

Transforming the flow of funds in the Japanese financial markets

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



Background—Challenges & Needs

Demographic trends: aging/decreasing population

- Stable accumulation of household financial wealth over a medium- to long-term

Form of household financial assets: majority in cash & deposits

- Larger part of their assets directly invested in equity & investment trusts

Financial intermediation: banking sector dominance

- Further provision of risk-money to economic activities in need of funds

Reform Initiatives

JFSA has been taking a number of initiatives to transform flow of funds, working on:

Investees:

To improve corporate governance

Investors:

To mobilize household assets

Intermediaries:

To promote customer-oriented business

Reform 1: Corporate Governance Reform

- Corporate governance is indispensable in enhancing corporate values of investee companies in the medium- and long-term
- Institutional investors have an important role in increasing corporate values by engaging in constructive dialogue with investee companies



From these perspectives, JFSA introduced:

- ✓ Stewardship Code in 2014
- ✓ Corporate Governance Code in 2015

Reform 2: 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, JFSA introduced a tax-exempt individual savings account: so-called NISA*
 - *JFSA plans to introduce a new NISA scheme in 2018 which aims at promoting long-term, regular and diversified investment by households*

- Practical investment education/literacy would be critical for retail investors (in particular, beginners) to make informed-decision
 - *JFSA launched a council of experts to further explore ways to promote long-term, regular, diversified investment and practical investment education/literacy.*

Reform 3: Promoting Customer-Oriented Business

- All financial intermediaries in the investment chain should act in the best interests of their customers
 - *In the past: Broker dealers had tendencies to put too much emphasis on commission revenues from investment trust sales in the short run*
 - *Going forward: Seven principles* (“comply-or-explain” approach) for financial intermediaries to put their customers’ interests first*
 - *) *Prepared by JFSA based on the recommendations by the Financial System Council, for finalization after public consultation*
- JFSA will continue to cultivate an environment where financial intermediaries can compete with each other to deliver higher-quality products/services best suited for customers

Thank you very much

Please visit JFSA website at:

<http://www.fsa.go.jp/en/index.html>

