

# FSA & JPX International Conference: "The Future of Asian Markets and Exchanges"

## A View on Japan's Capital Markets

Jonathan B. Kindred  
President & CEO  
Morgan Stanley MUFG Securities Co., Ltd.

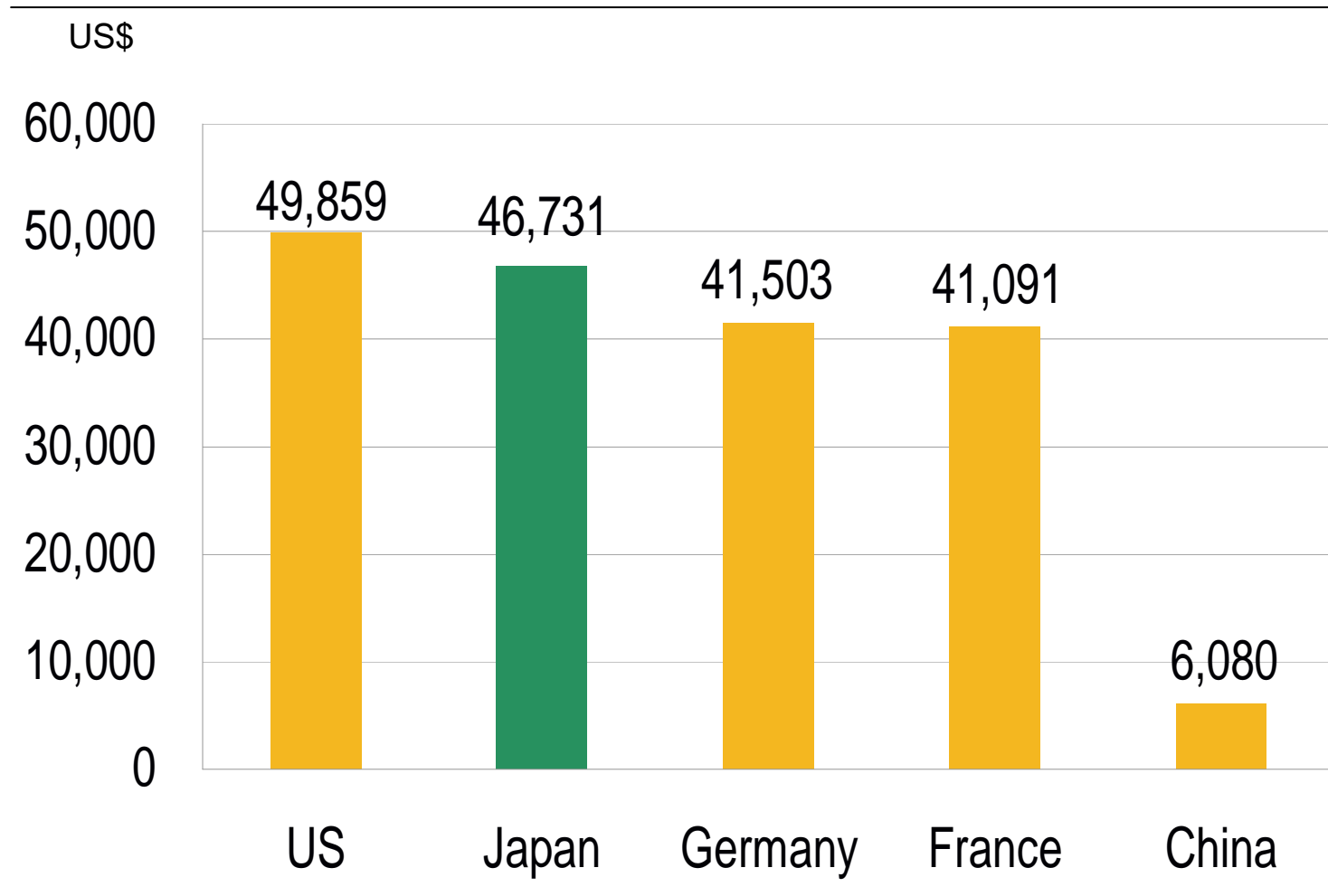
*November 26, 2013*

# Agenda

- Attractions
- Challenges
- Conclusions

# Attractions: A Wealthy Society

## GDP per Capita (CY2012)

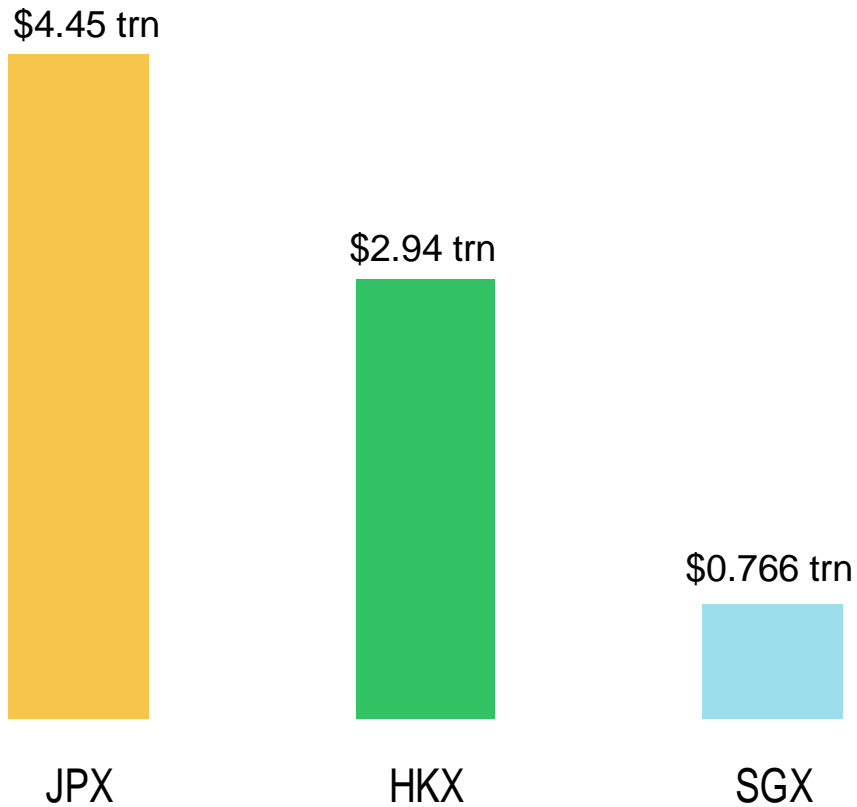


Source: Global Insights

# Attractions: A Deep and Liquid Equity Market

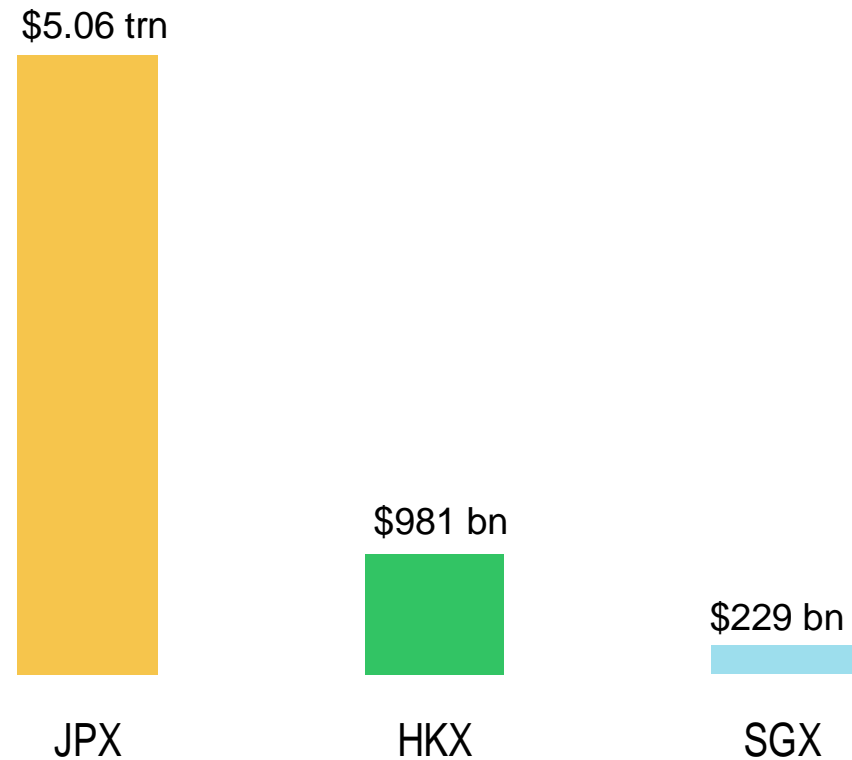
## Market Capitalization

USD as of 9/13  
(trn)



## Value of Share Trading, Year to Date

USD as of 9/13



Source: World Federation of Exchanges

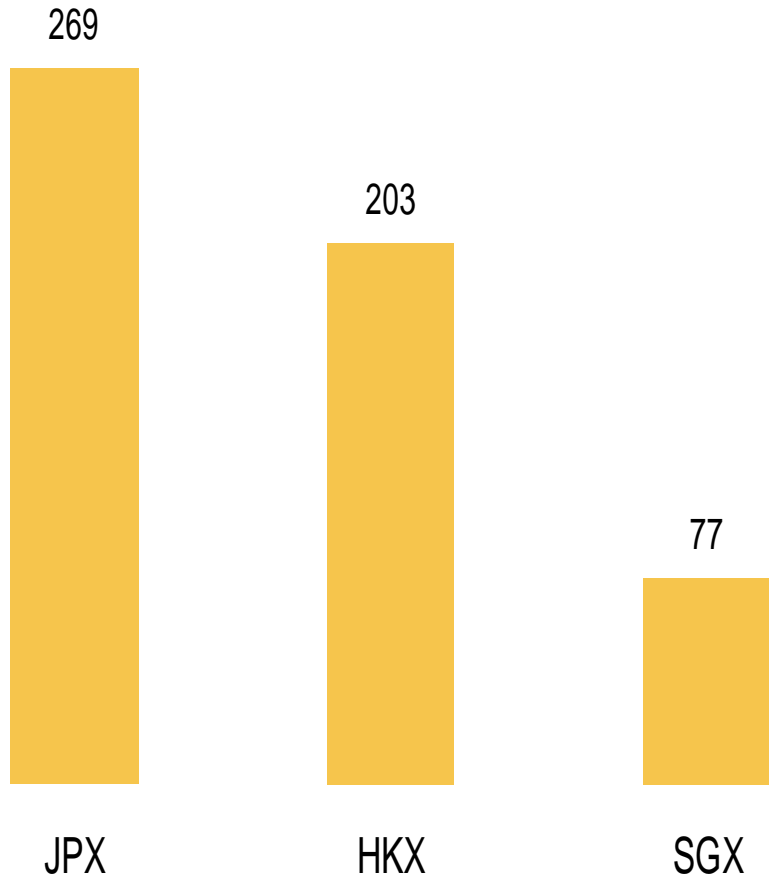
### Notes

1. All Common and Preferred Shares of Domestic and Foreign Companies, excludes ETFs, Futures, Options, Warrants and Convertibles
2. Japan is post TSE/OSE merger.
3. HK excludes other China bourses.
4. Value statistics are based on each exchanges Electronic Order Book.

# Attractions: Liquid Markets for Derivatives, Currencies

## Jan.-Aug. 2013 Derivative Trading Volume

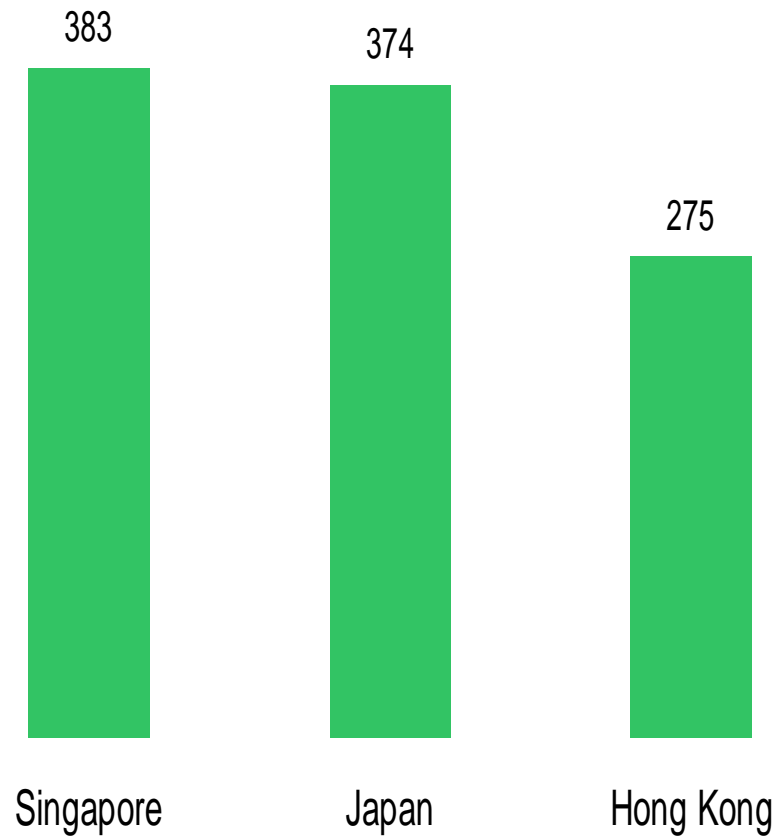
(Exchange Listed Contracts Traded, in Millions)



Source: Futures Industry Association

## Foreign Exchange Turnover

(US\$ Bn, daily averages for the month of April, 2013)

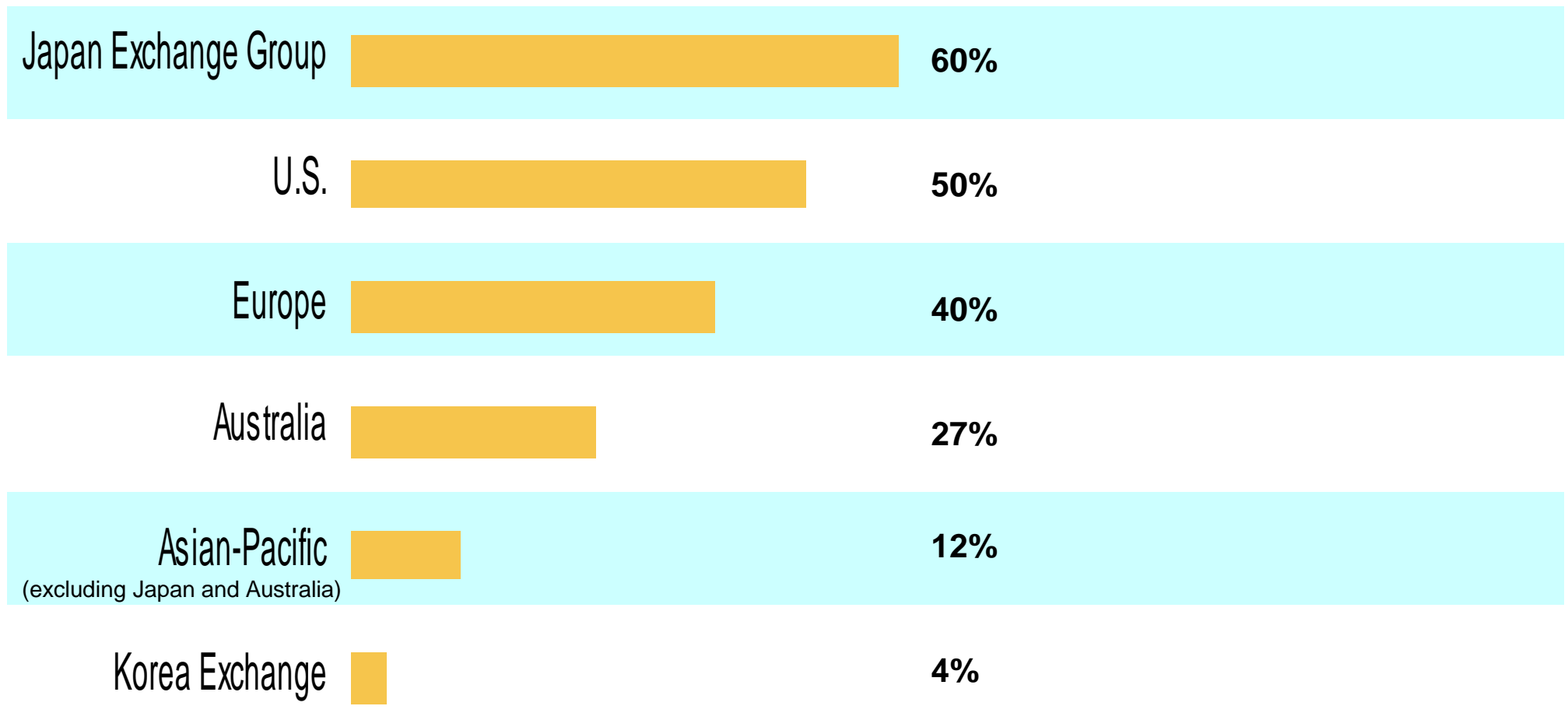


Source: Bank for International Settlements

# Attractions: Technologically Advanced

## Japan Leads in Providing Liquidity Through Electronic Trading

### Electronic Trading, including High Frequency Trading, as a Percentage of Total



Source: The Wall Street Journal

MorganStanley MUFG

**Notes:**

1. Proportion of HFT in Singapore and Hong Kong is not significant.
2. 2012 Data except Asian-Pacific, which is 2011

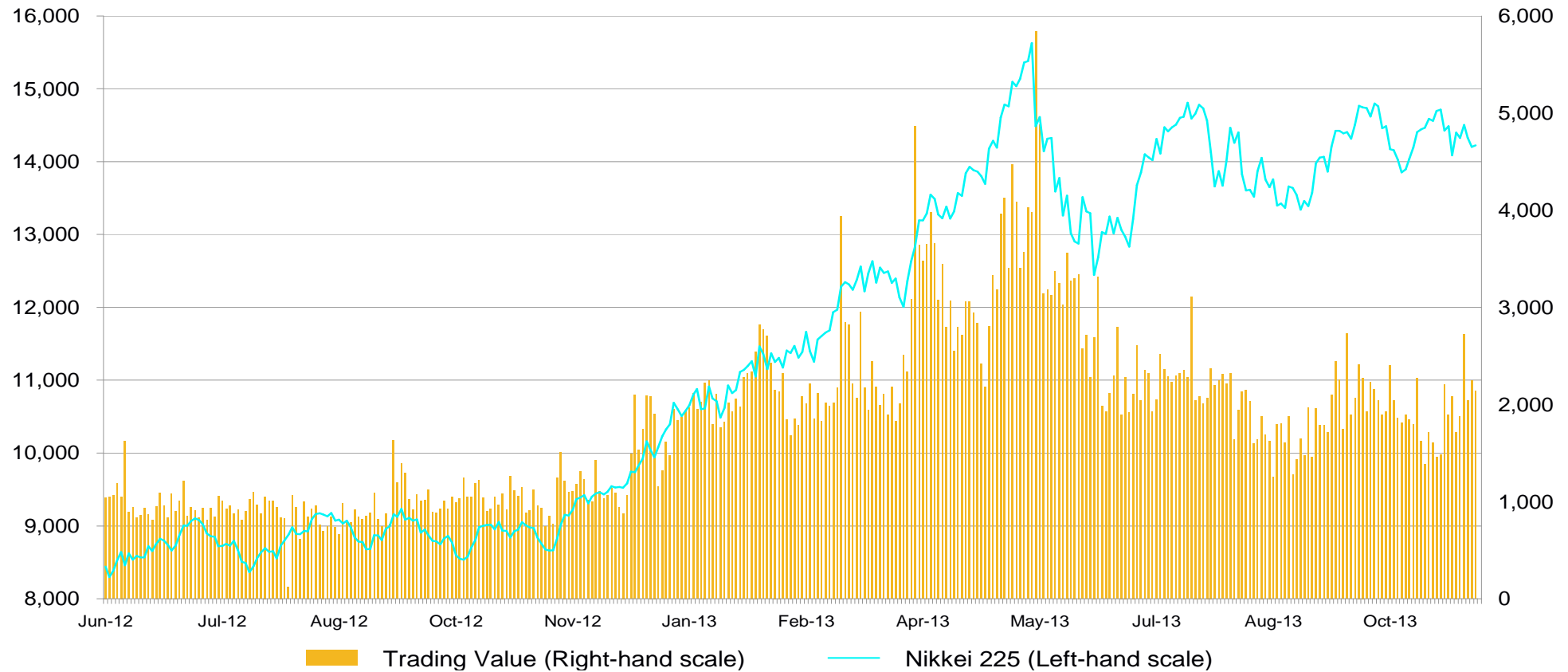
# Attractions: Abenomics Fueling Volume & Index Growth

## Nikkei 225

Nikkei 225 (JPY)

## JPX Volume

Trading Value (JPYBn)

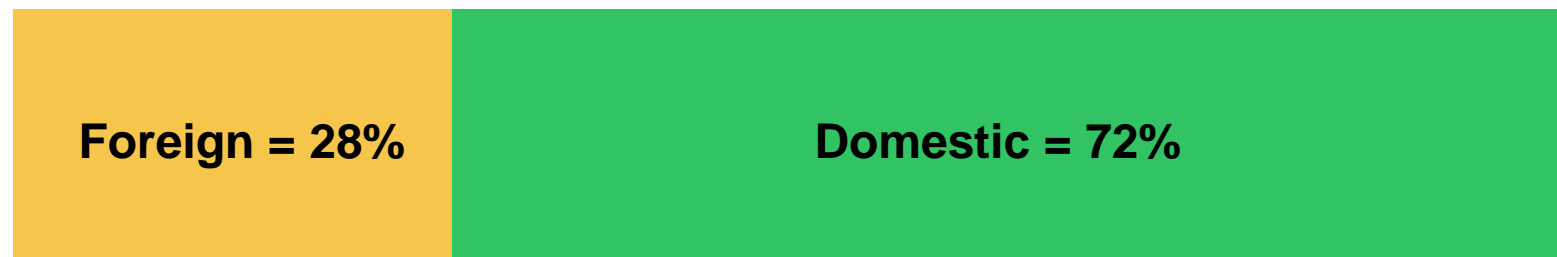


Source: Japan Exchange

# Challenges: Better Engagement of Domestic Investor Base

## Ownership vs. Share of Trading on Tokyo Stock Exchange

**Share of  
Japan Equity  
Ownership**



**Share of  
Trading  
Volume**



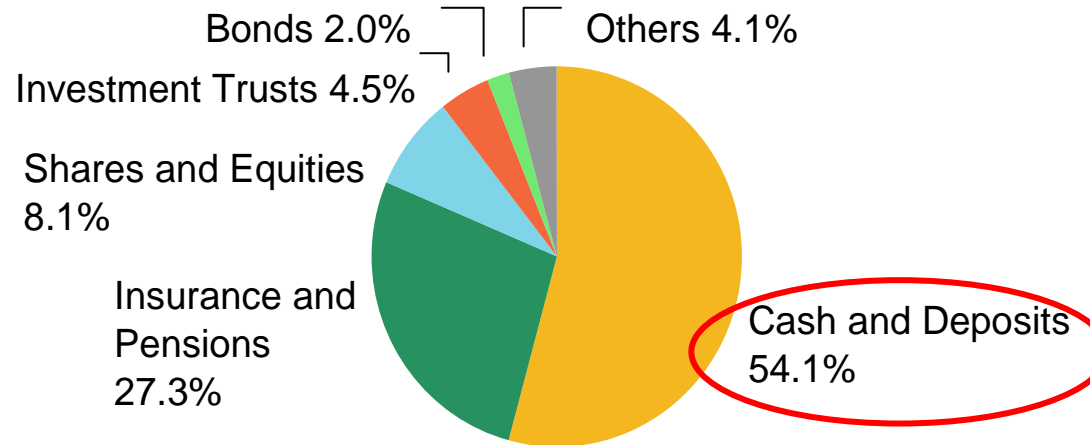


# Challenges: Underutilized Savings

## Household Comparison of Individual Financial Assets (Japan vs. U.S.)

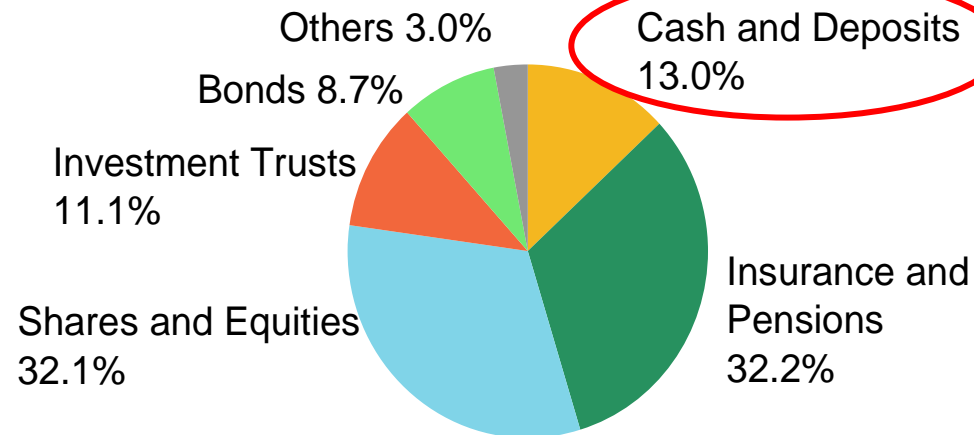
### Japan Households (as of June 30, 2013)

USD 16.0Tn <sup>(1)</sup>  
(JPY 1,590Tn)



### U.S. Households (as of June 30, 2013)

USD 61.9Tn



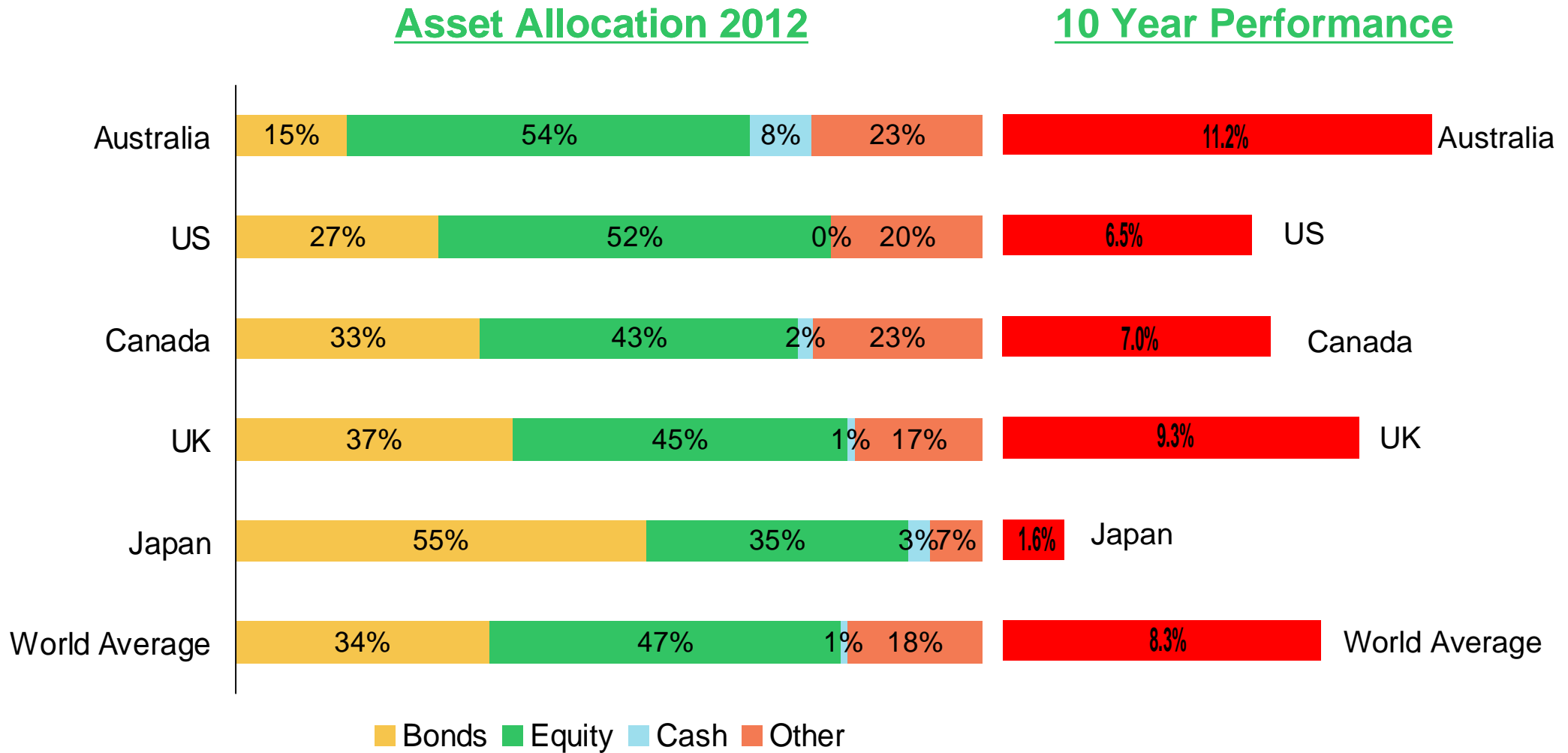
Source: Bank of Japan

**Note**

1. USD 1 = JPY 99.10 (as of June 30, 2013)

# Challenges: Underutilized Savings

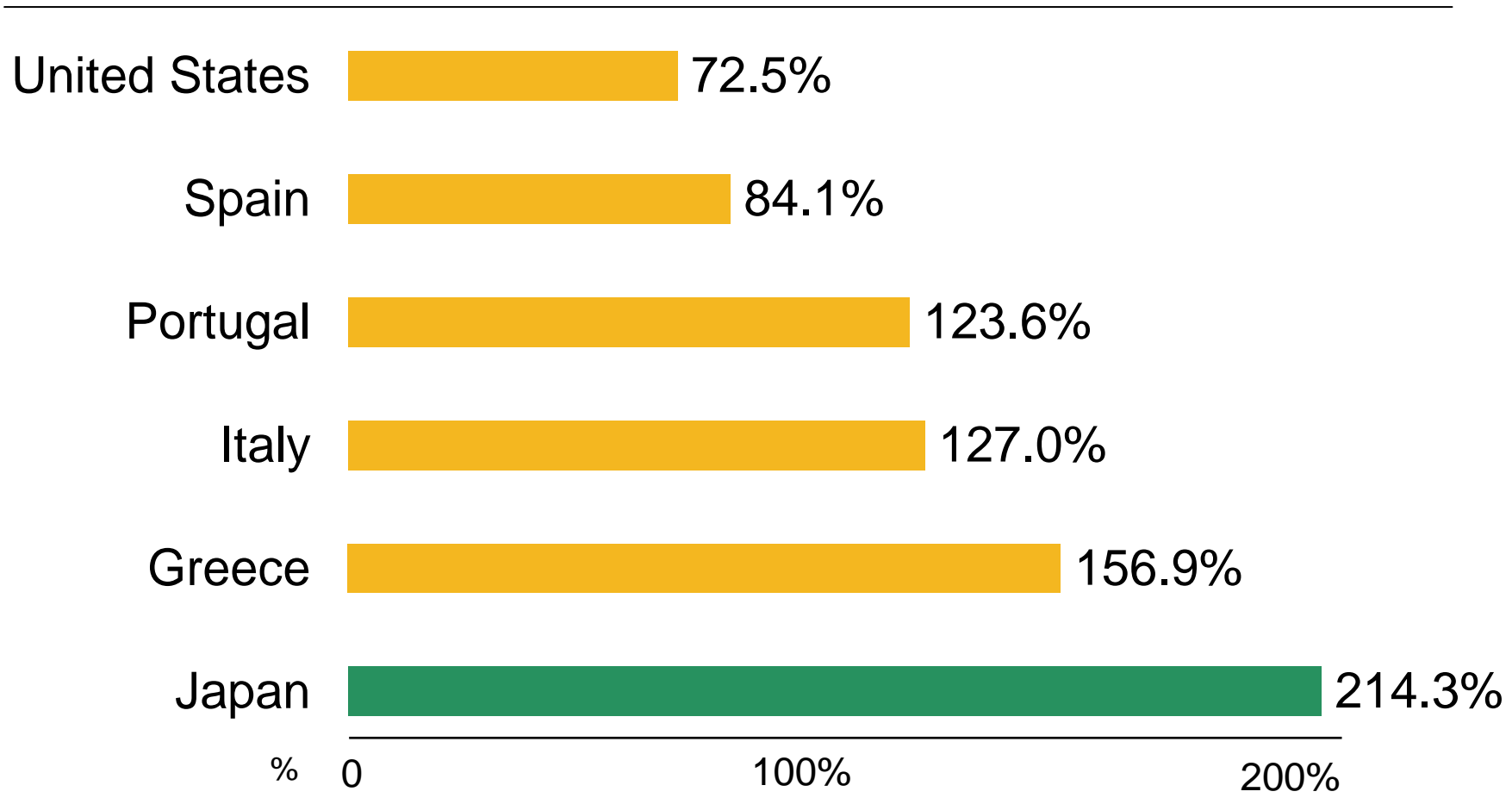
## Allocation & Return on Public Pension Assets by Country



Source: Towers Watson

# Challenges: Unprecedented Government Borrowing

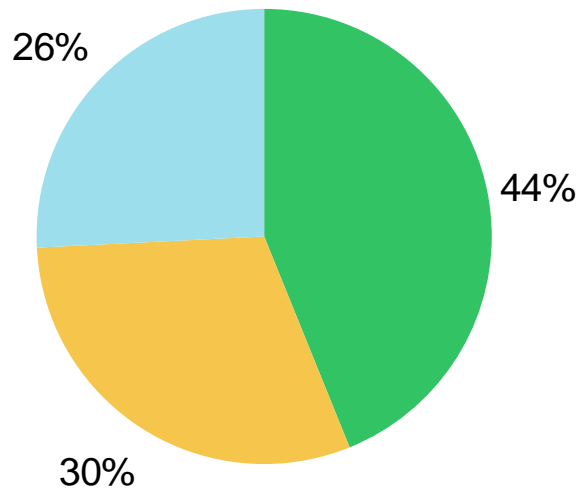
## Japan Debt-To-GDP Ratio is a Concern



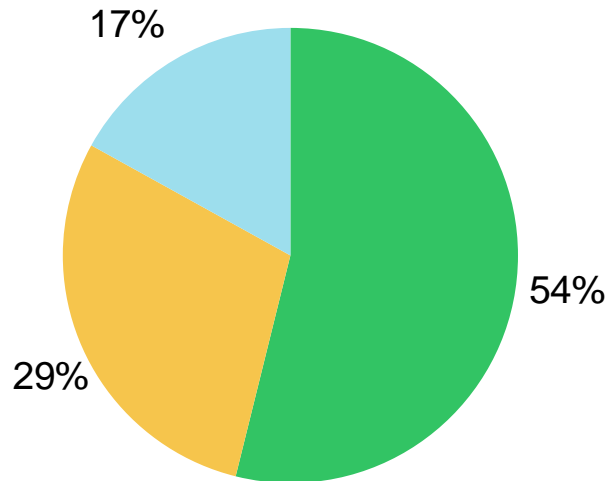
Source: US Central Intelligence Agency

# Challenges: Dominance of Government Debt

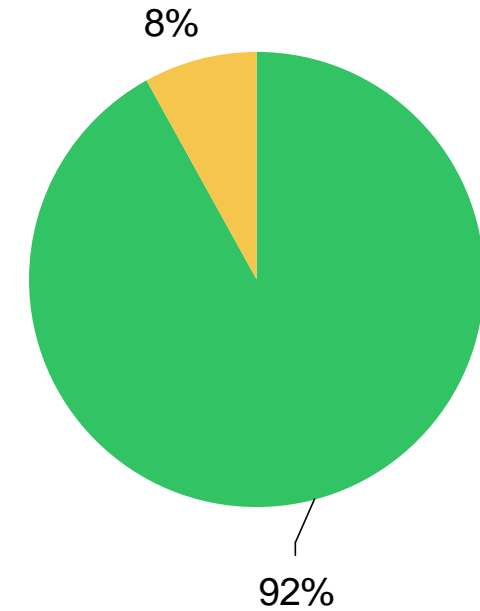
## US



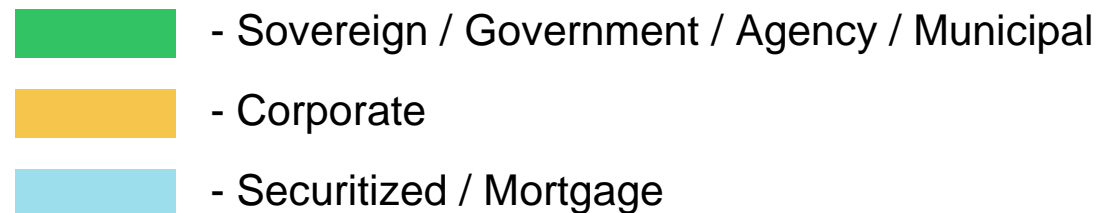
## EU



## Japan



Sources: SIFMA, Deal Logic, ECBC, JSDA



# Conclusions: The Good and The Opportunity

## The Good

- Great technology infrastructure
- Very large pools of domestic capital
- Clear and transparent regulatory framework
- Easy public market access for foreigners
- Deep derivative markets in rates, FX, and equity

## The Opportunity

- Low level of risk tolerance in domestic savings pools
- High tax regime
- Corporate and shareholder governance questions
- Government policy market and business friendly?
  - We need Abenomics to work!

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