

Transforming the flow of funds in the Japanese financial markets

Jun Mizuguchi
Financial Services Agency, Japan
2 March, 2017 Tokyo

** This presentation represents the presenter's own views, and not necessarily those of the FSA.*



Need for transforming the flow of funds

- With the Japanese population aging and decreasing, it is critical to accumulate the financial wealth of the households in a stable manner over the medium to long term.
- Majority of the household financial assets are currently held in cash and deposits. Only a small part of their assets are directly invested in equity and investment trusts.
- The banking sector has dominated financial intermediation in Japan, with risk-money not sufficiently provided to the needed economic activities.
- *The JFSA has been taking a number of initiatives to transform fund flows to sustain economic growth.*

Reform①: Corporate Governance Reform

- Corporate governance is indispensable to enhance the corporate values of investee companies in the mid- and long-term.
- Also, institutional investors should engage in constructive dialogue with investee companies so as to increase corporate values for the purpose of maximizing return.
- From these perspectives, the JFSA introduced Stewardship Code in 2014 and Corporate Governance Code in 2015.

Reform②: Policy Initiatives on Household Assets

- Long-term, regular and diversified investment would be effective to achieve stable increase of the household financial assets.
- *In 2014, the JFSA introduced a tax-exempt individual savings account, so called NISA. The JFSA is planning to introduce a cumulative and longer-term NISA scheme in 2018.*
- Providing practical investment education/literacy to retail investors (in particular, beginner investors) would be very important.
- *The JFSA set up a council of experts to further explore ways to promote long-term, regular, diversified investment and practical investment education/literacy.*

Reform③: Promoting Customer-Oriented Business

- All financial intermediaries involved in the investment chain should act in the best interests of their customers.
- *There have been cases where, for example, broker dealers had tendencies to put too much emphasis on increasing commission revenue from investment trusts in the short run.*
- *Based on the recommendations by the Financial System Council, JFSA published for consultation seven principles (“comply-or-explain”) so that financial intermediaries could their customers’ interests first.*
- The JFSA will continue to cultivate an environment where financial intermediaries can compete with each other to deliver higher-quality products and services which will be best suited for customers.