

JAPAN'S ECONOMY, SECURITIES MARKET AND INDUSTRY CURRENT TRENDS IN JAPAN

The Japanese economy has remained on a steady recovery path while meeting a number of challenges. During the 20th Annual General Meeting of the Asia Securities Forum, held in Seoul from September 20 to 22, 2015 ANMI interviewed Mr. Kazutoshi Inano, Chairman and CEO of Japan Securities Dealers Association to seek his views on Japan's economy, securities market and industry as well as issues surrounding them



How do you assess the present Japanese economy and “Abenomics”, the government’s economic strategy? Will Abenomics help turn the tide?

The Japanese economy has regained its strength and entered a new phase heading toward sustainable growth. The set of bold monetary policy, flexible fiscal policy, and growth strategy has provided the necessary momentum to bail the nation out of a prolonged deflationary spiral. The first stage of Abenomics has improved corporate performance over the last two and half years. So far, many companies have achieved record-high business earnings resulting in higher stock prices, tax revenue growth, and an unemployment rate decrease. A positive change can also be found in overall sentiment concerning inflation expectations.

The government’s “Japan Revitalization Strategy”, which was revised in June 2015, considers “investment” to be vital to maintain a virtuous economic circle and sustainable growth. The Strategy aims to build financial and capital markets that will attract investors and channel household assets to growth companies. I also believe that promotion of private investment should be put at the top of the policy agenda. In this regard, it is particularly important to further spread and firmly set in place Japan’s “Stewardship Code” and “Corporate Governance Code” as guiding principles for institutional investors and companies to work together on enhancing corporate value as well as Return on Equity (ROE). These measures may not have an immediate impact but will fuel the steady progress with ongoing changes and help turn the tide for the Japanese economy.



What kind of roles do you think JSDA or the securities industry is expected to perform under the government’s economic strategy?

JSDA fully supports the key measures included in the government’s strategy and is committed to a course of actions to promote investment and create vibrant financial and capital markets. Our particular focuses are on encouragement of middle- and long-term asset building by individuals, dissemination and promotion of financial literacy, strengthening financial and capital markets’ functions and competitiveness, further raising market intermediaries’ capability and credibility, and global information sharing and cooperation with relevant overseas organizations.

How about business conditions in the securities brokers industry?

Looking at the performance of Japanese securities firms in the fiscal year 2014 ended March 2015, net income of the country’s 249 firms went down by 20% to 728.7 billion yen (approximately 6.1 billion dollars), falling after a strong performance in the previous fiscal year. However, 208 firms or more than 80% of Japanese securities firms ended the year in the black and the industry continued to record profits as a whole which is the third highest level over the past decade. This indicates that the performance of the entire securities industry was generally in good form. Along with this, Japanese securities firms have maintained an ROE above 10% on average over the last few years.

Amid a storm of volatility in Japanese stocks, the bond market has been a pool of serenity. What have been the reasons for this serenity?

The Japanese stock market, as well as other major markets in the world, recently has exhibited high volatility mainly caused by the anticipated downside risks of the Chinese economy and expectations of an FOMC interest rate increase. On the other hand, there has been no substantial price fluctuation in the bond market due to the BOJ’s quantitative easing policy and massive buying of JGBs.

What is the situation in the corporate bond market?

In 2014, corporate bond issuance in Japan recorded 8.5 trillion yen (approximately 70.5 billion dollars) remaining at almost the same level as in the previous year. Japan does not have a very active corporate bond market, with the overall bond market being dominated by JGBs. Most corporate bonds issued in Japan are investment grade bonds rated BBB or higher. There are actually no high-

yield bonds, such as bonds with ratings lower than BBB, publicly issued. JSDA continues to consider possible policy measures to create a deeper corporate bond market enhancing a protection scheme for corporate bond investors and expanding the high yield bond market.

What are your perceptions on emerging economies including India? Do you think they will be trendsetters in future?

While the IMF's "World Economic Outlook Update" issued in July this year predicts a lower rate of growth in emerging economies for some years to come, I believe that those economies will remain the engines of global economic growth in the medium-and long-term. India in particular will be an up-and-coming economy underpinned by its young and highly educated human resources. I have learned that the current government led by Prime Minister Modi has been pursuing a series of deregulation and liberalization measures. I expect that these measures will provide a firm base for India to open up new vistas in economic growth.

As the middle-income-class population increases, the investor base has been rapidly expanding in India. Along with this trend, investor education is becoming increasingly important. What is the situation in Japan? What initiatives does JSDA undertake for investor education?

In Japan as well, investor education is gaining in importance. A key factor behind this is that, amid rapid demographic change, asset building through self-reliant efforts has become crucial for individuals to enjoy a stable and affluent life over their lifetime. With this in mind, JSDA deploys wide-ranging activities to raise people's financial literacy. These activities include holding events and lectures, distributing publications and education materials and sending its executive officers and employees as lecturers to universities and schools. We also recently have focused on producing videos and e-books to get the young generation more interested in investing for their future.

Investor education is also considered as an important tool for promoting NISA, the Japanese version of the Individual Savings Account, which is a tax-exemption scheme that promotes investment by individuals. NISA was launched in January 2014. Any residents of Japan aged 20 or more are eligible for this scheme. Account holders are exempt from the 20% levy on income from capital gains and dividends from annual investments of up to one million yen (approximately 8,000 dollars) made over a five-year period. Under the current

India in particular will be an up-and-coming economy underpinned by its young and highly educated human resources. I have learned that the current government led by Prime Minister Modi has been pursuing a series of deregulation and liberalization measures. I expect that these measures will provide a firm base for India to open up new vistas in economic growth

legislation, tax-exempt investments can be made through NISA for up to 10 years starting in 2014 for a cumulative investment of 5 million yen (approximately 40,000 dollars). NISA is designed to encourage individual investment by exempting tax on income derived from small investments and expected to serve as an effective instrument for individuals' long-term asset accumulation. JSDA is making efforts to raise awareness of NISA through investor education.

JSDA functions as a fully empowered SRO as well as a trade association in the Japanese securities market. In what areas do you think ANMI and JSDA can work together in future?

Through this interview, I get the impression that ANMI and JSDA are facing a number of similar challenges in their respective countries' securities markets while their historical, cultural and economic backgrounds are quite different. Both of us are endeavoring to activate and further sophisticate their markets and support investors' effective and efficient asset building. I believe that we can share such common interests and concerns about a wide range of issues emerging from the markets. Since both of ANMI and JSDA are members of the Asia Securities Forum (ASF), we can discuss any issues at the ASF and any other possible occasions further enhancing the collaborative tie between us. We are ready to listen to your ideas and discuss any proposals for future cooperation.