.7	-3.3
Exports	1.0	0.8	-2.1	1.2	-2.0	-0.1	6.8	3.4
Imports	0.6	0.8	-1.2	3.6	-4.3	1.6	3.4	3.4

(Note) Data released on August 9, 2019
(Source) Cabinet Office

(Employment Conditions)

Employment conditions in 2018, similar to the previous year, continued on a recovery track, with improvements in the unemployment rate and the job-offers-to-seekers ratio.

The unemployment rate improved to 2.44% from 2.83% of the previous year, the lowest recorded in 25 years since 2.5% in 1993. Going into 2019, it improved further still, reaching 2.2% as of July 2019.

The job-offers-to-seekers ratio has improved steadily since the 2008 global financial crisis, picking up 0.11 points to 1.61 times on a full-year basis from 1.50 times in the previous year. In Q1 of 2019, the ratio remained high at 1.70 times and 1.59 times as of July 2019.

<Figure 2> Employment Conditions

	2018				2019		CY2017	CY2018
	1-3	4-6	7-9	10-12	1-3	4-6		
Unemployment rate (%)	2.5	2.4	2.4	2.4	2.4	2.4	2.8	2.4
Job-offers to seekers ratio (times)	1.66	1.49	1.61	1.69	1.70	1.51	1.50	1.61

(Note) Data is seasonally adjusted

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

(Price Fluctuations)

The Corporate Goods Price Index (CGPI) in 2018, with the expansion of the global economy centered on the United States and China leading to increases in demand and subsequent hikes in the prices of international commodities, pushed up domestic corporate prices to 101.3 points, an uptick of 2.6 points compared to the previous year (base level at 2015). Going into 2019, the CGPI was still on an upward trend, standing at 101.2 points as of July 2019.

<Figure 3> Price Trends

(Corporate Goods Price and Consumer Price)

		2018				2019		CY2017	CY2018
		1-3	4-6	7-9	10-12	1-3	4-6		
Corporate Goods Price	Index	100.3	101.0	101.9	102.0	101.2	101.6	98.7	101.3
	YoY	2.4	2.6	3.1	2.2	0.9	0.6	2.3	2.6
Consumer Price (excluding fresh produce)	Index	100.5	101.0	101.1	101.5	101.3	101.7	100.2	101.0
	YoY	0.9	0.7	0.9	0.9	0.8	0.8	0.5	0.9

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

▪Ⅱ. Financial Assets of Households

The financial assets of households at the end of 2018 rose about ¥5.5 trillion (+0.3%) year-on-year to ¥1,834.9 trillion, making it the highest figure recorded. While stocks, etc. decreased, inflows of cash and deposits helped increase the overall assets.

Looking into the components, shares and other equities decreased by ¥19.1 trillion (-9.5%) year-on-year to ¥182.6 trillion and investment trust beneficiary certificate also decreased by ¥1.5 trillion (-2.2%) year-on-year to ¥71.1 trillion. Meanwhile, cash and deposits were up about ¥18.0 trillion (+1.9%) year-on-year to ¥977.1 trillion, making it the highest figure recorded on a year-end basis.

With respect to the composition ratio, cash and deposits continued to remain high with 0.9 point increase over the previous year at 53.3%. On the other hand, stocks and other equities saw a decrease in composition ratios, down 1.0 point to 10.0%.

<Figure 4> Composition of Financial Assets of Households

	FY2016	FY2017	FY2018(E)	FY2018 (E) (Amount in ¥ trillion (US$ billion))
Financial Assets of Households (Amount in ¥ trillion (US$ billion))	1,784.0 (15,906.1)	1,829.3 (17,215.7)	1,834.9 (16,530.6)	1,834.9 (16,530.6)
Cash & Deposits	52.6%	52.4%	53.3%	977.1 (8,801.8)
Debt Securities	1.4%	1.3%	1.3%	24.2 (218.0)
Shares & Other Equities	9.9%	11.0%	10.0%	182.6 (1,645.0)
Investment Trust Beneficiary Certificates	4.0%	4.0%	3.9%	71.1 (640.5)
Insurance, Pensions and Standardized Guarantees	29.1%	28.5%	28.6%	524.6 (4,726.1)
Others	2.9%	2.8%	3.0%	55.0 (495.5)

(Notes) Data released on June 27, 2019
(Source) Bank of Japan

▪ Ⅲ. Equities

(1) Primary Market

The number of newly listed companies on the Tokyo Stock Exchange in 2018 was 115, an increase of twelve companies from that of the previous year. As of the end of July 2019, the number of new listings stood at 49, down eight from the previous year. By industry category of newly-listed companies, as with the previous year, the service and information & communications industries comprised the top two sectors, making up about 60% of the total, while the listing of real estate businesses also stood out with the backdrop of low interest rates. Specifically, the following businesses were noteworthy: 1) businesses with high growth expectations for cultivating new markets; 2) businesses providing services to raise business efficiency amid a backdrop of work-style reform; 3) businesses leveraging AI (artificial intelligence) and RPA (Robotic Process Automation) technologies; and 4) companies having parent and/or senior companies.

The capital raised through public offerings of shares by listed companies nationwide in 2018 increased 2.8% (¥11.7 billion) from the previous year to ¥436.5 billion. The first seven months of 2019 (January to July) saw ¥65.6 billion in capital raised, a 76.3% (¥211.1 billion) decrease compared to that of the previous year.

The capital raised through public offering of shares by newly listed companies in 2018 increased 132.0% from the previous year to ¥209.9 billion. The first seven months of 2019 (January to July) saw a 69.2% decrease (¥86.4 billion) from the previous year to ¥38.3 billion. Notable fundraising from 2018 to the first half of 2019 included Mercari, a company running a free-market application, which was listed on TSE Mothers on June 19, 2018 with a market capitalization at the closing price of the TSE of ¥717.2 billion; and SoftBank Group affiliated SoftBank Corp., a mobile-phone carrier, which was listed on TSE First Section on December 16, 2018 with a market capitalization ¥6,137.0 billion at the closing price of the TSE.

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

	2016	2017	2018
No. of Listed Companies	3,533	3,596	3,650
Newly Listed Companies	96	103	115
Market Capitalization (¥ billion)	579,596	700,982	582,670
Trading Volume (million shares)	665,769	587,729	481,634
Average Daily Trading Volume (million shares)	2,717	2,379	1,965
Trading Value (¥ billion)	691,102	741,315	793,823
Average Daily Trading Value (¥ billion)	2,820	3,001	3,240
TOPIX (Note)	1,518.61	1,817.56	1,494.09

(Note) As of year-end
(Source) *Monthly Statistics Report* by the Japan Exchange Group

(2) Secondary Market

In an overview of the 2018 stock market, the Nikkei 225 Stock Average saw downward pressure on prices up until August due to a confluence of factors such as hikes in the US long-term interest rates, concerns over the protectionism of the US administration, and concerns over the trade disputes between the US and China. However, in September, stock prices went up, due to heightened expectations for improvements in corporate performance following the positive quarterly results for April through June, as well as the general sense of ease over the domestic political situation arising from the LDP leadership election results, and in October, the Nikkei rose to the highest level since November 1991.

After that, however, due to fears of a global economic slowdown, the prices turned to a downward trend, and in December, stock prices weakened further still due to the sharp drop of US stocks and uncertainty over the US administration.

Q1 FY2018 saw recovery of stock prices back to the ¥24,000 level in January, riding a global upward trend of stocks as well as expectations of a recovery in corporate earnings. However, in February, there was a rise in risk aversion due to hikes in the US long-term interest rates, and concerns over the protectionism of the US administration turned stock prices on a downward trend again to close at ¥21,454 on March 31.

Q2 FY2018 saw stock prices remain strong from April toward the third week of May, bolstered by the amelioration of tensions by both the United States and China, and at one point saw the prices rise to the ¥23,000 levels. Later, due to changes of the situation regarding a summit meeting between the US and North Korea, as well as increasing concerns over the US-China trade disputes, stock prices hovered between ¥22,000 and ¥23,000, closing at ¥22,304 at the end of June.

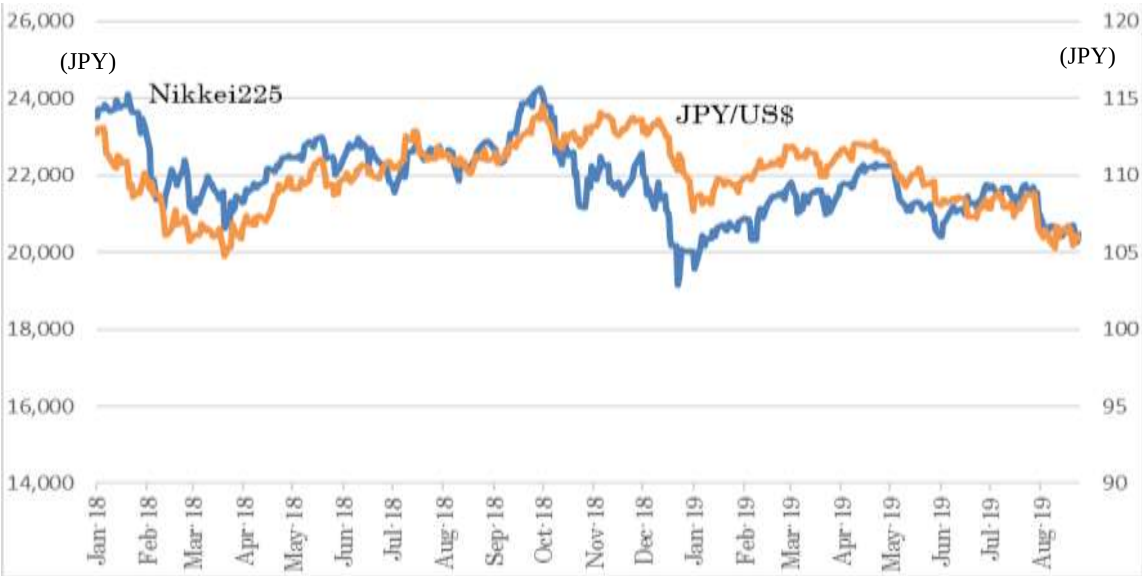
Q3 FY2018 saw stock prices fall below ¥22,000 toward the middle of August due to concerns over the intensification of the trade disputes between the United States and China. Thereafter, however, stock prices began to rise due to the robust performance of domestic companies coupled with a rising feeling of security toward the domestic political climate, and trades closed at ¥24,120 in September, the highest in about 26 years since 1991.

In Q4 FY2018, while there was a temporary rise in stock prices to ¥24,270 in the beginning of October, stock prices were generally on a downward trend due to the low stock prices worldwide—a result of hikes in the US long-term interest rates—as well as a sense of caution of an economic slowdown in China amid the US-China trade disputes. In November, stock prices picked up, due to the positive expectations of initiatives to eliminate the US-China trade disputes and upon receiving the results of the US midterm elections. However, in December, a sharp drop of US stocks coupled with uncertainty over the US government administration put stock prices in the downward trend throughout the month and trades closed at ¥20,014, ¥2,750 down from that of the end of 2017.

Q1 FY2019 saw stock prices going below ¥20,000 at the beginning of the year, but in January, there were signs that investors would buy back at the low prices, which put the trend upwards, while maintaining the ¥20,000 level. February saw strong stock prices due to expectations for the appeasement of the US-China trade disputes. However, in March, due to concerns of a global economic slowdown, stock selling became predominant, and trades closed at ¥21,205.

Q2 FY2019 witnessed an amelioration of trade disputes between the US and China in April, leading to stable stock prices. However, in May, the US-China trade disputes once again pick up, resulting in widespread stock selloff in preparation of its effect, placing the prices on a downward trend. However, in June, stock prices were once again stable due to hopes for a US-China summit to resolve the trade disputes between the countries as well as the impact of forecasts for the early interest rate cut by the US Federal Reserve Board (FRB), and trades closed at ¥21,275.

<Figure 6> The Nikkei 225 and the Foreign Exchange Rate



(Source) Bloomberg

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

	Market share			Selling on balance (-) / Buying on balance (+) (¥ billion)		
	2016	2017	2018	2016	2017	2018
Securities companies self-dealing	15.2%	15.5%	15.4%	2,412	6,032	972
Individuals	20.6%	21.9%	19.9%	-3,162	-5,793	-369
Foreigners	70.3%	68.9%	71.5%	-3,688	753	-5,740
Investment trusts	2.4%	2.4%	2.3%	-389	-1,043	1,417
Business companies	1.1%	1.2%	1.1%	2,223	1,232	2,570
Insurance companies	0.2%	0.2%	0.2%	-573	-570	-354
Major city banks/ regional banks	0.2%	0.2%	0.2%	-493	-864	-779
Trust banks	3.7%	3.6%	3.6%	3,265	93	1,506
Other financial institutions	0.2%	0.2%	0.2%	261	134	91

(Note) The figures reflect the numbers released by Tokyo Stock Exchange and Nagoya Stock Exchange

(Source) Japan Exchange Group

▪ Ⅳ. Bond Market

(1) Primary Market

In 2018, public and corporate bond issuance in Japan declined ¥9.1 trillion (-4.9%) from the previous year to ¥179.1 trillion.

The breakdown was ¥150.4 trillion in government bonds (down ¥8.6 trillion from the previous year), ¥10.4 trillion in straight corporate bonds (down ¥0.9 trillion), and ¥2.1 trillion in bonds issued by nonresidents (up ¥0.7 trillion).

With respect to government bonds, which make up the majority of the market, issuances saw a decline for five consecutive years. Straight corporate bond issuances increased to remain above the ¥10 trillion level for three consecutive years against the backdrop of the stabilization of the extremely low interest rates.

Domestic public and corporate bond issuance in the first six months (January to June) of 2019 came to ¥85.6 trillion, falling short of the ¥88.3 trillion of the same period in the previous year. While issuances of government bonds declined from the same period in the previous year, those of straight corporate bonds increased.

<Figure 8> Public and Corporate Bonds >

(¥ trillion)

		2016	2017	2018
Transaction volume (face value)	Government bonds (Note 1)	9,291.1	9,623.9	13,986.3
	Other	82.0	92.7	76.9
	Total	9,373.2	9,716.7	14,063.3
Issuance volume	Public bonds	183.3	173.9	165.0
	(Government bonds) (Note 2)	(168.8)	(159.1)	(150.4)
	Straight bonds (Note 3)	10.7	11.3	10.4
	Issuance by nonresidents	1.1	1.4	2.1
	Total (Note 4)	197.2	188.2	179.1

(Note 1) JGB basket transactions (used for transactions of GC repos under the Subsequent Collateral Allocation Method, introduced following the shortening of the JGB settlement cycle to T+1) has been added to the figures as of May 2018.

(Note 2) JGBs do not include financing bills (including financing bills of T-Bills). Public bonds other than JGBs comprise municipal, government-guaranteed and FILP agency bonds, etc. (including regional public corporation bonds).

(Note 3) Straight corporate bonds include asset-backed corporate bonds.

(Note 4) 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.

(Source) Japan Securities Dealers Association

(2) Secondary Market

The OTC transaction volume of public and corporate bonds in 2018 stood at ¥14,063 trillion (of which JGBs comprised ¥13,986 trillion), a 44.7% increase compared to that of the previous year.

An overview of the long-term interest rate (simple interest yield on newly issued 10-year JGBs) from 2018 to the first half of 2019 reveals stable fluctuation within the very small range of -0.1% to 0.1%.

In 2018, the long-term interest rate (simple interest yield on newly issued 10-year JGBs) started at 0.048% at the beginning of the year. In January that year, due to decreases in purchases of JGBs by the Bank of Japan leading to speculation that the Bank of Japan had begun preparations for an exit strategy from its monetary easing policy, the rate went up to 0.1%. Later, with the implementation of the Bank of Japan's limit price operations and the decline in market speculation of its tapering of its monetary easing program, the rate fell to 0.024% in late March.

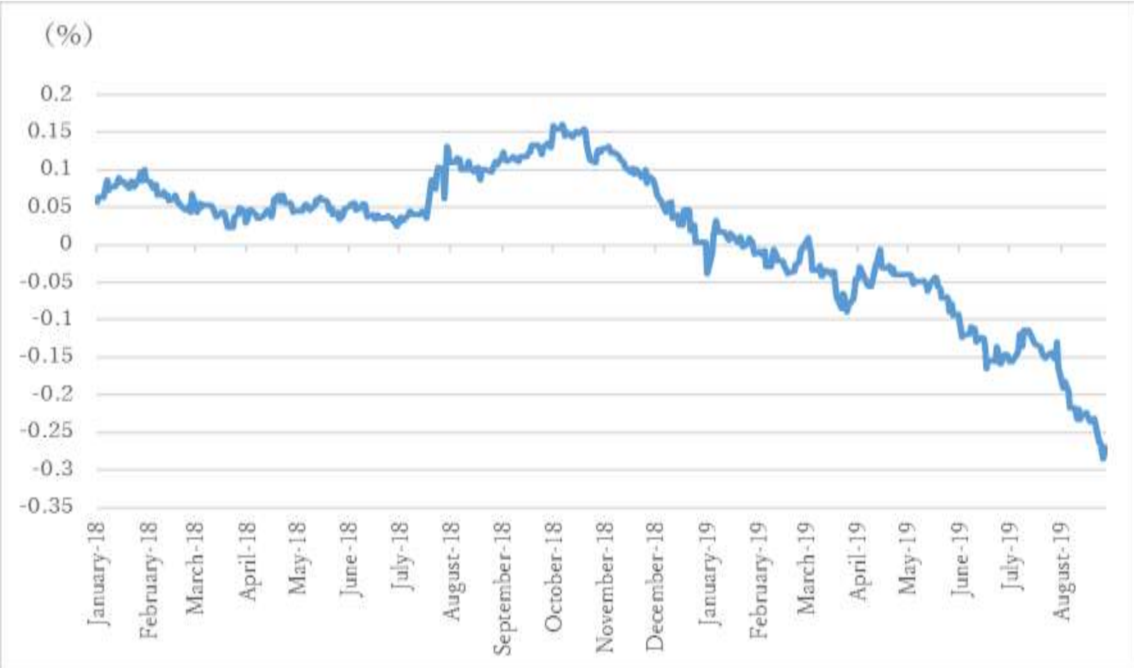
From April, there was a rise in interest rates due to factors including the US long-term interest rate climbing over 3%, but in the face of the decline of long-term interest rates in the US and Germany, the rate dropped to 0.025% in the beginning of July.

Under such circumstances, in late July, speculation that the Bank of Japan was considering more flexible operation of the long-term interest rate led to a rise in the interest rates. At the Monetary Policy Meeting held at the end of July, the Bank of Japan resolved “Strengthening the Framework for Continuous Powerful Monetary Easing”, while also expressing its intent to allow the long-term yields to rise up to around 0.2%. As a result, the interest rate temporarily rose to 0.145%. Riding on this current, and in accordance with the upward trend of the US long-term interest rate, the interest rates climbed up further to hit 0.161% in the beginning of October.

However, reflecting growing risk-averse sentiments following a decline in the global stock markets due to concerns over the global economic slowdown, interest rates turned to a downward trend, and remained low toward the end of the year at 0.003%.

In 2019, long-term interest rates dropped into negative levels and continued to fall. In August, affected by factors including the concern over the US-China trade disputes, the US recognition of China as a currency manipulator on August 6, and the trend of global decline of interest rates for fear of an economic slowdown, the rate once went down to -0.285%, the lowest level in about three years.

<Figure 9> Long-Term Interest Rates



▪ Ⅴ. Investment Trusts

Net assets of publicly offered investment trusts at the end of 2018 stood at ¥105.1592 trillion at year-end, which represented a decrease of ¥6.0327 trillion from the previous year’s record-high ¥111.1919 trillion.

Broken down by category, net assets of stock investment trusts at the end of 2018 stood at ¥93.5511 trillion, which represented a decrease of ¥3.8814 trillion from ¥97.4325 trillion of the previous year.

The number of publicly offered investment trust funds decreased 32 in one year to 6,120. Most of these were stock investment trusts, which decreased by 26 from that of the previous year to 6,006.

<Figure 10> Changes in Assets of Investment Trusts

(¥ trillion)

Year		2016	2017	2018
Total		96.6	111.1	105.1
Stock Investment Trusts	Sales	31.7	41.6	39.7
	Repurchases	26.3	32.9	27.5
	Assets	83.0	97.4	93.5
Bond Investment Trusts	Sales	0.7	0.04	0.03
	Repurchases	1.9	0.1	0.1
	Assets	0.8	0.7	0.6
MMFs	Sales	0.06	0.003	—
	Repurchases	0.9	0.06	—
	Assets	0.06	—	—
MRFs	Sales	36.6	46.1	36.5
	Repurchases	35.1	45.8	38.5
	Assets	12.6	12.9	10.9
Number of Funds		6,060	6,152	6,120

(Source) The Investment Trusts Association, Japan

▪ Ⅵ. Performance Overview of Securities Companies

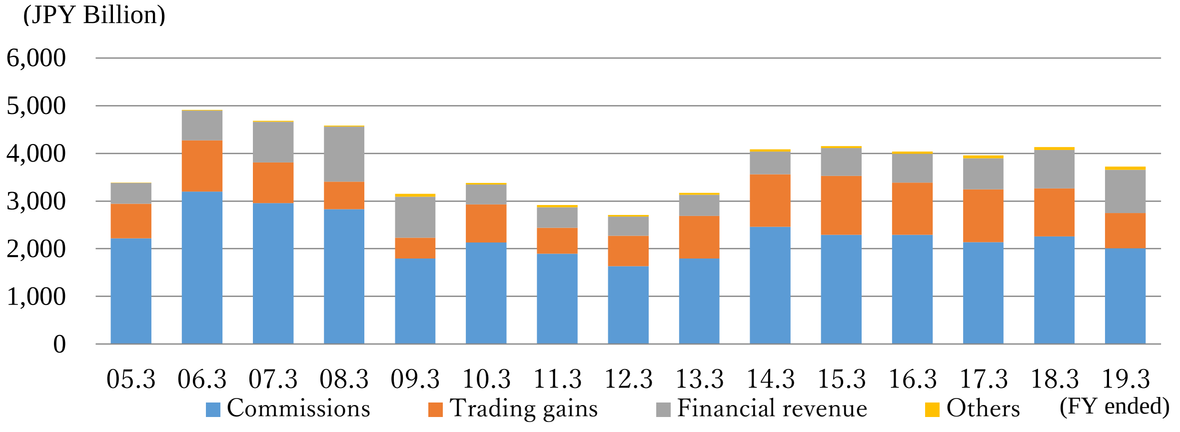
Annual performance by securities firms in Japan in the fiscal year ended March 31, 2019 resulted in less than the previous year due to sluggish stock trading volume and investment trust sales as well as a decrease in bond trading profits.

Of all the securities companies, the ratio of those in the black (companies that turned a profit in the fiscal year) decreased from 82.2% in FY03/18 to 60.2%.

Operating revenues fell 9.8% year-on-year (down ¥407.1 billion) to ¥3,726.1 billion.

A breakdown of revenues (Figure 11) is as follows: commissions fell 11.2% year-on-year (down ¥253.4 billion) to ¥2,007.8 billion; and trading gains fell 26.0% year-on-year (down ¥260.7 billion) to ¥744.0 billion.

<Figure 11> Operating Revenues of Regular Members

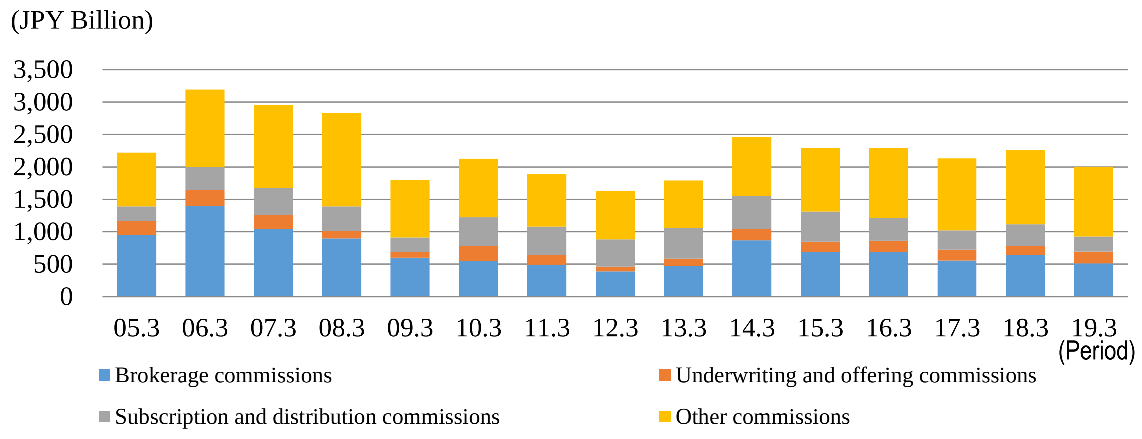


(Note) 1. Securities firms that were not in business as of the end of March in each year are excluded.
2. Figures from March 2019 are on a preliminary basis.

A breakdown of commissions (Figure 12) is as follows: brokerage commissions were down 20.4% (down ¥131.9 billion) year-on-year to ¥513.1 billion, underwriting commissions rose 33.4% (up ¥46.2 billion) year-on-year to ¥184.9 billion; and subscription and distribution commissions declined 30.4% (down ¥100.9 billion) year-on-year to ¥231.3 billion.

Net operating revenues, obtained by subtracting financial costs (described below) from operating revenues, decreased ¥505.3 billion (-13.9%) year-on-year to ¥3,135.8 billion.

<Figure 12> Commissions Received of Regular Members



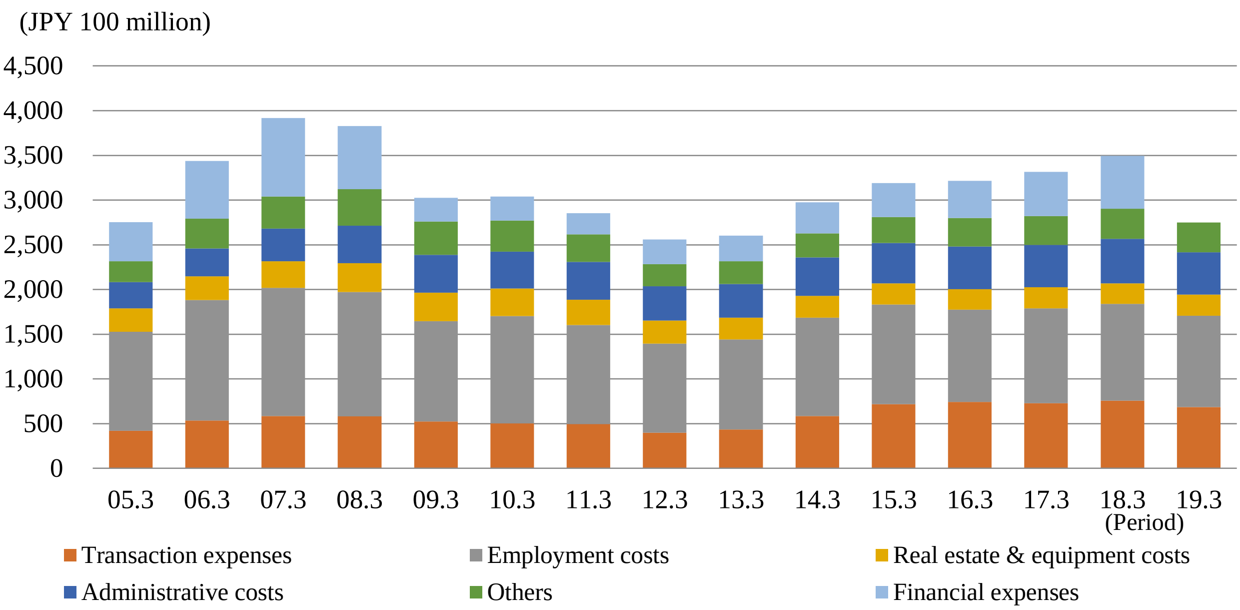
(Note) 1. Securities firms that were not in business as of the end of March in each year are excluded.
2. Figures from March 2019 are on a preliminary basis.
(Source) Japan Securities Dealers Association

Operating costs in the fiscal year ended March 31, 2019 were down 17.5% (down ¥593.9 billion) year-on-year to ¥3,341.4 billion (Figure 13).

The breakdown is as follows: SG&A costs were down 5.4% (down ¥157.5 billion) year-on-year to ¥2,751.1 billion, while financial costs were up 19.9% (up ¥98.1 billion) year-on-year to ¥590.3 billion.

Among SG&A costs, transaction-related costs fell 9.7% (down ¥73.5 billion) year-on-year to ¥684.3 billion; office costs decreased 5.1% (down ¥25.6 billion) year-on-year to ¥472.3 billion; and personnel costs fell 5.3% (down ¥57.7 billion) year-on-year to ¥1.024.1 billion. Meanwhile, real estate-related costs were rose 2.2% (up ¥5 billion) year-on-year to ¥235.6 billion.

<Figure 13> Operating Expenses of Regular Members



(Note) 1. Securities firms that were not in business as of the end of March in each year are excluded.
2. Figures from March 2019 are on a preliminary basis.
(Source) Japan Securities Dealers Association

As a result, net profit in the fiscal year ended March 31, 2019 fell 46.3% (down ¥248.0 billion) year-on-year to ¥287.8 billion.

▪ Ⅶ. Regulatory and Legal Revisions, Industry Topics

1. <u>Partial revisions of Payment Services Act and Financial Instruments and Exchange Act, etc.</u> (Act of Partial Revision of Payment Services Act, etc. in Response to Diversification of Financial Transactions Associated with the Development of Information and Communications Technology)

In May 2019, the “Act of Partial Revision of Payment Services Act, etc. in Response to Diversification of Financial Transactions Associated with the Development of Information and Communications Technology” was passed, which was followed by its promulgation in June 2019.

In light of the increasing importance of responding to the diversification of financial transactions associated with the advancement of information and communications technology, as well as the need to enhance the credibility of the capital markets and protection of users, etc., the following amendments were made (to be enforced on the day specified by Cabinet Order within one year of promulgation):

(1) Improvement of systems pertaining to the crypto-asset exchange service, including:

a. Change of defined legal term from “virtual currency” to “crypto-asset”

b. Development of regulations over advertisements and solicitation by crypto-asset exchange service providers

c. Obligation to manage customer crypto-assets by highly reliable methods

(2) Establishment of regulatory framework regarding derivatives transactions and fundraising transactions using crypto assets, including:

a. Addition of crypto-asset to the definition of financial instruments in the Financial Instruments and Exchange Act
b. Regulation of services and prohibition of misconduct pertaining to derivatives transactions using crypto assets
c. Clarification of regulatory framework for ICOs (i.e. including investment-type ICO tokens in the regulation of financial instruments business)

2. Revision of Cabinet Office Ordinance on Disclosure of Corporate Affairs

Following the report by the Working Group on Corporate Disclosure of the Financial System Council released in June 2018, the "Cabinet Office Ordinance for Partial Revision of Cabinet Office Ordinance on Disclosure of Corporate Affairs" was promulgated and enforced in January 2019 for appropriate improvement of legal systems on the matters to be stated in securities report, etc.

The main revisions are as follows:

(1) Improvement of financial information and published information
(2) Provision of governance-related information for the promotion of constructive dialogue (compensation of board members, cross-shareholdings, etc.)
(3) Securing the credibility and timeliness of information (information of accounting audits)

3. Revision of Cabinet Order, Cabinet Office Ordinance, etc. Pertaining to Disclosure Systems

In June 2019, the "Cabinet Order for Partial Revision of Order for Enforcement of the Financial Instruments and Exchange Act" and "Cabinet Office Ordinance for Partial Revision of Cabinet Office Ordinance on Disclosure of Corporate Affairs" were promulgated and came into force (enforced in July 2019 for (1) and in June 2019 for (2)), and the main revisions are as follows:

(1) Review of disclosure regulation pertaining to stock-related compensation
(2) Review based on the report of "Advisory Council on the Improvement of Information Provision for Accounting and Auditing" (with respect to the disclosure of the reason for replacing an auditor, describe in as much detail as possible the reason for the change in auditor as listed in the extraordinary report, etc.)

4. Review of the Companies Act (related to Corporate Governance, etc.)

The Legislative Council of the Ministry of Justice put together the "Outline for the Companies Act Revision (related to Corporate Governance, etc.)" in February 2019, the main details of which are as below. In addition, the amendment bill of the Companies Act is expected to be submitted to the Diet at a later date.

(1) Review of rules concerning shareholders meetings
   a. Electronic provision of shareholders meeting documents
   b. Limitations on shareholders' right to propose
(2) Review of rules concerning directors, etc.
   a. Establishment of rules to provide proper incentives to directors
   b. Imposition of obligation to appoint an outside director
(3) Other
   a. Establishment of assistant bond manager system
   b. Review of rules concerning share delivery system

5. Self-regulation

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

In July 2019, part of the "Rules Concerning Shareholders Community" and "Rules Concerning

Over-The-Counter Securities" were revised to contribute to further utilization of the shareholders community system and transfer of management rights for non-listed companies including business succession (enforced on August 1, 2019).

In March 2019, for the introduction of PTS margin transactions, etc., the JSDA revised part of the "Rules Concerning Sale and Purchase, Etc. of the Listed Share Certificates, Etc. Conducted Outside of a Financial Instruments Exchange Market" (enforced on July 16, 2019).

6. Revision of financial and securities tax systems, etc.

The NISA (Nippon Individual Savings Account) scheme was launched in January 2014 with a view to expanding the investor base as well as both supporting the stable asset-building of households and increasing the supply of growth funds necessary for economic growth. 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 scheme 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).

Further, the Dollar-Cost Averaging NISA was 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. The system was thus improved and expanded.

According to a survey by the Financial Services Agency, the number of NISA accounts at the end of March 2019 was 11,550,000 with a total purchase amount of ¥16,353.3 billion. Junior NISA had 310,000 accounts with the total purchase amount of ¥130.3 billion. The Dollar-Cost Averaging NISA had 1,270,000 accounts with the total purchase amount of ¥133.2 billion.

7. Promoting SDGs (Sustainable Development Goals) in the securities industry

In September 2017, as part of a securities industry-wide effort to proactively contribute to tackling the social issues raised by the SDGs, the JSDA organized the Council for Promoting the SDGs in the Securities Industry. Under the Council, it also established three subcommittees, and the specific initiatives undertaken by each respective subcommittee are as follows:

(1) Subcommittee on Ending Poverty/Starvation and Protecting the Global Environment;
Measures related to impact/ESG investments (e.g. originating and distributing vaccine bonds, water bonds, and green bonds)

(2) Subcommittee on Promoting Decent Working Conditions and Women's Participation in Society;
Initiatives to increase productivity, promote decent working conditions, and support women in the workforce

(3) subcommittee on supporting education for the socially vulnerable;
Education support including donation funds and the provision of voluntary work for motherless/fatherless families and orphans

In March 2018, the JSDA publicized its Declaration in Support of SDGs, vowing its clear commitment toward the promotion of the SDGs.

Specific measures to this end included: the unification of the names given to bonds contributing to the SDGs (under the umbrella term "SDG bonds"); hosting a Women's Network through which women working at securities firms can connect; participating in the Used Book Sale Donation for Children's Future; and establishing a Shareholders Incentives Endowment Fund for the SDGs, which utilizes the social contribution-type shareholders incentives scheme in order to promote the SDGs.

8. Moving toward a Comprehensive Exchange

In March 2019, the Japan Exchange Group (JPX) and Tokyo Commodity Exchange (TOCOM) came to a basic agreement to integrate their management. This, when effective, is expected to create a comprehensive exchange in Japan and consolidate trading in all types of financial products ranging from financial securities to commodity derivatives to one venue. Transfer of commodities and the integration of clearing agencies are planned for fiscal 2020.

9. Shortening of the settlement cycle

Following the shortening of the JGB settlement cycle to T+1 (to be settled on the following business day of trade date) from T+2 (to be settled two business days after trade date), the settlement cycle of stocks was shortened from T+3 to T+2 on July 16, 2019 (contract date basis).

10. Study of Market Structure, etc.

In October 2018, the Tokyo Stock Exchange established the "Advisory Group to Review the TSE Cash Equity Market Structure" to deliberate on various issues concerning the current cash equity market structure and the expected outcome of any subsequent structural changes, closely examining the current state of the four markets—namely, 1st Section, 2nd Section, Mothers and JASDAQ—that the TSE operates. In March 2019, it compiled and released a summary of public comments on the review of TSE cash equity market structure. In May 2019, the "Market Structure Experts Group" was established in the Financial System Council of the Financial Services Agency and discussions are underway.

11. Trends on Countermeasures against Money Laundering and the Financing of Terrorism

In February 2018, the Financial Services Agency formulated and released the "Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism," which positioned a risk-based approach as a matter to be necessarily implemented by financial institutions, etc. as a minimum standard, and clarified the need for specific initiatives. Further, in August 2018, from the viewpoint of urging financial institutions, etc. to prepare effective internal programs on anti-money laundering and combating the financing of terrorism, the Financial Services Agency compiled and released the "Current Status of Anti-Money Laundering and Combating the Financing of Terrorism for the Financial Services Industry in Japan" (provisional English title), outlining the initiatives taken by the Financial Services Agency after the preparation of the Guidelines and responses of the financial institutions under its jurisdiction. Furthermore, in April 2019, revisions were made to part of the Guidelines, requiring financial institutions to implement customer management through a continuous and detailed risk-based approach including a risk assessment of all customers.

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