Toward a Virtuous Cycle of Finance and Economy

10th Japan Securities Summit

February 7, 2018
Stock prices (Japan, US and Germany)

(Note) Figures in local currency.
(Source) Bloomberg
A virtuous cycle of finance and economy

- Asset Owner: Household
- Corporate
- Bank
- Capital Market
- Saving
- Financing
- Repayment
- BOJ Excess Reserves JGB

- Financing and Investment
- Stewardship Code
- GPIF, Japan Post Bank
- Corporate Governance Code
- Fiduciary Duty
- iDeCo, NISA
- Debt Governance
- Capital Spending, Dividend, Wages

- BOJ Excess Reserves JGB
Households’ financial assets in the US and Japan

Composition of household financial assets

- **US**
  - Risk assets: 44.8%
  - Cash and deposits: 13.7%
  - Others: 41.5%
  - Total: $75.5 trillion

- **Japan**
  - Risk assets: 18.6%
  - Cash and deposits: 51.7%
  - Others: 30.7%
  - Total: $15.5 trillion

Growth of household financial assets

- **US**
  - Growth of household financial assets by investment: 3.32x
  - Growth of total household financial assets: 2.45x

- **Japan**
  - Growth of household financial assets by investment: 1.54x
  - Growth of total household financial assets: 1.20x

(Note1) Exchange rates at the end of 2016. ($1 = 116.9JPY)
(Note2) Risk assets include indirect investment via insurance and pension reserves.
(Source) FRB, BOE and BOJ
(Note) Base years are 1995 (US, Japan).
(Source) FRB and BOJ
Overview of “Dollar-Cost Averaging NISA”

Many Investment trust funds have been theme-based, short-term with high turnover ratio.

In January 2018, a new tax incentive scheme (“Dollar-Cost Averaging NISA”) was introduced to promote long-term, regular and diversified investment for households.

“Dollar-Cost Averaging NISA”

■ Tax exemption; Up to JPY 400,000 (USD 3,551) of investment per year for 20 years
  ※ Total amount of JPY 8 million (USD 71,023)

■ Applicable only for qualified investment trust funds suitable for long-term installment investment

Criteria

(Generally designed for index funds)

● No-load funds
● Annual trust fees capped
  (e.g. 0.5% for domestic index investment trust funds)

Number of qualified investment trust funds

50 (Nov. 2017) → 141 (Jan. 2018)
Transforming the portfolios of GPIF & JAPAN POST BANK

GPIF (Government Pension Investment Fund)
(December 2012)

- Domestic bonds: 60.1%
- Domestic equities: 12.9%
- Foreign assets: 22.7%
- Short-term assets: 4.2%

Total: $1.29 trillion

(September 2017)

- Domestic bonds: 28.5%
- Domestic equities: 24.4%
- Foreign assets: 38.1%
- Short-term assets: 9.1%

Total: $1.39 trillion

Started to invest in alternative assets: $1.4 billion
(Source) GPIF

JAPAN POST BANK

(December 2012)

- JGBs: 88.0%
- Others: 11.9%
- Foreign securities: 0.1%

Total: $1.91 trillion

(September 2017)

- JGBs: 31.1%
- Others: 42.6%
- Foreign securities: 26.3%

Total: $1.84 trillion

Started to invest in alternative assets: $7.1 billion
(Source) Japan Post Bank
JFSA launched the "Financial Market Entry Consultation Desk" to realize "Fast Entry" into Japan’s financial market for well-established asset management firms overseas.

Financial Market Entry Consultation Desk
E-mail: marketentry@fsa.go.jp  Tel:+81-3-3506-7109

Case of a UK-based asset management firm

General case

First Meeting

Prior Consultation

3~4 months

Submission of Application

1~2 months

Registration Process

Completion

2 months

2 weeks
Toward a more substantial corporate governance reform

- Since the inauguration of the Abe administration, corporate governance reform has been an integral part of Japan’s economic growth strategy
  - “Stewardship Code”: introduced in February 2014 ⇒ revised in May 2017
  - “Corporate Governance Code”: introduced in July 2015

- As a result,
  - Listed companies: the percentage of listed companies with two or more independent outside directors has risen from 17% in 2012 to 88% in 2017 at Tokyo Stock Exchange, 1st Section
  - Asset managers and asset owners: progress seen in management of conflict of interest and disclosure of voting records

- JFSA will continue to encourage:
  - Resolute decision-making by the management to address changes in business environment
  - Corporate pension funds to play a larger role as asset owners

⇒ To this end, JFSA will
  - Formulate guidelines for dialogue between institutional investors and investee companies
  - Consider a review of the Corporate Governance Code
Most hotels at *Kinugawa Onsen* resort town had continued to operate at a loss.

The Ashikaga bank:

i. supported smooth exit of some uncompetitive resort hotels;

ii. injected the capital to hotels expected to exist in collaboration with private equity funds; and

iii. introduced co-management of resort hotels’ procurement.
1. Develop and Publicize the Customer-Oriented Business Conduct Policy

2. Pursue Customers’ Best Interests

3. Manage Conflicts of Interest Appropriately

4. Clarify Fees and Expenses

5. Provide Easily Understandable Important Information

6. Provide Services Suited to Each Customer

7. Introduce Frameworks for Motivating Employees Appropriately