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Channel to Discovery

Towards a Better Framework for Supply of Funds in Asian Financial Markets

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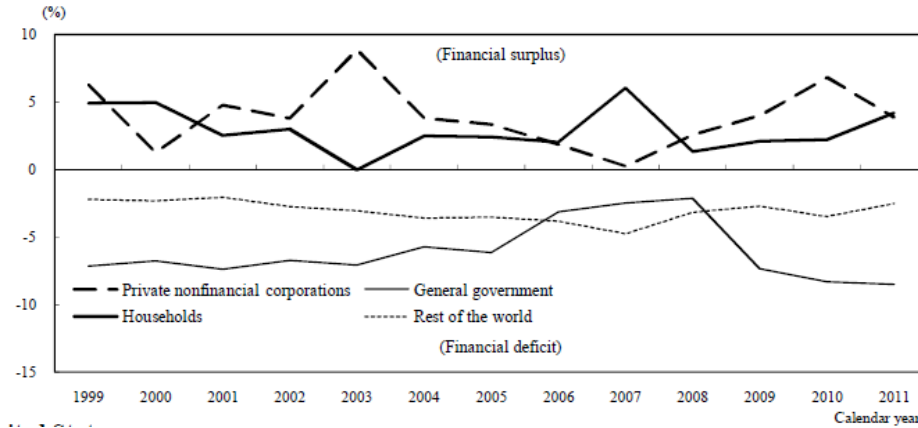
Channel to Discovery

Outline of the Presentation

- Use Japanese experience as case study to consider the framework for supply of funds in Asian financial markets,
 - First, review the pattern of flow of funds in Japan
 - Second, consider possible path to promote supply of funds to private corporations in Asian market
 - Finally, review the necessary and sufficient conditions

Fundamental Flow of Funds in Japan

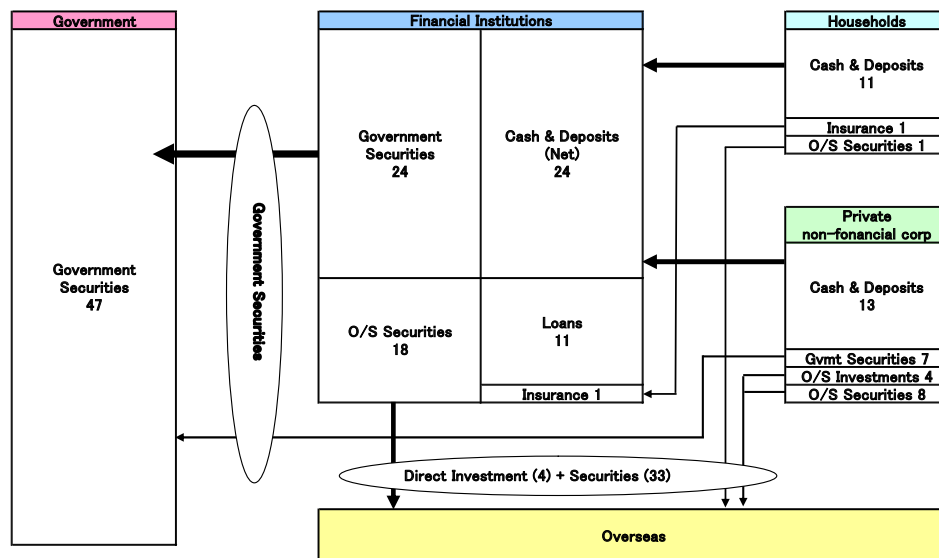
- In Japan, surplus sectors are:
 - Households
 - Private non-financial corporations



“Flow of Funds, Fiscal Year 2010,” Bank of Japan

Principal Flow of Funds for the Key Sectors in FY2010(Summary)

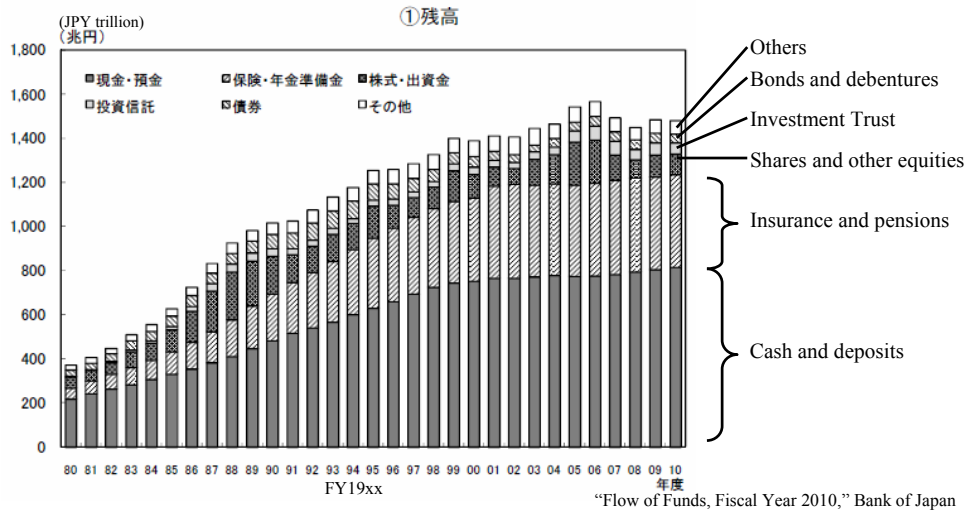
(JPY trillion)



“Flow of Funds, Fiscal Year 2010,” Bank of Japan

Trends of Wealth Stock of Households

- Majority consists of;
 - Cash and Deposit
 - Insurance and Pension Reserves

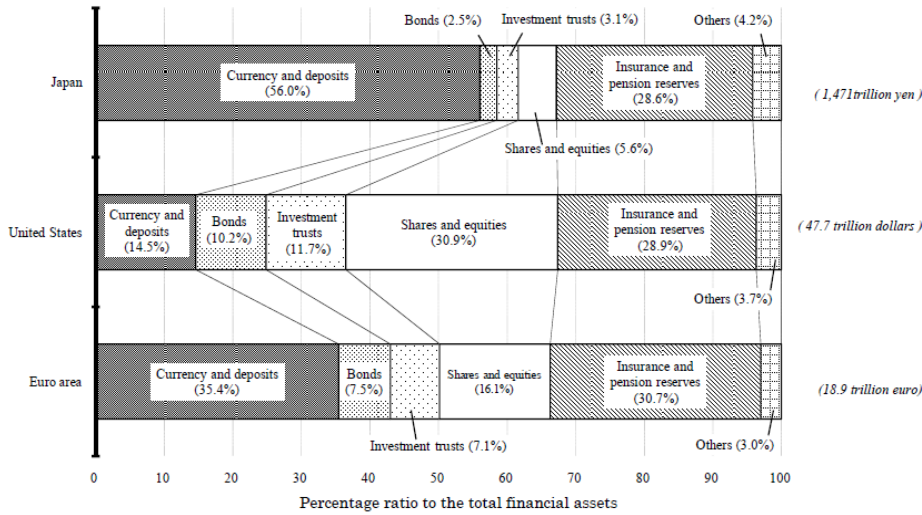


Limitation of Japanese Banks as Credit Provider to SMEs

- Capital and liquidity regulations as constraints
 - Basel II capital adequacy regulations
 - Favorable treatment to SMEs
 - Basel III capital adequacy and liquidity regulations
- Gap of expectation between banks and borrowers, namely SMEs;
 - Weak financial information disclosure
 - Timely delivery of accurate financial information
 - Audit of the financial information
- As a result, credit to SMEs relies more on public credit support scheme

Flow of Funds via capital market - an alternative route?

■ Composition of Households Wealth Stock: room of change?

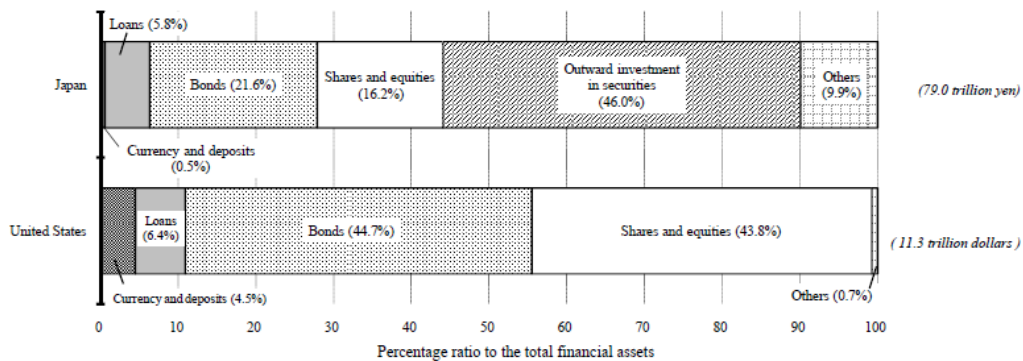


“Flow of Funds, Fiscal Year 2010,” Bank of Japan

Portfolio of Investment Trust

- Investment is directed to overseas securities investment
- Investment in domestic shares and equities is limited

Chart 5 Financial assets held by investment trusts



* "Others" is the residual which is the remaining after deducting "Currency and deposits", "Loans", "Bonds", "Shares and equities" and "Outward investment in securities" (Japan only) from total financial assets.

** US Flow of Funds data include both outward and domestic investment in securities.

“Flow of Funds, Fiscal Year 2010,” Bank of Japan

Examples of possible schemes – Implications to Asian Markets

- **Collateralized Loan Obligations (CLO) and Collateralized Bond Obligations (CBO)**

- **Credit support scheme by public sector**

- **Joint venture private equity fund by public and private sectors**

Market Infrastructure Requirements – Implications to Asian Markets

- **Development of cash market**
 - Fixed income “benchmark” bonds
 - Repo facilities / Ability to “short” bonds
 - Development of capital and derivatives markets with sufficient market liquidity

- **Infrastructure of the market**
 - CCPs (Central Counterparty)
 - Swaps and derivatives
 - Rating agencies

- **Legal and regulatory framework**
 - Derivatives law
 - ISDA netting agreements