

The open conference in ABMF 6

Recent Global Financial Crisis and Asian Bond Market Development

Item 1

"Challenges and issues in opening up bond markets after the recent global financial crisis"

Japanese market status-quo, recent market development and related issues for the future after the crisis

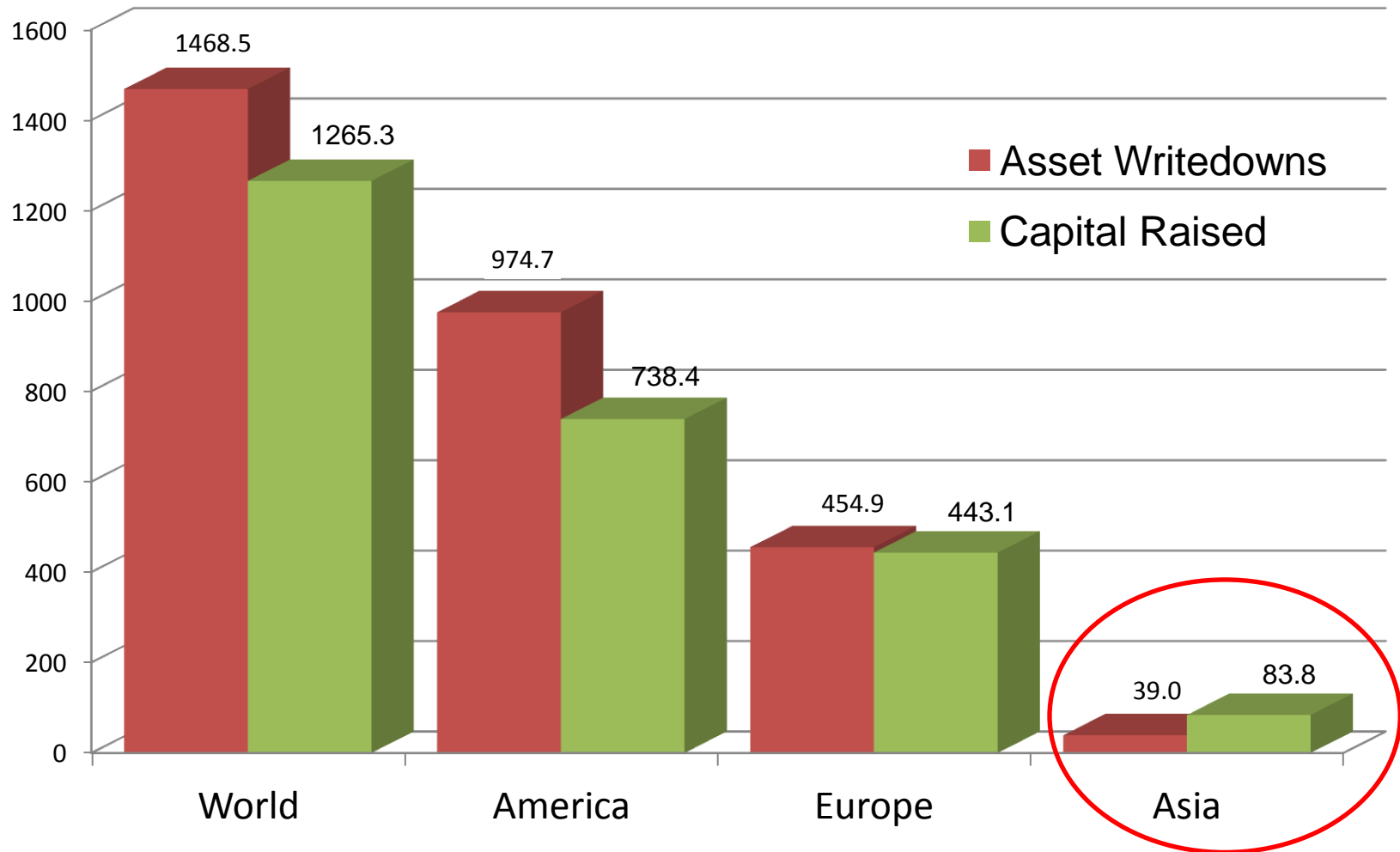
8th of December, 2011

Shigehito Inukai

Professor, Faculty of Law, Waseda University

1. How Significant was the 2007-2008 Financial Crisis?

Write downs and Capital Raised by Major Banks since 3Q2007 (USD billion, as of 7 July 2009, Starting from July 2007)



Source: Bloomberg (ADB Working Paper Series on Regional Economic Integration, "Beyond the Crisis: Financial Regulatory Reform in Emerging Asia," Chee Sung Lee and Cyn-Young Park, No. 34, September 2009)

Enhancing supervisory and regulatory systems alone is not sufficient enough

September 1, 2009

Professor Tatsuo Uemura, School of Law,
Waseda University

http://www.globalcoe-waseda-law-commerce.org/purpose/ProfUemuraStatement_ENG.pdf

- Financial and capital markets conducive to the formation of economic bubbles, in addition to widespread trading in inappropriate financial products, improper trading and unfair trading in a global economy, have an enormous negative impact throughout the world.
- This negative impact causes serious damage to economies and to the lives of citizens, in particular in developing countries, which are in the majority of cases passive victims of this financial mismanagement.

- In view of the scale of the impact of financial and capital markets on the world, the Western nations which have traditionally exercised leadership in this area must recognize the profound responsibility that they bear for the establishment of systems to maintain financial and capital market discipline.

- When we review discussion in the U.S. and Europe regarding the financial crisis, we find that the strengthening of supervisory and regulatory systems has been discussed in a variety of forms. Discussion should be further extended in this direction.
- However, there seems to be a paucity of voices discussing, in a self-reflective and critical manner, the necessary future direction for systems of corporate and capital/financial market law which have to date provided the conditions for constant excesses.

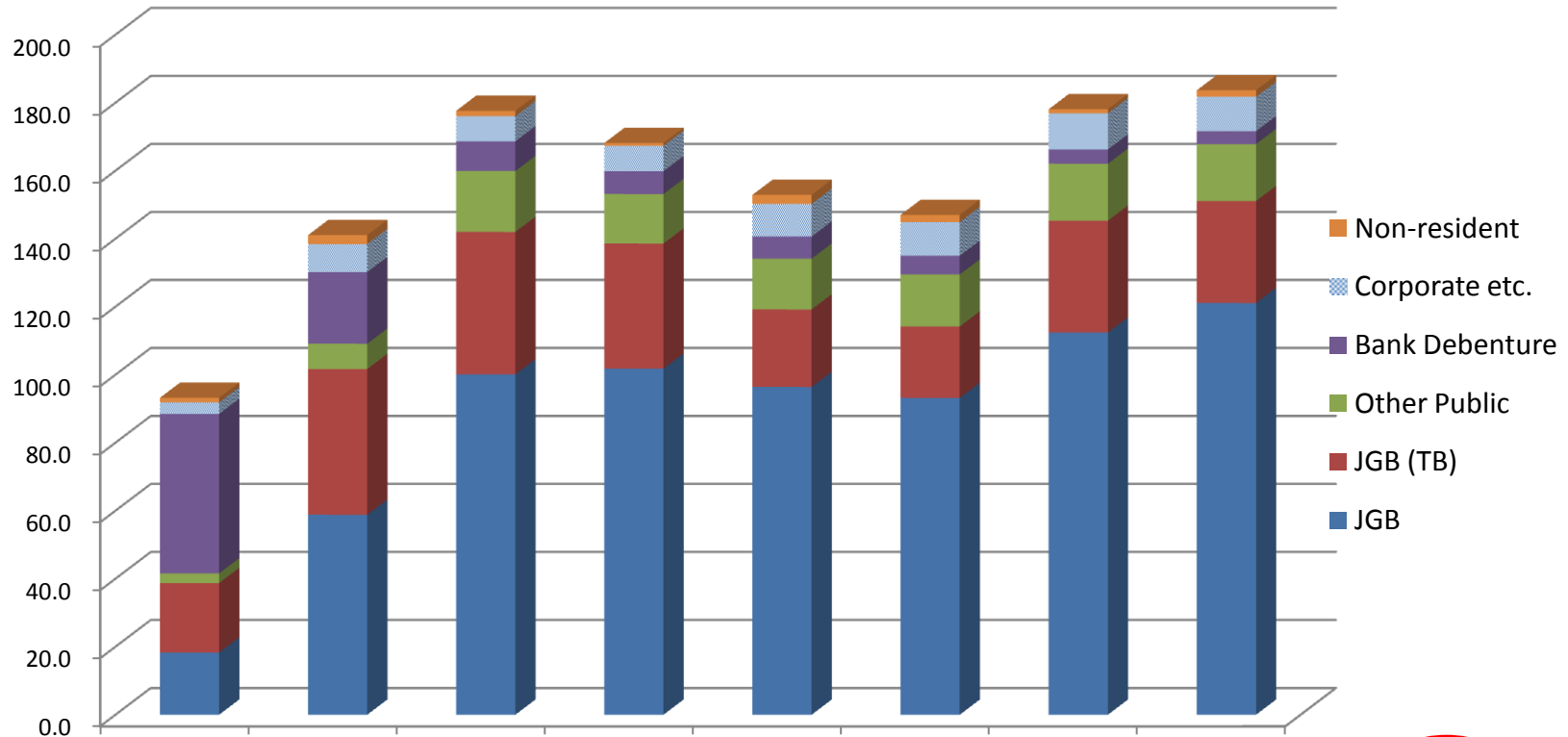
- Fundamental laws have tended to promote loose transactions. If this is treated as simply a domestic issue and the situation remains unchanged, merely enhancing supervisory systems will undoubtedly be of limited effectiveness. If the reformed supervisory systems do not function effectively, harmful effects will be diffused and once again cause damage on a global scale.

2. Japanese Bond Market status-quo

Japanese Bond Market status-quo

Issuance of Bonds

(trillion ¥)



	FY1990	FY2000	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
JGB	18.3	58.8	100.1	101.8	96.4	93.2	112.4	121.1
JGB (TB)	20.5	42.8	41.9	36.8	22.8	21.0	32.9	30.0
Other Public	2.9	7.5	17.9	14.6	15.0	15.3	16.8	16.7
Bank Debenture	46.9	21.0	8.8	6.7	6.5	5.5	4.2	3.8
Corporate etc.	3.4	8.3	7.4	7.5	9.6	9.9	10.6	10.1
Non-resident	1.4	2.6	1.6	0.8	2.6	2.1	1.2	1.9
Total	93.2	141.0	177.6	168.1	152.9	147.0	178.1	183.7

More than 90%

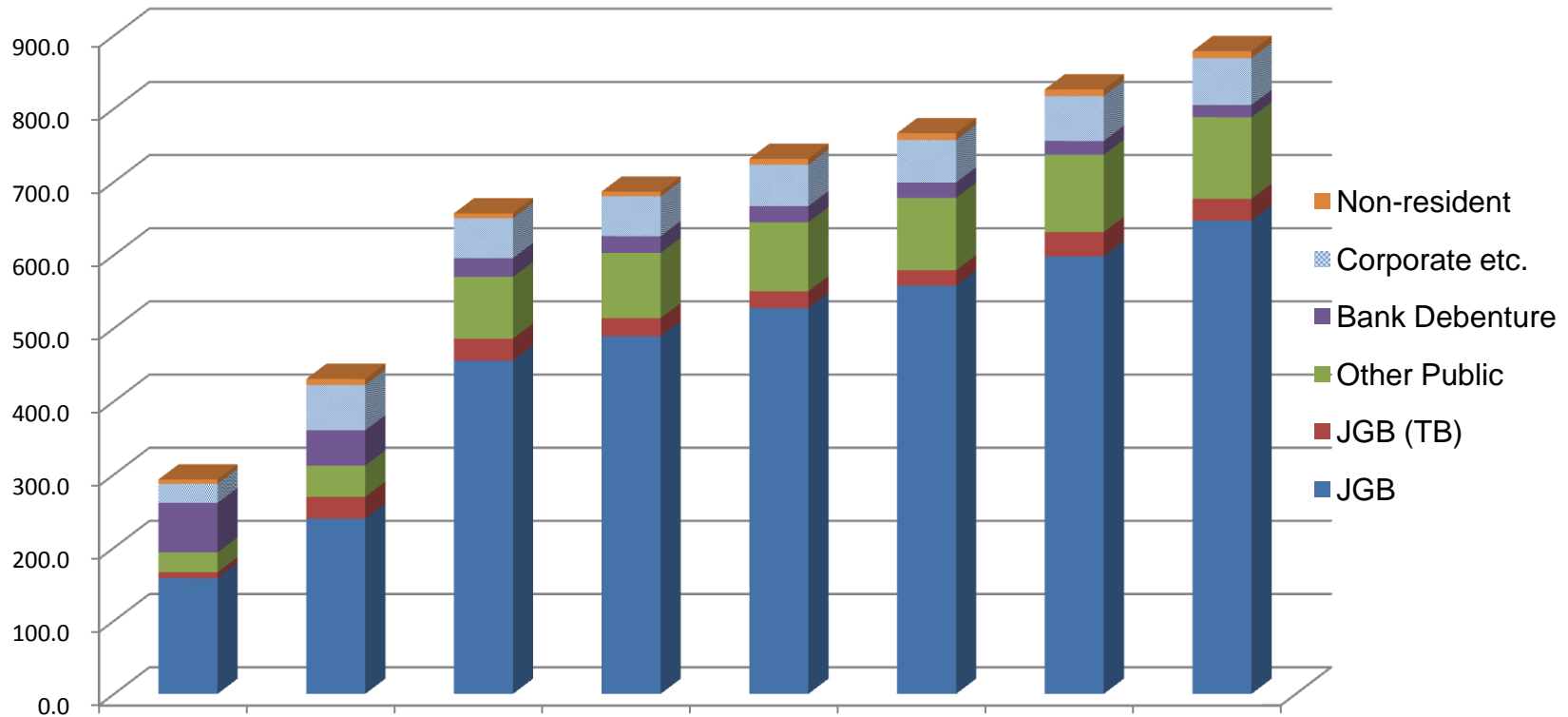
Summary

- JGB and other public bonds are showing large proportion, but . . .
- Sovereign (non-resident) bonds issuance are gradually increasing
- Corporate bond issuance are steady

Japanese Bond Market status-quo

1. Outstanding of Bonds

(trillion ¥)

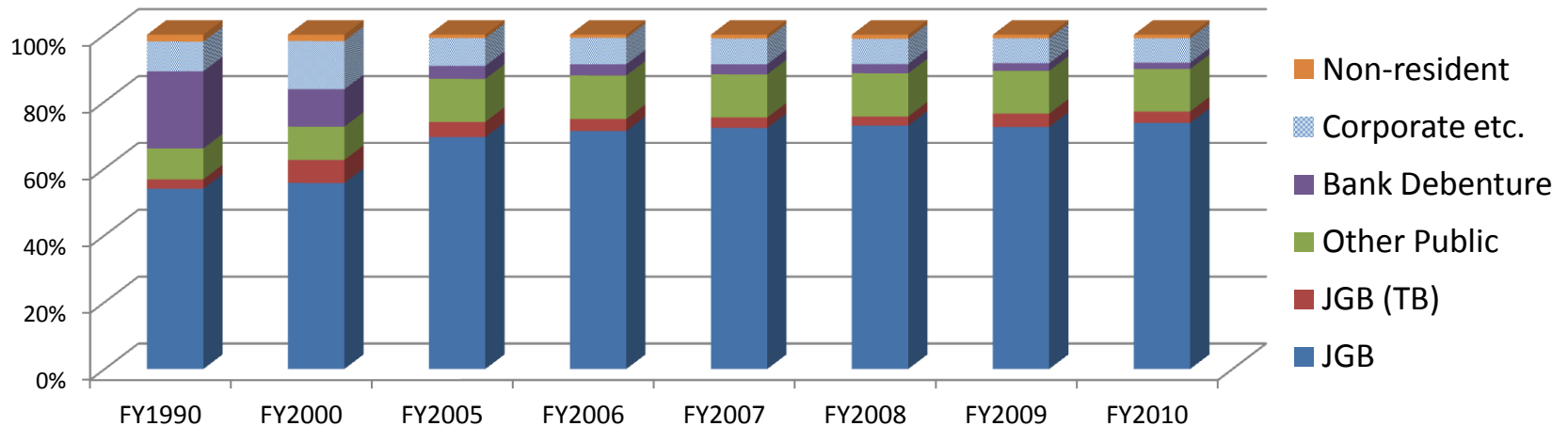


Around 90%

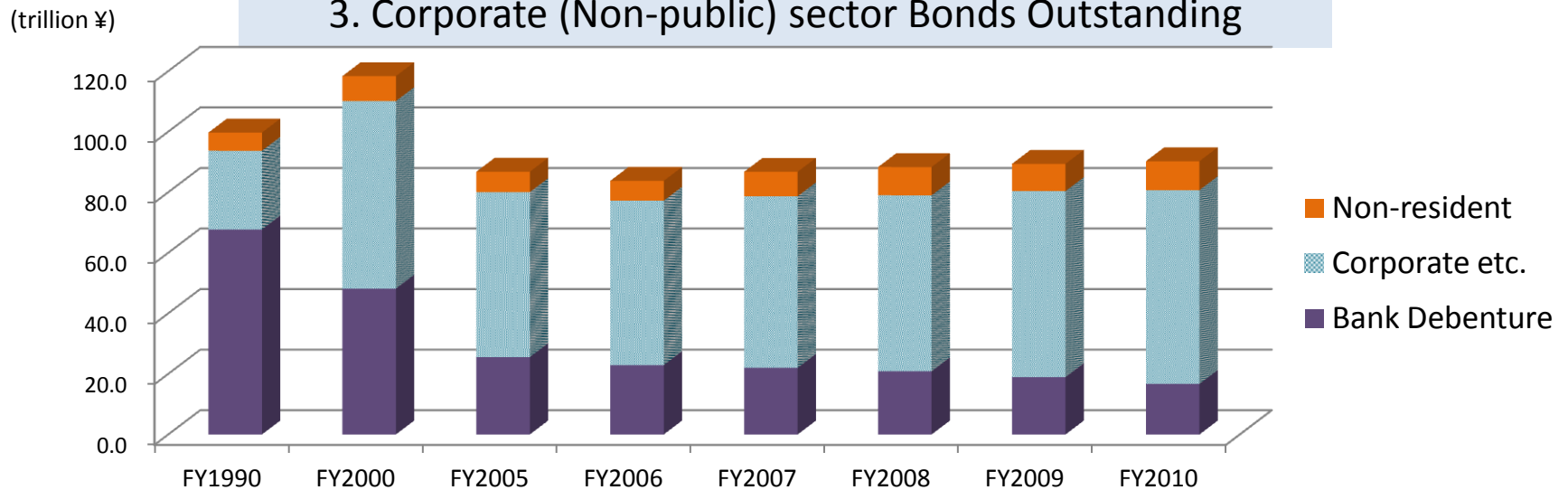
Source: JSDA

Japanese Bond Market status-quo

2. Proportion of Each Category of Bonds Outstanding



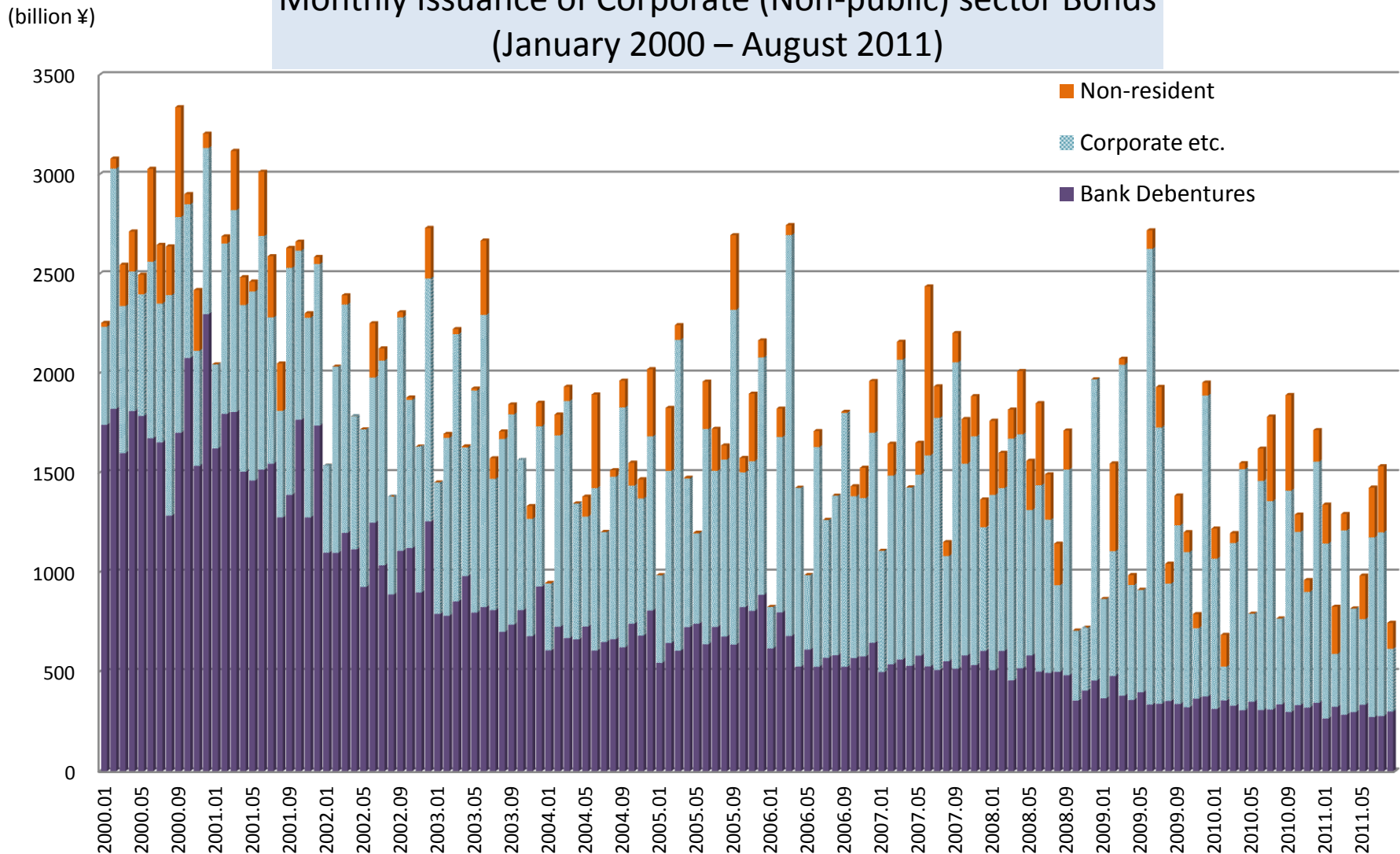
3. Corporate (Non-public) sector Bonds Outstanding



Source: JSDA

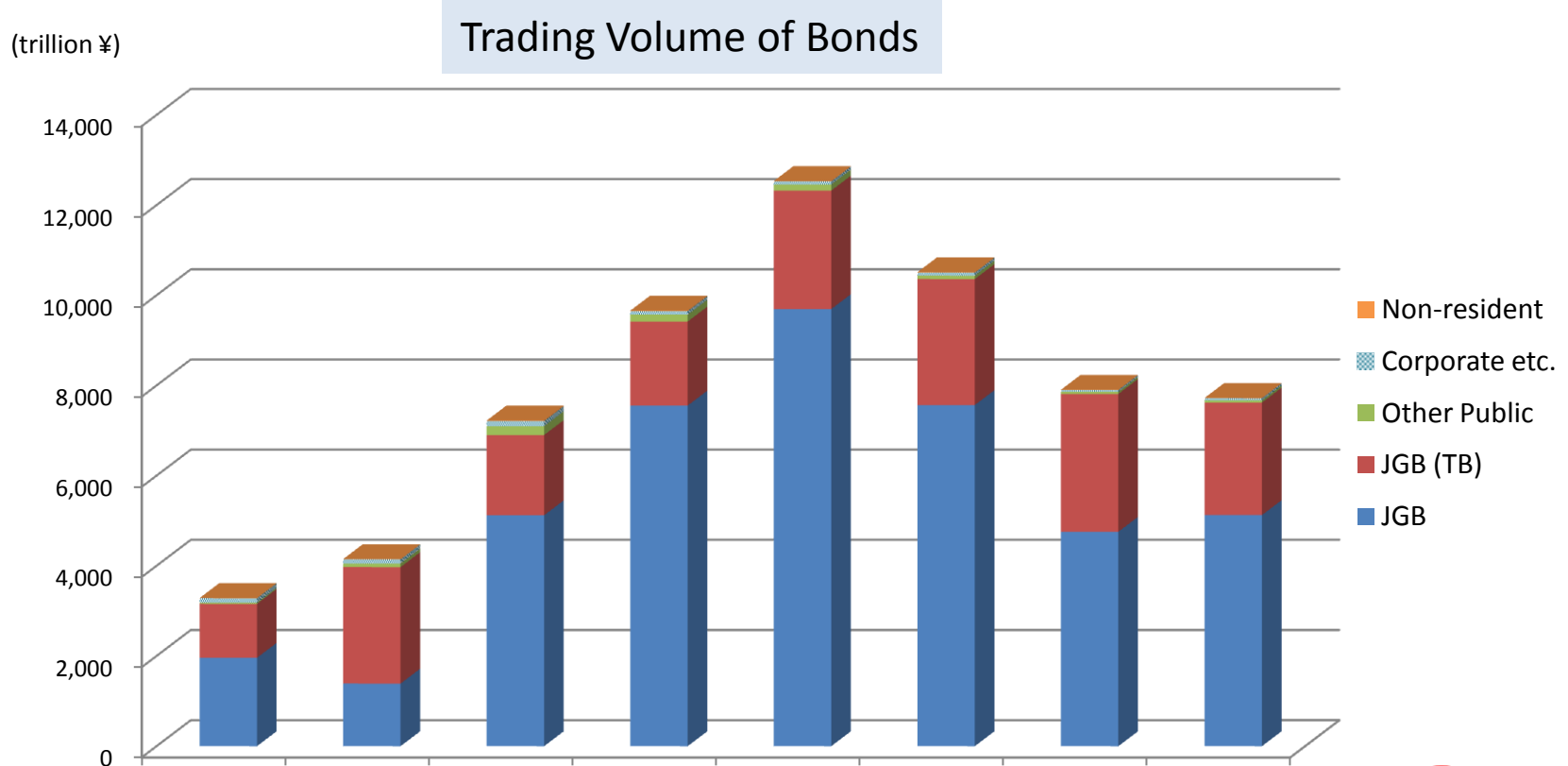
Japanese Bond Market status-quo

Monthly Issuance of Corporate (Non-public) sector Bonds
(January 2000 – August 2011)



Source: JSDA

Japanese Bond Market status-quo



	FY1990	FY2000	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
JGB	1,961	1,389	5,122	7,555	9,695	7,566	4,756	5,126
JGB (TB)	1,195	2,583	1,779	1,863	2,628	2,795	3,057	2,495
Other Public	28	80	197	153	134	76	48	49
Corporate etc.	98	92	112	79	70	67	40	48
Non-resident	3	5	13	9	8	8	5	5
Total	3,286	4,148	7,223	9,660	12,534	10,512	7,905	7,723

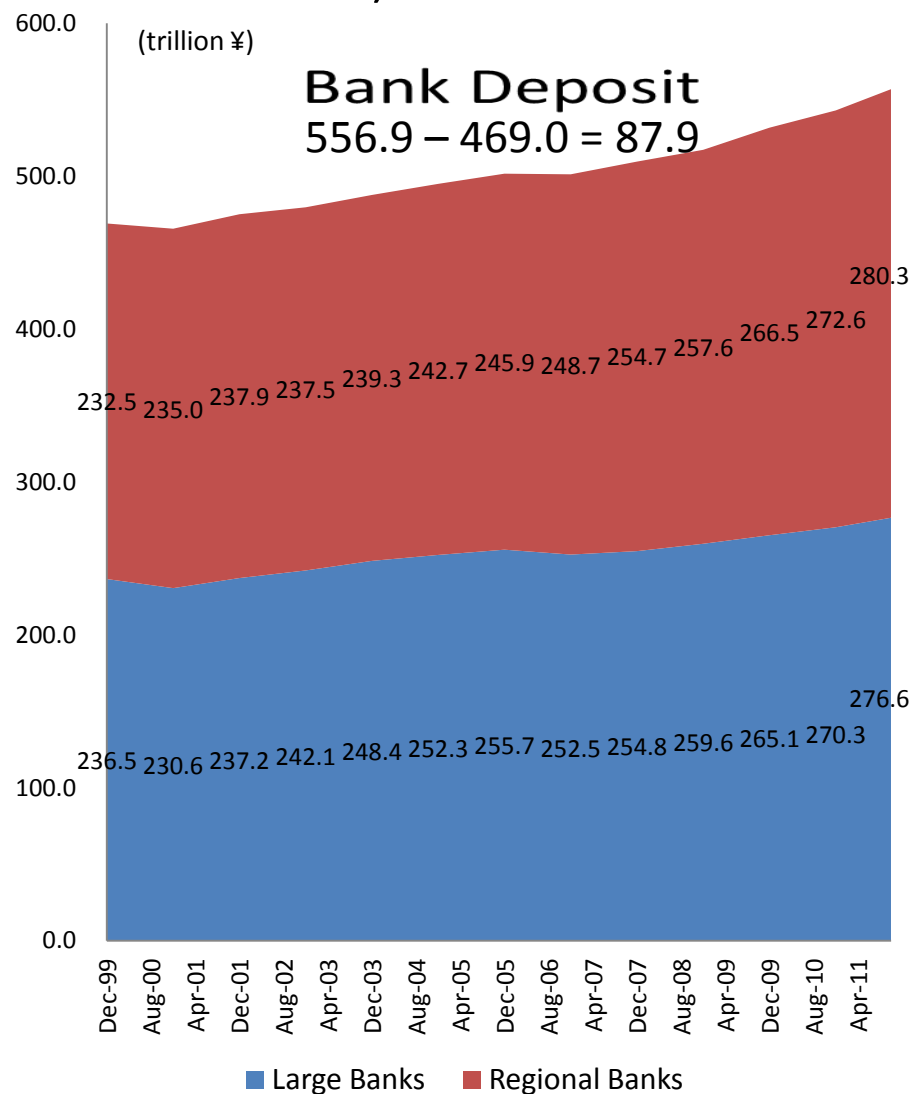
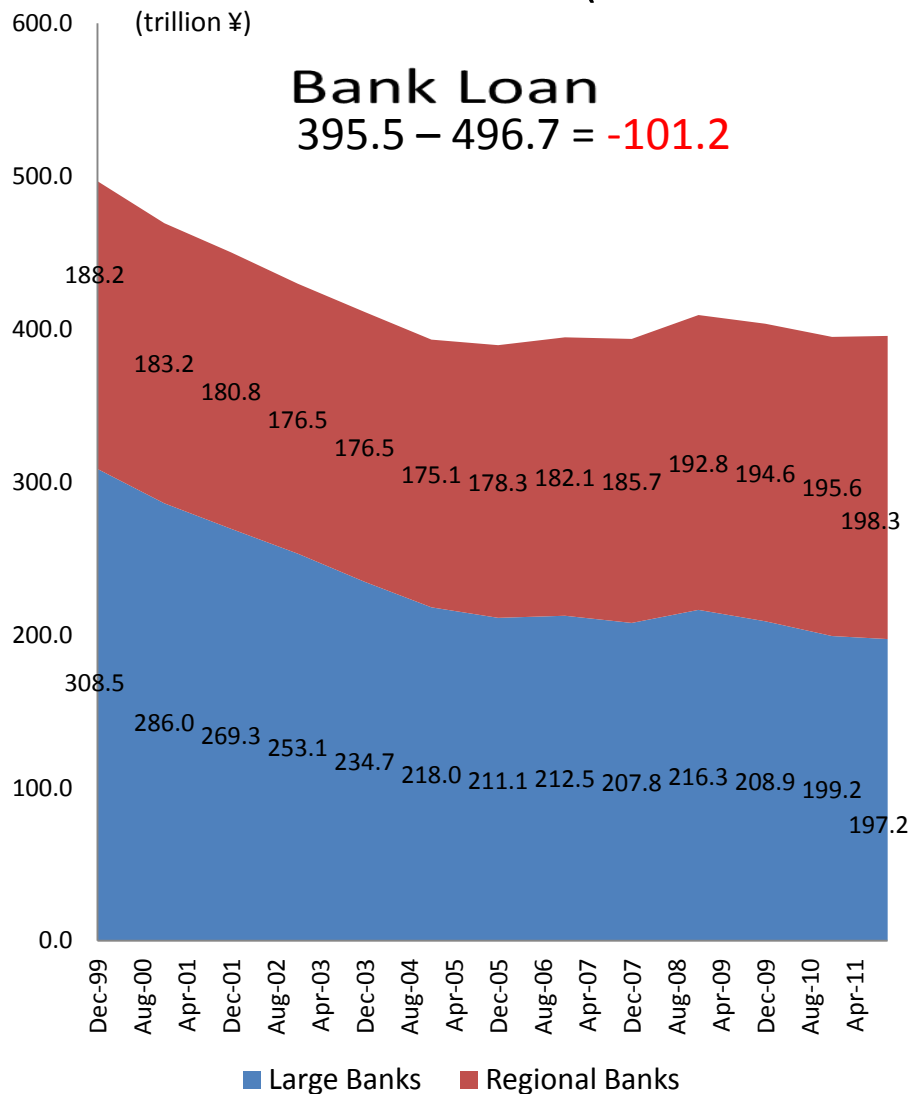
More than 99%

3. Background Information

Decrease in Bank Loan

Increase in Bank Deposit

(December 1999 – October 2011)



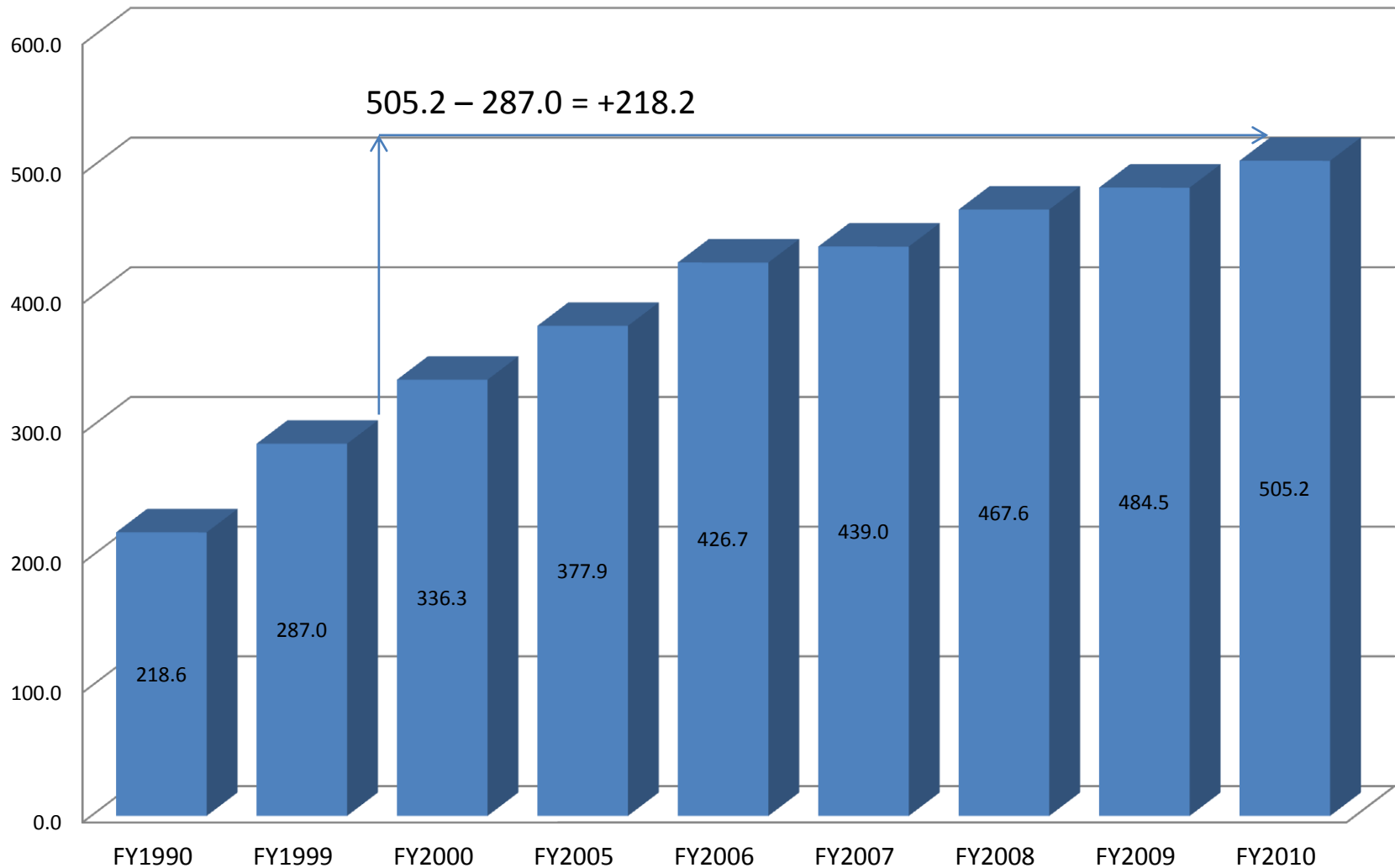
Source: BOJ

Increase in Equity (Net Assets)

Japanese Companies' Equity

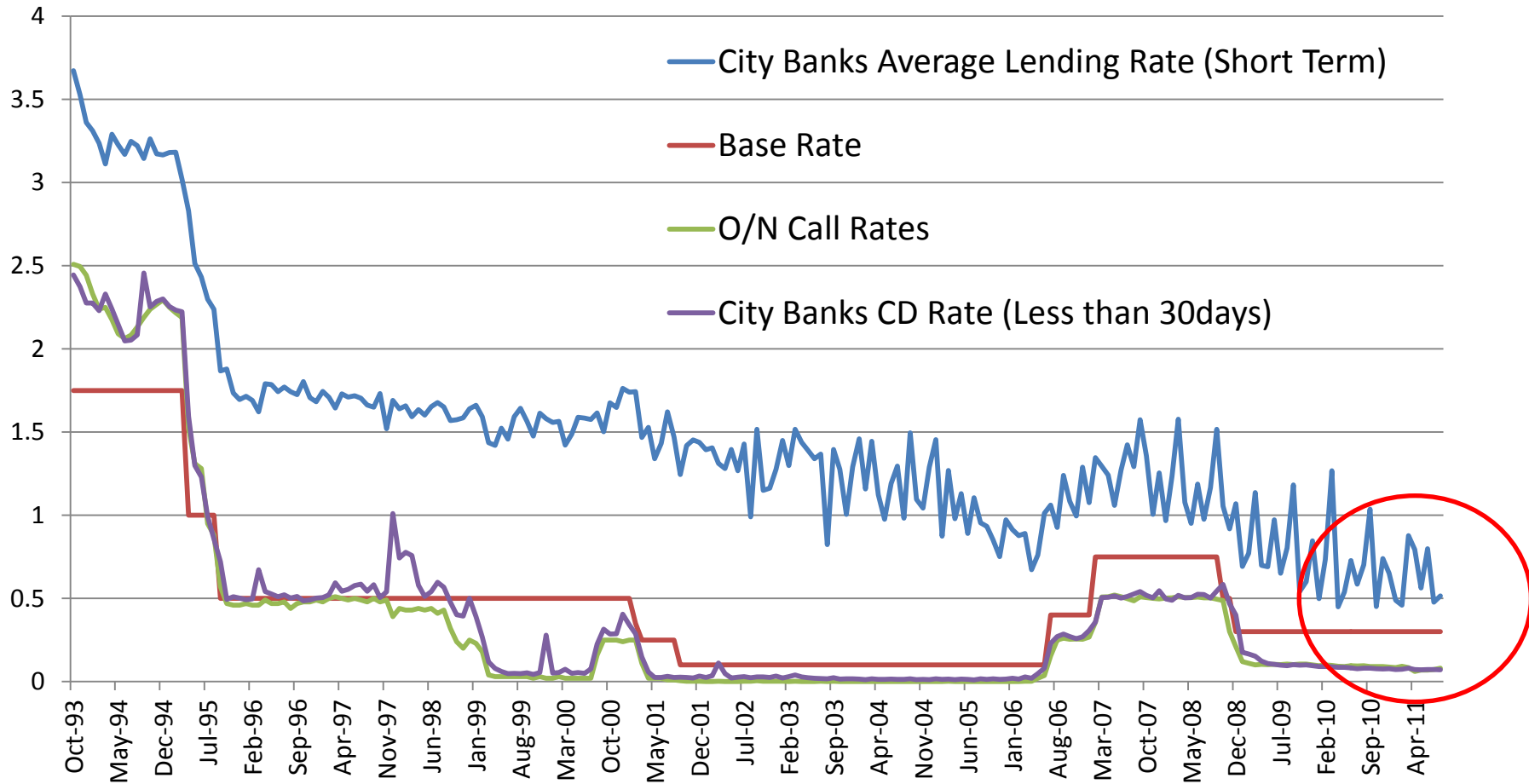
(All Industrial sectors and all sizes, excluding Banks and Other Financial Industries)

(trillion ¥)



Source: MOF

Interest Rates in Japan



Source: BOJ

4.Recent Market Development

The Vision behind

- To make Japan's financial and capital market and financial industry more internationally competitive
 - Create a market which can be comparable to Euromarket
- To develop an easy to use + cost competitive market for professionals (professional investors and professional issuers all)
- To provide more options for companies in fundraising - create an effective alternative funding market from the event risk + market risk management point of view

2008 Legislation for the Professional Securities Market

- The Japanese Government revised the Financial Instruments and Exchange Act (FIEA) in 2008, creating a new professional investor only market system in order to meet with the above vision.
- The biggest feature of this legal framework was the creation of the “exchange regulated” market system which is exempt from the full disclosure requirements.

Comparison of Japanese Market and Euro Market

The Euro Bond Issuing Market (Mostly for institutional investors)	The Japanese Bond Issuing Market								
<table border="1"><tr><td data-bbox="189 402 511 611">LSE Main Board (About 15,000 issues)</td><td data-bbox="583 402 906 611">LSE PSM (About 500 issues)</td></tr><tr><td data-bbox="189 674 511 882">LUX Main Board (About 25,000 issues)</td><td data-bbox="583 674 906 882">LUX Euro MTF (About 4,000 issues)</td></tr><tr><td colspan="2" data-bbox="386 939 709 1106">SGX (About 1,000 issues)</td></tr></table>	LSE Main Board (About 15,000 issues)	LSE PSM (About 500 issues)	LUX Main Board (About 25,000 issues)	LUX Euro MTF (About 4,000 issues)	SGX (About 1,000 issues)		<table border="1"><tr><td data-bbox="1020 421 1810 778">Securities Registration Statement System (Shelf Registration System) The system is for general investors including retail The issuance is mostly for professional investors</td></tr><tr><td data-bbox="1020 825 1810 1202">TOKYO PRO-BOND Market The system and the issuance for Professional-investors-only</td></tr></table>	Securities Registration Statement System (Shelf Registration System) The system is for general investors including retail The issuance is mostly for professional investors	TOKYO PRO-BOND Market The system and the issuance for Professional-investors-only
LSE Main Board (About 15,000 issues)	LSE PSM (About 500 issues)								
LUX Main Board (About 25,000 issues)	LUX Euro MTF (About 4,000 issues)								
SGX (About 1,000 issues)									
Securities Registration Statement System (Shelf Registration System) The system is for general investors including retail The issuance is mostly for professional investors									
TOKYO PRO-BOND Market The system and the issuance for Professional-investors-only									

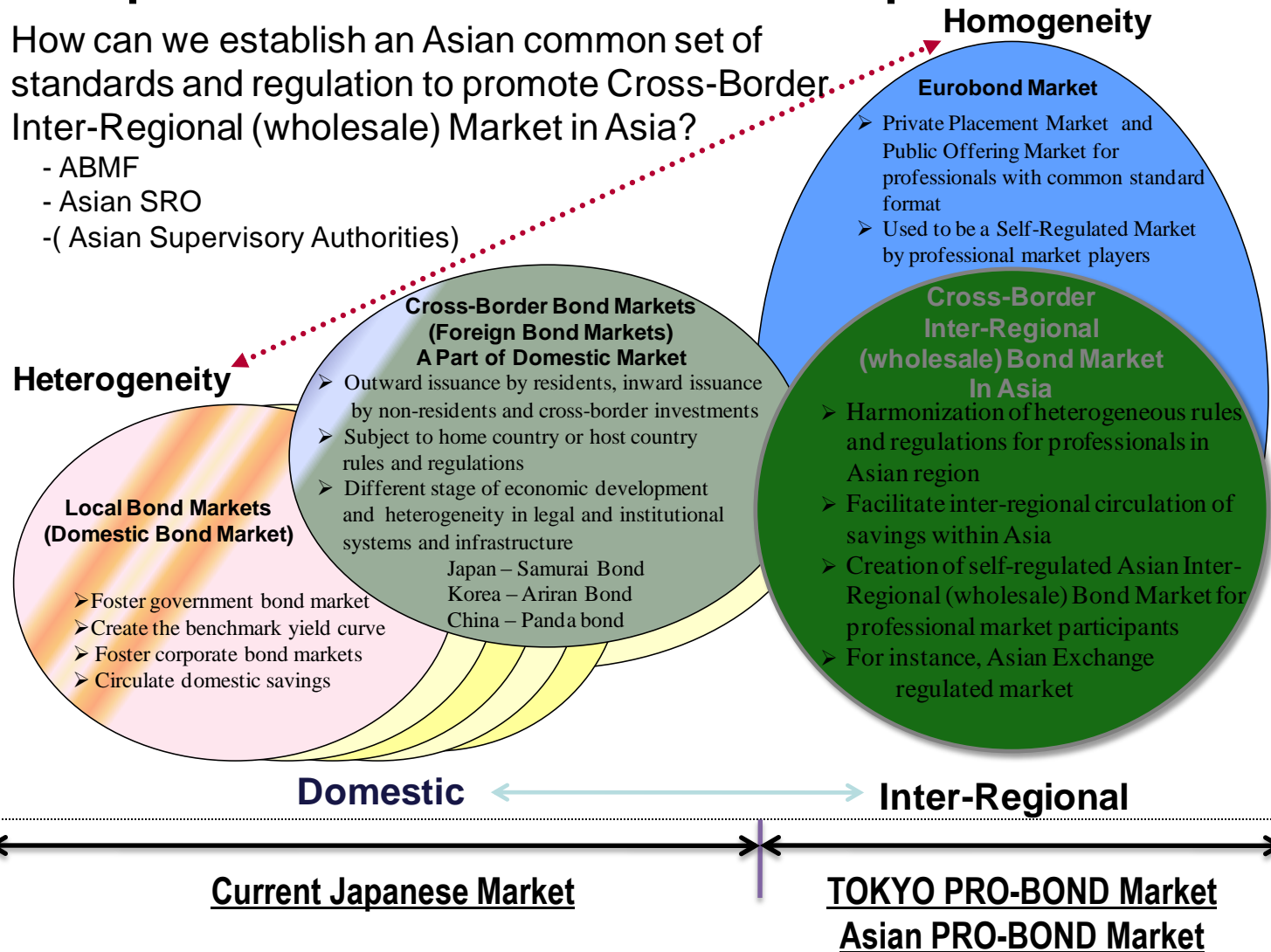
Implication of Pan-Asian PRO-BOND Market

Inukai & Hyun (2010)

Sequence of Bond Markets Development in Asia

How can we establish an Asian common set of standards and regulation to promote Cross-Border Inter-Regional (wholesale) Market in Asia?

- ABMF
- Asian SRO
- (Asian Supervisory Authorities)



Comparative Legal Studies tradition
and
Importance in showing Asian model

Comparative Legal Studies as Japan's tradition

- Civil law or civil law system has developed in Western Europe, and widely adopted in continental Europe.
- Japan has adopted it during the Meiji Restoration, and then spread in Korea and China and other East Asian countries.
- Japan, then, while under the influence of English law and U.S. law, became rooted in the tradition of Comparative Legal Studies in Asia.

- On the other hand, Common law historically derived from English law, now forms the foundation of the UK (except Scotland), the British Commonwealth countries and English-speaking country's legal system.
- For example, in Asia, countries and regions that there was once a British colony, essentially have maintaining the tradition of common.

Importance in showing the model of Pan-Asian PRO-Bond Market

- → In the West, in order to stabilize the financial system and to prevent the recurrence of the global financial crisis, it has become a definitive direction to strengthen supervision and financial regulation.
- → For Asia, when we seek for a way and a direction of the development of our own capital market regulation and supervision in the Asian region, it is important (1) to take advantage of high savings and a robust economy within Asia, and (2) to emphasize harmony with the traditions and the culture in Asia.
- → What are the basic principles of legislations / self-regulations / regulatory supervision to be applied to the common financial and capital markets for professionals within the Asian region?

Importance in showing Asian model

- → It is an important policy issue in Asian region as a whole for regional market participants and regulators to discuss the basic principles, and share together, both vision and design (Asian model) of the legislative and regulatory infrastructure of the professional market, i.e. Pan-Asian PRO-Bond Market.