



Japan's Capital Markets and the FSA

Financial Services Agency (FSA), Japan
November 2003



I. Japan's Capital markets – A Comparative View (1)

1. Number of companies with equity shares listed

2003 (September)				
Zone	Exchange	Total	Domestic	Foreign
JAPAN	Tokyo Stock Exchange	2,172	2,140	32
	Jasdaq	939	939	-
	Other stock exchanges*	1,389	1,389	-
	TOTAL	4,500	4,468	32
US	NYSE	2,311	1,843	468
	Nasdaq	3,324	2,980	344
	Amex	556	507	49
	TOTAL	6,191	5,330	861
EUROPE**	London Stock Exchange	2,692	2,301	391
	(exclude AIM from domestic)	2,692	1,583	1,109
	Euronext ***	1,409	1,061	348
	Deutsche Börse	880	691	189
	TOTAL	4,981	4,053	928

* includes FSA registered companies

** Major European markets

*** Euronext includes Amsterdam, Brussels, Lisbon, and Paris figures



I. Japan's Capital markets – A Comparative View (2)

2. Market Valuation

(million US\$)

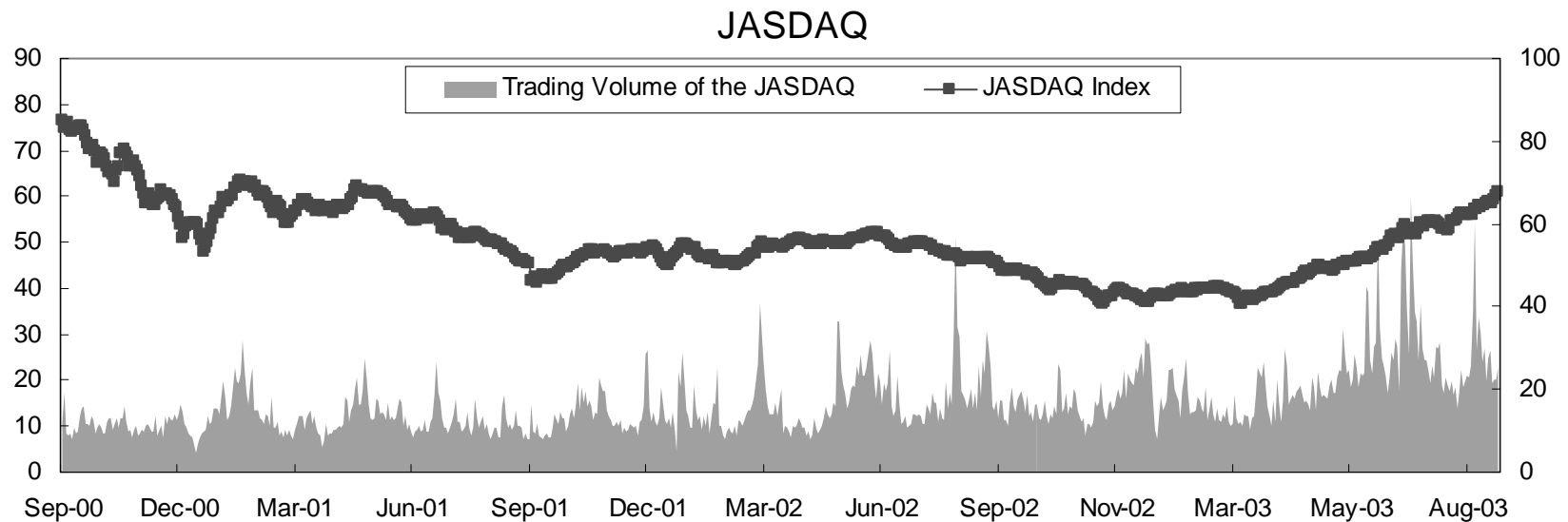
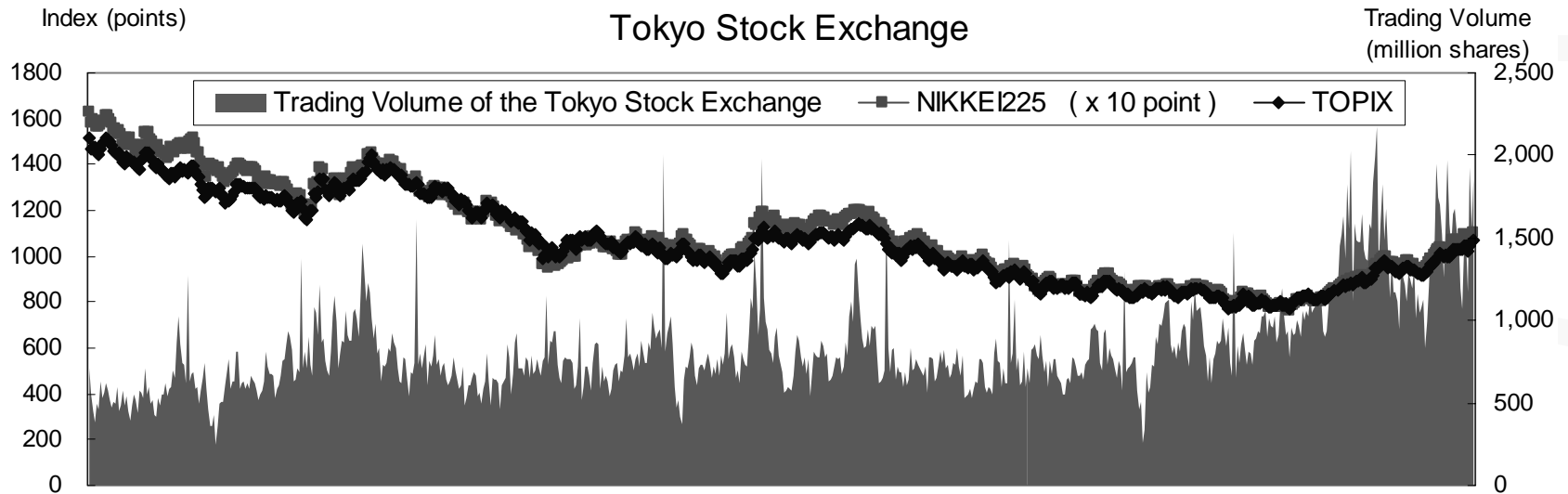
Country	Market	Market Valuation
JAPAN	Tokyo Stock Exchange	2,746,471
	JASDAQ	108,635
USA	NYSE	10,114,737
	NASDAQ	2,644,452
EUROPE	London Stock Exchange	2,110,604
	Deutsche Börse	841,460
	Euronext	1,742,107

At the end of September, 2003



II. New Comprehensive Program for Promoting Securities Markets Reform (August 6, 2002) (1)

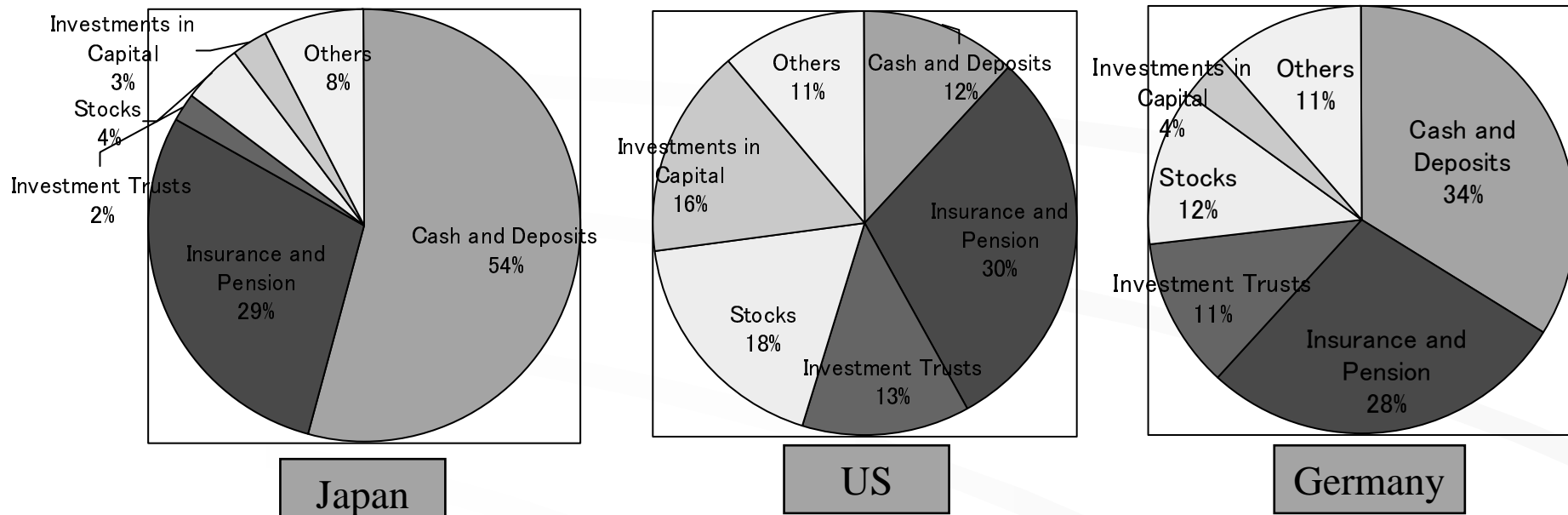
Recent Market Developments





II. New Comprehensive Program for Promoting Securities Markets Reform (August 6, 2002) (2)

Composition of Individual Financial Assets



Priorities : Shift toward market finance

Further promotion of securities markets with participation of a wide range of investors

New Comprehensive Program



II. New Comprehensive Program for Promoting Securities Markets Reform (August 6, 2002) (3)

1. Enhancing access to securities markets for investors

- Expanding the securities marketing channels (e.g. introduction of independent contractors, sales of certain securities through banks)
- Developing environment for reliable investment trust and investment advisor services
- Promoting investor education programs
- Tax measures that promote active participation by investors

2. Establishment of fair and transparent securities markets investors can invest with confidence

- Strengthening the organization and function of the Securities and Exchange Surveillance Commission (SESC)
- Enhancing accounting and auditing system
- Ensuring fair transactions in securities markets
- Enhancing disclosure
- Strengthening corporate governance



II. New Comprehensive Program for Promoting Securities Markets Reform (August 6, 2002) (4)

3. Establishment of efficient and competitive securities markets

- Reviewing rules on stock exchanges, OTC markets and private offering markets
- Promoting reform of the securities settlement system
- Promoting securitization



III. Comprehensive Revision of the Certified Public Accountants Law in Japan

○ Schedule

- The Diet (the Japanese legislature) passed the bill to comprehensively revise the CPA Law on May 30.
- The amendment will become effective in April 2004. (New CPA examinations will start in 2006.)

○ Major Points

▪ **Enhancing auditor oversight**

- Quality control review by the JICPA will be monitored and reviewed by the CPA and Auditing Oversight Board ("CPAAOB"), an independent third-party board established within the FSA.
- The CPAAOB will have the authority to inspect CPAs and audit firms.

▪ **Strengthening auditor independence**

- Strengthening regulation on provision of non-audit services
- Requirement of rotation of partners

▪ **Reviewing CPAs examinations**

- Simplification of the present system of CPA examination, providing greater access to potential applicants and professionals



IV. Enhancement of Corporate Governance

(1) Enhancement of Corporate Statutory Auditors System

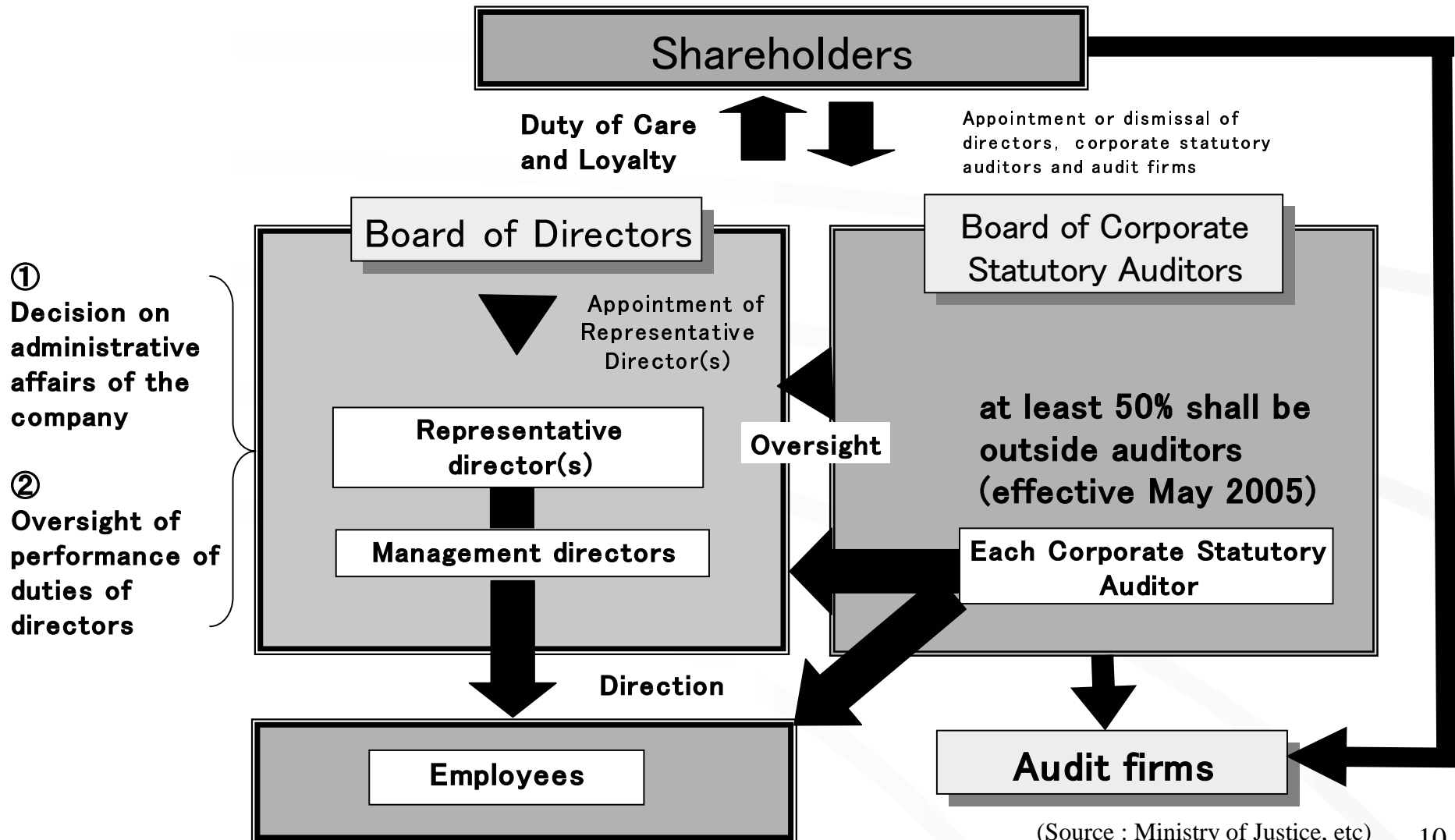
- Legally separate and independent body from the board of directors
- Enhancement of the system
 - Increase in the required number of outside corporate statutory auditors (one ⇒ at least half, effective in May 2005)
 - Strengthening the requirement for the definition of an outside corporate statutory auditor (no director or employee relationship for preceding 5 years ⇒ no director or employee relationship, effective in May 2005)
 - Extending the term of office of corporate statutory auditors (3 years ⇒ 4 years, effective in May 2002)

(2) Introduction of an Option of the Committees System including nomination, audit and compensation committees for large corporations (effective in April 2003)

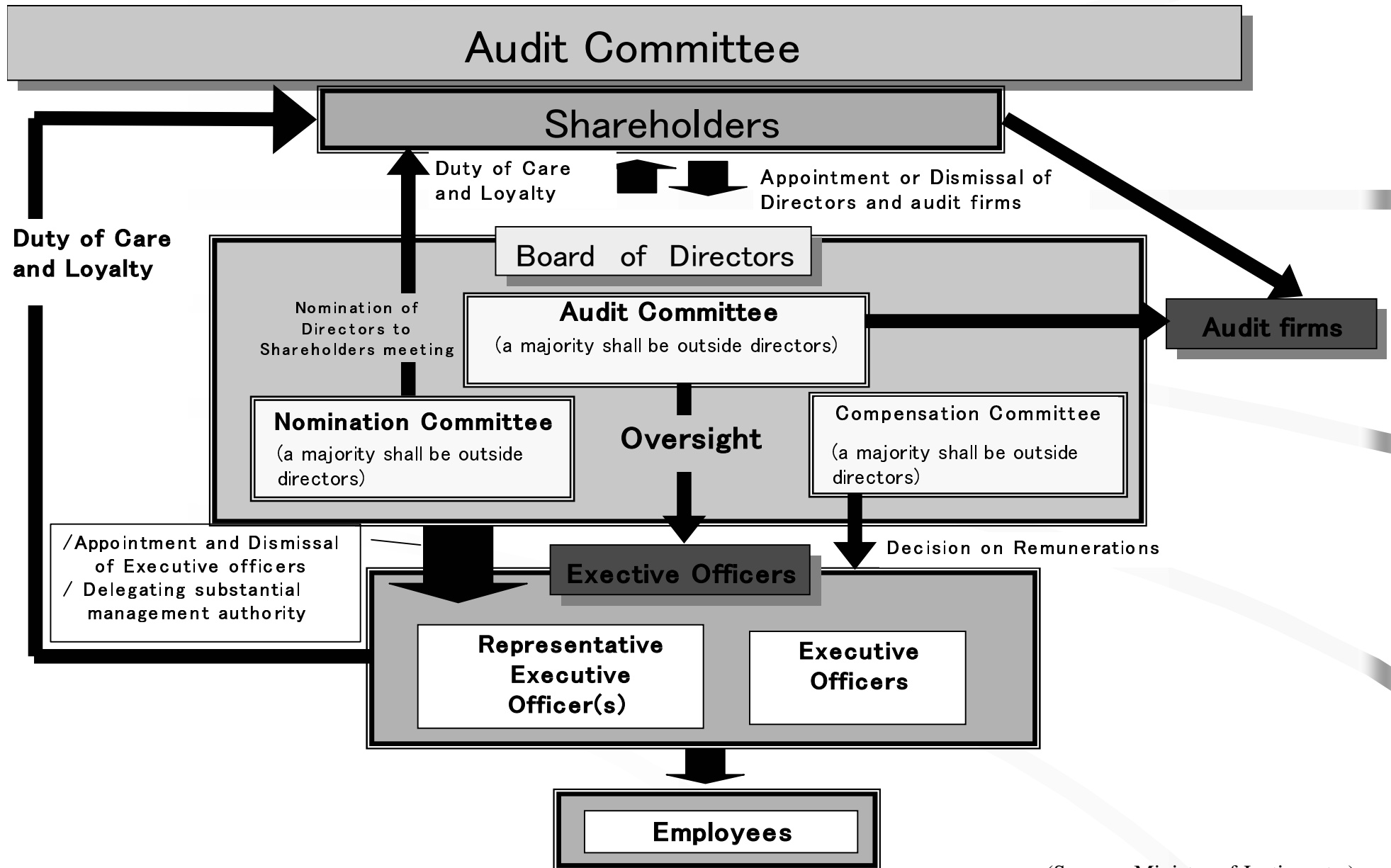
- Each of the three committees is to consist of three or more directors, and in each committee a majority shall be outside directors.

(3) Freedom of choice between these two options by large corporations ⇒ “competition between governance systems”

Board of Corporate Statutory Auditors



(Source : Ministry of Justice, etc)



(Source : Ministry of Justice, etc.)



V. Developments of Internationally Consistent Accounting and Auditing Standards (1)

1. Development of internationally consistent accounting standards

Major Accounting Standards Reviews	Status	Implemented for financial statements beginning on or after
Consolidated Financial Statements	Revised June 1997	April 1, 1999
Consolidated Cash Flow Statements	Issued March 1998	April 1, 1999
Research and Development Costs	Issued March 1998	April 1, 1999
Interim Consolidated Financial Statements	Issued March 1998	April 1, 1999
Retirement Benefits	Issued June 1998	April 1, 2000
Deferred Taxes	Issued October 1998	April 1, 1999
Fair Value Accounting of Financial Instruments	Issued January 1999	April 1, 2000
Foreign Currency Transactions and Financial Statements	Revised October 1999	April 1, 2000
Impairment of Fixed Assets	Issued August 2002	April 1, 2003 (voluntary basis) April 1, 2005
Business Combination	Issued October 31, 2003	April 1, 2006



V. Developments of Internationally Consistent Accounting and Auditing Standards (2)

2. Activities by the Accounting Standards Board of Japan (ASBJ : private accounting standards setting board established in July 2001)

- Debt-equity swap
- Stock options (under consideration)

3. New Auditing Standards (effective in March 2003)

- Risk approach
- Internal control
- “Going concern” assumption



VI. Strengthening Disclosure System

(1) Strengthening Disclosure System (effective in April 2003)

- Enhanced disclosure of governance-related information
 - such matters as internal control system, risk control system, directors' compensation, and audit fees
- Enhanced disclosure of business risk information
- Enhancement disclosure of MD&A (Management's Discussion and Analysis)

(2) Introduction of Quarterly Disclosure System by Stock Exchanges

- Quarterly disclosure system already implemented in the markets for emerging corporations
- Schedule of introduction of quarterly disclosure system in the large markets (such as Sections I and II of the Tokyo Stock Exchange (TSE) and the JASDAQ)
 - ⇒ Mandatory disclosure of "quarterly overview" to the listed companies from April 2003
 - ⇒ Guidelines published by the study committee at Tokyo Stock Exchange to prepare for the quarterly disclosure of financial and operational information from April 2004.



VII. Strengthening of the JSDA Rule on Securities Analysts

The JSDA introduced the rule on securities analysts in January 2002. In response to the recent global developments, the JSDA strengthened the rule on January 15, 2003 (effective in April 2003).

1) Research independence

- Securities analysts must be institutionally independent from the investment banking departments. Especially, securities analysts' compensation should not be linked to the performance of the investment banking businesses.

2) Disclosure of conflicts of interest

- Member firms are required to disclose any conflicts of interest situation of themselves and their research analysts in relation to subject companies.

3) Prohibition of the pre-disclosure to the subject company

- Member firms are prohibited to disclose research reports to subject companies before their publications.

4) Review process of the research report

- Member firms are required to establish review processes which ensures integrity and objectivity of research reports.

5) Strict control of information

- Information obtained through research processes is required to be appropriately controlled.

6) Maintenance requirement of the research reports

- Members are required to maintain research reports for 3 years after their publications.



VIII. International Development of Securities Exchanges(1)

1. Schedule

- December 2002 ⇒ Report by the First Subcommittee of the Financial System Council titled “Promotion of Securities Markets Reform” (“Report”)
- March 14, 2003 ⇒ A bill for amending the Securities and Exchange Law was submitted to the current regular Diet Session based on the Report.
- May 23, 2003 ⇒ The Diet passed the bill.
- April 2004 ⇒ The amendment will be effective.



VIII. International Development of Securities Exchanges(2)

2. Domestic installment of terminals by overseas securities exchanges

(1) Previous response by the FSA

- Case by case response to requests for installing terminals in Japan by overseas securities exchanges

(2) Proposals by the Report (which are included in the bill)

- Enactment of definite rules from the viewpoint of investors' protections and ensuring transparency, properly considering international developments
- Requiring approval by the FSA, but not requiring licensing for opening of a securities market if required rules are met
- Establishment of rules
 - Overseas securities exchanges which shall be recognized as being subject to proper regulations and supervisions by overseas securities regulators and as proper self-regulatory organizations for ensuring fairness of transactions and protecting investors
 - Framework of exchange of information between the FSA and overseas securities regulators
 - Monitoring requirements such as reporting requirement of trading volumes and being subject to supervisory actions by the FSA



VIII. International Development of Securities

Exchange(3)

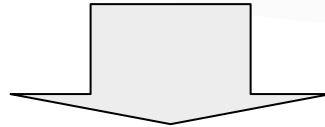
3. Overseas development of Japanese securities exchanges
(Remote Membership and Cross Membership)
 - Allowing membership of Japanese exchanges to overseas securities companies without requiring establishment of a branch in Japan
 - Requirement for the membership
 - Framework of exchange of information including MOUs between the FSA and overseas securities regulators
 - Framework of cooperation on provision of information between Japanese securities exchanges and overseas securities exchanges
 - Appointment of a representative in Japan
 - Monitoring requirements such as reporting, and supervisory actions
4. Development for Alliances and Consolidations of securities exchanges at home and abroad
 - Abolition of the current prohibition of having more than 5% of voting powers of Japanese securities exchanges
 - New prohibition of having a majority of voting powers and new requirement for approval of having in principle 20% or more of voting powers of Japanese securities exchanges
 - Allowing an establishment of a securities exchange holding company



IX. Reforming Japanese Securities Settlement System (1)

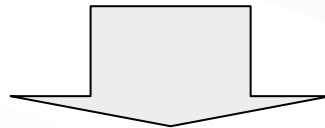
First Step (2001)

- ① The Law regarding Transfer Settlement of Short Term Bond
 - Dematerialization of Commercial Papers (CPs)
- ② The Law Revising the Law concerning Depository and Book entry for share certificates
 - Demutualization of Central Depository



Second Step (2002)

- The Law regarding the revision of relevant laws relating to the development of security market infrastructure in accordance with the reform of securities settlement system
- Dematerialization of Corporate Bonds, Government Bonds, etc



Third Step (2003)

- Dematerialization of Shares, etc
(in preparation)



IX. Reforming Japanese Securities Settlement System (2)

The policy targets to be realized under settlement system reform

