CHAPTER I

The Securities Market and the National Economy

1. What Is a Security?

The financial markets provide a marketplace through which funds are channeled from sectors with idle cash (lenders) to cash-short sectors (borrowers), and the types of financing arranged on these markets are divided in terms of intermediaries into indirect and direct financing. Indirect financing means a form of transaction in which a financial institution acquires a primary security (due bills and notes, etc.) from a borrower with a fund raised by issuing an indirect security (certificates of deposit and insurance policies, etc.). In direct financing, a borrower raises funds by issuing a primary security (stocks and debt securities, etc.) to lenders. The marketplace where direct financing is arranged is the securities market, and this is divided into a primary market (where securities are issued and distributed) and a secondary market (where securities are bought and sold).

Generally, the term "security" refers to instruments that give their legal holders the rights to money or other assets. They are designed to facilitate the assignment of such rights and have the characteristic of combining rights and certificates. More specifically, securities are issued in various forms, such as stocks and bonds issued by business corporations; notes, checks, and bills of lading; government bonds issued by national governments; and municipal bonds issued by local public bodies. Of these, securities traded in the securities market are called "securities under the Financial Instruments and Exchange Act (FIEA)," as defined in Paragraphs 1 and 2, Article 2 of that law. Paragraph 1 defines securities whose interests are represented by securities or certificates that are physically issued as listed in the table on the right.

Paragraph 2 of Article 2 sets forth the definition of deemed securities. In the former part of the paragraph rights presented by securities that are listed in the preceding paragraph are deemed to be securities by themselves in cases where no physical certificates are issued. The latter part of the paragraph then goes on to define deemed securities as rights other than those represented by securities or certificates. The scope of the definition has been substantially widened compared with that of the former law, and, specifically, there are

Table I-1. The Definition of Securities under the Provisions of Paragraphs 2-1 and 2-2 of FIEA

Paragraph 2-1 Securities

1. Government securities
2. Municipal bond securities
3. Bonds issued by special public corporations
4. Specified corporate bonds as provided for in the Act on the Liquidation of Assets
5. Corporate bonds
6. Subscription certificates issued by special public corporations
7. Preferred shares as provided for in the Law Concerning Preferred Shares in Cooperative Financial Institutions
8. Preferred subscription certificates or new preferred subscription rights certificates as provided for in the Act on the Liquidation of Assets
9. Stock certificates or subscription right/warrant certificates
10. Beneficiary certificates of investment trusts or foreign investment trusts
11. Investment certificates or bonds issued by investment corporations, investment equity subscription rights certificates or investment certificates issued by foreign investment corporations
12. Beneficiary certificates of loan trusts
13. Beneficiary certificates of special-purpose trusts as provided for in the Act on the Liquidation of Assets
14. Beneficiary certificates of certificate-issuing trusts as provided for in the Trust Law
15. Commercial paper
16. Mortgage securities
17. Foreign securities: foreign certificates that have the attributes of any type of securities as defined in Items 1 through 9 and Items 12 through 16 hereof
18. Beneficiary certificates of foreign loan claims trusts
19. (Financial) options securities or certificates
20. Foreign depository securities or receipts
21. Securities or certificates designated by government ordinance

Paragraph 2-2 Deemed Securities

(General description of the former clause)
Interests represented by securities that are listed in the preceding paragraph in cases where no physical certificates are issued
(Latter clause)

1. Beneficiary interests in trusts
2. Beneficiary interests in foreign trusts
3. Partnership interests in general or limited partnership companies (*gomei gaisha or goshi gaisha*), as designated by government ordinance, or interests in limited liabilities companies (*godo gaisha*)
4. Partnership interests in foreign corporations, with the attributes of interests defined in any of the preceding items
5. Interests in collective investment schemes as comprehensively defined
6. Interests in foreign collective investment schemes
7. Other interests as designated by government ordinance

Source: Based on Toshiro Ueyanagi, Yutaka Ishitoya, and Takeo Sakurai, *Shin Kin'yu Shohin Torihiki-ho Handobukku*, Nippon Hyoronsha, 2006, and Etsuro Kuronuma, *Kin'yu Shohin Torihiki-ho Nyumon*, Nihon Keizai Shimbun, 2006, and the Financial Instruments and Exchange Act as listed in e-Gov's legal data service.

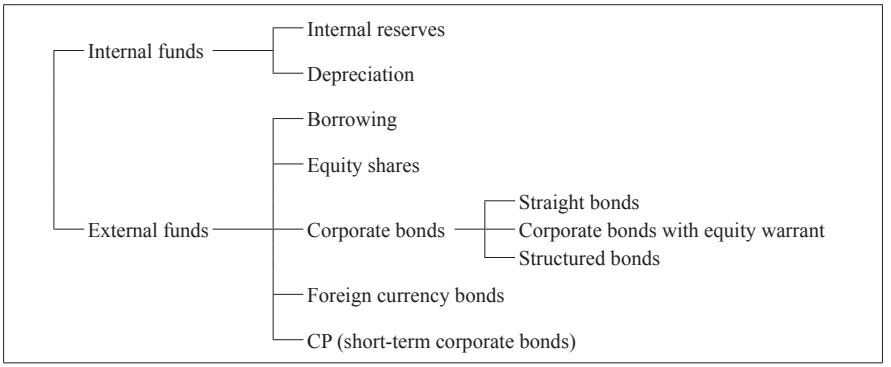
comprehensive provisions in Item (v) of the paragraph for the FIEA to be applicable to various types of collective investment vehicles, or funds. The Electronically Recorded Transferable Rights referred to in Paragraph 3 are asset values that may be transferred by means of an electronic data processing system and refer to rights to be indicated on the securities listed in Paragraph 1. The 2020 amendments to the Financial Instruments and Exchange Act provided a legal framework for electronically transferable securities (security tokens). A Cabinet Office Ordinance set out the provisions for "Electronically Recorded Transferable Rights to Be Indicated on Securities, etc.", with so-called electronically recorded transferable collective investment scheme interests also included in this framework.

2. Corporate Financing

The term "business corporation" (excluding financial service institutions) means economic entities whose objective is to make a profit from such activities as the production and sale of goods or services. Business corporations invest funds in real assets (such as facilities and products in inventories) to carry out production and marketing activities on a continuing basis. Business corporations raise the necessary funds by various means.

Funds raised by business corporations are divided into internal funds (those generated in the ordinary course of the production and sale of goods or services) and external funds (those raised from external sources), according to the method employed to raise them. Technically, internal reserves and depreciation charges are included in internal funds. They are considered the most stable means of corporate financing as corporations are not required to repay the principal of, or pay interest or dividends on, such funds. In actuality, however, business corporations cannot meet their funding requirements with internal funds alone, and most of the requirements have to rely on external funds. External funds are divided into three categories: loans, stocks, and corporate bonds, according to the method employed to raise them. Loans are obtained primarily from banking institutions. This method of raising funds is termed "indirect financing." Business corporations issue shares at the time of their incorporation and issue additional shares (through capital increases) to finance the expansion of their production capacity or for other purposes. As business corporations are not required to repay the principal thus raised or pay interest thereon, the proceeds from the issuance of stock constitute the most stable form of external funds. As is the case with stocks, corporate bonds are also an instrument for raising funds from the capital markets, and issuers have to redeem them on or by a predetermined date of redemption and pay a definite rate of interest on them. Corporate bonds are largely divid-

Chart I-1. Corporate Financing



Note: Internal reserves refer to a company's after-tax income less any dividends and officers' bonuses. Depreciation charges are recognized as the economic benefits of tangible fixed assets, such as buildings and machinery, that are consumed each year and recorded as expenses. In other words, they are reserves for facility replacement.

ed into straight bonds (SB), corporate bonds with subscription rights/warrants, and structured bonds (see Chapter V regarding corporate bonds with subscription rights/warrants and structured bonds). The issuance of stocks or corporate bonds is recognized as a means of raising funds through direct financing.

A survey of changes in the composition of companies' outstanding financial liabilities by source of external financing shows that bank borrowings have stabilized after a declining trend since the 1980s. This decline reflects the impact of selling new stocks and corporate bonds on the market following the liberalization and internationalization of the financial markets. Since the 2000s, funds raised through the issue of securities have outpaced those obtained through bank borrowings, and direct financing has become the mainstay for the structure of corporate financing in Japan. The total amount of funds raised has increased substantially, with the exception of a sharp drop in 2008 as a result of the global financial crisis, and securities have accounted for about 60% of total funds raised. In particular, the proportion of funds raised by stocks has been over 50% in recent years. The amount raised through corporate bonds is stable but modest, and more than 90% of issuance is rated "A" or higher.

With the enhancement of stock market for startups and the deregulation of the corporate bond market creating a fund-raising route through the capital markets for large and small-to-medium enterprises, the prevalence of securities-based financing is expected to remain stable in the coming years.

Table I-2. Percentage of Funds Raised and Invested by the Corporate Sector

(balances at fiscal year-end)

	1980	1985	1990	1995	2000	2005	2010	2015	2020	2021	2022	2023	2024
Management													
Cash and demand deposits	10.0	7.7	6.6	9.2	13.3	14.3	16.4	15.0	19.2	18.4	18.6	17.5	17.2
Time deposits	14.6	14.9	12.9	10.8	7.6	5.4	8.0	6.4	5.9	5.7	5.8	5.4	5.5
CDs	0.1	1.2	1.1	2.6	3.3	1.6	1.9	1.7	1.2	1.0	0.9	0.8	0.8
Trusts	1.3	1.5	0.7	1.3	0.2	0.3	0.4	0.5	0.6	0.5	0.6	0.5	0.4
Investment trusts	0.1	0.6	0.2	0.4	1.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Securities	15.7	26.1	31.1	24.3	22.4	38.6	23.9	33.1	31.0	30.6	28.4	31.3	29.8
(equity shares)	13.6	23.7	28.3	22.7	19.4	34.6	19.3	30.4	28.7	28.4	26.2	29.3	27.6
(debt securities)	2.2	2.4	2.9	1.6	3.0	4.0	4.6	2.7	2.3	2.2	2.2	2.0	2.2
Inter-business credits	45.7	35.5	30.7	35.5	33.8	26.8	29.1	21.4	17.1	17.7	18.3	16.8	16.8
Others	12.5	12.5	16.6	15.9	18.4	13.0	20.2	21.9	24.9	25.8	27.2	27.5	29.2
Total	311.5	479.5	829.8	779.2	732.2	866.1	736.4	1,038.7	1,229.0	1,313.6	1,343.4	1,498.7	1,505.8
Financing													
Borrowing	42.2	39.4	36.5	40.2	36.7	24.9	31.8	24.8	25.2	25.0	25.6	23.3	24.8
Securities	27.1	38.0	43.0	38.6	41.2	53.4	41.0	55.0	59.9	59.5	58.5	62.8	60.9
(equity shares)	23.0	33.9	37.3	32.7	34.8	49.2	35.3	50.3	54.5	53.9	53.0	57.9	55.9
(corporate bonds)	2.2	2.5	2.3	3.8	4.9	3.5	5.1	4.2	4.5	4.5	4.5	4.0	4.0
(foreign currency bonds)	1.8	1.6	2.6	1.5	0.6	0.3	0.3	0.3	0.6	0.7	0.7	0.7	0.7
(CPs)	0.0	0.0	0.8	0.6	0.9	0.3	0.3	0.2	0.3	0.4	0.3	0.2	0.2
Inter-business credits	24.3	17.0	14.6	15.4	16.5	14.6	18.1	13.5	9.8	10.6	11.1	9.8	10.1
Others	6.4	5.5	5.9	5.8	5.6	7.2	9.1	6.8	5.1	4.9	4.8	4.2	4.2
Total	477.6	761.3	1,359.6	1,352.3	1,177.7	1,507.6	1,123.6	1,484.9	1,862.7	1,919.9	1,940.7	2,255.6	2,178.0

Notes: 1. In percentages and trillions of yen.
2. Time and savings deposits include foreign currency deposits.
3. Figures in parentheses are a breakdown of securities, and equity shares include equity subscriptions.
4. Investment of equity shares is based on market prices and that of new shares issued in the years up to fiscal 1990, inclusive, is based on the capital plus capital reserve and that is based on the market prices since fiscal 1995.

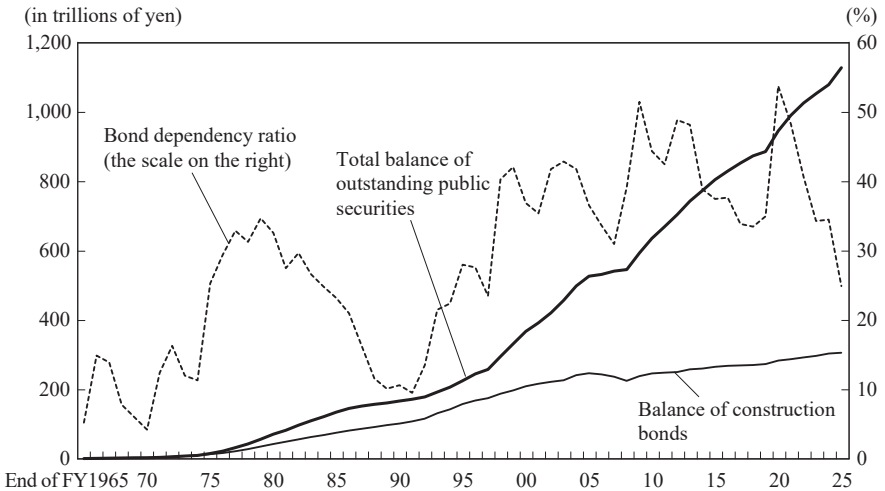
Source: Compiled from the Flow of Funds Account data published on the web site of the Bank of Japan.

3. The Securities Market and Public Finance

Public finance is a type of economic activity carried out by the government (national and local). More specifically, the government conducts administrative services (law enforcement and education, etc.) and public investment based on the revenue largely from taxes. In practice, the government adjusts its fiscal policies in response to economic trends. When government expenditures exceed revenues, the deficit is met mainly by issuing public bonds (government and municipal government bonds).

A survey of changes that have occurred in the balance of outstanding pub-

Chart I-2. Changes in the Balance of Outstanding Public Securities and the Degree of Dependence on Public Securities



Notes: 1. Figures for fiscal 2025 are estimates.
2. Based on straight government bonds.
Source: Compiled from the data issued by the Ministry of Finance.

lic bonds and the government's dependency on debt financing shows that the government issued special government bonds (deficit-financing) in fiscal 1965, the first time since the end of World War II, under a supplementary budget and also that the government has issued a series of construction bonds on a continuing basis since fiscal 1966. However, both the bond dependency ratio and the balance of outstanding government bonds at a low level until the first half of the 1970s. As tax revenues had leveled off due to an economic slowdown that began in the second half of the 1970s, the government had no choice but to issue a large amount of government bonds, and their outstanding balance had increased sharply to ¥71 trillion at the end of fiscal 1980. As a result, government bonds came to carry an increasing weight in the securities market, and the influence of government fiscal policies on the securities market was increasingly important. In order to improve the fiscal situation, a fiscal restructuring policy was adopted from fiscal 1981. Once public bond dependency was reduced and increases in the balance of outstanding public bonds had been curbed, economic stimulus measures implemented in response to the prolonged recession since the 1990s and the financial crisis in 2008 have led to an increase in the issuance of public bonds. The public bond dependency ratio declined subsequently, but then rose

Table I-3. Changes in JGB and Short-Term Government Bill Ownership by Investor Type

(in percentages)

Types of investors	FY2009	FY2011	FY2013	FY2015	FY2017	FY2019	FY2021	FY2022	FY2023	End of Dec. 2024
General government	1.9	1.9	2.4	0.4	0.3	0.3	0.2	0.2	0.2	1.8
Public pension funds	9.2	7.9	7.0	4.9	4.0	3.3	3.7	3.8	4.9	5.2
Fiscal loan funds	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bank of Japan	8.8	9.6	20.0	33.8	41.8	44.2	43.3	47.3	47.4	46.3
Banks	47.2	45.4	35.5	24.6	18.4	15.2	17.3	13.0	13.2	14.5
Life, nonlife, and other insurance companies	18.0	19.1	19.6	20.5	19.6	19.5	17.6	17.0	16.2	15.6
Pension funds	3.4	3.2	3.3	3.0	2.7	2.6	2.5	2.5	2.6	2.7
Overseas	5.6	8.3	8.2	10.3	11.0	12.9	13.6	14.1	13.7	11.9
Households	4.0	2.9	2.0	1.1	1.1	1.2	1.0	1.0	1.1	1.2
Others	1.9	1.6	1.8	1.4	1.0	0.9	0.7	0.9	0.7	0.8

Notes: 1. Figures for the end of fiscal 2024 are preliminary figures.
2. "Government bonds" includes "FILP bonds."
3. Banks include Japan Post Bank, securities investment trusts and securities companies.
4. Life, nonlife, and other insurance companies include Japan Post Insurance.
5. Others are composed of nonfinancial corporations and private nonprofit institutions serving households.

Source: Compiled from Saimu kanri ripoto 2025 (Debt Management Report 2025) published by the Ministry of Finance and the Flow of Funds Account data published by the Bank of Japan.

sharply to 53.8% in 2020 following fiscal stimulus in response to the COVID-19 pandemic. Although the public bond dependency ratio has been on a declining trend since 2021, the balance of outstanding public bonds also continues to increase sharply and is expected to have reached approximately ¥1,129 trillion by the end of fiscal 2025.

Looking at the ownership structure of Japanese government bonds (JGBs) as shown in the table on the right, the share held by banks (including Japan Post Bank), which were previously the major holders, has declined significantly following the introduction of quantitative and qualitative monetary easing by the Bank of Japan in 2013. In contrast, the Bank of Japan's ownership ratio increased to 47.4% as of the end of fiscal 2023. Subsequently, following the termination of the negative interest rate policy and subsequent policy rate hikes in 2024, this trend appears to have been checked.

Public pension funds, who used to be stable investors premising their in-

vestments on long-term ownership, have reduced their investment percentage to 5.2% as of the end of 2024, following a review in October 2014 by the Government Pension Investment Fund (GPIF) of its distribution of investment assets and a reduction in its domestic bond investment ratio. Meanwhile, foreign investors held 11.9% at the end of 2024. The level of foreign ownership of JGBs warrants close monitoring.

4. Financial Assets Held by the Household Sector

The financial assets held by the household sector in Japan have increased to ¥2,239 trillion as of the end of June 2025. Looking at the household sector's financial surplus (excess savings) in terms of the flow of funds, it peaked in the mid-1990s and then declined and stabilized. Households moved to secure liquidity during the COVID-19 pandemic, with a rapid increase in the amount held in cash and deposits. Thereafter, the cash surplus decreased to normal levels, but holdings of cash and deposits have remained at a high level.

A survey of changes in the management of financial assets held by the household sector found the following three characteristics. First, while the component ratio of cash and demand deposits has been rising, time deposits, which used to carry the largest weight within financial assets, have tended to decrease since the 1980s. This tendency of the component ratio is mainly due to the low interest rate policy and the quantitative and qualitative monetary easing measures adopted by the Bank of Japan. Second, the ratio of insurance and pensions rose consistently through the end of fiscal 2000 and has since remained relatively stable. This trend likely reflects that Japan has already become an aging society. Third, the weight of securities in household financial assets, especially stocks, declined considerably due to the sluggish stock market following the collapse of the economic bubble and the sharp sell-off in stock prices caused by the financial crisis in 2008. However , despite some market turbulence due to COVID-19, this weighting recovered to 13.9% by the end of fiscal 2024. In particular, stock holdings have increased due to the new NISA launched in 2024 and the strong stock market in 2025.

A comparison of household investment in financial assets between Japan and other countries (in the case of Japan, those of non-profit-making institutions providing services to households are not included) as of the end of March 2025 still shows a difference in the preference for types of assets. While Japanese households hold 51.0% of their funds in cash deposits and 19.6% of their funds in securities (including investment trusts), their American counterparts hold 11.5% of their funds in the former and 59.2% in the latter. In Europe, the figures are 31.8% and 39.1%, respectively. In choosing appropriate investment assets, while it is necessary to take into a consider-

Table I-4. Percentage Composition of Financial Assets of Individuals

(at fiscal year-end)

	1980	1985	1990	1995	2000	2005	2010	2015	2020	2021	2022	2023	2024
Cash and demand deposits	9.8	7.7	7.2	8.2	11.6	20.9	23.6	25.9	32.8	34.1	35.1	34.6	34.7
Time deposits	48.7	44.9	40.2	41.9	42.3	27.6	29.8	26.3	20.7	19.3	18.3	16.6	16.2
Trusts	4.5	4.0	3.7	3.4	1.5	0.4	0.2	0.2	0.3	0.3	0.3	0.3	0.2
Insurance funds	13.4	16.3	20.8	25.4	27.1	29.8	30.4	29.7	27.7	27.1	26.7	26.0	25.7
Investment trusts	1.2	2.3	3.4	2.3	2.4	3.3	3.9	4.2	4.2	4.5	4.4	5.5	5.9
Securities	16.1	19.7	19.6	13.9	10.0	15.0	9.3	10.9	11.7	11.8	12.4	13.8	13.9
(equity shares)	13.2	16.0	16.9	11.5	8.1	12.9	7.0	9.7	10.6	10.8	11.3	12.8	12.7
(debt securities)	2.8	3.7	2.6	2.5	1.9	2.1	2.3	1.2	1.1	1.0	1.0	1.1	1.2
Others	6.3	5.2	5.2	4.9	5.1	3.0	2.8	2.7	2.7	2.9	2.8	3.3	3.3
Total amount	372.0	626.8	1,017.5	1,256.5	1,394.1	1,619.0	1,557.4	1758.5	1975.8	2,036.7	2,070.4	2,187.1	2,199.7

Notes: 1. Composition in percentages and totals in trillions of yen.
2. Time and savings deposits include negotiable and foreign-currency deposits.
3. Figures in parentheses are a breakdown of securities, and equity shares include equity subscriptions.
4. Equity shares are based on market prices.

Source: Compiled from the Flow of Funds Accounts data published on the web site of the Bank of Japan.

Table I-5. Comparison of Japanese and U.S. Household Assets Composition (as of March 31, 2025)

	Japan	United States	Euro area
Cash and demand deposits	51.0%	11.5%	31.8%
Bonds	1.4%	4.6%	2.9%
Investment Trusts	6.0%	13.1%	10.9%
Stocks, etc.	12.2%	41.5%	25.3%
Insurance and annuity	26.0%	26.6%	26.9%
Others	3.4%	2.6%	2.2%

Source: Compiled from the Bank of Japan's "Comparison of the flow of funds between Japan, the United States and the Euro area" (August 29, 2025).

ation a wide range of differences, including social security systems, among the regions, these figures suggest that Japanese households prefer assets that guarantee principal, the Americans choose those with higher performance potential and Europeans sit somewhere between the two.

In Japan, however, the direct link between households and the securities market has become stronger with the revision of defined contribution pension

plans and individual-type defined contribution pension plans (iDeCo), and the fundamental expansion and permanent establishment of the Nippon Individual Savings Account (NISA), a small-amount investment tax exemption scheme. Furthermore, favorable market conditions, including the Nikkei Stock Average breaking 50,000 in October 2025, have encouraged households to invest in securities.

5. Investment Behavior of Foreigners (Inbound Securities Investment)

Over a period of years after the war, international financial and capital transactions were banned, in principle. However, since the Foreign Exchange and Foreign Trade Act was amended in December 1980 (the new Foreign Exchange and Foreign Trade Act), the system of licensing international financial and capital transactions was changed from the prior permission system to a prior notification system, making them free in principle. Furthermore, by virtue of an amendment to the new Foreign Exchange and Foreign Trade Act in April 1998 (one of the main reforms under what was locally called "the Japanese version of the Big Bang"), the prior notification system for foreign exchange transactions was abolished, completely liberalizing direct financial transactions with overseas.

Looking at inbound securities investment in recent years, foreign investors were net buyers of Japanese stocks following the stock market crash in 2002, net sellers after the financial crisis in 2008, and net buyers again during the sharp rally in stock prices from the end of 2012. Since 2014 they have been either relatively modest net buyers or net sellers of Japanese stocks. However, the volume of stocks bought and sold by foreign investors has increased sharply since 1999, and as a result the difference between the two has fluctuated widely. Both the value of acquisitions and the value of disposals have reached record highs, reflecting the recovery in stock prices post-COVID and the strength of the market, with the Nikkei Stock Average breaking through its bubble-era highs in February 2024 and exceeding 50,000 in October 2025.

On the other hand, foreign investors were net sellers of medium/long-term bonds in 1999 after the abolition of securities transaction taxes, during the depreciation of the yen in 2002 and 2003 and during the financial turmoil in 2008 and 2009 to cover arbitrage positions, and in 2013 when the Bank of Japan introduced quantitative and qualitative monetary easing. In addition to institutional factors such as the expanded market for medium-term government notes (two- and five-year interest-bearing government bonds), bond trading has remained at a high level against the backdrop of increased arbitrage activity by foreign funds, and the trend of net buying has continued since 2014. As in the case of stocks, bond trading has seen a sharp increase in

Table I-6. Inbound Securities Investment

(¥100 million)

Calendar year	Equity and investment fund shares			Debt Securities (excluding bills)			Net balance
	Bought	Sold	Net	Bought	Sold	Net	
2010	1,736,099	1,717,710	18,389	695,100	688,976	6,125	24,513
2011	1,974,084	1,971,556	2,528	884,363	838,985	45,379	47,906
2012	1,867,789	1,846,517	21,272	811,683	790,007	21,676	42,948
2013	3,942,020	3,783,603	158,416	838,677	873,965	−35,288	123,128
2014	4,115,951	4,089,468	26,483	762,694	676,154	86,540	113,022
2015	5,231,108	5,228,502	2,606	802,426	727,168	75,258	77,865
2016	4,955,097	5,011,755	−56,658	965,053	921,289	43,764	−12,894
2017	5,167,744	5,162,228	5,515	803,430	761,290	42,140	47,655
2018	5,817,386	5,877,281	−59,896	841,269	817,331	23,938	−35,958
2019	4,776,114	4,779,757	−3,643	1,081,377	981,491	99,886	96,243
2020	5,712,328	5,805,004	−92,676	1,043,869	1,069,475	−25,607	−118,283
2021	6,267,370	6,252,711	14,659	1,290,942	1,166,715	124,227	138,886
2022	6,884,092	6,892,983	−8,891	1,713,749	1,821,620	−107,871	−116,762
2023	7,780,282	7,750,194	30,088	2,277,927	2,330,207	−52,279	−49,191
2024	10,034,777	10,022,517	12,260	2,688,656	2,662,008	26,647	38,907

Note: Up to 2004, figures were compiled based on "Changes in In-and Out-Bound Securities Investment (on a settlement basis)." Since 2005 and thereon, figures have been compiled based on "International Transactions in Securities (based on reports from designated major investors)."
Source: Compiled from materials listed on the web site of the Ministry of Finance.

buying and selling volumes and the difference between purchases and sales has fluctuated substantially since 2021.

Looking at the trend in the balance, it turned upward again in 2003 due to a recovery in stock prices, increasing to approximately ¥149 trillion at the end of 2006, but remained stagnant from 2010 to 2012 due to the impact of the global financial crisis. Most recently, the balance of stock investments has grown steadily, increasing to approximately ¥335 trillion at the end of 2024. The balance of domestic debt securities held by overseas investors, long- and medium-term bonds and notes combined, also increased steadily to a total of approximately ¥134 trillion at the end of 2024. Next, looking at the breakdown of Japanese stock ownership by region, American investors have maintained a high level of stock ownership at 54.3% at the end of 2024. For debt securities on the other hand, contrary to stocks, American investors' share was 32.0% at the end of 2024, while European investors were close to

Table I-7. Balance of Inbound Securities Investment and Related Indicators

Year-end	Stocks (¥b)		Bonds (¥b)		TOPIX	Interest rate (%)	¥/$ (¥)
2010	80,537	(26.4)	42,877	(14.0)	898.80	1.110	81.51
2011	65,841	(20.7)	45,730	(14.4)	728.61	0.980	77.57
2012	83,556	(23.2)	49,504	(13.8)	859.80	0.795	86.32
2013	152,323	(32.3)	50,168	(10.6)	1,302.29	0.740	105.37
2014	169,144	(29.2)	64,434	(11.1)	1,407.51	0.320	119.80
2015	186,919	(30.7)	72,623	(11.9)	1,547.30	0.265	120.42
2016	181,530	(28.0)	83,001	(12.8)	1,518.61	0.040	117.11
2017	219,841	(32.1)	95,167	(13.9)	1,817.56	0.045	112.65
2018	176,300	(26.1)	102,615	(15.2)	1,494.09	−0.005	110.40
2019	209,923	(28.6)	118,340	(16.1)	1,721.36	−0.025	109.15
2020	219,657	(27.8)	117,051	(14.8)	1,804.68	0.020	103.33
2021	243,602	(29.0)	135,946	(16.2)	1,992.33	0.070	115.12
2022	226,339	(24.6)	128,558	(14.0)	1,891.71	0.410	132.14
2023	280,697	(27.6)	129,810	(12.8)	2,366.39	0.647	144.09
2024	334,799	(29.7)	133,685	(11.9)	2,784.92	1.111	153.72

Notes: 1. Bonds include only long-term debt securities.
2. Figures given in parentheses are component ratios (%) to the total debts to overseas lenders.
3. Interest rate signifies the yield on 10-year government bonds newly issued and distributed on the secondary market.
4. ¥/$ represents the closing spot rates on the Tokyo market.

Source: Compiled based on the data released by the Ministry of Finance and the Bank of Japan.

a majority at 48.1%. Asian bond holdings used to be close to the share of American investors, but gradually declined to only 10.8% at the end of 2024.

6. Financial and Economic Education as a National Strategy

The Japanese government and the Bank of Japan declared 2005 as the "First Year of Financial Education" because social interest in financial and economic issues increased with the full removal of the government's blanket deposit insurance in 2005. In the same year, the Livedoor Scandal amongst other events made the improvement of financial literacy an important social theme. The importance of financial education has been recognized again and a wide range of financial education activities are being carried out by related government agencies such as the Cabinet Office, Ministry of Education, Culture, Sports, Science and Technology (MEXT), and the Financial Services

Table I-8. Percentages of Japanese Stocks and Bonds Held by Investors of Different Regions

(in percentages)

Year-end	United States	Europe	Asia	Cayman Islands	Others
Equity securities					
2016	49.9	34.9	6.2	1.0	8.1
2017	50.2	34.0	7.3	0.9	7.5
2018	52.6	32.5	6.4	0.9	7.6
2019	54.2	30.9	6.7	0.9	7.3
2020	51.7	33.1	7.1	0.7	7.5
2021	52.0	33.2	7.0	0.6	7.5
2022	52.3	33.3	6.9	0.7	6.8
2023	53.9	32.7	6.7	0.7	6.0
2024	54.3	32.2	7.3	0.8	5.4
Debt securities (bonds and notes)					
2016	20.4	40.7	22.0	5.8	11.2
2017	22.9	42.9	22.3	4.1	7.8
2018	23.1	47.9	17.8	4.3	7.0
2019	21.3	50.1	16.9	4.2	7.5
2020	23.7	54.0	12.7	3.2	6.4
2021	25.5	53.6	12.2	3.1	5.6
2022	27.3	50.6	13.6	1.1	7.4
2023	30.5	45.6	13.1	1.9	8.9
2024	32.0	48.1	10.8	1.0	8.4

Note: Stocks refer to equity and investment fund interests; bonds refer to medium- and long-term bonds.
Source: Compiled on the basis of data from the Ministry of Finance.

Agency, as well as by financial organizations such as the Bank of Japan's Central Council for Financial Services Information, the Japan Exchange Group, and the Japan Securities Dealers Association, and other private financial institutions.

On the other hand, although financial and economic education activities have been conducted on a mutually cooperative basis, various organizations related to financial and capital markets and private financial institutions have looked to disseminate their financial and economic education based on their own ideas and curricula. This is a difficult area in which to carry out comprehensive education, and there is a view that the education has not been suffi-

Chart I-3. Outline of the bill to partially amend the Financial Instruments and Exchange Act regarding financial and economic education

Improvement of financial literacy

■Establishment of a "Basic Policy" to comprehensively promote measures to support asset formation
■Establishment of the Japan Financial Literacy and Education Corporation[A12.1] to provide a wide range of financial and economic education from the user's perspective
Business: Creation of teaching materials and content for financial and economic education, development of courses for schools and companies, individual consultations, etc.
Format: Licensed corporation
Officers: President (1), directors (up to 3), other officers
Governance: Management committee (committee members, president, and directors) established, approved and overseen by the Financial Services Agency
Reference: In addition to the above, the FSA has established an environment that facilitates access to consultation and advice on asset formation

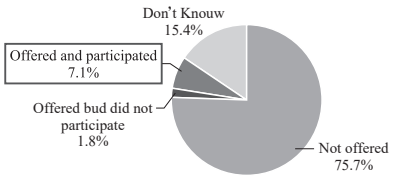
Source: "Explanatory material for the bill to partially amend the Financial Instruments and Exchange Act" (2023) Financial Services Agency.

Chart I-4. FSA Initiatives on Financial and Economic Education

■ Establish the Financial Literacy and Education Corporation as a neutral organization.
(the aim is to establish this by the end of 2024 subject to the passing and implementation of relevant legislation.)
■ Establish a "basic policy" as a national strategy for comprehensive and systematic implantation on throughout the country.

Note: Establishment of Financial Literacy and Education Corporation and the "basic policy" are under discussion in the House of Councillors.

Challenges
- Despite various efforts by the public and private sectors, financial and economic education on asset building has not been widely taken up by the public.
- Industry associations, which are the main players in this field, are not interested in this initiative because it is viewed as a sales tool.
- It is important for the government to work together across government ministries and agencies to comprehensively promote measures to ensure stable asset formation for households.



Source: "Financial Literacy Survey 2022," The Central Council for Financial Services Information.

<Enhancing financial and economic education>
- The Financial Literacy and Education Corporation will be established by law (during 2024) to provide financial and economic education from a neutral standpoint.
- The functions of the Central Council for Financial Services Information (Secretariat: Bank of Japan) will be transferred and taken over, and an operational system will be developed and established. In addition to the government and the Bank of Japan, cooperation from private-sector organizations such as the Japanese Bankers Association and the Japan Securities Dealers Association (JSDA) will be sought for covering operating expenses.
- With appropriate division of roles, the public and private sectors will work together to strategically implement financial and economic education.
- The specific duties of the organization are envisaged as
  ① Creation of teaching materials and content for financial and economic education
  ② Development of courses for schools, companies, etc.
  ③ Advisory services for individuals
  ④ Creation of an environment to facilitate consultation and advice related to asset formation, etc.
  (Provide assistance from the customer's perspective)

<Promotion of cross-ministerial initiatives>
- Formulate a "basic policy" as a national strategy to promote measures to support asset building in a comprehensive and systematic manner throughout the country, with the cooperation of related ministries, local governments, private organizations, etc.

Source: "Doubling Asset-based Income Plan and Initiatives to Support Asset Formation," FSA (2023).

ciently effective because of limitations on human and physical resources.

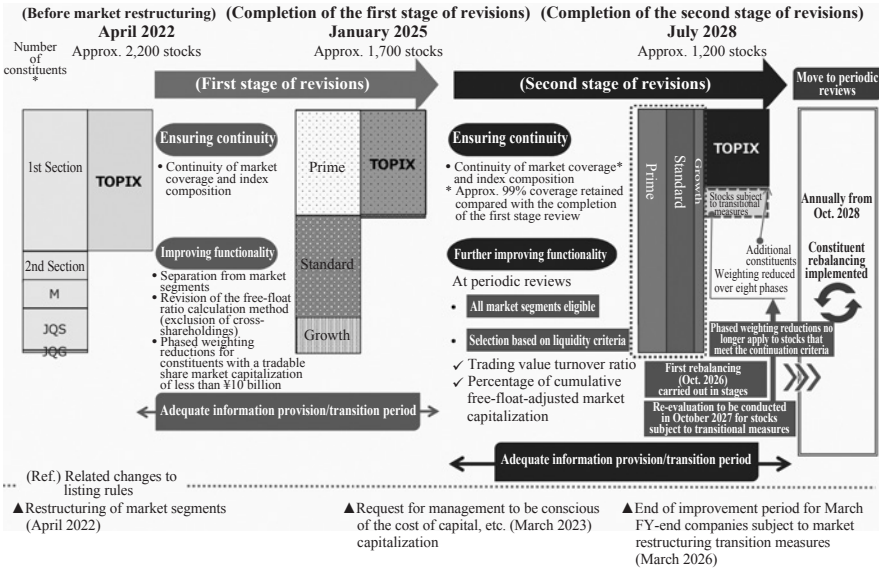
The "Doubling Asset-based Income Plan" set out by the Kishida administration in 2020 aims to increase household income from financial assets in addition to working income and includes measures such as expanding and making permanent the small investment tax exemption system (NISA) in 2024. In addition, it is also expected to enhance Japan's economic growth through utilization of household assets, which are heavily weighted toward cash and savings, for effective investment. One of the seven pillars of the Doubling Asset-based Income Plan is "Enhancing financial and economic education to spread the importance of stable asset formation." The government recognizes financial and economic education as a national strategy and has stated that it will take the lead in improving financial and economic education. In response to the administration's policies, the Financial Services Agency included financial and economic education as a priority in its "Financial Administrative Policy" for fiscal 2023. In the bill to partially amend the Financial Instruments and Exchange Act passed at the 212th Diet session, the "Act on the Provision of Financial Services" was renamed the "Act on the Provision of Financial Services and Development of the Usage Environment." This bill resolved (1) to formulate a basic policy to comprehensively promote measures to support stable asset formation for citizens (Article 82, paragraph 1) and (2) to establish the Japan Financial Literacy and Education Corporation (Article 86) in 2024 to strategically promote financial and economic education from a neutral standpoint. This is expected to be the first officially authorized organization to truly oversee financial and economic education based on public-private sector collaboration.

7. Revision of TOPIX

TSE originally had the following market segments: First Section, Second Section, Mothers, and JASDAQ (Standard and Growth), but these segments were reorganized in April 2022 in order to clarify their respective concepts. Following the reorganization, the market segments are the Prime, Standard, and Growth markets, and the listing criteria for these three markets have been redefined.

Along with the market restructuring, the TOPIX (Tokyo Stock Exchange Stock Price Index), one of the leading stock price indexes in Japan, is also being revised. The TOPIX has previously been calculated based on the market capitalization-weighted method, with all stocks listed on the First Section of the market (approximately 2,200 stocks) included as constituents. The revision will result in a significant decrease in the number of constituent stocks due to revised criteria for selection of constituents.

Chart I-5. Flow of TOPIX Revisions



Source: JPX Market Innovation & Research, Inc., "Overview of Revisions of TOPIX and Other Indices".

TOPIX is reformed in two stages. The first stage is from April 2022 to January 2025 and the second stage is from October 2026 to July 2028. In the first stage of revisions, which has already been completed, stocks which had a tradable share market capitalization of under ¥10 billion were designated as "phased weighting reduction constituents," and their weight in the index was reduced in 10 stages on a quarterly basis. Ultimately, 423 of the 493 designated stocks were removed from the list of index constituents. In the second phase of the revisions, without specifically limiting the target market for stock selection, certain criteria will be set for annual trading value turnover ratio and free-float adjusted market capitalization, and the weighting of stocks that do not meet these criteria will be gradually reduced in eight stages on a quarterly basis.

Although a significant number of stocks will be removed from the list of TOPIX constituents as a result of these revisions, a comparison of the current TOPIX (at the end of the first stage of revisions) and the next-generation TOPIX (at the end of the second stage of revisions) shows that the total free-float adjusted market capitalization and the market coverage ratio will remain almost at the same level, while the median free-float adjusted market capitalization and median daily trading value are expected to approximately double.

Chart I-6. Estimated results (as of the last business day of August 2024)

• Confirmed that, even in the estimation based on the last business day of August 2024, index continuity was maintained while broad market coverage and functionality as an investable index were enhanced.

	Current TOPIX (As of the end of January 2025)	Next-Gen TOPIX (As of the end of July 2028)	Comparison with Current TOPIX
Total free-float-adjusted market capitalization (*1)	¥490 trillion	¥485 trillion	➢ **Largely unchanged**
Market coverage (*2)	Approximately 97.7%	Approximately 96.7%	➢ **Largely unchanged**
Free-float-adjusted market capitalization (median)	Approximately ¥392 billion	Approximately ¥820 billion (*3)	➢ **Approximately doubled**
Daily trading value (median) (*4)	Approximately ¥310 million	Approximately ¥750 million	➢ **Approximately doubled**
Number of constituents (*5)	Approx. 1,700 stocks	Approx. 1,200 stocks	➢ **Approximately 50 stocks selected from the Standard and Growth markets**

Notes: 1. Free-float-adjusted market capitalization is calculated by multiplying total market capitalization by the free-float ratio. Free-float ratio is the percentage of listed shares deemed to be available for trading in the market; i.e., listed shares excluding non-free-float shares such as those held by the top ten major shareholders listed in the Annual Securities Report, treasury shares, and strategic shareholdings, and is calculated by JPX Market Innovation & Research for each company.

2. Market coverage is the ratio of the total free-float-adjusted market capitalization of TOPIX constituents to the total free-float-adjusted market capitalization of all companies listed on the Prime, Standard, and Growth Markets.
3. The minimum free-float-adjusted market capitalization within the top 97% by cumulative free-float-adjusted market capitalization is approximately ¥23 billion.
4. Daily trading value is the average over the six-month period from March to August 2024. The minimum for the next-gen TOPIX is ¥46 million.
5. Constituents at the time of the market restructuring (companies listed on the former TSE First Section) that selected the Standard or Growth Market are included in the current TOPIX. The number of constituents in the Next-Gen TOPIX includes stocks selected in the first periodic review based on August 2023 and that met the continuation criteria in the re-evaluation based on August 2024.

Source: JPX Market Innovation & Research, Inc., "Overview of Revisions of TOPIX and Other Indices".

Functionality as an investable index is expected to improve as the liquidity level of the constituent stocks will increase, while the impact on the overall market capitalization and market coverage is likely to be negligible.

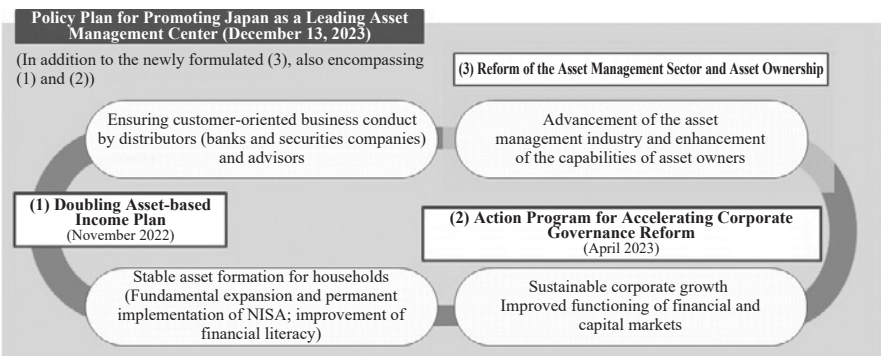
As mentioned above, stocks that do not meet certain criteria regarding market capitalization and liquidity will be excluded, so TOPIX will not be able to reflect price movements in these stocks. Calculation of the "TOPIX Next-tier" as an alternative indicator of price movements in these stocks is scheduled to begin in October 2026.

8. Asset Owner Principles

On December 13, 2023, the Cabinet Secretariat released the "Policy Plan for Promoting Japan as a Leading Asset Management Center", advocating the reform of asset ownership. By the time of the release of the Plan, efforts had been made to improve the functioning of financial and capital markets, such as the expansion and permanent establishment of NISA under the "Doubling Asset-based Income Plan," the formulation and revision of the Stewardship Code and the Corporate Governance Code, and the "Action Program for Accelerating Corporate Governance Reform." Against this backdrop, there is a need to reform the asset management industry and asset ownership, which are responsible for managing household financial assets, as the remaining links in the investment chain, and on August 28, 2024, the Cabinet Secretariat released the Asset Owner Principles (hereafter, the "Principles").

The Principles are based on a principles-based approach rather than a rules-based approach, and adopt a "comply or explain" approach (entities should either comply with the Principles or explain the reasons in cases where they do not comply with them). The Principles, which are a code of conduct for asset owners, consist of five principles, with a series of supplementary principles under each one. The Principles set out the following guidelines on a respective basis: clarifying investment objectives, securing necessary personnel and expertise, managing investment methods and risks, ensuring transparency of investment performance, and implementing stewardship activities. Among these, Supplemental Principle 2-2 states that con-

Chart I-7. Summary of the Policy Plan for Promoting Japan as a Leading Asset Management Center



Source: FSA, "Policy Plan for Promoting Japan as a Leading Asset Management Center".

Table I-9. Asset Owner Principles

To enable asset owners to fulfill their responsibility to manage their assets (fiduciary duties) taking into account the best interests of beneficiaries and others.

Principle 1.	Asset owners should take into account the best interests of beneficiaries and others. In doing so, they should determine the purpose of investment and, through an appropriate decision-making process, establish investment objectives and policies consistent with that purpose, taking into account the economic and financial environment. These should be reviewed as appropriate in response to changing circumstances.
Principle 2.	Asset owners need to act based on their expert knowledge in pursuing the best interests of beneficiaries. They should develop an appropriate structure, by securing personnel with sufficient knowledge and experience, in order to realize the investment purpose and policies set forth by Principle 1. They should make such a structure function properly, and consider using external knowledge and outsourcing when needed to receive and enhance expert knowledge.
Principle 3.	Asset owners should choose investment methods appropriately to achieve the investment targets, based on the investment policies, from the viewpoint of the interests of beneficiaries, not those of themselves or third parties. Asset owners should appropriately manage risks, including by diversifying the investment portfolio. In particular, when they entrust investment to other entities such as financial institutions, the asset owners should select the optimal investment manager while managing conflicts of interest. The choice of the investment manager should be reviewed periodically.
Principle 4.	Asset owners should provide information on the status of asset management ("visualization") and engage in dialogues with stakeholders, in order to fulfill accountability to stakeholders.
Principle 5.	Asset owners should give consideration to the sustainable growth of investee companies by conducting stewardship activities by themselves or through external investment managers, in order to achieve the investment targets for beneficiaries.

Source: Secretariat of the Headquarters for the Realization of New Capitalism, "Asset Owner Principles".

sideration should be given to the use of an Outsourced Chief Investment Officer (OCIO), which has been actively utilized in the United States in recent years. Supplemental Principle 5-1 includes provisions to encourage acceptance of the Stewardship Code, suggesting a more proactive approach.

A list of asset owners who have indicated their acceptance of the Principles is published on the Cabinet Secretariat's website. As of the end of October 2025, only 313 entities had announced their acceptance. Of these, 227 are corporate pension plans. Considering that there are more than 10,000 corporate pensions in Japan, it is hard to argue that there has been widespread adoption of the Principles at this stage. Nevertheless, the number of corporate pension plans that have expressed acceptance has shown consistent growth, and it is to be hoped that the Principles will drive effective reform of asset owners, and ultimately the entire investment chain.