Member Reports

Japan

2010 Asia Securities Forum
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Japanese Economy and Securities Market

I. Japanese Economy

(Macroeconomic trends)

Spiraling rapidly downward in the aftermath of the Lehman Shock in September 2008, Japan's economy posted year-on-year declines in real GDP starting in the second quarter of 2008. Although the trend reversed in the second quarter of 2009, suggesting that the economy had bottomed out, recovery has been slow, resulting in Japan's real GDP in 2009 still being down 5.2% compared with 2008.

The breakdown of GDP in 2009 showed a contraction in private demand, with notable declines in such areas as residential investment and capital investment in the private sector.

Weak external demand was clearly a major factor in the decline in real GDP, with exports of goods and services plummeting 24.9% year on year in the first quarter of 2009. However, the recovery of exports to Asia that began in the second quarter halted the downward slide in exports, propelling exports and real GDP back into a growth mode.

Growth in real GDP for the second quarter of 2010 was 0.1% year on year, posting positive growth for three consecutive quarters. However, the pace of real GDP growth fell substantially compared with the previous two quarters, reflecting a slow down in export expansion, an end to the cycle of government subsidy stimulus of durable goods demand, and a continued moderate recovery in capital investment

(Trends in employment conditions)

Employment conditions in Japan continued to be difficult in 2009—the unemployment rate hit a record high of 5.6% in July 2009. Despite later improving in line with the mild recovery trend, on an annual basis the unemployment rate rose 1.1 percentage points, to 5.1%, and the labor demand to supply ratio (number of available jobs to job seekers) declined sharply to 0.47 times.

In June 2010, the unemployment rate rose 0.1 % on a month to month basis to 5.2 %, while the labor demand to supply ratio improved 0.2 % to 0.50 times.

Even though the worst seems to be over for employment conditions, these figures should be regarded cautiously because the improvement was primarily due to the part time category, which is made up mainly of female workers.

(Commodity price trends)

In addition to a reaction to the record high crude oil price hit in the previous year, 2009 commodity prices declined under the impact of economic stagnation. The corporate goods price index and the consumer price index (excluding perishable goods) both fell substantially compared with the previous year. The corporate goods price index lost 5.2 percentage points, declining to 103.0 (base year 2005), while the consumer price index dropped 1.3 percentage points, retreating to 100.3 (base year 2005).

Despite contracting a significant 2.3 percentage points year on year in the third quarter of 2009, the pace of decline in the consumer price index eased along with the end to the decrease in crude oil prices, with the decline in the index narrowing to 1.2 percentage points year on year in the first quarter of 2010. Even though the abolition of high school student fees as of April 2010 effectively reduced the index by 0.54 percentage points, the actual year on year decline in the consumer price index for April was held to 0.3 percentage points. In June, the consumer price index stayed at 99.3, the same level as the previous month.

According to preliminary reports, the corporate goods price index increased year on year in July 2010, declining 0.1 percentage points, to 102.7. This was the first time in three months that the corporate goods price index declined.

(Outlook)

Although private consumption is expected to grow in the short run due to a temporary increase in demand in anticipation of price hikes for some major items, Japan's economy may face difficulties in maintaining its recent recovery pace due to further decline in exports caused by the delayed economic recoveries in other countries. In addition, private consumption has weakened in reaction to the end of the government's economic stimulus measures.

<Table 1> Major Economic Indicators

Change from the previous period(Quarterly is seasonally adjusted)

(Major Economic Indicators) (%)

	2009				2010		CY2008	CY2009
	1-3	4-6	7-9	10-12	1-3	4-6		
GDP	-4.4	2.5	-0.3	1.0	1.1	0.1	-1.2	-5.2
Domestic Demand	-3.6	0.4	-0.5	0.4	0.5	-0.2	-1.3	-4.0
Private Demand	-	-0.1	-0.6	0.4	0.6	-0.1	-1.4	-5.8
Private Consumption	-1.4	1.3	0.6	0.7	0.5	0.0	-0.7	-1.0
Private Residential Investmer	-7.2	-9.6	-7.2	-2.9	0.3	-0.3	-8.1	-14.2
Private Non-Resi. Investment	-9.0	-4.8	-1.8	1.5	0.6	0.5	0.1	-19.2
Public Demand	-	1.8	-0.3	0.3	0.3	-0.5	-1.2	2.4
Government Consumption	0.6	0.2	0.1	0.7	0.6	0.2	0.3	1.5
Public Investment	3.2	9.5	-1.8	-1.3	-1.2	-3.4	-8.5	7.4
Exports of Goods & Services	-24.9	10.4	8.5	5.7	7.0	5.9	1.6	-23.9
Imports of Goods &Services	-17.5	-5.0	6.3	1.5	3.0	4.3	1.0	-16.7
GDP Deflator (year-to-year)	0.0	-1.9	-0.3	-0.6	0.3	-1.0	-0.8	-0.9

(source) Cabinet Office

<Table 2> Employment Conditions

(Employment Conditions)

	2009				2010		CY2008	CY2009
	1-3	4-6	7-9	10-12	1－3	4－6		
Unemployment Rate(%)	4.5	5.1	5.4	5.2	4.9	5.2	4.0	5.1
Job-offers to Seekers Ratio(Ratio(Time	0.58	0.46	0.43	0.43	0.47	0.5	0.88	0.47

(Note)Date is seasonally adjusted.
(source)Ministry of Internal Affairs and Communications,Ministry of Health,Labour and Welfare

- Financial Assts of Households

The financial assets of households at the end of FY2009 were up for the first time in three years, amounting to \1,452 trillion, an increase of approximately ¥44 trillion from a year earlier. This growth resulted from higher stock evaluations because of the improvement in stock prices compared with FY2008, which took the full impact of the Lehman Shock.

Looking at a breakdown, the proportions of Shares & other equities and of Investment trusts expanded. Along with the recovery in share prices, Shares & other equities rose 23.7% year on year, to ¥102.5 trillion, while Investment trusts swung upward 15.6%, to ¥54.6 trillion.

Still, the proportion of Currency and deposits was 54.9% (¥798.2 trillion), reflecting the continued strong emphasis on secure investments among Japanese households.

<Table 3>The Composition of Financial Assets of Households

	FY2007	FY2008	FY2009(E)	FY2009 (E) (Amount) (\ trillion)
Financial Assets of Household	1,464.8	1,408.9	1,452.7	1,452.7
Currency and deposits	52.9%	55.8%	54.9%	798.2
Bonds	2.8%	2.8%	2.7%	39.2
Trust beneficiary rights	0.3%	0.2%	0.2%	2.9
Investment trusts	4.3%	3.4%	3.8%	54.6
Shares & Other Equities	8.1%	5.9%	7.1%	102.5
Insurance and pension reserves	27.5%	27.9%	27.0%	392.7
Overseas Portfolio Investment	0.6%	0.5%	0.6%	9.3
Others	3.5%	3.5%	3.7%	53.1

(source) Bank of Japan

II. Securities Market

1. Equities

There were only 19 new listings with public offering in 2009, plummeting by 30 companies, or 61.2% from the previous year. The nosedive in new listings can likely be attributed to the growing number of start-up companies postponing listings because of concerns about the slump in share prices amid the continued global credit crunch caused by the financial crisis.

The stock market in 2009 began in a buying mood because of the firm performance of the U.S. equity market at the end of the previous year, the weakening of the yen, and other factors. From mid-January, however, the market slipped into a downward trend along with the deepening sense of unease over the direction of the global economy and concern about the negative impact of the appreciation in the yen on corporate performances in Japan. Entering March, the market started to become wary of a downturn in the U.S. economy amid reports of a management crisis at U.S.

automotive giant GM and other problems. As a result, the Nikkei 225 Stock Average hit a low for the year of 7,054.98 on March 10. This figure marked the lowest point the Nikkei index has hit since the bursting of the economic bubble and the lowest level reached since October 1982.

After that, the market rebounded again due to high expectations for the additional economic stimulus measures introduced in Japan, the downward correction of the yen in the currency markets, and the introduction and stepping up of monetary easing policies by central banks in Japan, United States, and Europe. Despite some profit-taking in the market, the Nikkei 225 Stock Average rallied to 9,000 on May 7 following Japan's long vacation period, and then stepped up again to 10,000 on June 12 based on the introduction of fiscal stimulus programs by the government and on progress with inventory reductions among companies.

At the start of July and continuing to mid month the market dropped sharply, reflecting the sudden falloff in expectations of an early recovery in the U.S. economy because of the sharp decline in the U.S. stock market and growing uncertainty about the direction of Japanese government policy because of the loss in confidence in Prime Minister Aso's administration following the ruling party's beating in the Tokyo metropolitan elections. However, stock prices in Japan later made a rapid recovery in reaction to better-than-expected performances by U.S. financial institutions and corporations, the stabilization of financial markets, and the upswing in foreign stock markets. With the temporary reprieve in the appreciation of the yen, stock prices were driven up further by growing expectations of a recovery in Japanese corporate performance and by buying by foreign investors to take advantage of the tardiness of market recovery in Japan. On this note, the Nikkei stock index posted its high of the year on August 26, at 10,639.71.

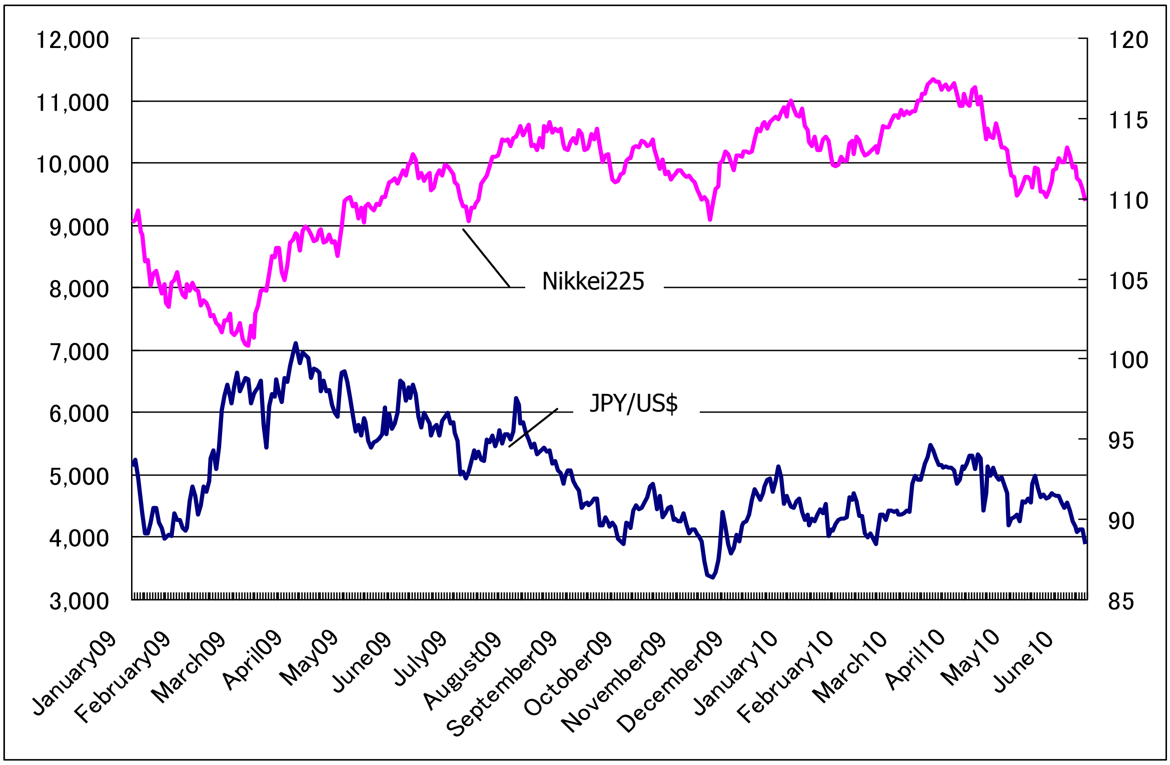
When the Democratic Party of Japan took power after the August general elections, the stock market moved within a tight box for some time, advancing and retreating in accordance with perceptions of the new government measures being introduced. From the end of September, the Nikkei 225 Stock Average moved downward because of the market's displeasure with substantial strengthening of the yen below the US$1=¥90 mark and growing disenchantment with the economic policies of the Democratic Party's administration. Mirroring these concerns, the Nikkei stock index reacted nervously, dropping below 10,000 and falling close to the 9,000 level during the period up until the end of November.

From the beginning of December, the market again reversed its trend and moved upwards until the end of the year on the strength of the introduction of additional monetary easing measures by the Bank of Japan and growing expectations for the collaborative efforts of the Democratic Party administration and the Bank of Japan on financial and economic measures. Foreign investors began buying Japanese equities because the market seemed to be lagging behind the recoveries posted in other major stock markets. As a result, the Nikkei 225 Stock average rebounded to the 10,000 level and ended the year at 10,546.

Overall, the Nikkei 225 Stock Average rose 19.0% in 2009, ending up in the plus column for the first time in three years. Although growth in the major stock markets of Japan, United States, and Europe were all around 20%, this compared poorly with the increases posted by emerging country stock markets, such as Russia (about 130%) and China and India (about 80%). The daily average trading volume in 2009 on the Tokyo Stock Exchange was about 2.3 billion shares, approximately the same level as in the previous year. The daily average trading value, however, was 1.5 trillion yen (compared with 2.3 trillion yen last year) reflecting the trend toward smaller sized transactions.

Entering 2010, the Nikkei 225 Stock Average approached the 11,000 mark during the first weeks based on expectations of an economic recovery, only to fall into a period of fluctuation in reaction to the measures being taken in the United States to create legislation that would introduce stricter financial regulations and other factors. Following that period, from March to

April, the Nikkei 225 Stock Average swung upwards due to heightened anticipation of a recovery in corporate performances in the next fiscal year, with the Nikkei 225 Stock Average increasing to 11,339 on April 5. However, because of growing credit concerns in Europe following the fiscal crisis in Greece, the market dropped sharply, breaking through the 9,000 level, where it was still hovering in August 2010.



<Table 4> Key Statistics for Stocks (TSE 1st, 2nd & Mothers)

Year	No. of Listed Companies*	Newly Listed	Total Market Value* (\ trillion)	Trading Volume (billions of shares)	T.Volume. (daily avg) (millions of shares)	Trading Value (\ trillion)	T.Value. (daily avg) (\ billion)	TOPIX*
2007	2,389	65	483.8	562.1	2,294	752.2	3.070	1,475.68
2008	2,373	54	283.5	555.1	2,266	576.3	2,352	859.24
2009	2,319	23	307.8	563.6	2,319	373.8	1,538	907.59

Note: *as of end of year (end of June 2010)

(Source) TSE Monthly Statistics Report

Looking at a breakdown of transactions by type of investor for 2009 (total of Tokyo, Osaka and Nagoya exchanges), foreign investors again held the largest market share, at 39.0%, followed by individual investors, at 21.5% (excluding proprietary trading by the securities firms).

Comparing net transactions by investors, foreign investors reversed last year's trend to become net buyers again because of the sense that Japanese equities were selling at a relative discount. Following last year's trend, trust banks remained net buyers due to growth in their pension fund management business and other factors. However, life and non-life insurance companies and city banks and regional banks continued to exhibit a weak appetite for equities, ending up net-sellers as in the previous year.

<Table 5> Market Share & Trading Balance by Types of Investors

-Tokyo, Osaka, Nagoya -

Year	Member Account	Individuals	Foreigners	Investment Trusts	Business Cos.	Life & Non-life	Citi BK & Regional BK	Trust BK	Other Financial Institutions
Market Share									
2007	26.4%	19.1%	44.8%	1.9%	1.3%	0.2%	0.1%	5.0%	0.1%
2008	26.7%	16.7%	46.4%	1.9%	1.0%	0.2%	0.1%	5.0%	0.1%
2009	26.5%	21.5%	39.0%	2.4%	1.2%	0.3%	0.1%	5.7%	0.1%
Net Selling (-)/Buying (+) (\billion)									
2007	-1,617	-3,229	5,423	-545	1,556	68	-211	-1,683	32
2008	-3,537	982	-3,708	301	1,632	-328	-36	-4,502	-193
2009	-1,987	-866	1,777	76	-184	-418	-277	1,440	-184

(Source) TSE Monthly Statistics Report

2. Bond Market

(1) Primary Market

Total issuance of public and corporate bonds amounted to 180.0 trillion yen in 2009, increasing 20.8 trillion yen, or 11.6%, from a year earlier.

Annual issuance of Japanese government bonds (JGBs), which account for a major portion of the market, rose to 145.6 trillion yen in 2009, an increase of 19.9 trillion yen, or 13.7% from the previous year. The increase can be attributed to JGB issuance exceeding tax revenues for the first time in 63 years to cover the implementation of government measures introduced by the new administration.

Among public bonds other than JGBs, while issuance of municipal bonds was up somewhat from 5.8 trillion yen in the previous fiscal year, to 7.4 trillion yen, issuance of other bonds in this category were on a par with last year. Issuance of government-guaranteed bonds was 4.9 trillion yen and issuance of fiscal investment and loan program agency (FILP agency) bonds were each 4.5 trillion yen.

Looking at the private sector, because banks were exercising caution in their loan operations, major companies were actively obtaining long-term financing through large-scale bond issues. Consequently, corporate bond issuance climbed 2.4 trillion yen from a year earlier, to 11.3 trillion yen. On the other hand, non-resident bond issuance fell below the 2.0 trillion yen line for the first time in three years because foreign financial institutions curtailed their activity in the samurai bond market.

(2) Secondary Market

In 2009, the public and corporate bond market was in a downward trend during the first half (the long-term interest rate was rising), but with the feeling of prolonged deflation strengthening from mid-year, bond buying progressed up until year end supported by solid demand.

The interest yield on 10-year JGBs began the year at 1.195%, and moved up to the 1.2% level in recognition of economic indicators. Following the communiqué about promoting fiscal action announced at the April G20 Financial Summit in London, the yield surged upward because of concerns about a worsening of the demand-supply gap caused by additional JGB issuance and the growing view that the stock market was rebounding because of the economic recovery. The yield hit 1.550% on June 11.

Despite this upswing, on entering the second half, investors bought back into the market because concerns about a worsening demand-supply balance for U.S. treasury bonds were rapidly dispelled and because of the growing view that deflation would be prolonged in Japan. As a result, the yield on 10-year JGBs retreated close to the 1.3% mark. Following this phase, there were some sell offs in the market because of the continued growth in the stock market and because of rising fears of further JGB issues fueled by the uncertainty of the fiscal management of the new administration. However, confidence in the market spread because of the government’s announcement in the monthly economic report released on November 20 that Japan had entered an deflationary phase for the first time in three years and five months and because the government indicated a control policy for new bond issuance in its fiscal 2010 budget forming process. This support helped the yield on 10-year JGBs to pull through the rest of the year and end at 1.285% on December 30.

At the beginning of 2010, the wait-and-see attitude in the market grew stronger on alarm over United States’ exit strategy for its monetary easing and other policies introduce to combat the financial crisis, causing the yield on 10-year JGBs to fluctuate closely around 1.3% up until March. Amid a deepening sense of uncertainty about the direction of the global economy, JGBs began to draw attention because of their relative security, supporting a buying trend that drove the yield down to the point of breaking through the 1% mark in August 2010.

Total trading volume (OTC trading, including Repos) of bonds in 2009 dropped below the 10,000 trillion yen line for the first time in three years, shedding 6.7% year on year to 8,563 trillion yen.

<Table 6> Public and Corporate Bond

(\ trillion)

Year	Trading Volume(face value)			Issuing Amount			
	JGB	Others	Total	Public Debt Securities (JGB) *1	Corporate Bonds	Non-Resident Issues(Yen-denominated)*2	Total *3
2007	11,890	206	12,096	155.1(140.4)	9.2	2.2	176.4
2008	11,118	169	11,288	140.5(125.7)	9.2	2.3	159.2
2009	8,458	105	8,563	162.6(145.6)	11.6	1.3	180.0

(Source) Japan Securities Dealers Association

Notes:

1. JGBs do not include bonds placed in the public sector or treasury bills redeemed during the year. Public bonds other than JGBs comprise municipal, government-guaranteed, and FILP agency bonds (including regional public corporation bonds).

2. Corporate bonds comprise straight corporate bonds (including investment company bonds), convertible-type bonds with subscription rights (CBs), and asset-backed corporate bonds.

3. The above figures include bank bonds, private placement corporate bonds and private placement government bonds, so they do not add up to the overall total.

3. Investment Trusts

The major trend in investment trusts in 2009 was the mild recovery in the market. Reflecting the upswing in stock prices, newly offered stock investment trusts totaled 17.8 trillion yen, up slightly from 14.5 trillion yen last year and net assets recovered to the 50 trillion yen mark. In contrast, newly offered bond investment trusts declined slightly, to 36.5 trillion yen, with net assets holding at approximately the same level, at 8.7 trillion yen.

As a result, at December 31, 2009, the total assets of investment trusts amounted to 61.4 trillion yen, increasing 15.1% from a year earlier.

(\ trillion)

<Table 7> Changes in Assets of Investment Trusts

Year	Total	Stock Investment Trusts			Bond Investment Trusts			MMFs		
		Sales	Repurchases	Assets	Sales	Repurchases	Assets	Sales	Repurchases	Assets
2007	79.7	35.0	19.2	66.7	57.1	57.6	10.0	1.9	1.7	2.9
2008	52.1	14.5	12.0	40.8	38.8	40.2	8.6	1.3	1.6	2.6
2009	61.4	17.8	14.5	50.2	36.5	36.4	8.7	0.9	1.1	2.4

(Source) The Investment Trusts Association, Japan

III. Legislative and Regulatory Reforms

1. Enforcement of the Financial Instruments and Exchange Act and Amending Self-Regulatory Rules

(1) Establishing systems for financial and capital markets

In response to the recent financial crisis, there have been various discussions in Japan and internationally about such topics as OTC derivative transactions and hedge funds. In January 2010, in consideration of these discussions and the situation in Japan, the FSA proposed a regulatory framework based on its paper on the "Development of Institutional Frameworks Pertaining to Financial and Capital Markets" after removing items that required further investigation. The FSA then implemented provisions regarding the following issues based on the 2008 Partial Amendments to the FIEA, etc.

(a) Improving the stability and transparency of the settlement of OTC derivative transactions

(b) Strengthening securities clearing and settlement systems, including for government bond transactions and stock lending transactions

(c) Consolidated regulation and supervision of securities companies etc.

• Introduction of consolidated regulation and supervision of securities companies

• Strengthening regulations of major shareholders of financial instruments business operators

• Consolidated prudential regulations of insurance companies

(d) Hedge fund regulation

(e) Ensuring investor protection and fair trade

• Revision of the professional investor system with regard to local governments

• Regulation of unsolicited offer for overall derivative transactions

(f) Other

• Development of the reporting system for short selling

(2) Establishing and Reviewing Self-Regulations

Based on the recommendation of the Self-regulation Board's ATC Working Group that measures should be quickly introduced to deal with investor protection issues, the JSDA established the Working Group on Securities CFDs in April 2009 from the standpoint of preventing unforeseen events that might occur in the future in the as yet immature securities contract for difference (CFD) market. In May 2010, based on the investigations of the working group, the JSDA introduced its Regulations Concerning CFD Transactions.

In July 2010, the JSDA implemented its Regulations Concerning the Establishment of Management System for Corporate Related Information by Association Members. The JSDA introduced these regulation from the perspective of establishing new and strengthening old internal control and other measures for securities firms to prevent unfair trading practices, such as insider trading, by JSDA member firms.

One year before, in September 2009, the JSDA had formed the Study Group on Roles and Functions of Self Regulation under the Self-regulation Board. The study group considered how to make JSDA's self-regulatory rules effective and efficient based on such concepts as principle based rules and cost versus benefit in order to undertake a fundamental revision of the JSDA's self-regulatory rules.

2. Revision of Securities-Related Taxation System

JSDA believes reforms of the financial and securities taxation system are necessary. These reforms must properly support the creation of a positive investment environment and the strengthening of the international competitiveness of Japan's securities markets. From that point of view, the JSDA made efforts during the fiscal year to submit requests for revision of the taxation system based on the themes of a "Simplified investment tax schemes for the purpose of vitalizing the economy and achieving prosperous lives for citizens" and a "Taxation scheme that promotes unification of financial income taxation."

These requests were reflected in the 2010 taxation system revisions by the inclusion of a policy to introduce a common registration number system for social security and taxation and a measure to promote the participation of individual investors within the efforts to unify the taxation system for financial income. Along with the 2012 introduction of a basic tax rate of 20% on listed stocks and other specified equities, the government will introduce tax exemption measures for dividend income and capital gains on small amounts of investments by individuals in listed stocks and other specified equities held in specified tax-free accounts (Japanese version of ISA).

IV. Industry Topics in 2009 and 2010

1. Measures to vitalize the corporate bond market

The corporate bond market is an important part of the Japan's market infrastructure, both in terms of providing methods for corporations to raise funds and for investors to invest their funds. In July 2009, taking into consideration that the depth of the corporate bond market in Japan is insufficient compared with markets in the United States and Europe, the JSDA established the Study Group to Vitalize the Corporate Bond Market. The study group deliberated various issues related to the state of the corporate bond market and ways to vitalize the market with both market participants and key figures in Japan involved in the debate. In June 2010, the Study Group issued a final report that complied the issues facing Japan's bond market and suggested specific measures to further increase the efficiency of the market and achieve a highly transparent and liquid market. Given that vitalizing the corporate bond market has an important role to play in strategies for new growth in Japan's economy, it is expected that both the public and private sectors will proactively work to achieve this goal based on the recommendations of the study group.

2. Setup of the dispute mediation and consulting center FINMAC

During the fiscal year, the JSDA formed the Financial Instruments Mediation Assistance Center (FINMAC), a specified non-profit organization (NPO), with the cooperation of other Financial Instruments Firms Associations. The NPO was established from the perspective of contributing to enhanced investor protection by setting up a system for providing mediation and dispute resolution services in a more industrywide and comprehensive manner. The JSDA transferred its mediation and dispute resolution operations to FINMAC in February 2010.

3. Considering an SRO for Type II Financial Instruments Businesses

Even though it has been more than three years since the FIEA was enforced, there is still no self-regulatory organization approved under the act for offerings by collective investment funds and investment trust beneficiary rights selling businesses among Type II Financial Instruments Businesses.

For that reason, the JSDA considered establishing an SRO for Type II Financial Instruments Businesses, with membership consisting mainly of securities firms, banks, venture capital firms, and other companies conducting Type II Financial Instruments Business. The JSDA took this action in recognition of the extreme importance of ensuring thorough awareness in the market of such issues as legal compliance and investor protection and improving the aggregation of transaction details and knowledge in order to promote the sound development of the overall market and prevent illegal actions, such as violation of laws and regulations.

4. Holding Japan Securities Summit

In March 2010, the JSDA held its third Japan Securities Summit in Singapore. As with the previous summits in London and Hong Kong in 2008 and 2009, JSDA held the event to promote Japan's securities markets to overseas investors and strengthen the linkage between the securities industries of Japan and the host country. More than 200 people participated in the event.

5. Activities to build business continuity plan (BCP) for the entire securities industry

In February 2010, the securities industry held a joint training exercise that simulated the occurrence of a major earthquake directly below Tokyo. The exercise mainly focused on the Securities Market BCP Committee members and others providing JSDA member firms with emergency information using the BCPWEB site and member firms practicing the registration procedures for reporting on their operating conditions on BCPWEB. The training exercise was carried out in conjunction with training exercises held by the short-term money and the foreign exchange markets for their BCPs and confirmed collaboration between the three plans.

In April 2010, following the outbreak of the low-toxicity new influenza virus (H1N1), the JSDA gathered information on the issue and communicated it and the information circulated by the government to member firms. The JSDA also held hearings with individual member firms on their responses and reported the results. In addition, the JSDA complied a list of items to be used as reference by member firms in creating a BCP for a new influenza virus epidemic that would protect the health of employees and maintain the core operations that member firms conduct as part of Japan's social infrastructure.

6. Preventing investors from becoming victims of unlisted stock frauds

The JSDA, government authorities, consumer groups, financial instruments exchanges, and other parties have previously issued alerts and warnings to try and prevent securities fraud, These actions were taken in response to reports of damages suffered by investors being solicited to make investments in unlisted stocks that have been occurring for some time.

However, following a decline in incidents regarding unlisted stocks in 2007, this type of fraud has been on the rise again, with the schemes becoming increasingly sophisticated.

To take further aggressive measures to prevent investors from becoming victims of these scams, in September 2009, the JSDA established the Council for Preventing Scams Using Unlisted Stocks. The council role is to collaborate closely with the FSA, the Securities and Exchange Surveillance Commission, the National Police Agency, the Consumer Agency, and other SROs and to actively share information with such related parties as securities firms, consumer, and legal associations for the purpose of finding specific responses to deal with these fraud cases.

The council drew up specific measures to prevent investors from becoming victims of investment scams, which it announced in January 2010. In March 2010, the council produced and distributed a poster to warn investors of the dangers and in the following April set up a call center dedicated to receiving investor reports of problems involving unlisted stocks.

7. Stock Exchange Activities

(1). Tokyo Stock Exchange starts up new trading system

On January 4, 2010, the TSE brought “arrowhead,” its new equity/CB trading system fully online. Developed in response to investor demand for faster order placement and execution as well as to the sharp increase in small orders and in order volume, the trading system features high speed, reliability, and scalability. In specific terms, the system has sped up order acceptance notices and achieves an order response time of 5 milliseconds. The latency for distribution of stock prices and quote information has been reduced, shortening the information distribution time to 3 milliseconds. To ensure reliability, the system backs up orders, trades, order books, and other transaction information on synchronized 3-node data servers. The system also boasts quick scalability, being able to upgrade its capacity in about a week whenever transaction volume exceeds a predetermined trigger level for expansion because of a sharp increase in the number of transactions, etc.

Taking advantage of these features, the TSE has also substantially increased market information. Besides speeding up the distribution of market information as part of its improvements for price quotes, the TSE has expanded its multiple quote distribution system to include eight quotes above and below the middle price quote rather than the previous 5 quotes. In addition, its new FLEX Full service provides all order data on all issues in real time.

Furthermore, in conjunction with the launch of the new trading system, the TSE revised its trading rules, including partial revisions of tick sizes, price limits, and special quote parameters. Based on these measures, the TSE hopes to promote smoother execution of trades and improve the price discovery function and liquidity.

(2). Tokyo Stock Exchange Group and the Tokyo Commodity Exchange establish joint stock company to prepare for setting up an emissions trading exchange

The Tokyo Stock Exchange Group, Inc., and the Tokyo Commodity Exchange, Inc., established a company to prepare for setting up an emissions trading exchange. The exchanges announced that they each have a 50% share in the joint venture, Preparatory Joint Stock Company for Setting Up an Emissions Trading Exchange, which has a paid-in capital of 10 million yen.

(3). OSE extends evening session trading hours for stock index futures and options

Effective July 20, 2010, the Osaka Securities Exchange (OSE) extended the trading hours for stock index futures and options during the evening session to 2330 from 2000. The evening session starts at 1630. On the first day of extended trading hours, the OSE reported that about 30% of the trading volume during the evening session occurred during the extended trading hours.

(4). TSE begins deliberations on extension of trading hours

In response to the requests of users to extend the trading hours of its market, the TSE is accepting public comments on a discussion paper on the issue until September 10, 2010. The discussion paper covers 1) abolishing or shortening the recess, currently from 11:00 A.M. to 12:30 P.M., 2) introduction of night-hour trading for the cash equities market, 3) extension of the evening session hours for the derivatives market, and 4) moving up the opening of the morning auction session.

(5). Proprietary trading systems (PTSs) in Japan

On July 29, 2010, Chi-X Global Inc.'s Japanese subsidiary Chi-X Japan K.K. began operating a PTS in Japan. At launch date, the PTS only offered 5 high liquidity issues, but plans to expand the number of issues traded to approximately 800 by September 2010, and to eventually cover about 95% of the capitalization of the First Section of the TSE. While there are six other companies operating PTSs that trade in listed stock, on a monthly trading value basis for June 2010, their combined trading value amounted to only 0.7% of the total trading value of exchange and off-exchange transactions.