

Tasks and Prospects for Securities Administration In Japan

By Kyoji Kitamura

The Japanese capital market has been expanding rapidly, propelled by the country's economic development, massive offerings of government bonds, progress in the accumulation of financial assets and growing investor preference for better yields. The value of public and corporate bonds traded in 1986 zoomed to well over ¥2,500 trillion from only some ¥300 trillion in 1981.

Many of the tasks facing Japan's securities administration can be considered in connection with moves toward internationalization of the market. Since the Japan-U.S. Yen-Dollar Committee agreement of 1984, we have undertaken securities administration from the viewpoint of developing our capital market into a more international one. The pace of internationalization has been rapid. The Tokyo market is one of the world's largest together with those in New York and London. Failure to implement measures needed for internationalization would leave Tokyo lagging behind those overseas markets. The British government has carried out a series of reforms of the London securities market culminating in last October's "Big Bang." This was an indication of a strong sense of crisis about the future of the London market in the face of ongoing internationalization of the securities market.

In Japan, too, various measures have been enforced to reform the capital market. While they may not be a Big Bang, they could be described as a "small bang," and are an important step toward making our capital market comparable to those in the U.S. and the U.K.

Financial consultations

Due to their different financial and capital market systems and policies de-

riving from different historical backgrounds, the nations of the world are faced with the need to exchange views to facilitate market internationalization. At present, Japan is holding financial consultations with all the member countries of the Western Summit, including the United States, Britain and West Germany.

In addition, Japan held consultations with the U.S. Securities and Exchange Commission (SEC) last May and concluded a memorandum on the exchange of surveillance and investigative information. We think these efforts to enhance mutual understanding between us and the U.S. securities authorities are very significant, all the more so in light of the fact that they administer the world's largest securities market and that their legal system is very similar to that of Japan in terms of the separation of the banking and securities businesses.

Such talks will be held frequently in the future. I believe discussions on securities-related problems will assume increasingly greater importance.

Primarily market for corporate bonds: Securities Exchange Council Report

Japan's public and corporate bond market has been expanding rapidly. Its importance has grown as the country's international economic position has risen. Under the circumstances, offerings of bonds—notably straight bonds—in the domestic market by Japanese companies have remained sluggish. In contrast, overseas flotations have surged.

Beginning in May 1985, a special panel on public and corporate bonds of the Securities Exchange Council discussed the necessary reforms of the primary market

for corporate bonds. The panel prepared a report at the end of November and submitted it to the Finance Minister on December 12 after council authorization.

The Council Committee on Basic Problems had previously made various recommendations regarding the primary corporate bond market in 1977. Nearly 10 years have passed since then, but many tasks remain to be tackled, while the climate of the market itself has changed dramatically as internationalization has progressed. The latest report is a blueprint of what Japan's primary corporate bond market should look like. It places emphasis on practical aspects, recommending concrete measures to achieve this goal.

As one reason for the shift in corporate bond offerings to overseas markets, the report cites institutional and practical restrictions in Japan that are more stringent in Japan than abroad. In order to revitalize the domestic primary bond market, it points out the need to reform the systems and practices involved in bond flotation. The basic direction of reform, the report indicates, is the establishment of internationally acceptable trading rules and practices that also take into consideration the protection of investors. In this way it should be possible to create a freer and more open market that better meets the needs of both issuers and investors.

Along with outlining such basic thinking, the report makes specific recommendations calling for the review and improvement of the conventional Japanese practice of requiring that bonds be secured by collateral in principle, the mechanism of flotation, the trustee system and the underwriting procedure, as well as the diversification of issues, and the improvement of the disclosure system under which companies must regularly make public their financial reports.

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On the basis of the report, we intend to take concrete action toward achieving an internationally acceptable, free and open primary corporate bond market.

Introduction of stock futures trading

The Osaka Stock Exchange is preparing to launch stock futures trading in April. The exchange plans to conduct such trading under a package formula—trading of 50 spot issues as a package—that can be practiced under the current Securities and Exchange Law. Trading in stock index futures has become an established practice in major markets abroad, where options trading—dealing in rights to buy or sell—has also become active.

In view of these developments at home and abroad, we plan to ask the Securities and Exchange Council to discuss the advisability of introducing such trading. If the council gives the go-ahead, we will take whatever measures are required, including revision of the Securities and Exchange Law.

Law on investment advisory business

A law to regulate the securities investment advisory business was promulgated last May and put into force November 25, together with other related legislation. Behind this new legislation is the growing importance of investment advisory services as individual and corporate invest-

ors seek more efficient management of their swollen financial assets. Another factor is the need to ensure the existence of an appropriate investment advisory business when promoting the internationalization of our capital market at a time when increasing numbers of foreign investment advisory firms are seeking to operate in Japan.

The main points of the new law are as follows: 1) a registration system was introduced to control entry of unscrupulous advisers; 2) provisions are made to restrict the manner of advertisement and to ban deposition of customer money and securities with advisers; 3) a cooling-off system was introduced to allow investors to terminate advisory contracts within a specified period of time after concluding them; 4) only authorized advisers are allowed to manage customer funds at their own discretion; and 5) advisers are required to set aside specified amounts of money to guarantee their business.

In enacting the law we paid particular attention to the following two points: 1) avoiding excessive restrictions in order to permit the sound development of the business through free competition between advisory firms; and 2) on the basis of the current progress in internationalization, opening the door to overseas advisory companies so as to place them on an equal footing with domestic firms.

All firms currently providing investment advisory services are expected to finish registration procedures by the end of May. By then, steps will be taken to authorize those desiring to offer discretionary management service. We will step up work on the latter with the goal of grant-

ing authorization to the first group of applicants as soon as possible.

Following implementation of the new legislation, we intend to adopt measures for the sound development of the investment advisory industry, and provide the instruction and supervision needed both to ensure that it functions properly and to maximize protection of investors.

Entry of foreign securities firms

The number of foreign securities companies hoping to do business in Japan is increasing rapidly, mirroring the expansion and internationalization of the Tokyo market. More than 30 foreign firms are already operating in Japan. One reason for this is the growing weight of the Tokyo market in the international securities business. We welcome this trend in principle, recognizing its contribution to the internationalization and enhancement of efficiency of the Japanese securities market. Foreign securities firms seeking to begin business in Japan will be licensed in accordance with the provisions of the relevant laws.

Conclusion

The above are some of the tasks set for the Japanese securities market. All these are closely associated with the progress of internationalization of the securities market, and we cannot help but keenly feel how important an international viewpoint has become. "With the liberalization of financial and capital transactions, transactions now take place on a global scale," says the Maekawa Report, prepared last April by the Advisory Group on Economic Structural Adjustment for International Harmony, a panel of advisers to Prime Minister Yasuhiro Nakasone headed by former Bank of Japan Governor Haruo Maekawa. It goes on to add that "Japan should ensure that its financial and capital markets are commensurate with its economic importance."

Indeed, the role to be played by the Japanese capital market in the international community is growing ever more important as the international position of the country's economy rises. The twin trends of liberalization and internationalization of the capital market will gain further momentum in the future. We intend to do all we can to help our securities market perform its international duty and develop in harmony with overseas markets by implementing timely and appropriate "small bangs."



The number of foreign securities houses with direct access to the Tokyo Stock Exchange will continue to rise.