Session 1: "From Savings To Asset Formation"
- What Should Market Participants/Regulators Do Now?

Introduction

The moderator opened the session by describing current conditions of, challenges facing, and the future direction for securities markets in Japan and other Asian countries, after which the panelists gave their opinions as follows.

"From savings to asset formation"- action and challenges

○ To promote stable asset formation instead of just saving money, the Financial Services Agency (FSA) has introduced tax incentives for households. In 2014 the "NISA" scheme was launched, and this is set to be followed by the "Dollar-Cost Averaging NISA" scheme in 2018. Having in mind that households to assume a certain degree of risk, in March 2017 the FSA formulated "Principles for Customer-Oriented Business Conduct", which requires financial institutions to conduct customer-oriented business and thus play a role in realizing the shift from savings to asset formation.

○ The U.S. also faces the similar challenge of encouraging households to invest to meet their future needs. Giving investors choices, for example the introduction of defined contribution plan (i.e. 401(k) plan), has encouraged greater household participation in the markets.

○ It is important to get investors to understand the relationship between investment risk and return. It also is critical to have the appropriate regulatory regime in place to ensure that markets are fair and transparent so that investors can make appropriate investment decisions. This is an ongoing concern for all regulators including in the U.S.

○ Before NISA was introduced, a tax incentive system was designed from the standpoint of investors, offering tax advantages on profits earned from trading; however by the introduction of NISA, the system has been designed from the consumer perspective, with the aim of encouraging more people to accumulate assets.

○ There are two important challenges to be dealt with for promoting this shift from "investors" to "consumers." The first is how to narrow the information gap between financial business workers and consumers. It can be addressed through financial education and the creation of systems for supporting it. In the U.K., for example, financial advisors, who provide advice to consumers from the customer standpoint, play a significant role in this regard. They could serve as useful reference for Japan. The other challenge is how to respond to the diverse consumers. As more consumers start investment, variation in terms of financial literacy will increase among the people in the market, so a flexible system design will be vital.

○ The GPIF has to conduct ultra-long-term investment planning as it is handling government pensions for 100 years. The GPIF believes that companies formulating their business strategies from a long-term perspective will lead to stable dividends, so we have adopted an ESG approach to invest.

○ What we emphasize in particular in the ESG investment is engagement by asset managers with the companies they invest in. We ask the asset managers to actively engage in dialog with the companies in matters of E (Environment), S (Social), and G (Governance).

○ Comparing data on corporate investment behavior reveals that recently capital expenditure has begun to rise and that money has been allocated to M&A as well. Similarly comparing data on household behavior finds that the younger generation is stepping up its investment in financial assets, despite decreasing real disposable income.

○ The key to translating this small change into a major trend of "from savings to asset formation" is to change the behavior of households. The first important task is to ensure that financial products and markets, which are the tools for asset formation, are fair and transparent. The second is to increase the level of financial literacy among the public. To enhance financial literacy, bolder measures than have been adopted in the past will be essential.

The key to achieve the shift "from savings to asset formation"

・Focus in ESG investment

○ What we pay most attention to in terms of ESG investment is whether such investment approach will be able to produce sustainable profits. We conduct investigations and provide explanations concerning this in our annual disclosures.

○ We are discussing ESG with pension investors around the world, and they are of view that companies emphasizing ESG have low downside risk.

・Promoting the shift “from savings to asset formation”

○ Two-thirds of personal financial assets are held by elderly people, i.e. the generation decumulating their assets. The challenge for them is that their life planning is substantially changing rather than how to invest their money.

○ As the aging population develops, the time period during which they decumulate their wealth in is becoming longer than expected, so I feel that the system needs to incorporate measures to enable assets to be cashed in efficiently.

○ If we recommend that households adopt more balanced portfolios, I want financial institutions to play a role in achieving that. In addition to the prerequisite in which the compliance must be ensured and legal violations must be prevented, I even hope that financial institutions will conduct business in such a way as to pursue best practices.

・Recommendations for Japan’s future investment market

○ Legal enforcement is crucial for creating a market that is trusted by investors. There needs to be a belief that improper conduct in the market will be detected and addressed.

○ It is important for regulators to invest in IT to enable the analysis of vast quantities of transaction. In order to be effective regulators of fast moving and IT-intensive markets and participants, regulators need to have the right people and tools to keep pace with market innovations. A market that investors do not trust, is unlikely to funds the needs of the real economy or of investors no matter how much diverse financial products are offered or what tax incentives are provided.

・Desired role of the SESC in promoting the shift “from savings to asset formation”

○ As the venues for asset formation, capital markets need to be fair and transparent. The SESC views “a market trusted by everyone” as the market to be aimed at.

○ The SESC regards constructive dialog with relevant parties as a key tool for achieving that. I believe that through the dialog, it will be possible to identify root causes and structural issues and to address issues before becoming actual problems.

Following the above discussion, Commissioner Indo described the initiatives being carried out by each SESC department.

Conclusion

Finally, the moderator summed up the discussion by stating the following three important points to promote the shift “from savings to asset formation:”

・ It is important to provide financial education, including education on risk;
・ Diversified investment not only in terms of asset type but also in terms of timeframes and currencies is important; and
・ Investors, asset managers, and sellers should establish systems for commissions and compensation with facing in the same direction.