Japan Securities Dealers Association
JSDA

October 2018

The Japanese Economy and Stock Market

▪ Ⅰ. The Japanese Economy

(Economic Conditions)

The Japanese economy maintained a moderate recovery trend from 2017 to the first half of 2018.

The GDP of Q1 saw 0.7% growth year-on-year due to factors such as exports and private consumption recovering over the period.

In Q2, domestic demand drove economic recovery, with rising private consumption and capital expenditures, to reach a positive 0.5% growth. In addition, Q3 witnessed a growth of 0.6%.
While Q4 saw an increase in exports, a widespread increase in imports pushed down growth rates. However, due to stable domestic demand, Q4 saw positive 0.2% growth overall.

In 2018, Q1 faced a plethora of negative factors such as a surge in the prices for fresh food and poor weather conditions, which put downward pressure on the economy and led to a negative 0.2% growth—the first negative recorded in nine quarters since Q4 of 2015.

Subsequently, in Q2, private demand drove economic growth to reach a positive 0.5%, sustaining a trend of economic recovery.

(Employment Conditions)

Employment conditions in 2017, 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 2.8% from 3.1% of the previous year, the lowest recorded in 24 years since 2.5% in 1993. Going into 2018, it improved further still, reaching 2.5% as of July.

The job-offers-to-seekers ratio has improved steadily since the 2008 global financial crisis, picking up 0.14 points to 1.50 times on a full-year basis from 1.36 times in the previous year. In 2018, the ratio remained above 1.5 times, standing at 1.63 times as of July. By sector, employment showed increases in the medical and welfare fields.

(Price Fluctuations)

The Corporate Goods Price Index (CGPI) in 2017, 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 goods, saw a uptick of 2.3 points compared to the 98.7 points of the previous year (base level at 2015). Going into 2018, the CGPI was still on an upward trend, standing at 101.8 points as of July, which was an increase of 0.5 points over the previous month.

The Consumer Price Index (CPI; excluding fresh produce) in 2017 increased 0.5 points to 100.2 points (base level at 2015). The CPI remained at an uptrend as a result of the increases in the prices of energy-related products due to the rise in oil prices, standing at 100.9 points (preliminary figure) as of July 2018.

<Figure 1> Major Economic Indicators

Change from the previous period (Quarterly is seasonally adjusted)

(Major Economic Indicators) (%)

	2017				2018		CY2016	CY2017
	1-3	4-6	7-9	10-12	1-3	4-6		
GDP (Expenditure Approach)	0.7	0.5	0.6	0.2	-0.2	0.5	1.0	1.7
Private Consumption	0.5	0.8	-0.7	0.3	-0.2	0.7	0.1	1.0
Consumption of Households	0.5	0.8	-0.7	0.3	-0.2	0.7	-0.1	1.0
Excluding Imputed Rent	0.6	0.9	-0.9	0.3	-0.3	0.8	-0.4	0.9
Private Residential Investment	0.8	1.3	-1.3	-3.0	-2.3	-2.7	5.7	2.7
Private Non-Residential Investment	0.6	0.5	1.2	0.8	0.5	1.3	0.6	2.9
Government Consumption	0.3	0.4	0.1	0.1	0.0	0.2	1.3	0.4
Public Investment	-0.2	5.4	-2.9	-0.6	-0.4	-0.1	-0.1	1.2
Exports	1.9	0.2	2.1	2.1	0.6	0.2	1.7	6.7
Imports	1.4	1.9	-1.5	3.3	0.2	1.0	-1.6	3.4

(Note) Data released on August 10, 2018

(Source) Cabinet Office

<Figure 2> Employment Conditions

	2017				2018		CY2016	CY2017
	1-3	4-6	7-9	10-12	1-3	4-6		
Unemployment rate (%)	2.9	2.9	2.8	2.7	2.5	2.4	3.1	2.8
Job-offers to seekers ratio (times)	1.44	1.49	1.52	1.57	1.59	1.60	1.36	1.50

(Note) Data is seasonally adjusted

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

<Figure 3> Price Trends

(Corporate Goods Price and Consumer Price)

		2017				2018		CY2016	CY2017
		1-3	4-6	7-9	10-12	1-3	4-6		
Corporate Goods Price	Index	98.0	98.4	98.8	99.7	100.3	101.0	96.5	98.7
	YoY	1.0	2.1	2.9	3.4	2.5	2.6	-3.5	2.3
Consumer Price (excluding fresh produce)	Index	100.0	100.0	100.2	100.5	100.8	100.8	99.7	100.2
	YoY	0.2	0.4	0.6	0.9	0.9	0.7	-0.3	0.5

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

▪ Ⅱ. Financial Assets of Households

The financial assets of households at the end of 2017 rose about ¥44.4 trillion (US$1,309.7 billion) (+2.5%) year on year to ¥1,829.0 trillion (US$17,215.7 billion), making it the highest figure recorded. Increases in household asset valuations as a result of rises in stock prices pushed up household assets.

Looking into the components, shares and other equities increased about 11.7% year on year to ¥198.7 trillion (US$1,870.3 billion), while investment trust beneficiary certificates rose about 1.4% to ¥73.2 trillion (US$689.0 billion). Meanwhile, cash and deposits were up about 2.3% to ¥960.5 trillion (US$9,040.9 billion), a record year-end high for three successive years.

With respect to the composition ratio, cash and deposits, which had reached a record high as mentioned above, fell 0.1 percentage points year on year to 52.5% of total financial assets of households, which continued to be high, as in the previous year. On the other hand, stocks and other equities increased composition ratios, up 0.9 points to 10.9%.

<Figure 4> The Composition of Financial Assets of Households

	FY2015	FY2016	FY2017(E)	FY2017 (E) (Amount in ¥ trillion (US$ billion))
Financial Assets of Households (Amount in ¥ trillion (US$ billion))	1,751.80 (15,546.7)	1,784.50 (15,906.1)	1,829.00 (17,215.7)	1,829.00 (17,215.7)
Cash and deposits	52.4%	52.6%	52.5%	960.5 (9,040.9)
Debt securities	1.4%	1.4%	1.3%	23.2 (218.4)
Shares & Other Equities	9.6%	10.0%	10.9%	198.7 (1,870.3)
Investment trust beneficiary certificates	4.2%	4.0%	4.0%	73.2 (689.0)
Insurance, pension and standardized guarantees	29.6%	29.1%	28.5%	522 (4,913.4)
Others	2.8%	2.9%	2.8%	51.2 (481.9)

(Notes)

1. Data released on June 27, 2018
2. Currency exchange rates are based on the fiscal year-end figures released by Mitsubishi UFJ Research & Consulting

(Source) Bank of Japan

▪ Ⅲ. Equities

(1) Primary Market

The number of newly-listed companies on the Tokyo Stock Exchange in 2017 was 103, an increase of seven companies from that of the previous year. As of the end of July 2018, the number of new listings stood at 57, up nine from the previous year. By industry category, as with the previous year, the service and information & communications industry comprised the top two sectors, making up about half of the total, while retail and wholesale businesses also stood out. By business theme, the following businesses were noteworthy: 1) businesses focusing on human resources-related services amid a backdrop of work-style reform and responding to employment needs; 2) venture businesses attracting attention for their use of next-generation technologies; and 3) businesses undertaking a diverse range of services related to nursing and care, reflecting the background of an aging society.

The capital raised through public offerings of shares by listed companies nationwide in 2017 increased 64.5 from the previous year to ¥424.7 billion. The first seven months of 2018 (January to July) saw ¥276.8 billion in capital raised, a 6% increase compared to that of the previous year.

The capital raised through public offerings of shares by newly listed companies in 2017 declined 52.5% to ¥90.4 billion. The first seven months of 2018 (January to July) saw capital of ¥124.8 billion, more than three times the figure of the previous year. Notable fundraising from 2017 to the first half of 2018 included SG Holdings Co. Ltd., which holds a major home delivery company Sagawa Express as a subsidiary, listed on TSE First Section on December 13, 2017, with a market capitalization at the closing price on the TSE of ¥610.2 billion. Also notable was 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.

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

	2015	2016	2017
No. of Listed Companies	3,502	3,533	3,596
Newly Listed Companies	110	96	103
Market Capitalization (¥ billion)	589,788	579,596	700,982
Trading Volume (million shares)	709,718	665,769	587,729
Average Daily Trading Volume (million shares)	2,908	2,717	2,379
Trading Value (¥ billion)	745,955	691,102	741,315
Average Daily Trading Value (¥ billion)	3,057	2,820	3,001
TOPIX (Note)	1,547.30	1,518.61	1,817.56

(Note) As of year-end

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

(2) Secondary Market

An overview of the 2017 stock market shows downward pressure on prices up until September, due to a confluence of factors such as concerns over the protectionism of the US administration, uncertainties of the French presidential elections, as well as the rise of geopolitical risks surrounding North Korea. However, in mid-September, stock prices went up, due to the dissolution of the House of Representatives and general election, and by October, the Nikkei 225 Stock Average saw increases for 16 continuous days, the longest continuous increase in history. The rise in stock prices continued to gain momentum, and by November, the Nikkei rose again to a level exceeding the highest level since January 1992. After that, however, the adjustment continued, conscious of the ceiling of ¥23,000.

Q1 FY2017 saw stock prices on a downward trend, due to risk aversion in response to factors such as concerns over the protectionism of the US administration and French presidential elections, and at the end of the fiscal 2016 on March 31, the Nikkei 225 stood at ¥18,909.

Q2 FY2017 started with the lowest prices at the beginning of the fiscal year in April. However, afterwards, due to the results of the French presidential elections leading to a decline in risk averse attitudes, in May, stock prices turned to an upward trend. In late June, stock prices recovered to the ¥20,000 level against the backdrop of strong corporate performance, and trades closed at ¥20,033.

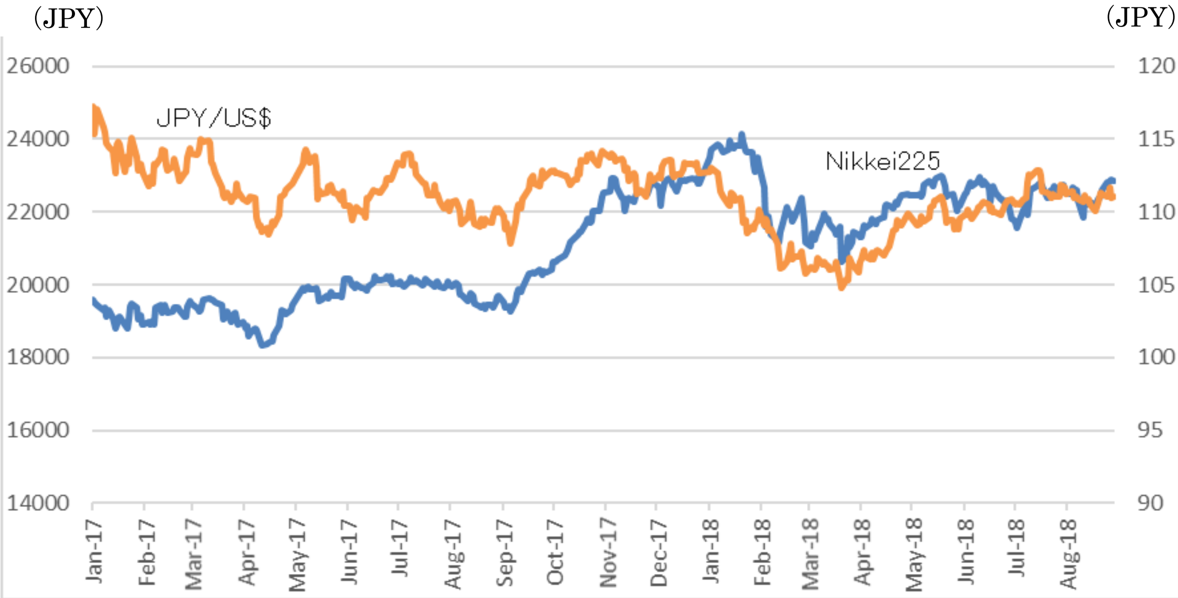
Q3 FY2017 saw downward pressure on prices from July to early September, due to developments such as the decline in approval ratings for the Abe administration, geopolitical risks from North Korea, and appreciation of the yen. However, anticipation of the dissolution of the House of Representatives and general election for the middle of September led to a rise in stock prices, and trades closed at ¥20,356.

Q4 FY2017 saw a continued rise in stock prices. In October, the Nikkei rose to ¥22,000, the highest level since 1996, or about 21 years. Furthermore, stock prices continued to rise from October 2 to October 24, for 16 consecutive days, the longest continuous increase in history. Additionally, as a result of the elections for the House of Representatives, the rise in stock prices gained momentum, and by November, the Nikkei rose again to a level exceeding the highest record set in June 1996 after the collapse of the bubble economy, reaching the highest level since January 1992. After that, the adjustment continued, conscious of the ceiling of ¥23,000, and by the end of 2017, trades closed at ¥22,764, a ¥3,650 increase from the end of 2016.

Q1 FY2018 saw stock prices rising at the beginning of the year, similar to the pattern of the previous year, and on January 23, stock prices recovered to the ¥24,000 levels, a first in 26 years. However, due to the appreciation of the yen, the following day, January 24, saw stock prices changing course to a downward trend. Going into February, appreciation of the yen and hikes in the long-term interest rates of the United States weakened stock prices, and in March, the concerns of trade disputes between China and the US led stock prices to fall further, with trades closing at ¥21,454.

Q2 FY2018 witnessed an amelioration of trade disputes between the US and China in April, leading to stable stock prices. However, in May, due to the changes in circumstances surrounding the North Korea-United States summit and financial unrest in Italy, a downturn in prices was noticeable. Following the strong stock performance in the US, prices were on an uptrend until mid-June, but by the latter half of June, growth was sluggish due to resurgence of US-China trade tensions, ending the quarter at ¥22,304.

<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)		
	2015	2016	2017	2015	2016	2017
Securities company self-dealing	13.8%	15.2%	15.5%	1,558	2,412	6,032
Individual	23.2%	20.6%	21.9%	-4,999	-3,162	-5,793
Foreigner	67.7%	70.3%	68.9%	-250	-3,688	753
Investment trust	2.1%	2.4%	2.4%	242	-389	-1,043
Business company	1.2%	1.1%	1.2%	2,963	2,223	1,232
Insurance company	0.2%	0.2%	0.2%	-584	-573	-570
Major city bank/regional bank	0.1%	0.2%	0.2%	-309	-493	-864
Trust bank	3.7%	3.7%	3.6%	2,007	3,265	93
Other financial institution	0.2%	0.2%	0.2%	260	261	134

(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 2017, public and corporate bond issuance in Japan declined ¥8.9 trillion (-4.6%) from the previous year to ¥188.2 trillion. The breakdown was ¥159.1 trillion in government bonds (down ¥9.6 trillion from the previous year), ¥11.3 trillion in straight corporate bonds (up ¥0.6 trillion), and ¥1.4 trillion in bonds issued by nonresidents (up ¥0.2 trillion).

With respect to government bonds, which make up the majority of the market, issuances saw a decline across bonds of all maturities (i.e. long, super-long, medium, and short-term bonds). Straight corporate bond issuances increased to remain above the ¥10 trillion level for two consecutive years, due to the continued negative interest-rate policy as well as the stabilization of interest rate levels. Much like that of the previous year, the corporate bond issue market was characterized by longer terms and increased hybrid bonds.

Domestic public and corporate bond issuance in the first seven months (January to July) of 2018 came to ¥88.3 trillion, falling short of the ¥95.3 trillion of the same period in the previous year. Both issuances of government bonds and straight corporate bonds declined from the same period in the previous year.

<Figure 8> Public and Corporate Bonds

(¥ trillion)

		2015	2016	2017
Transaction volume (face value)	Government bonds	10,393.4	9,291.1	9,623.9
	Other	142.8	82.0	92.7
	Total	10,536.3	9,373.2	9,716.7
Issuance volume	Public bonds	188.7	183.3	173.9
	(Government bonds) (Note 1)	(174.5)	(168.8)	(159.1)
	Straight bonds (Note 2)	6.8	10.7	11.3
	Issuance by nonresidents	1.8	1.1	1.4
	Total (Note 3)	200.2	197.2	188.2

(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 include bank bonds, private placement corporate bonds and private placement government bonds.

(Source) Japan Securities Dealers Association

(2) Secondary Market

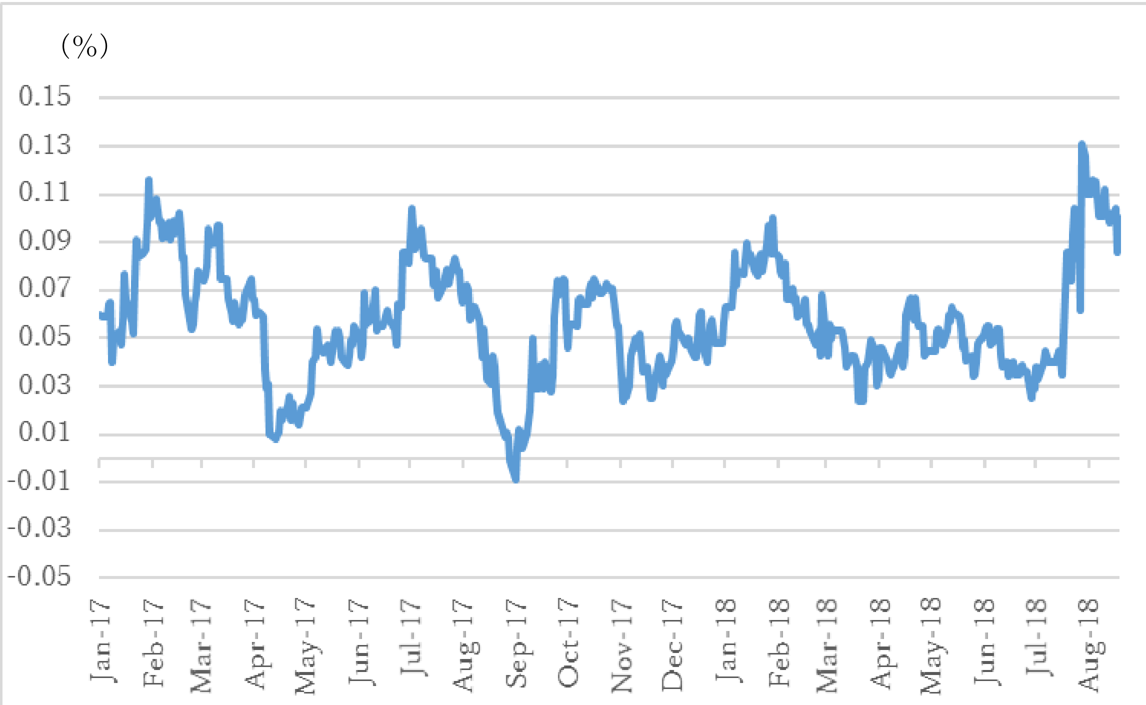
The OTC transaction volume of public and corporate bonds in 2017 stood at ¥9,716 trillion (of which JGBs comprised ¥9,623 trillion).

An overview of the long-term interest rate (simple interest yield on newly issued 10-year JGBs) from 2017 to the first half of 2018 reveals stable fluctuations within the very small range of 0% to

0.1%.

In 2017, the long-term interest rate started at 0.065% and fluctuated between 0.04% and 0.11%, but due to factors such as geopolitical risks surrounding Syria and North Korea, government bonds, considered to be safe assets from external factors, were widely bought and global interest rates declined, leading to a fall to 0.008% for the long-term interest rate in April. Later, as a result of the French presidential elections in May, interest rates began to rise, and inklings of monetary tightening led to an increase in the interest rates in Europe and the United States, so that by the first half of July interest rates had recovered temporarily to 0.1%. However, with the implementation of the limit price operation (no bidding) for the long-term zone on July 7, the interest rates again began to decline, and with the rise of geopolitical risk from North Korea, going into September the interest rates dropped to negative levels for the first time since November 2016, hitting -0.009% on September 4. While the interest rates recovered to positive levels after that, the increase was limited, with the highest at 0.7%, and 2017 trades closed at 0.048%. Going into 2018, long-term interest rates remained low and steady in the 0.03% to 0.1% range due to the BOJ's continuing yield curve control (YCC). In July 2018, with the anticipation that at its Monetary Policy Meeting at the end of the month, the BOJ allowed more flexibility and slight increases in the long-term interest rate previously sustained at 0%, JGBs were sold, such that by July 26, the interest rate rose to 0.1% for the first time in a year. In a statement released after the meeting, the BOJ announced that long-term interest rates "may fluctuate to some degree in response to changes in the economic and price environments," and a press conference by the Governor of the BOJ revealed an intention to allow interest rates to rise up to about 0.2%. By August 2, long-term interest rates increased to about 0.145%.

<Figure 9> Long-Term Interest Rates



(Source) Bloomberg

▪ Ⅴ. Investment Trust

Net assets of publicly offered investment trusts in 2017, excluding April, saw the continuation of net inflows year-round, reaching ¥111.2 trillion at year-end, which represented an increase of ¥14.6 trillion from the previous year's ¥96.6 trillion and a record high.

Broken down by category, net assets of stock investment trusts saw consecutive capital inflows from January to September (excluding May). In October, when the Nikkei 225 Stock Average rose for 16 consecutive days, a historical record, and the Nikkei rose to ¥22,000, the highest level in 21 years since 1996, investment trusts saw net outflows due to widespread motive to secure profits. After November, net assets consistently saw capital inflows, and by year-end, there were some ¥97.4 trillion in net assets, up ¥14.4 trillion from the ¥83.2 trillion of the previous year, reaching their highest level ever. Meanwhile, the net assets of bond investment trusts increased ¥140.5 billion from the ¥13.6 trillion of the previous year to ¥13.8 trillion.

The number of publicly offered investment trust funds rose 92 in one year to 6,152. Most of these were stock investment trusts, which increased by 93 from that of the previous year to 6,032, while bond investment trusts decreased by one to 120.

Household holdings, which had reached ¥73.2 trillion in balance by the end of December 2016, increased ¥3.3 trillion to ¥76.4 trillion by the end of December 2017.

In terms of capital flow, Q1 (January to March) FY2017 saw outflows of ¥484.6 billion and Q2 (April to June) outflows of ¥559.5 billion; Q3 (July to September) witnessed outflows of ¥95 billion, but Q4 (October to December) witnessed inflows of ¥605.6 billion.
As of the end of July 2018, the net assets of publicly offered investment trusts stood at ¥113.9 trillion.

<Figure 10> Changes in Assets of Investment Trusts

(¥ trillion)

Year		2015	2016	2017
Total		97.7	96.6	111.1
Stock Investment Trusts	Sales	44.1	31.7	41.6
	Repurchases	30.7	26.3	32.9
	Assets	81.7	83.0	97.4
Bond Investment Trusts	Sales	9.7	0.7	0.04
	Repurchases	9.9	1.9	0.1
	Assets	3.1	0.8	0.7
MMFs	Sales	0.5	0.06	0.003
	Repurchases	0.8	0.9	0.06
	Assets	1.6	0.06	—
MRFs	Sales	49.4	36.6	46.1
	Repurchases	49.3	35.1	45.8
	Assets	11.1	12.6	12.9
Number of Funds		5,843	6,060	6,152

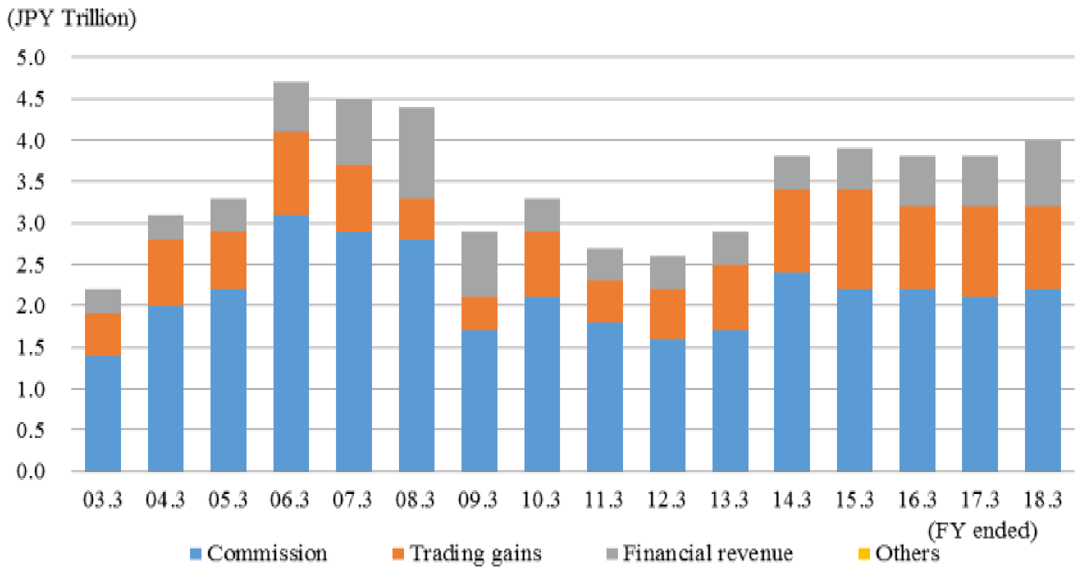
(Source) The Investment Trusts Association, Japan

▪ Ⅵ. Performance Overview of Securities Companies

Annual performance by securities firms in Japan in the fiscal year ended March 31, 2018 were robust, and owing to a strong stock market, slightly surpassed the performance 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) increased from 68.2% in FY03/17 to 81.7%.

Operating revenues rose 4.4% year on year (up ¥174 billion) to ¥4.13 trillion. A breakdown of revenues (Figure 11) is as follows: commissions rose 5.9% (up ¥126.6 billion) to ¥2.26 trillion; trading gains as a whole fell 9.7% year on year (down ¥108.3 billion), as the gains in the stock division of 18.4% (up ¥16.2 billion) could not offset the 27.4% fall in the bond division (down ¥247.5 billion).

<Figure 11> Operating Revenues of Regular Members

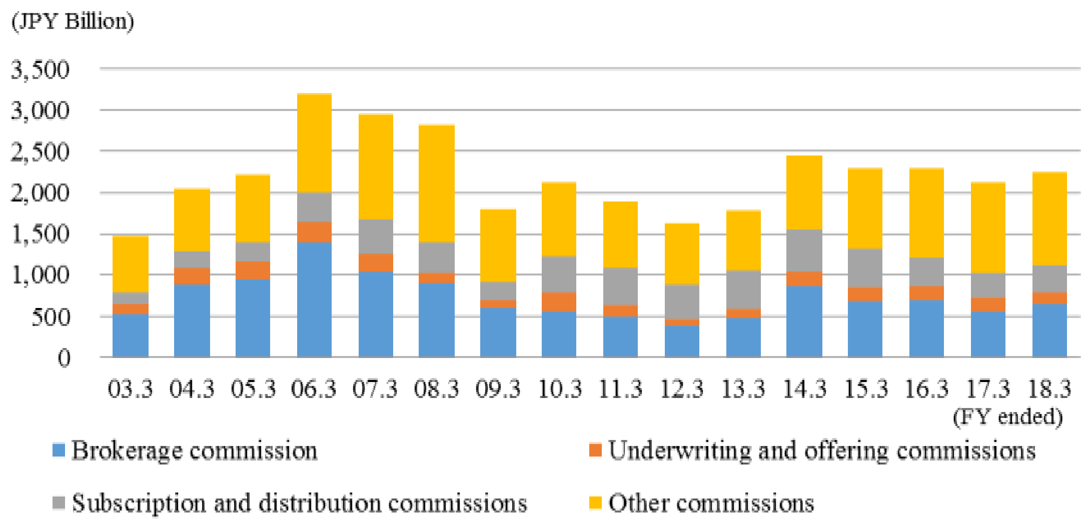


(Note)
1. Securities firms that were not in business as of the end of March in each year are excluded.
2. Figures from March 2018 are on a preliminary basis.
(Source) Japan Securities Dealers Association

A breakdown of commissions (Figure 12) is as follows: brokerage commissions were up 15.5% (up 86.3 billion) year on year to ¥644.9 billion; underwriting commissions fell 16.8% (down ¥27.8 billion) year on year to ¥138.6 billion; and subscription and distribution commissions declined 11.2% (down ¥33.5 billion) year on year to ¥332.1 billion.

Net operating revenues, obtained by subtracting financial costs (discussed below) from operating revenues, increased 96.8 billion (+2.7%) year on year to ¥3.6 trillion.

<Figure 12> Commissions Received of Regular Members



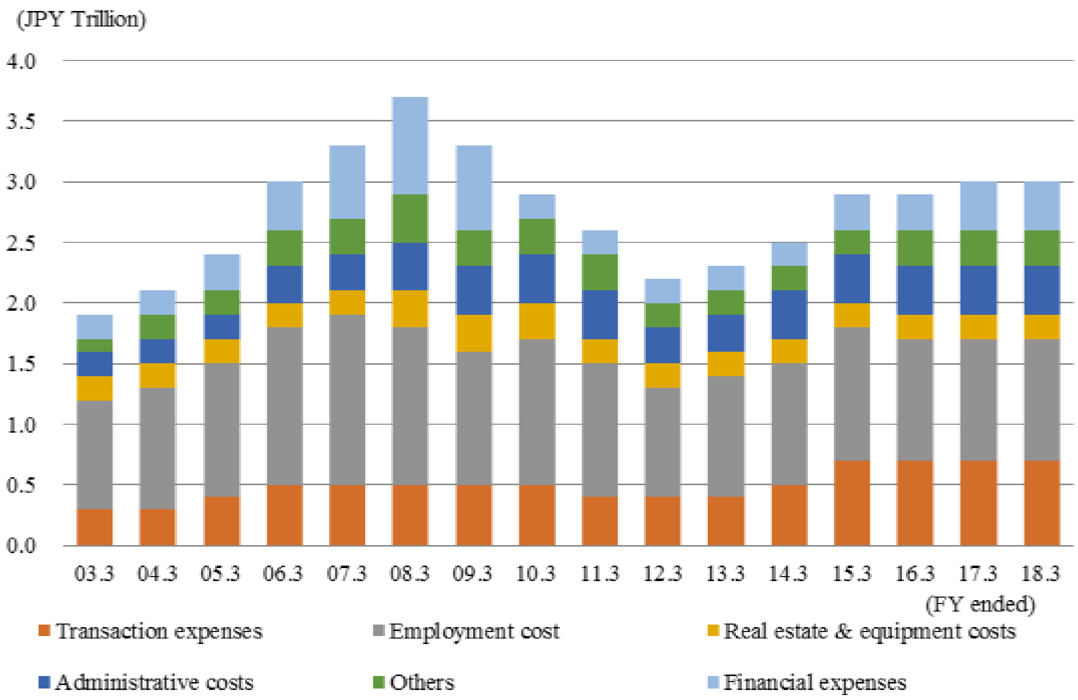
(Note)
1. Securities firms that were not in business as of the end of March in each year are excluded.
2. Figures from March 2018 are on a preliminary basis.
(Source) Japan Securities Dealers Association

Operating costs in the fiscal year ended March 31, 2018 were up 4.9% (up ¥159.7 billion) year on year to ¥3.4 trillion (Figure 13).

The breakdown is as follows: SG&A costs were up 2.9% (up ¥83.2 billion) to ¥2.9 trillion, while financial costs went up 18.5% year on year (up ¥77.2 billion) to ¥493.8 billion.

Among SG&A costs, transaction-related costs rose 3.7% (up ¥27.3 billion) year on year to ¥757.3 billion; office costs increased 5.4% (up ¥25.3 billion) year on year to ¥497.8 billion; and real estate-related costs were down 2.0% (down ¥4.7 billion) year on year to ¥231.3 billion. Meanwhile, personnel costs rose 2.1% (up ¥22.5 billion) to ¥1.8 trillion.

<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 2018 are on a preliminary basis.
(Source) Japan Securities Dealers Association

As a result, net profit in the fiscal year ended March 31, 2018 fell 12.5% (down ¥77.6 billion) year on year to ¥544.9 billion. This figure was influenced by the fact that a specific Association Member posted a large amount of extraordinary profits in the previous year—when this data point is excluded, the net profit in the fiscal year surpasses that of the previous year.

<Figure 14> Ordinary Profits / Losses and Current Net Profits / Losses 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 2018 are on a preliminary basis.
(Source) Japan Securities Dealers Association

▪ Ⅶ. Regulatory and Legal Revisions, Industry Topics

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

The NISA (Nippon Individual Savings Account) scheme 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 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.

According to a survey by the FSA, the number of NISA accounts (general and the Dollar-Cost Averaging) at the end of March 2018 was 11.67 million (of which the Dollar-Cost Averaging NISA made up 500,000) with a total purchase amount of ¥13.9 trillion (¥11 billion for the Dollar-Cost Averaging NISA alone). Junior NISA had 260,000 accounts with the total purchase amount of ¥85.5 billion.

2. Revisions related to Corporate Governance

A. *Revision of the Corporate Governance Code*

Based on the proposal "Revision of the Corporate Governance Code and Establishment of Guidelines for Investor and Company Engagement" published by the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code, in June 2018, the Japan Financial Services Agency issued guidelines providing the agenda items for engagement on which institutional investors and companies are expected to focus, called the "Guidelines for Investor and Company Engagement".

In addition, in accordance with the proposal, the Tokyo Stock Exchange revised the Corporate Governance Code. The main revisions are as follows.

(1) Cross-Shareholdings, including:
   a. Formulation and disclosure of policies regarding the reduction of cross-shareholdings, and
   b. Annual assessment on whether or not to hold each individual cross-shareholding and disclosure of said assessment results.
(2) Roles of Corporate Pension Funds as Asset Owners, including:
   a. Disclosure of methods to improve human resources and operational practices, such as the recruitment or assignment of qualified persons, in order to increase the investment expertise of corporate pension funds (including stewardship activities).
(3) Appointment of CEO and Succession Plans, including:
   a. Establishment and implementation of a succession plan for the CEO and other top executives, and
   b. Disclosure of the procedures and policies of appointment and dismissal of top management level executives.
(4) Effective Use of Independent Directors, including:
   a. Appointment of a sufficient number of independent directors, and

b. Appointment of *kansayaku* of diversity (including gender and international experience) and with necessary knowledge on finance, accounting, and the law.

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

In February 2018, the Legislative Council Companies Act (related to Corporate Governance, etc.) Sub-Committee of the Ministry of Justice published its *Interim Proposal for the Companies Act Revision**.

In February 2017, the Minister of Justice consulted with the Legislative Council at the 178th meeting of the Legislative Council to consider the necessity of the revision of rules concerning corporate governance, etc., as outlined below.

(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
  a. Establishment of rules to provide proper incentive to directors
  b. Imposition of obligation to appoint an outside director
(3) Other
  a. Review of rules concerning administration of bonds
  b. Review of rules concerning share delivery

*The tentative English translation of said proposal is available on JPX's website:
https://www.jpx.co.jp/english/news/1020/b5b4pj0000021rk5-att/b5b4pj0000021rn2.pdf

3. Shortening of the settlement cycle

From May 1, 2018 (trade date basis), the settlement cycle of JGBs was shortened to T+1 from T+2. Further, the JSDA, Tokyo Stock Exchange, and Japan Securities Clearing Corporation announced the target implementation date for the shortened T+2 stock settlement cycle to be July 16, 2019 (trade date basis).

4. Self-regulation

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

In April 2018, in response to the report *Regulatory Reporting and Public Transparency in the Secondary Corporate Bond Markets* published by the International Organization of Securities Commissions (IOSCO) and from the viewpoint of increasing the convenience for investors, the JSDA partially revised the "Detailed Rules Relating to the Rules Concerning the Publication of Over-the-Counter Trading Reference Prices, etc. and Trading Prices of Bonds" (enforced October 1, 2018, applicable to trades contracted thereafter), in order to include "type of trade" under the items to be published or reported regarding transactions of corporate bonds.

Also in April 2018, based on the report published by the Working Group on Financial Markets under the Financial System Council, *Initiatives toward Stable Asset Building and the Development of Institutional Systems related to Markets and Exchanges*, with a view to securing the appropriateness of measures suspending trading by Authorized Members, as well as to clarify the appropriate maintenance of systems related to measures suspending trading by Association Members, the JSDA revised the "Rules Concerning Sale and Purchase, Etc. of the Listed Share Certificates, Etc. Conducted Outside of a Financial Instruments Exchange Market" (enforced July 1, 2018).

5. Promoting the SDGs

A. Government initiatives

In response to the increased salience of the UN SDGs across the globe, the Japanese government announced the creation of the Sustainable Development Goals (SDGs) Promotion Headquarters on May 20, 2016.

In its second meeting on December 22, 2016, the SDGs Promotion Headquarters approved the guidelines for Japan's implementation of the SDGs, and Japan's progress in meeting these guidelines was reported to the UN in July 2017. The third meeting, held on June 9, 2017, led to the creation of the "Japan SDGs Award", which recognizes the pioneering initiatives implemented by companies and organizations of the private sector to encourage SDG-related activities.

Most recently, the Ministry of the Environment (MoE) began undertaking initiatives directly related to the SDGs, briefly listed below.

1. Formulating the Japanese Green Bond Guidelines (2017), which underline practical requirements in line with the ICMA's Green Bond Principles
2. Launching Green Bond Issuance Model Creation Projects, which outline case examples of green bond issuance
3. Administering subsidies for green bond issuance of up to 50 million yen per issuance for external review and consultation
4. Setting up the Committee on ESG Finance (name tentative) in January 2018, a group that has held six discussion sessions and in July 27, 2018, released a draft proposal on the potential role of funds (deposits and pension assets) in connecting the resolution of economic, social and environmental challenges to new growth.

On top of this, the Japan Financial Services Agency (JFSA) also released the Japanese versions of the Stewardship Code and Corporate Governance Code, which encouraged listed companies and institutional investors to seek sustainable corporate growth and increased corporate value over the mid- to long-term.

B. Industry initiatives

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, namely "subcommittee on ending poverty/starvation and protecting the global environment", "subcommittee on promoting decent working conditions and women's participation in society", and "subcommittee on supporting education for the socially vulnerable". Some of the specific initiatives undertaken by the aforementioned subcommittees are as follows:

(1) Measures related to impact/ESG investments (e.g. originating and distributing vaccine bonds, water bonds, and green bonds)

(2) Initiatives to increase productivity, promote decent working conditions, and support women in the workforce

(3) 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.

The JSDA, in collaboration with the International Capital Market Association, also co-hosted the Green Bond Seminar on November 2, 2017 in Tokyo. The event attracted 400 participants from not only Japan but also the whole of Asia, and active discussions were conducted among bond issuers, sell-side and buy-side players, as well as experts and consultants on ESG finance. This seminar will also be held again in 2018 in Tokyo, on December 11, with a focus on the more practical aspects of green and social bond issuance.