CHAPTER XIII

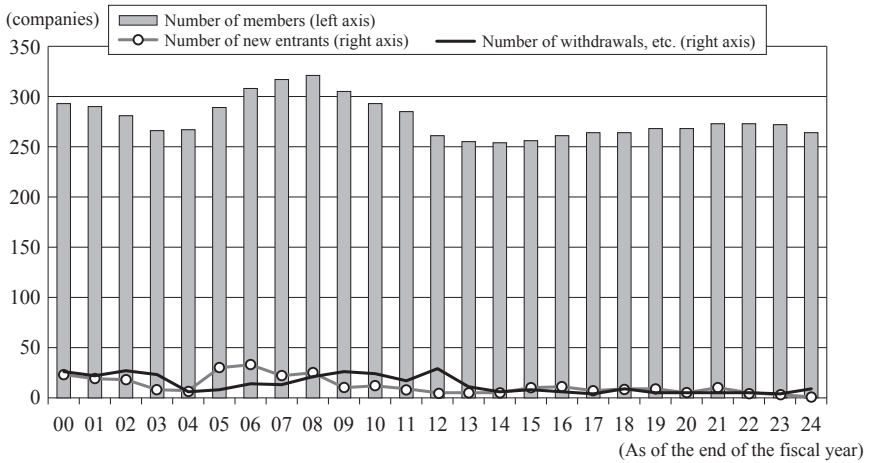
Financial Instruments Business (Securities Business)

1. Overview of Financial Instruments Business Operators (Securities Companies) (1)

For a long time after the war, a four-company oligopoly was established in Japan, in which the four major companies, Nomura, Daiwa, Nikko, and Yamaichi, held the largest market share in all areas of the securities business, with many small and medium-sized securities companies under their umbrella. This structure remained in place, with some minor adjustments, until the late 1990s. However, in the 1990s following the collapse of the bubble economy, the securities market stagnated due to Japan's prolonged economic slump, the accumulation of non-performing loans at financial institutions, deteriorating business conditions, and a series of scandals. During this period, starting in 1997, there was a series of bankruptcies at various securities companies, including Sanyo Securities and Yamaichi Securities.

Against this backdrop, a reform of the financial system, commonly referred to as the "Japanese Big Bang," was launched with the goal of revitalizing Japan's financial and capital markets and restoring their status as international markets. This initiative aimed to advance fundamental reforms of the financial and capital markets in accordance with the three principles of "free, fair, and global." Based on this vision, the Act on Revision, etc. of Related Acts for the Financial System Reform, which included amendments to the Securities and Exchange Act and other laws, was enacted in 1998. While brokerage commissions on stock trades were fully liberalized and the requirement for listed stocks to be traded exclusively on exchanges was abolished, the regulatory framework was changed back from a licensing system to a registration system to promote free competition in the securities industry. Furthermore, the abolition of the requirement to operate as a dedicated securities company and the expansion of the scope of securities business broadened the range of services that securities companies can provide. Mutual entry among banks, securities companies, and insurance companies was promoted; banks began selling mutual funds over the counter; and restrictions on financial holding companies were lifted.

Charts XIII-1. Trends in the Number of Securities Companies (Members of the Japan Securities Dealers Association (JSDA))



Note: Withdrawals include mergers, business transfers, voluntary closures, and revocations of registration. Entrants includes changes in registration.
Source: Compiled from JSDA "FACTBOOK".

With the progress of financial system reforms, deregulated entry to various sectors of the financial services industry and the provision of diverse financial products and services became more common. Furthermore, against the backdrop of the full liberalization of stock trading commissions and advances in information technology, online-only brokerage companies began to emerge, accepting stock trading orders via the internet at low commission rates. The surge in online trading prompted face-to-face securities companies, which had previously relied heavily on stock trading commissions, to reevaluate their business models. Now, foreign-owned securities companies primarily focus on serving institutional clients and have a strong presence in investment banking.

Looking at trends in the number of securities companies in Japan (JSDA members), the number peaked at 321 at the end of fiscal 2008. Since then, through the end of fiscal 2024, 173 companies exited the market and 116 entered, indicating increased turnover in the industry (see diagram). The securities industry today is characterized by competition among a diverse range of players (see table).

Table XIII-1. Rankings of Securities Companies by Market Capitalization and Assets Under Management

Ranking by Market Capitalization			Ranking by Assets Under Management		
Rank	Company name	Market capitalization (¥ million)	Rank	Company name	Assets under management (¥ trillion)
1	Nomura Holdings	3,486,245	1	Nomura Holdings	143.8
2	SBI Holdings	2,283,831	2	Daiwa Securities Group Head Office	90.2
3	Daiwa Securities Group Head Office	1,866,776	3	SMBC Nikko Securities	81.0
4	Matsui Securities	199,115	4	Mizuho Securities	62.4
5	Monex Group	180,089	5	Mitsubishi UFJ Securities Holdings	52.5
6	Okasan Securities Group	160,002	6	SBI Securities	43.5
7	Tokai Tokyo Financial Holdings	149,052	7	Rakuten Securities	36.0
8	GMO Financial Holdings	109,882	8	Tokai Tokyo Financial Holdings	10.9
9	Iwai Cosmo Holdings	70,636	9	Monex	8.5
10	Marusan Securities	62,545	10	Okasan Securities Group	8.2

Note: The ranking by market capitalization is as of November 1, 2025. Companies are those whose core business is securities.

Source: Compiled from the Nihon Keizai Shimbun website and Toyo Keizai's Japan Company Handbook: Industry Map (2026 Edition).

2. Overview of Financial Instruments Business Operators (Securities Companies) (2)

Securities companies play a vital role in connecting issuers and investors with the securities market. For this reason, the operations of securities companies are subject to various regulations under the Financial Instruments and Exchange Act (the "FIEA"), which serves as the fundamental law covering capital markets. The FIEA is a comprehensive, cross-sectoral law covering financial products and financial services providers. It was enacted in 2006 as a reorganization of its predecessor, the Securities and Exchange Act (the "SEA"), and came into effect the following year, in 2007. Under the FIEA, in addition to the traditional securities business, other financial businesses, which had been regulated under separate laws, were all consolidated into the

Table XIII-2. Categories and Scope of Financial Instruments Businesses

Category	Scope of Activities
Type I Financial Instruments Business (Art. 28, Para. 1 of the FIEA)	• With respect to securities (excluding deemed securities) : (1) Trading, market derivative transactions, or foreign market derivative transactions; (2) Acting as an intermediary, broker, or agent for the transactions described in (1); (3) Acting as an intermediary, broker, or agent for the placement of orders for the transactions described in (1); (4) Brokerage for the clearing of securities, etc.; (5) Secondary distribution of securities or exclusive offer to sell, etc. to professional Investors, etc., (6) the handling of a public offering or secondary distribution of securities, or the handling of a private placement of securities or exclusive offer to sell, etc. to professional investors. • Brokerage, agency, or intermediary services for commodity-related derivatives transactions, or brokerage, agency, or intermediary services for orders relating to such transactions, as well as brokerage for the clearing of such securities, etc. • Over-the-counter derivatives trading, or the brokering, intermediary services, or agency thereof, or brokerage for the clearing of such transactions • Underwriting of securities • PTS (Proprietary Trading System) operations • Securities and other asset management operations
Type II Financial Instruments Business (Art. 28, Para. 2 of the FIEA)	• Public or private offerings of certain securities (so-called "self-offerings") • With respect to deemed securities: (1) Trading, market derivative transactions, or foreign market derivative transactions; (2) Acting as an intermediary, broker, or agent for the transactions described in (1); (3) Acting as an intermediary, broker, or agent for the placement of orders for the transactions described in (1); (4) Clearing brokerage for securities, etc.; (5) Public offerings or solicitations for sales to qualified investors, etc.; (6) Handling of public offerings or solicitations for private placements or sales to qualified investors, etc. • (1) Market derivative transactions or foreign market derivative transactions not related to securities ; (2) Brokerage, intermediary or agency services for the transactions described in (1); (3) Brokerage, intermediary or agency services for the placement of orders for the transactions described in (1);(4) Clearing brokerage for securities, OTC derivative transactions, and deemed securities not related to securities • Acts specified by Cabinet Order
Investment Advisory and Agency Business (Art. 28, Para. 3)	• Investment advisory services • Agency or intermediation for the conclusion of an investment advisory agreement or a discretionary investment agreement
Investment Management Business (Art. 28, Para. 4)	• Investment corporation asset management • Discretionary investment management • Investment trust management business • Proprietary investment management

Source: Compiled from the Financial Instruments and Exchange Act.

Table XIII-3. Requirements for Registration as a Financial Instruments Business Operator

		Type I Financial Instruments Business	Investment Management Business	Type II Financial Instruments Business	Investment Advisory and Brokerage Services
Personnel requirements operational framework requirements		Yes			
Corporate requirements		Yes (stock companies)		No	
Domestic Sales Office and Office Establishment Requirement Association Internal Rules Requirement		Yes		Yes (corporations)	No
Asset requirements	Minimum capital requirement/ Capital contribution requirements	Yes (¥50 million to ¥3 billion)	Yes (¥50 million)	Yes (corporations) (¥10 million)	No
	Net asset requirements	Yes (¥50 million to ¥3 billion)	Yes (¥50 million)	Yes (corporations) (High-frequency trading) (Zero)	No
	Capital requirements	Yes	No		
Major shareholder requirements Concurrent business requirements		Yes		No	
Requirements for trade name		Yes	No		

Source: Naohiko Matsuo, "The Financial Instruments and Exchange Act [7th Edition]," Shoji Homu, p.421, Figure 7-2.

"financial instrument business", thereby promoting cross-sectoral regulations. Those financial businesses are financial futures trading, commodity investment sales, trust beneficiary rights sales, investment advisory services, discretionary investment management, investment trust management, asset management for investment corporations, and mortgage securities business. Under the FIEA, securities companies are referred to as financial instruments business operators.

Under the FIEA, financial instruments business is classified into four categories: Type I Financial Instruments Business, Type II Financial Instruments Business, Investment Advisory and Agency Business, and Investment Management Business (see table on the right). Since the financial resources required of companies and the degree of investor protection needed vary de-

pending on the nature of their business activities, financial instruments businesses are categorized according to the scope of those activities. Regulations are established according to each category, thereby creating a flexible structure for business regulation. The FIEA establishes the concept of "securities-related business" as the equivalent of the securities business defined under the Securities and Exchange Act. Type I Financial Instruments Business Operators engaged in securities-related business may use the designation "securities company."

To engage in the financial instruments business, an operator must submit a registration application containing certain information to the Prime Minister and obtain registration. Any entity that engages in the financial instruments business without registration is subject to penalties. In order to be granted registration as a financial instruments business operator, it is necessary to meet all the specified requirements and ensure that there are no grounds for refusal of registration (see table on the right). There are common grounds for refusal of registration for all four types of financial instruments business, as well as grounds specific to each type of business. The Type I Financial Instruments Business has the strictest registration requirements, with applicants required to meet certain criteria regarding assets, domestic offices, major shareholders, and other matters.

In addition, the regulations governing financial instruments business operators under the FIEA include not only the business regulations covered in this chapter but regulations on conduct (see Chapter 16), which set out the standards of conduct for each of the following operations: sales and solicitation, investment advice, investment management, and asset management.

3. Securities Businesses (1)—The Principal Businesses (1)

From a functional perspective, securities markets are classified into the primary market and the secondary market. Securities companies (financial instruments business operators) play a role as an intermediary in financial instrument transactions in both the primary and secondary markets. In the primary market, they act as an intermediary between issuers and investors to assist issuers in raising capital, while also screening issuers based on risk considerations and contributing to the efficient allocation of resources. In the secondary market, they act fairly and appropriately as an intermediary between investors for transactions in financial instruments to ensure investor protection and promote the circulation of securities.

Securities companies' operations in the secondary market include brokerage services and proprietary trading (see the table on the right). Commission-based trading refers to the practice of executing orders from investors to buy

Table XIII-4. Trading by Type of Investors (2024)

(Unit : ¥ billion)

Total								
			Proprietary			Brokerage		
Sales	Purchases	Balance	Sales	Purchases	Balance	Sales	Purchases	Balance
1,302,379	1,302,275	−104	135,758	136,741	983	1,166,621	1,165,534	−1,087

(Breakdown of Brokerage Trading)											
Institutions			Individuals			Foreign investors			Securities companies		
Sales	Purchases	Balance	Sales	Purchases	Balance	Sales	Purchases	Balance	Sales	Purchases	Balance
75,914	76,870	956	316,358	314,344	−2,014	769,138	769,293	154	5,211	5,028	−183

(Breakdown of Institutions)											
Investment Trusts			Business corporations			Other corporations, etc.			Financial institutions		
Sales	Purchases	Balance	Sales	Purchases	Balance	Sales	Purchases	Balance	Sales	Purchases	Balance
24,365	23,252	−1,112	13,196	21,080	7,884	2,891	3,590	700	35,463	28,948	−6,516

(Breakdown of Financial Institutions)											
Life and non-life insurers			City & regional banks			Trust banks			Other financial institutions		
Sales	Purchases	Balance	Sales	Purchases	Balance	Sales	Purchases	Balance	Sales	Purchases	Balance
2,251	912	−1,339	2,180	976	−1,204	29,888	26,119	−3,769	1,143	941	−203

Notes: 1. The data covers trading participants with capital of ¥3 billion or more.
2. Total for two markets (Tokyo Stock Exchange and Nagoya Stock Exchange). Annual data on trading value.
3. Applies to Japanese ordinary shares and does not include preferred shares or similar securities.
4. Includes off-exchange transactions.
5. "−" indicates a net sale.
6. Securities companies handle trades on a commission basis for other companies in the same industry.

Source: Compiled from JPX's "Trading by Type of Investors".

or sell securities, such as stocks and bonds, on the secondary market. Proprietary trading refers to a securities company buying and selling securities using its own funds, just as a general investor would. With regard to bonds, even with the same issuer, interest rates and maturity periods differ, resulting in a wide variety of types of bonds. This makes it difficult to execute trades on an exchange, and OTC transactions are the norm. With regard to stocks, shares of companies that meet certain listing criteria (listed stocks) are traded on stock exchanges, while shares that do not meet these criteria are traded over-the-counter through financial instruments business operators. Transactions classified as OTC include not only negotiated transactions between financial instruments business operators and customers, but also PTSs (Propri-

Table XII-5. Trading Status and Volumes of Exchange-Listed Issues on PTSs

(Unit : ¥ billion, %)

Year	Exchange trading (A)	Off-exchange trading (B)	PTS trading of B (C)	Total (A)+(B)	Percentage of trading on PTSs relative to exchange trading (C/A)	Percentage of trading on PTSs relative to off-exchange trading (C/B)	Percentage of trading on PTS relative to the total of exchange and OTC trading (C/(A+B))
2018	794,562	121,019	38,242	915,581	4.8%	31.6%	4.2%
2019	640,506	112,038	36,467	752,544	5.7%	32.5%	4.8%
2020	742,429	119,335	65,397	861,764	8.8%	54.8%	7.6%
2021	831,590	151,582	86,340	983,172	10.4%	57.0%	8.8%
2022	872,640	176,349	102,605	1,048,989	11.8%	58.2%	9.8%
2023	1,012,261	207,282	118,986	1,219,543	11.8%	57.4%	9.8%
2024	1,323,003	307,501	192,014	1,630,504	14.5%	62.4%	11.8%

Note: Annual data on trading value.
Source: Compiled from the JSDA's "Trading Status and Volumes of Exchange-Listed Issues on PTSs".

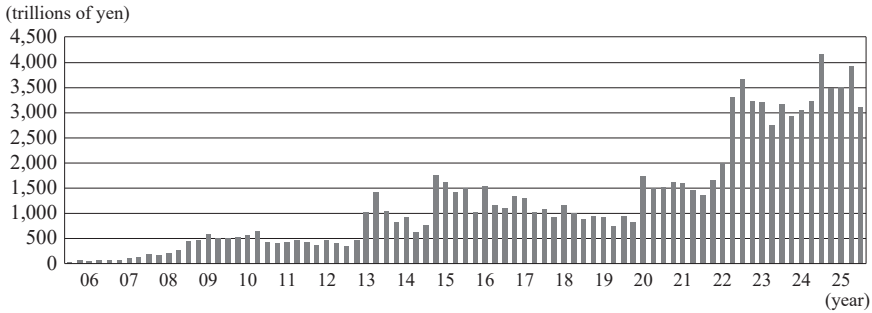
etary Trading Systems—electronic trading platforms established by financial instruments business operators authorized by the Prime Minister; see table on the right), equity crowdfunding, and shareholders' communities.

In the primary market, the underwriting business of securities companies involves purchasing all or part of a new issue of stocks, bonds, or other securities issued by companies, governments, or local authorities for the purpose of selling them; if any securities remain unsold, the securities company is obligated to purchase the entire unsold portion. A secondary offering refers to the same process applied to securities that have already been issued. An initial public offering (IPO) is the process by which an unlisted company issues shares to the general public or in which major shareholders sell their shares in order to list the company's stock. IPOs provide a major source of revenue for securities companies in terms of underwriting business. Furthermore, the selling business involves soliciting investors to purchase newly issued or previously issued securities. Unlike underwriting, however, securities companies are not required to take on any unsold securities.

4. Securities Businesses (2)—The Principal Businesses (2)

Type I Financial Instruments Business also includes securities derivatives transactions and similar transactions. The underlying assets of derivative

Chart XII-2. OTC FOREX Margin Trading Value



Note: Foreign currency amounts have been converted into Japanese yen using the spot rate at the end of each period.
Source: Compiled from the Financial Futures Association of Japan's "Status of OTC Foreign Exchange Margin Trading".

Table XIII-6. Status of OTC CFD Trading

Outstanding balances (end of fiscal year)

Fiscal year	2020	2021	2022	2023	2024
Number of Accounts	409,729	551,825	836,038	649,381	739,505
Margin (¥100 million)	678	1,067	1,305	1,041	1,098
Outstanding balance (by underlying asset, ¥100 million)					
Individual stock-related	140	161	119	203	151
Stock index-related	805	1,341	1,671	1,670	1,638
Bond-related	26	130	220	234	88
Other securities-related	28	34	33	49	38

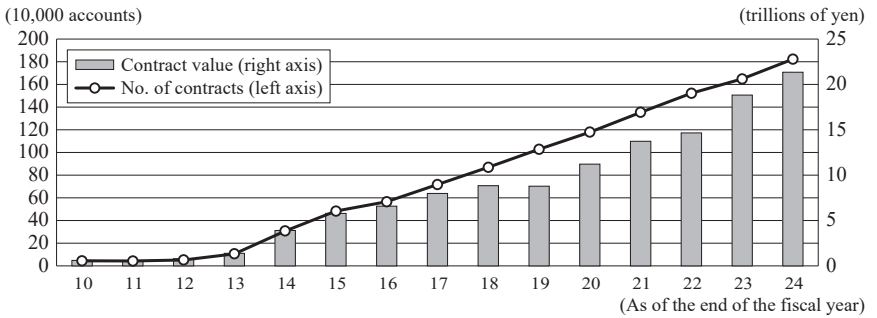
Trading status (cumulative for FY2024)

Assets	Individual stock related	Stock index related	Bond related	Other securities related
Number of transactions	1,296,367	50,500,322	126,403	804,844
Transaction amount (¥100 million)	12,513	1,117,192	15,628	2,584

Note: CFD stands for "Contract for Difference" Transaction amounts are based on the notional principal.
Source: Compiled from the JSDA's "OTCCFD Trading".

transactions include: (1) financial instruments such as securities, claims based on deposit agreements, currencies, crypto assets, and certain commodities specified by Cabinet Order; and (2) financial instrument prices and interest rates, as well as meteorological data and various financial indicators. Derivative transactions include futures, options, and swaps. Depending on

Chart XII-3. Wrap Account Activity



Note: Figures for both the number of contracts and contract value represent discretionary investment management contracts under wrap account services. Contract value represents the outstanding balance.

Source: Compiled from "Statistical Data" published by the Investment Management Association of Japan.

where the transactions take place, they are classified as "exchange-traded derivatives," "over-the-counter derivatives," or "foreign market derivatives." The main clients for derivatives are financial institutions and institutional investors. In addition to acting as intermediaries for swaps between counterparties, securities companies often use options on stocks, currencies, and other assets in structured bonds, and frequently enter into interest rate or currency swaps with issuers when underwriting foreign currency denominated bonds.

In addition to the Nikkei 225 mini, foreign exchange (FX) margin trading is also relatively popular among individual investors (see diagram). Investors use OTC FX transactions to purchase or sell currencies by depositing a margin with the broker and usually settle the transaction on a net basis. These OTC transactions began in Japan when commodity traders started to use them following the deregulation of foreign exchange transactions through the 1998 amendment of the Foreign Currency and Exchange Law (currently the Foreign Exchange and Foreign Trade Act.) Unlike the stock market and other markets, trading is available 24 hours a day on weekdays, with traders able to trade with high leverage (up to 25 times) with only a small amount of margin. Since price fluctuations can be highly significant, risk management is particularly important. Moreover, in a bid to make FX transactions more transparent, the Tokyo International Financial Futures Exchange (TIFFE, now TFX) listed an FX product in 2005 called Click 365.

Today, FX transactions have shifted from face-to-face transactions with brokers to online trading. Specialist FX companies, together with online securities companies, are aggressively developing the market. Transactions in-

volving securities, securities indices, and commodities as underlying assets, as well as FX, and settled with a small margin, are called Contracts for Difference (CFD) transactions. Although these transactions originated in the UK, various Japanese companies also handle these trades (see table on the right).

Major securities companies, including top- and second-tier brokers, also registered themselves as investment management businesses and have started to market "wrap account" discretionary investment services. A discretionary account is an account in which a securities company or similar institution enters into a discretionary investment management agreement with a client to provide discretionary investment management services, and collects management fees, trade execution fees, account maintenance fees, and other charges in a lump sum based on the balance of the assets under management. This includes not only "fund wrap" services and SMAs, sold in person by major securities companies and banks, primarily to wealthy clients, but also robo-advisors that allow transactions to be completed entirely online. As of the end of March 2025, wrap accounts totaled 1.82 million contracts with a balance of ¥21 trillion (see diagram).

5. Securities Businesses (3)—Incidental Business, Business Requiring Notification, and Business Requiring Approval

Financial instruments business operators engaged in Type I Financial Instruments Business or Investment Management Business are permitted to conduct, in addition to their registered financial instruments business, any business that is difficult or unreasonable to separate from the financial instruments business, provided that such business does not undermine the public interest or investor protection. These duties are broadly categorized into three types: "Incidental business," "Business requiring notification," "Business requiring approval" (see table on the right). "Incidental business" refers to activities incidental to the financial instruments business that may be conducted without notification to or approval from the Prime Minister. "Business requiring notification" refers to activities that can be carried out by submitting a notification to the Prime Minister. "Business requiring approval" refers to activities, other than incidental business and business requiring notification, that can be carried out with the approval of the Prime Minister. Note that Type II Financial Instruments Business Operators and Investment Advisory and Agency Business Operators are not required to file a notification or obtain approval when conducting these activities.

In the incidental business category, "the lending or borrowing of securities, or acting as an intermediary or agent in such transactions" refers to a busi-

Table XIII-7. Overview of Incidental Business, Business Requiring Notification, and Business Requiring Approval

Incidental Business (Art. 35, Para. 1 of the FIEA)
• Lending or borrowing of securities, or acting as an intermediary or agent in such transactions • Loans associated with margin trading • Loans secured by securities held in custody on behalf of clients (limited to those specified by Cabinet Office Ordinance) • Provision of agency services for clients in connection with securities • Provision of agency services related to the payment of income, redemption proceeds, or cancellation proceeds from investment trusts • Acting as an agent for operations related to cash distributions, refunds, and distributions of residual assets pertaining to securities issued by investment corporations, as well as payments of interest and redemption proceeds • Execution of a cumulative investment agreement (limited to those specified by Cabinet Office Ordinance) • Providing information and advice related to securities (excluding advice provided under an investment advisory agreement) • Providing agency services for other financial instrument business operators, etc. • Custody of assets of registered investment corporations • Providing consultancy or intermediary services regarding business transfers, mergers, corporate splits, share exchanges, and share transfers involving other businesses • Providing consultancy services on the management of other businesses • Purchase, sale, brokerage, intermediation or agency of assets related to currency and other derivative transactions (excluding securities-related derivative transactions) • The sale and purchase of negotiable deposits and other monetary claims (excluding those that qualify as securities), or provision of intermediary, brokerage, or agency services in such transactions • Management of investment assets by investing in the following assets: Specified assets defined in the Act on Investment Trusts and Investment Corporations (excluding real estate, etc.) and, in addition, assets specified by Cabinet Order • Provision of information regarding a client, obtained from said client, to a third party with said client's consent, where such provision contributes to the advancement of the financial instruments business conducted by the financial instruments business operator or to improved convenience for its users • Activities conducted primarily by utilizing management resources, such as personnel, information and communication technology, and facilities, held by the financial instruments business operator in connection with its financial instruments business, and which are specified by Cabinet Office Ordinance as contributing to the creation of a sustainable society

Business Requiring Notification (Art. 35, Para. 2 of the FIEA)
• Commodities exchange transactions • Commodity derivatives transactions • Money lending and other businesses involving the lending of money or acting as an intermediary in money lending transactions • Real estate brokerage and real estate leasing services • Joint real estate ventures • Commodity investment management business • Business of investing assets entrusted under an investment management contract in assets other than securities or rights pertaining to derivatives trading • Other activities specified by Cabinet Office Ordinance

Business Requiring Approval (Art. 35, Para. 4 of the FIEA)
• Activities approved by the Prime Minister

Source: Compiled from the Financial Instruments and Exchange Act.

ness in which a lender lends securities to a borrower, and after an agreed-upon period has elapsed, the borrower returns to the lender securities of the same type, equivalent, and quantity as the original securities, or acts as an intermediary or agent in such transactions. Depending on the type of securities involved, there are stock lending and borrowing transactions and bond lending and borrowing transactions. "Loans associated with margin trading" refer to the business in which a financial instruments business operator lends funds to a customer who intends to engage in margin trading. Financial instruments business operators cover the funds they lend to customers who wish to engage in margin trading either from their own resources or through lending and borrowing transactions with securities finance companies. "Loans against securities held in custody for customers" include cash advance services and secured lending services. Cash advance services refer to a service that enables customers who have requested the redemption of an MRF (Money Reserve Fund) to receive an amount equivalent to the redemption proceeds on the same day as the redemption request. To facilitate this, the financial instruments business operator lends an amount equivalent to the redemption proceeds to the customer on the day of the request, using the securities subject to the redemption request as collateral, until the actual payment of the redemption proceeds on the following business day. "Acting as an agent for customers regarding securities" includes acting as an agent for the receipt of payments for public bonds and the payment of principal and interest, handling stock-related administrative tasks, acting as a standing agent regarding securities, and acting as an agent for the receipt of payments on behalf of clients. A "cumulative investment contract" is a contract under which a financial instruments business operator receives funds from a customer and, in exchange for those funds, sells securities to the customer on a continuous basis so that the customer acquires them on predetermined dates.

6. Income and Expenditure of Financial Instruments Business Operators (Securities Companies)

In a securities company's income statement, "operating income" corresponds to revenue (see table on the right). When securities operations are categorized by revenue source, commission-based trading is classified as "brokerage commissions," underwriting and secondary offerings as "underwriting and secondary offering fees," public offerings and secondary offerings as "handling fees for public offerings and secondary offerings," and proprietary trading as "trading income/losses." "Other fees and commissions" consist primarily of fees related to incidental business and include investment trust management fees, M&A-related revenue, wrap account-related revenue, and,

Table XIII-8. Financial Overview of Securities Companies (JSDA Members) (FY2024)

	Amount (¥ million)	Percentage of operating revenue
Operating income	6,094,463	100%
(Commissions received)	3,055,222	50%
(Brokerage commissions)	648,022	11%
Underwriting fees	232,232	4%
Selling concessions	271,570	4%
Other fees concessions	1,903,397	31%
Trading profit/loss	779,339	13%
Financial income	2,223,494	36%
Margin trading income	144,360	2%
Dividends received	592,851	10%
Financial expenses	1,571,899	26%
Margin trading expenses	11,046	0%
Interest expense	236,406	4%
Net operating income	4,522,563	74%
Selling general and administrative expenses	3,464,541	57%
operating profit/loss	1,058,021	17%
Net profit/loss	802,340	13%

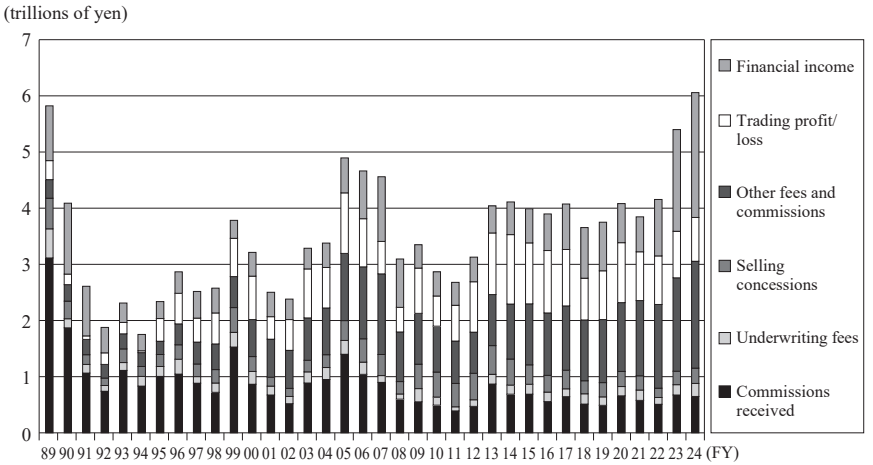
(Breakdown of other fees received)	Amount (¥ million)	Percentage of operating revenue
Equities	165,854	2.7%
Bonds	137,076	2.2%
Beneficiary securities	395,385	6.5%
Others	1,205,080	19.8%
Profit distribution to Japanese corporations, etc. related to international transactions, etc.	310,240	5.1%
Mutual fund trustee fees	202,420	3.3%
M&A revenue income	165,617	2.7%
Wrap-related revenues	165,496	2.7%
Discretionary investment management fees	72,396	1.2%
Administrative fees	40,573	0.7%
Insurance-related revenues	37,051	0.6%
Advisory/compensation fees	33,767	0.6%
Fees for system use/development, etc.	32,047	0.5%

Note: Of the 264 member companies as of the end of March 2025, five companies, including those that had ceased operations, were excluded.
Source: Compiled from the JSDA "Financial Overview of Regular Member Firms".

for foreign companies, income distributions from overseas parent companies. In addition, "financial income" includes income from margin trading, repurchase agreements, securities lending and borrowing transactions, as well as dividends received, bond interest received, income distributions, and interest received.

Looking at the expense items, "financial expenses" include margin trading expenses, repurchase agreement expenses, securities lending and borrowing expenses, interest on bonds payable, interest expense, among other expenses. "Selling, general and administrative expenses" include personnel expenses, real estate-related expenses, administrative expenses, transaction-related expenses, advertising and promotional expenses, and communication and transportation expenses, among others. Net operating income is calculated by subtracting financial expenses from operating income; operating profit or loss is then calculated by subtracting selling and general administrative expenses from net operating income. Net income for the year is then calculated by adjusting for non-operating income and expenses, extraordinary income and

Chart XII-4. Trends in Total Operating Revenue and Breakdown



Source: Compiled from the JSDA "Financial Overview of Regular Member Firms".

expenses, and income tax. Looking at the financial results for securities companies (members of JSDA) for fiscal year 2024, 203 out of 259 companies (78% of the total) reported a net profit.

Looking at the trends in the breakdown of securities companies' operating income since the bubble economy era, "commission income," which had previously been the mainstay source of revenue, stagnated following the full liberalization of stock trading commissions in 1999, and its share of operating income fell sharply from 54% to 11% (see diagram). Since around 2020, there has been an accelerating trend, led primarily by online securities companies, toward waiving trading commissions on stocks and mutual funds for individual investors. As a result, the securities industry is shifting away from transaction-based commissions toward a fee-based business model in which fees are charged based on the balance of assets under management. In line with these trends, the main sources of income for securities companies have shifted to "financial income," "other fees and commissions," and "trading income/losses." However, the mix of these varies significantly depending on the company's size and characteristics. At major securities companies, a larger proportion of income comes from "other fees and commissions" and "financial income," while at small and medium-sized securities companies, a larger proportion comes from "trading income" and "brokerage commissions." At online securities companies, "financial income" is the largest contributor, with margin trading income accounting for a particularly large share.

7. Financial Condition of Financial Instruments Business Operators (Securities Companies)

A securities company's balance sheet appears larger than it actually is due to factors such as the accounting treatment of transactions as described below (see table on the right). The largest items by value are "Loans secured by securities" under Assets and "Borrowings secured by securities" under Liabilities. These are deposits made in connection with the lending and borrowing of securities. The deposit of collateral for borrowing bonds and other securities is recorded as "loans secured by securities," while the receipt of collateral for lending is recorded as " borrowings secured by securities."

Next, "trading products," the second-largest item by value, consists of ac-

Table XIII-9. Major Accounts of Securities Companies in Japan (as of the end of March 2025)

(Unit: ¥ million)

Cash and deposits	18,699,804	Trading products	53,886,688
Deposit	11,871,705	(Trading securities, etc.)	31,460,712
(Customer segregated money trust)	10,412,016	(Derivatives trading)	22,425,963
Trading products	74,249,150	Trade date accrual	1,417,665
(Trading securities, etc.)	49,268,213	Debt on margin trading	1,607,347
(Derivatives trading)	24,980,913	Guaranteemoney received	455,328
Trade date accrual	1,317,628	(Money received for securities lent for margin trading)	1,151,973
Assets for margin trading	5,583,661	Borrowings against the collateral of securities	132,610,806
(Money lent for margin trading)	4,929,047	Deposit received	9,130,421
(Cash collateral deposited to secure the securities lent for margin trading)	654,563	(Deposits received from clients)	8,343,320
Loans secured by securities	138,526,833	Guaranteemoney received	9,589,657
Advance payment	129,882	Short-term debt	34,958,709
Short-term guarantee money submitted	8,444,336	Total of current liabilities	246,881,899
Short-term loans	1,429,121	Long-term borrowings	6,956,973
Total current assets	262,342,696	Long-term liabilities	9,183,528
Tangible fixed assets	230,248	Total provisions	254,885
Intangible fixed assets	468,278	Total liabilities	256,320,512
Investments and other assets	1,811,804	Total capital	1,921,227
(Investment securities)	1,177,807	Capital surplus	3,010,279
Total of fixed assets	2,510,539	Retained earnings	3,618,274
Deferred assets	230	Total capital	8,532,974
Total of assets	264,853,595	Total of liabilities and capital	264,853,595

Note: The survey covers 260 JSDA member companies. Excluding companies that have suspended operations, etc.

Source: Compiled from the JSDA's "Number of major accounts and client accounts of securities companies nationwide".

Table XIII-10. An Outline of the Capital-to-risk Ratio Requirements for Type I Financial Instruments Business Operators

Capital-to-risk ratio = (non-fixed primary capital ÷ the equivalents of various risks) × 100%
Non-fixed primary capital = Tier I item (equity capital) + complementary item (subordinated debt, allowance) − Deductions (fixed assets etc.)
Risk equivalent = market risk equivalent + counterparty risk equivalent + basic risk equivalent
Market risk equivalent = Amount equivalent to the risk arising from fluctuations in the prices of securities, etc. held
Counterparty risk = Amount equivalent to the risk arising from a counterparty's default, etc.
Basic risks = Amount equivalent to the risk that may arise from routine business operations, such as clerical errors

Notes: 1. Art. 46-6, Para. 1 of the FIEA and Art. 176–178 of the Cabinet Office Ordinance on Financial Instruments Business, etc.
2. Type I Financial Instruments Business Operators with total assets exceeding ¥1 trillion are designated as "Special Financial Instruments Business Operators" and are subject to capital adequacy ratio regulations on a consolidated basis (57-2, Para. 1 of the FIEA). Of these, the two groups, Nomura and Daiwa, are subject to an opt-in system regarding the consolidated capital-to-risk ratio under Basel III, as their holding companies qualify as "ultimate designated parent companies" as defined in Article 57-12, paragraph 3 of the FIEA (this is known as "upstream consolidation").

Source: Compiled from the Financial Instruments and Exchange Act and the Cabinet Office Ordinance on Financial Instruments Business, etc.

Table XIII-11. Orders Issued on the Basis of the Capital-to-Risk Ratio to Take a Prompt Corrective Action

Capital-to-Risk Ratio	Prompt Corrective Action	Laws and Regulations
Less than 140%	Required to notify the regulatory agency	Art. 179 of the Cabinet Office Order on Financial Instruments Business, etc.
120% or more	Obligated to maintain ratio at such a level	Art. 46-6, Para. 2 of the FIEA
Less than 120%	Denial to accept a registration application	Art. 29-4, Para. 1, Item (vi) of the FIEA Art. 53, Para. 1 of the FIEA
	Orders to change the method of business and deposit its property	Art. 53, Para. 2 of the FIEA
Less than 100%	Orders to suspend business for a period of three months or less	Art. 53, Para. 3 of the FIEA
1Less than 100%	If there is no prospect of recovery even after three months, the registration will be revoked	Art. 179 of the Cabinet Office Order on Financial Instruments Business, etc.

Source: Compiled from the Financial Instruments and Exchange Act and the Cabinet Office Ordinance on Financial Instruments Business, etc.

counts arising from dealer operations; physical long positions are recorded under assets as "trading securities, etc.," while short sales are recorded under liabilities. Derivatives such as futures, options, and swaps are marked to market; valuation gains are recorded under assets as "Derivatives trading," while valuation losses are recorded under liabilities. If a transaction has been executed but not yet settled, an amount equivalent to the value of securities sold is recorded under assets as "trade date accrual," and an amount equivalent to the value of securities purchased is recorded under liabilities as "trade date accrual." Securities companies hold both long and short positions in a security for the purpose of speedy execution of customer orders involving cash securities, derivatives, or bond repos, as well as the pursuit of arbitrage gains, and, instead of netting them out, they are required to adhere to the trade-date accounting process with stringent risk management on a contract basis.

Under "margin trading assets," loans to facilitate margin trading represent the amount equivalent to the purchase price of securities acquired by a customer through margin trading, while "margin trading collateral" refers to the collateral deposited with a securities finance company in connection with securities lending and borrowing transactions. On the other hand, under "debt on margin trading," "debt for margin trading" refers to borrowings from securities finance companies under margin lending agreements, while "money received for securities lent for margin trading" represents the amount equivalent to the proceeds from the sale of securities in connection with customers' margin trading activity. In addition, securities companies are required to keep customer assets segregated from their own assets and to hold customers' segregated funds in an outside trust; these funds are recorded in the "customer segregated money trust" account.

The FIEA establishes financial regulations to ensure the financial soundness of financial instruments business operators. For Type I Financial Instruments Business, regulations have been established regarding disclosure (retention of business-related records, submission of business reports to the Prime Minister, and making explanatory materials available for public inspection), the obligation to accumulate a reserve for liabilities arising from financial instruments business, and capital adequacy ratios (see the tables on the right). The capital adequacy ratio is a regulatory requirement designed to ensure that financial instruments business operators maintain sufficient capital to cover potential future losses, while also serving as an early warning indicator of a deterioration in their financial condition.

8. Financial Instruments Firms Associations (1)

The Financial Instruments Firms Associations serve as a mechanism for self-

Table XIII-12. Financial Instruments Firms Associations

Organizational structure	Name of organization	Main objectives/activities	Number of members
Authorized association	Japan Securities Dealers Association (JSDA)	[Purpose] (1) To ensure that the trading of securities and other transactions conducted by Association members is carried out fairly and smoothly, thereby contributing to the protection of investors. (2) To promote various measures aimed at revitalizing the securities market to contribute to the growth and development of the Japanese economy. [Activities] (1) Formulation and implementation of self-regulatory rules. (2) Administration of qualification examinations and renewal training, and registration of securities sales representatives. (3) Complaints, consultations, and mediation regarding securities transactions. (4) Research and studies into the securities market, and the publication of opinions. (5) Dissemination of knowledge and raising public awareness of securities.	262 (November 2025)
Certified association	The Investment Trusts Association, Japan	The purpose is to contribute to the sound development of the investment management industry, including investment trusts and investment corporations, and to the protection of investors.	221 (October 2025)
Certified association	Japan Investment Advisers Association	The purpose of the Association is to protect investors by ensuring the fair and smooth operation of the investment management and investment advisory and agency businesses conducted by its members, and to contribute to the sound development of these businesses.	850 (March 2025)
Certified association	The Financial Futures Association of Japan	The purpose of the Association is to contribute to investor protection and the sound development of the financial instruments business by ensuring the proper and smooth operation of the financial instruments business conducted by its members (limited to those specified in the Articles of Incorporation); to this end, it carries out activities such as self-regulation, resolution of complaints, research, planning, public relations, and training.	131 (September 2025)
Certified association	Type II Financial Instruments Firms Association	The purpose of this Association is to ensure that Type II Financial Instruments Business and related activities conducted by regular members are carried out fairly and smoothly, and to contribute to the sound development of this business and the protection of investors.	676 (November 2025)
Certified association	The Japan Virtual and Crypto Assets Exchange Association	The purpose of this Association is to ensure the proper and smooth conduct of crypto-asset-related derivatives transactions by its members, and to contribute to the sound development of such business well as the protection of users and investors.	31 (Type I) (October 2025)
Certified association	Japan STO Association	The purpose of this Associationis to ensure that the sale, purchase, and other transactions involving electronically recorded transferable rights held by regular members are conducted fairly and smoothly; to promote the sound development of the financial instruments business; and thereby to contribute to the protection of investors.	16 (November 2025)

Note: In addition to regular members, the JSDA has specified business members and special members. The eligible persons are as follows.
Members are financial instruments business operators that engage in Type I Financial Instruments Business (excluding those that, in the course of their Type I Financial Instruments Business, engage solely in OTC derivative transactions, etc., other than securities-related derivative transactions, etc.).
A "Specified Business Member" means a Financial Instruments Business Operator that, in the course of conducting Type I Financial Instruments Business, engages exclusively in business related to specified OTC derivative transactions, Type I small-amount electronic offering handling business as defined in Art. 29-4-2, Para. 9 of the FIEA, brokerage, etc. for commodity-related market derivative transactions, or special brokerage business for unlisted securities as prescribed in Art. 29-4-4, Para. 8 of the FIEA.
Special members are registered financial institutions as defined in Article 2, paragraph 11 of the FIEA. In other words, a person who conducts registered financial institution business (meaning the activities prescribed in Art. 33-2 of the FIEA, specifically those listed in Item (i) (excluding those pertaining to rights listed in the items of Art. 2, Para. 2 of the FIEA that are deemed to be securities pursuant to that paragraph), Item (ii) (excluding those pertaining to rights listed in the items of Art. 2, Para. 2 of the FIEA that are deemed to be securities pursuant to that paragraph), or Item (iii) (limited to those pertaining to specified over-the-counter derivative transactions, etc.) of that Article, or securities, etc. management business).

Source: Financial Services Agency, "List of Authorized Financial Instruments Firms Associations" and "List of Certified Financial Instruments Firms Associations"; compiled fromthe respective associations' websites.

regulation among financial instruments business operators. The regulatory framework for financial instruments business operators consists of public regulation by the supervisory authority (the Financial Services Agency) and self-regulation by self-regulatory organizations. A self-regulatory body refers to a private organization that establishes its own rules and enforces regulations for specific public interest purposes. The primary self-regulatory organizations in the securities trading sector are the Financial Instruments Exchanges and the Financial Instruments Firms Associations. While the former regulates the conduct of members and trading participants regarding trading in financial instrument markets, the latter regulates trading by financial instruments business operators outside these markets and the relationships between those operators and their clients.

The organizational format of the Financial Instruments Firms Associations includes: (1) Authorized Financial Instruments Firms Associations (authorized associations) and (2) Certified Financial Instruments Firms Associations (certified associations) (see table on the right). (1) An authorized association is a special type of association established by a financial instruments business operator with the authorization of the Prime Minister. At present, the Japan Securities Dealers Association (JSDA) is the country's only Authorized Financial Instruments Firms Association (see Section 9). Compared to certified associations, the distinctive feature of authorized associations is that only authorized associations are permitted to establish OTC securities markets. (2) A certified association is a general incorporated association established by a financial instruments business operator that has been certified by the Prime Minister as an entity engaged in self-regulatory activities. The certified associations, listed in order of establishment, are the Investment Trusts Association of Japan, the Japan Investment Advisers Association, the Financial Futures Association of Japan, the Type II Financial Instruments Firms Association, the Japan Virtual and Crypto Assets Exchange Association, and the Japan Security Token Offering Association. The Investment Trusts Association and the Japan Investment Advisers Association merged on April 1, 2026, to form the "Investment Management Association of Japan."

The purpose of the Financial Instruments Firms Associations is to ensure that trading of securities and other transactions, as well as derivatives transactions, is conducted fairly and smoothly, and to contribute to the sound development of the financial instruments business and the protection of investors. Association members are financial instruments business operators and other related entities. If a member violates laws and regulations, the association's articles of incorporation or rules, or the principles of good faith in business transactions, the association may impose disciplinary measures such as levying a fine or suspending, restricting, or revoking the member's rights. Membership in the Financial Instruments Firms Associations is voluntary.

However, for financial instruments business operators and other entities that are not members of an association, a requirement for registration is that they establish internal rules that conform to the associations' rules. Financial Instruments Firms Associations are also required to handle complaints from investors. The associations are authorized to outsource tasks related to the resolution of complaints to third parties, and the Financial Instruments Mediation Assistance Center (FINMAC), a certified investor protection organization, has been contracted to handle this.

9. Financial Instruments Firms Associations (2)

The JSDA is an Authorized Financial Instruments Firms Association and its members comprise Financial Instruments Business Operators and registered financial institutions. Its purpose is to ensure that trading of securities and other transactions, as well as derivatives transactions, conducted by association members is fair and smooth, and to contribute to the sound development of the financial instruments business and the protection of investors. Its principal activities include self-regulation, promoting the development of the financial instruments business and the financial instruments markets, and international operations and exchanges (see table on the right). The Financial and Securities Education Support Program was transferred to the Japan Financial Literacy and Education Corporation (J-FLEC), which was established in 2024.

The JSDA conducts qualification tests for registered representatives and also handles the registration of securities representatives on behalf of the Prime Minister. A sales representative is an officer or employee of a financial instruments business operator or other related entity who engages in financial instruments business on behalf of that operator or entity. Sales representatives are required to be registered. Financial instruments business operators and other related entities shall not allow anyone other than a registered sales representative to perform the duties of a sales representative. Unless the counterparty acts in bad faith, a sales representative is deemed to have the authority to perform, on behalf of the financial instruments business operator or other related entity to which the representative belongs, all acts in connection with the financial instruments business other than judicial proceedings. To engage in business as a sales representative, a person must first pass the Sales Representative Qualification Examination conducted by the JSDA, apply for registration with the JSDA through the financial instruments business operator or other related entity to which the person belongs, and obtain registration as a sales representative (see the table at the lower right).

The JSDA was established in 1973 as a non-profit organization consisting

Table XIII-13. Main Activities of the Japan Securities Dealers Association

Self-Regulatory Operations	Drawing up and enforcement self-regulatory rules	The JSDA strives to promote fair and efficient trading of financial instruments and to protect investors by drawing up and enforcing self-regulatory rules applicable to its members to ensure the smooth operation of financial instruments markets. (Major areas of regulation include OTC trading in stocks and bonds, underwriting of securities, off-exchange trading in listed stocks, trading in foreign securities, safe custody of securities, code of conduct of directors and officers, internal control system of member companies, qualifications and registration of registered representatives, advertising of member companies, solicitation and management of customers of member companies, financial instruments intermediary services, segregation and management of customers' assets, settlement of disputes with customers, and standardized accounting methods of securities-related businesses.
	Auditing and monitoring	The JSDA audits member companies to see whether they comply with the laws and regulations, the rules of self-regulation in carrying out business activities and other relevant rules and whether they have an adequate internal control system; monitors the operation of member companies and checks to see whether they segregate customers' assets;
	Imposition of Disciplinary Sanctions	The JSDA takes action to discipline member companies and their directors and employees who have violated the laws and the rules of self-regulation.
	Qualification tests, qualification renewal training and registration procedures for sales representatives	The JSDA conducts qualification examinations for sales representatives and personnel in charge of management and control, conducts qualification renewal training, and handles administrative matters relating to the registration of sales representatives on behalf of the Prime Minister.
	Conducting educational and training programs	The JSDA implements various educational and training programs, including those based on self-regulatory rules, and provides support such as dispatching instructors for in-house training conducted by member companies.
	Handling complaints, inquiries, and mediation regarding securities transactions	The JSDA handles complaints and inquiries from customers regarding the operations of member companies and financial instruments intermediaries. Mediation to resolve disputes between customers and member companies regarding securities transactions (Note: complaint handling and dispute mediation have been commissioned to the Financial Instruments Mediation Assistance Center (FINMAC), a non-profit organization.
	Authorized personal information protection organization	The JSDA carries out activities to ensure the proper handling of members' personal information as an Authorized Personal Information Protection Organization under the Act on the Protection of Personal Information.
	Development and expansion of the public bond market	The JSDA establishes and reviews the systems and practices governing OTC trading of public bonds.
	Development of systems and oversight for off-exchange trading of listed securities and other exchange-traded financial instruments	The JSDA establishes the systems required to ensure the orderly and smooth operation of off-exchange trading of listed securities and other exchangetraded financial instruments, while ensuring investor protection. It aggregates and publishes trading data and other information related to OTC trading of exchange-traded financial products; publishes quote and trading data, etc., on PTSs for listed stocks and other securities.
	Development and oversight of systems related to unlisted securities, etc.	The JSDA develops necessary systems regarding investment solicitation for unlisted securities, etc., including setting forth the requirements that members and others must comply with, such as those pertaining to equity crowdfunding, shareholders communities, and the Phoenix issue system, in order to ensure proper business operations and investor protection. It compiles and publishes data on the status of each program.
Services to promote the sound development of the financial instruments businessand the financial instrumentsmarket		(1) Research and studies into the financial markets, and the publication of opinions. (2) Development of a common infrastructure for financial markets. (3) Publication of statistical data and other information regarding the stock and public bond markets. (4) Dissemination of knowledge and raising public awareness of finance and securities. (5) Public relations initiatives. (6) Communication and exchange of views with market-related organizations. (7) Support for the exclusion of organized crime gangs. (8) Support for business continuity across the entire financial products market.
International business and international exchange		Participates in international conferences, such as those of the International Council of Securities Association (ICSA), Asia Securities Forum (ASF), and International Organization of Securities Commissions (IOSCO), exchanges information with securities-related organizations of foreign countries, and promotes international exchange.

Note: Self-regulatory operations are overseen by the "Self-Regulation Board," while operations promoting the sound development of the financial instruments business and financial instruments markets are overseen by the "Securities Strategy Board."

Source: Compiled from the JSDA's "Articles of Incorporation and Rules and Regulations".

Table XIII-14. Securities Sales Representative Qualifications and Their Scope

Class 1 Sales Representative	All sales representative duties.
Class 2 Sales Representative	Certain sales representative duties (including trades involving public and corporate bonds or investment trusts, spot trading of stocks, etc. However, this excludes securities-related derivative transactions, complex structured bonds and complex investment trusts similar to OTC derivatives transactions, leveraged investment trusts, margin trading in stocks, and stock subscription rights.)
Special Member Class 1 Sales Representative	Sales representative who is authorized to engage in all Acts of a Sales Representative related to the business of a registered financial institution (transactions in public bonds and investment trusts, securities-related derivative transactions, etc.).
Special Member Class 2 Sales Representative	Certain operations of registered financial institutions (such as transactions in public and corporate bonds and investment trusts, etc.). However, this excludes securities-related derivative transactions, bond transactions with options, complex structured bonds and complex investment trusts similar to OTC derivative transactions, leveraged investment trusts, etc.).
Special Member Class 4 Sales Representative	Sales representative who is authorized to engage in all Acts of a Sales Representative related to "Specified Financial Instruments Business" (including investment trust transactions, weather derivative transactions, etc.; excluding complex investment trusts similar to OTC derivative transactions, leveraged investment trusts, etc.).
Margin Trading Sales Representative	Certain sales representative duties (trading in public bonds and investment trusts, spot and margin trading of stocks, etc.). However, this excludes securitiesrelated derivative transactions, complex structured bonds and complex investment trusts similar to OTC derivative transactions, leveraged investment trusts, and stock subscription rights/warrants.
Special Commodity Futures Sales Representative	Duties of a sales representative related to commodity-related market derivative transactions and similar activities.
Special Commodity Futures Sales Representative (Dealing only)	Duties of a sales representative related to commodity-linked derivatives trading for the account of a member company.

Notes: 1. As of November 2025, the JSDA does not administer qualification examinations for "Special Member Class 4 Sales Representative" and "Margin Trading Sales Representative."
2. In order to perform the duties of a Special Commodity Futures Sales Representative or a Special Commodity Futures Sales Representative (dealing only), an individual who meets the requirements stipulated in the rules must apply and obtain certification from the JSDA.
Source: Compiled from the JSDA website.

of securities companies nationwide. In 1992, it was reorganized as an authorized corporation under the Securities and Exchange Act, and in 2007, it became an Authorized Financial Instruments Firms Association under the FIEA, with the scope of its membership expanding from securities companies to include Type I Financial Instruments Business Operators. The JSDA's

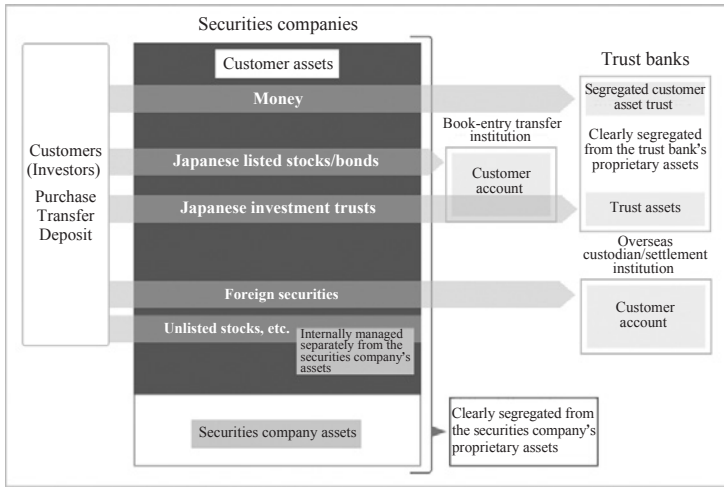
organizational structure consists of (1) the central headquarter and (2) regional offices. (1) The central headquarter has the General Assembly, which serves as the highest decision-making body; the Board of Governors, which resolves matters requiring final approval regarding the overall operation of the Association and performs supervisory functions; the Self-Regulation Board, the Securities Strategy Board, the Code of Conduct Committee, and the Financial Literacy & Education Support Committee, which serve as decision-making bodies for various operations delegated by the Board of Governors; and the General Affairs Committee, which operates under the Board of Governors. (2) As the regional offices there are nine regional associations nationwide (Tokyo, Osaka, Nagoya, Hokkaido, Tohoku, Hokuriku, Chugoku, Shikoku, and Kyushu), which carry out operations related to the Securities Strategy Board. As of November 2025, the JSDA had 262 corporate members, 11 members engaged in specific business activities, and 200 special members (registered financial institutions), comprising 116 domestic banks, 14 foreign banks, 38 credit unions, 9 life insurance companies, 4 property and casualty insurance companies, and 19 other institutions.

10. Investor Protection Fund

The Investor Protection Fund was established to protect investors and maintain confidence in securities trading by, among other measures, providing compensation to general customers seeking the return of assets deposited with a securities company when it is determined that the company is unable to return customer assets due to its insolvency. It was established through the 1998 amendment to the Securities and Exchange Act (Act on Revision, etc. of Related Acts for the Financial System Reform). As the regulations governing the establishment of securities companies shifted from a licensing system to a registration system, and competition among securities companies intensified, it was anticipated that although new companies would enter the market, some would also exit. Therefore, the law established a framework for protecting investors in the event of a securities company's insolvency, including the obligation to segregate customer assets and provisions for an investor protection fund.

The purpose of segregated custody of customer assets is to recover the assets of customers in preference to other creditors of a securities company if it goes bankrupt by holding the cash and securities of its customers separately from its own assets (see diagram on the right). The method is as follows: (1) customer securities are held in segregated accounts and managed separately; and (2) with regard to cash and securities pledged as collateral, an amount of cash equivalent to the amount to be returned to customers if the company ex-

Chart XII-5. Framework for Segregating Customer Assets



Source: Japan Investor Protection Fund website, "Customer (investor) assetsare protected by separate management".

its the securities business is placed in trust with a trust company or similar entity as "customer segregated money." If customer assets are properly segregated, it should be possible to prevent unforeseen losses to customers in the event of a securities company's insolvency. However, since the reference date for recalculating customer segregated money is set at least once a week, there remains a possibility of a shortfall. In addition, the actual refund process takes a considerable amount of time, and during that period, customers may incur losses due to fluctuations in market prices.

Therefore, to protect investors and maintain confidence in securities trading, while adhering to the principle of strictly segregating customer assets, as a complementary initiative, the Securities and Exchange Act (now the Financial Instruments and Exchange Act) reclassified the former Deposit Securities Compensation Fund, a public interest incorporated foundation, as a legal entity under the Act, and established the Investor Protection Fund. Compensation provided by the Investor Protection Fund can be broadly categorized into: (1) payments to general customers when a member company is unable to repay customer assets, and (2) loans to provide the funds necessary for the prompt return of customer assets (see table on the right). The amount payable to each customer shall not exceed the amount specified by Cabinet Order (¥10 million). Members of the Fund must be financial instruments business

Table XII-15. Investors Eligible for Compensation, Compensation Procedures, and Sources of Funds of the Investor Protection Fund

Those eligible for compensation	Eligible persons (Art. 79-20, Para. 1 of the FIEA)	A "general customer" (excluding qualified institutional investors, the national government, local governments, and other entities specified by Cabinet Order) who has conducted transactions related to the relevant securities or commodity derivatives with a financial instruments business operator engaged in securities-related or commodity derivatives-related business.
	Scope of customer assets eligible for compensation (Art. 79-20, Para. 3)	(1) Cash and securities deposited by general customers as transaction margin for securities-related derivative transactions and commodity-related market derivative transactions, and as margin for margin trading; (2) Cash and securities belonging to general customers, or cash and securities deposited with a financial instruments business operator by general customers in connection with transactions related to securities-related business (excluding OTC derivative transactions) and commodity derivative transactions; (3) Other items specified by Cabinet Order.
Compensation procedures	Notification to the Fund and recognition of inability to repay (Art. 79-53 and 79-54)	Upon receiving a notification from a financial instruments business operator that is a member of the Fund, or a notification from the Prime Minister, the Fund shall recognize whether it is difficult to smoothly fulfill its obligation to return client assets.
	Public notice of recognition (Art. 79-55)	If the Fund determines that it is difficult for the notifying business operator to smoothly discharge its obligations regarding the return of customer assets, the Fund shall publicly announce the period and location for filing claims, among other relevant details. In this case, the operator is referred to as the "Recognized Financial Services Providers."
	Payment of claims eligible for compensation (Art. 79-56; 57-4)	The Fund shall calculate the payment amount for each customer and makes payments on eligible claims based on the customers' notifications. The Fund will acquire eligible claims in proportion to the amounts paid to customers and will seek repayment from the failed Financial Instruments Business Operator.
	Loans to a "Notifying Financial Instruments Business Operator" (Art. 79-59)	This provision is intended to apply only in cases where, although the smooth performance of obligations regarding the return of customer assets is not difficult, prompt fulfillment is not possible. Distressed Financial Services Providers are not eligible to apply for this loan.
Source of funds	Contribution (Art. 79-64 and 79-65)	Funds are raised through contributions from financial instruments business operators who are members of the Fund.
	Borrowing funds (Art. 79-72)	The Fund may borrow funds from financial institutions upon approval by the Prime Minister and the Minister of Finance.

Source: Compiled from the Financial Instruments and Exchange Act.

operators, and Type I Financial Instruments Business Operators engaged in securities-related business are required to join the Fund. Two funds were established when the Investor Protection Fund system was created, but they were consolidated into the "Japan Investor Protection Fund" in 2002. As of the end of March 2025, the number of members stood at 261 companies, and total assets amounted to ¥58.4 billion.

11. Financial Institutions and Securities-Related Businesses (Securities Operations)

As a general rule, banks, cooperative financial institutions, and other financial institutions specified by Cabinet Order are prohibited from engaging in securities-related businesses or investment management businesses (Article 33, paragraph 1 of the FIEA). This is a continuation of the regulations on the separation of banking and securities that were introduced when the Securities and Exchange Act was enacted in 1948. The main reasons cited were ensuring the financial soundness of banks, preventing conflicts of interest between depositors and investors, and preventing undue market dominance and influence over companies. Since then, these regulations have evolved from their original form, and as financial institutions themselves have gradually expanded their securities-related businesses (securities operations), the securities-related businesses conducted by their group companies have also expanded.

The activities that financial institutions are exceptionally permitted to engage in are the buying and selling of securities or the trading of securities-related derivative for their own investment purposes, or for the account of a person acting as trustee under a trust agreement. In addition, certain business

Table XII-16. Net Assets of Publicly Offered Investment Trusts by Sales Channels (End of 2024)

(Unit: ¥ million, %)

	Securities companies		Banks, etc. (Registered financial institutions)		Direct sales (Investment trust company)		Total	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Stock investment trusts	180,458,651	78.4	48,355,360	21.0	1,479,534	0.6	230,293,544	100.0
Bond investment trusts	15,610,775	99.3	106,894	0.7	302	0.0	15,717,971	100.0
Total	196,069,425	79.7	48,462,254	19.7	1,479,836	0.6	246,011,515	100.0

Source: Compiled from "Statistical Data" published by the Investment Trusts Association.

Table XII-17. Securities Subsidiaries of Regional Banks

Name of securities subsidiary	Parent company	Year established (Year incorporated)	Overview
North Pacific Securities	North Pacific Bank	October 2018	Former Joko Securities becomes a wholly-owned subsidiary
77 Securities	77 Bank	July 2016	Newly established securities subsidiary
Mebuki Securities	Mebuki FG	November 2007	Newly established securities subsidiary
Tochigin TT Securities	Tochigi Bank	April 2017	Former Utsunomiya Securities becomes a consolidated subsidiary; Tokai Tokyo FHholds a 40% Stake
Gungin Securities	Gunma Bank	February 2016	Newly established securities subsidiary
Chibagin Securities	Chiba Bank	October 2011	Former Chuo Securities becomes a wholly-owned subsidiary
Kiraboshi Life Design Securities	Tokyo Kiraboshi FG	December 2019	Newly established securities subsidiary
Hamagin TT Securities	Yokohama Bank	May 2008	Newly established securities subsidiary; Tokai Tokyo FH holds a 40% stake
Shizuoka Bank TM Securities	Shizuoka Bank	July 2014	Became a wholly owned subsidiary (initially funded by the Bank of Tokyo-Mitsubishi and others)
Hokuhoku TT Securities	Hokuhoku FG	April 2016	Newly established securities subsidiary; Tokai Tokyo FH holds a 40% stake
Daishi Hokuetsu Securities	Daishi Hokuetsu FG	October 2019	Former Niigata Securities becomes a wholly-owned subsidiary
HACHIJUNI Securities	Hachijuni Bank	April 2006	Becomes a wholly-owned subsidiary
Juroku TT Securities	Juroku Bank	April 2018	Newly established securities subsidiary; Tokai Tokyo FH holds a 40% stake
OKB Securities	Ogaki Kyoritsu Bank	March 2019	Newly established securities subsidiary
Hyakugo Securities	Hyakugo Bank	August 2009	Newly established securities subsidiary
Nanto Mahoroba Securities	Nanto MS (Nanto Bank)	November 2018	Former Nara Securities becomes a wholly-owned subsidiary
Kyogin Securities	Bank of Kyoto	March 2017	Newly established securities subsidiary
Senshu Ikeda TTT Securities	Ikeda Senshu HD	January 2013	Newly established securities subsidiary; Tokai Tokyo FH holds a 40% stake
Shikoku Alliance Securities	Iyogin HD	February 2012	Newly established securities subsidiary
Chugin Securities	Chugin Bank	June 2009	Former Tsuyama Securities becomes a wholly-owned subsidiary
HIROGIN SECURITIES	Hirogin HD	June 2017	Former Utsumiya Securities becomes a wholly-owned subsidiary
YM Securities	Yamaguchi FG	July 2007	Newly established securities subsidiary; Tokai Tokyo FH holds a 40% stake
FFG Securities	Bank of Fukuoka	April 2012	Former Maeda Securities becomes a wholly-owned subsidiary
Nishi-Nippon City TT Securities	Nishi-Nippon FH	February 2010	Newly established securities subsidiary; Tokai Tokyo FH holds a 40% stake
Kyushu FG Securities	Kyushu FG	December 2017	Newly established securities subsidiary
Okigin Securities	Bank of Okinawa	March 2017	Former Okinawa Securities becomes a wholly-owned subsidiary
Toho Securities	Toho Bank	April 2016	Newly established securities subsidiary, dissolved in July 2025
Gogin Securities	San-in Godo Bank	August 2015	Newly established securities subsidiary, dissolved in December 2020

Source: Compiled from the websites of the respective companies.

activities are permitted upon registration as a "registered financial institution" (including acting as brokerage for written orders, securities-related business involving government bonds, investment trust business, business involving foreign securities that have the characteristics of government bonds, handling of private placements of other securities, derivative transactions other than securities-related derivative transactions, securities clearing intermediary services, investment advisory and agency business, securities custody services, etc.).

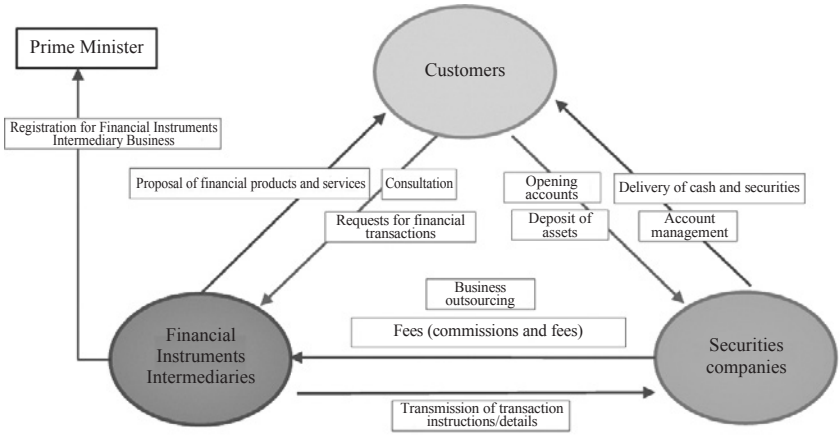
On the other hand, mutual market entry by companies within the financial institution groups is also permitted. Under the 1993 amendment to the Securities and Exchange Act, and as part of reforms to the separation of banking and securities activities, mutual market entry between banks and securities companies was permitted through a subsidiary-based model, while maintaining the principle of separation between banking and securities activities. Since then, the scope of securities operations conducted by subsidiaries of financial institutions has been expanded, and they are now authorized to engage in all securities-related activities. In addition, a financial holding company may have financial institutions and securities companies under its umbrella, each conducting their respective business operations (see table on the right).

Furthermore, measures to prevent adverse effects arising from conflicts of interest within the group (firewall regulations) have been established. Regulations include the obligation to submit a post-facto notification regarding directors holding concurrent positions; the "arm's-length rule" applicable to transactions between financial instruments business operators and their parent or subsidiary companies; a prohibition on financial instruments business operators entering into agreements with customers while aware that a parent or subsidiary company is extending credit to those same customers ("tie-in arrangement"); a prohibition on prioritizing the interests of parent or subsidiary companies at the expense of the interests of investment advisory clients; and restrictions on acting as the lead underwriter for securities issued by parent or subsidiary companies. Regulations governing the exchange of confidential customer information and other data have been relaxed for corporate customers.

12. Financial Instruments Intermediary Business

The Financial Instruments Intermediary Business system was established through the 2003 amendment to the Securities and Exchange Act (now the Financial Instruments and Exchange Act) with the aim of expanding the sales channels of financial instruments business operators and encouraging partici-

Chart XII-6. An Outline of Financial Instruments Intermediary Service Providers



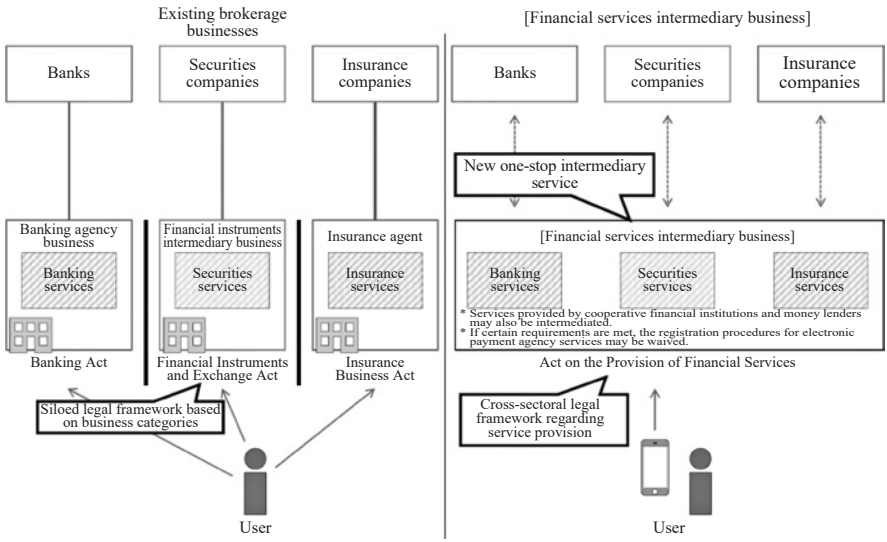
Source: Financial Services Agency, "Secretariat Briefing Materials (Survey on Financial Instruments Intermediaries)" (April 2019), p.2.

pation in the market by a wider range of investors. "Financial instruments intermediary business" refers to the business of performing any of the following acts on behalf of a principal (hereinafter referred to as "affiliated financial instruments business operator"), such as a Type I Financial Instruments Business Operator, an investment management business operator, or a registered financial institution: (1) Intermediary services for the sale or purchase of securities; (2) intermediary services for orders to trade securities or derivatives on financial instruments exchanges or foreign financial instruments markets; (3) handling of securities offerings and secondary offerings, private placements, and solicitations for sales to qualified investors; and (4) intermediary services for the conclusion of investment advisory or discretionary investment contracts.

Any entity other than banks, cooperative financial institutions, or other financial institutions specified by Cabinet Order (excluding officers and employees of Type I Financial Instruments Business Operators and registered financial institutions) may engage in financial instruments intermediary services, regardless of whether they are a corporation or an individual, upon registration with the Prime Minister. In principle, registered persons are free to engage in other employment as well. Any person who engages in financial instruments intermediary activities or solicitation activities must be registered as a sales representative.

Financial instruments intermediaries merely facilitate transactions between

Chart XII-7. Financial Instruments Intermediary Business and Financial Services Intermediary Business



Source: Financial Services Agency, "Explanatory Materials for the Bill for the Act on Partial Amendment to the Act on Sales, etc. of Financial Instruments and Other Acts for the Purpose of Improving Convenience and Protecting the Interests of Financial Service Users" (March 2020), p.3.

customers and Financial Instruments Business Operators. They do not themselves become parties to sales contracts or agency agreements for trades, nor do they have the authority to act as agents for Financial Instruments Business Operators (see diagram on the right). Financial instruments intermediaries are prohibited from accepting deposits of cash or securities. Financial instruments intermediaries may accept commissions from multiple companies, and must disclose to customers, prior to engaging in intermediary activities, the trading names of affiliated Financial Instruments Business Operators, as well as whether they have authority to act on their behalf. If a financial instruments intermediary causes a customer to incur loss or damage, the affiliated financial instruments business operator shall be liable to compensate the customer for such loss or damage, unless it exercised due care in outsourcing the work and made every effort to prevent the loss from occurring. As of the end of October 2025, the number of registered financial instruments intermediary service providers is 692 (Financial Services Agency, "List of Financial Instruments Intermediary Service Providers").

Furthermore, the 2020 amendment to the Act on Sales, etc. of Financial

Instruments established the Financial Services Intermediary Business system (currently known as the "Act on the Provision of Financial Services and the Development of the Accessible Environment for Their Use"). The financial services intermediary business operates under a registration system, and a single registration allows a company to act as an intermediary for services in all sectors, including banking, insurance, securities, and lending (see figure on the right). Although there is no affiliation system in place, regulations have been established, including restrictions on the services that may be provided, a prohibition on accepting customer assets, and an obligation to deposit security funds. As of the end of October 2025, there are 22 registered financial services intermediaries (Financial Services Agency, "List of Registered Financial Services Intermediaries").