Securities Market in Japan

2026

JAPAN SECURITIES RESEARCH INSTITUTE

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Tokyo 103-0027, Japan
Telephone (+81) 3-6225-2326
Facsimile (+81) 3-6265-1552

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The book is a translation of "Illustrated Guide: 2022 Securities Markets in Japan" (prepared by the Japan Securities Research Institute), which was published in Japanese, into English. It includes quotations from or references to descriptions of laws and regulations such as the Financial Instruments and Exchange Act; however, it is the laws and regulations in Japanese themselves that have legal effect and the translations given herein are only for your reference. For legal matters, see the laws and regulations in Japanese described in the official journal.

PREFACE

"The Securities Market in Japan: An Illustrated Guide" explains the structures and functions of Japan's securities markets to the general public in a simple and user-friendly manner. The guide was first published in 2008 and is always well-received by readers, in part because there are few other comparable sources of information. A revised edition with updated content is published every two years.

Looking back at the Japanese securities market over the past two years, we can see substantial change. First, foreign investors' interest in Japan's stock market has increased markedly due to progress in corporate governance reforms. Furthermore, improved corporate earnings and the AI boom have made Japan's stock market the most buoyant since the bubble era. In the bond market, trading activity has picked up as a result of fluctuations in long-term interest rates following the normalization of the Bank of Japan's monetary policy. The government is also planning and implementing policies that will contribute to revitalizing Japan's securities market, such as the "Asset Management Nation" policy, the new NISA (Nippon Individual Savings Account), and various financial education initiatives. As a result, in general, interest in the Japanese securities market is steadily increasing both domestically and internationally.

For the 2026 edition, we have updated descriptions and statistics in each section in response to market developments over the past two years, with a number of sections added to improve the content. Specifically, we have added the following sections: "Review of TSE Market Classification and Subsequent Initiatives," "Issuance of Public and Corporate Bonds to Retail Investors," and "Financial Instruments Intermediary Business." In addition, new chapters have been added for "Clearing and Settlement Systems" and "Trading Systems for Unlisted Stocks" to provide more detailed explanations.

We also publish an English version of this guide due to strong demand from overseas, and we plan to publish and release the 2026 edition shortly.

In addition to "The Securities Market in Japan," Japan Securities Research Institute also updates and publishes "The Securities Market in the U.S.," "The Securities Markets in Europe," and "The Securities Markets in Asia" every few years. These guides contain concise descriptions of the current status, origin and history of securities markets in various countries around the world.

As with our previous publications, the 2026 edition of this book was co-authored by our research staff and by experts at the Japan Securities Dealers

Association (JSDA), the Japan Exchange Group (JPX), Japan Securities Finance (JSF), Nomura Research Institute, Japan Securities Depository Center (JASDEC), and Japan Investment Advisers Association (see page iii). The overall coordination of this project was handled by Senior Researcher Yamada and Researcher Ko at the Japan Securities Research Institute.

We sincerely hope that the 2026 edition will be useful for all those who have an interest in this topic.

March 2026

MANABU MORIMOTO
President
Japan Securities Research Institute

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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.

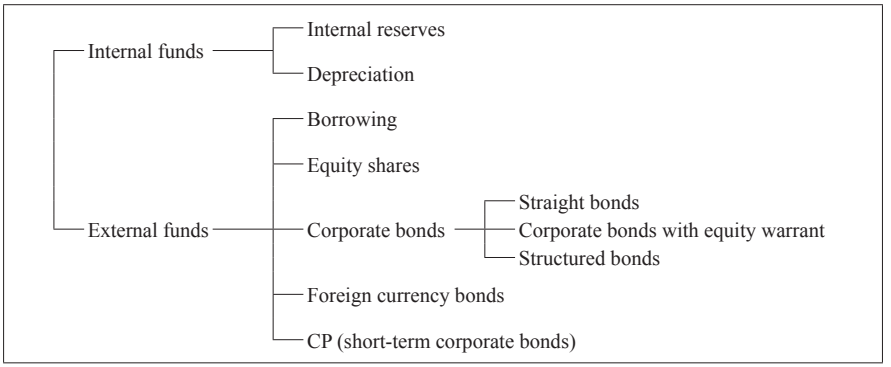
comprehensive provisions in Item (v) of the paragraph for the FIEA to be applicable to various types of collective investment vehicles, or funds. The Electronically Recorded Transferable Rights referred to in Paragraph 3 are asset values that may be transferred by means of an electronic data processing 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.

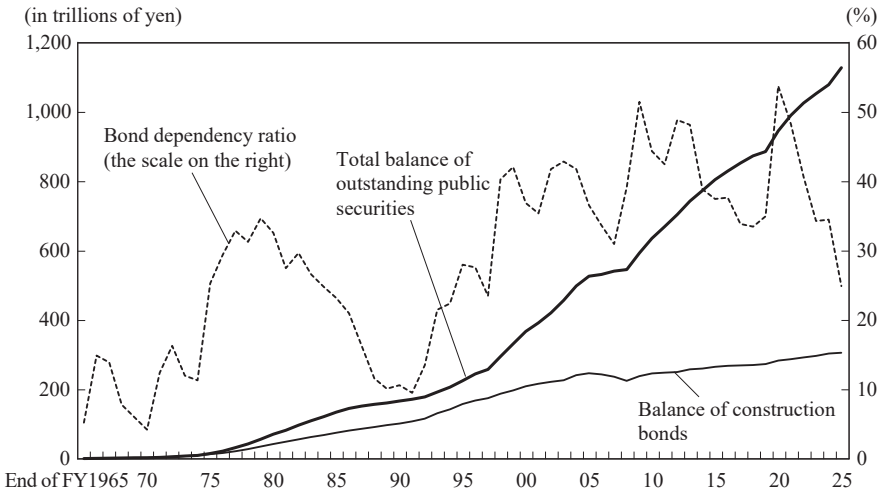
Source: Compiled from the Flow of Funds Account data published on the web site of the Bank of Japan.

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

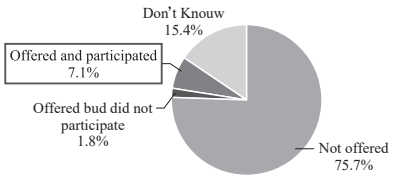
Source: "Explanatory material for the bill to partially amend the Financial Instruments and Exchange Act" (2023) Financial Services Agency.

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.

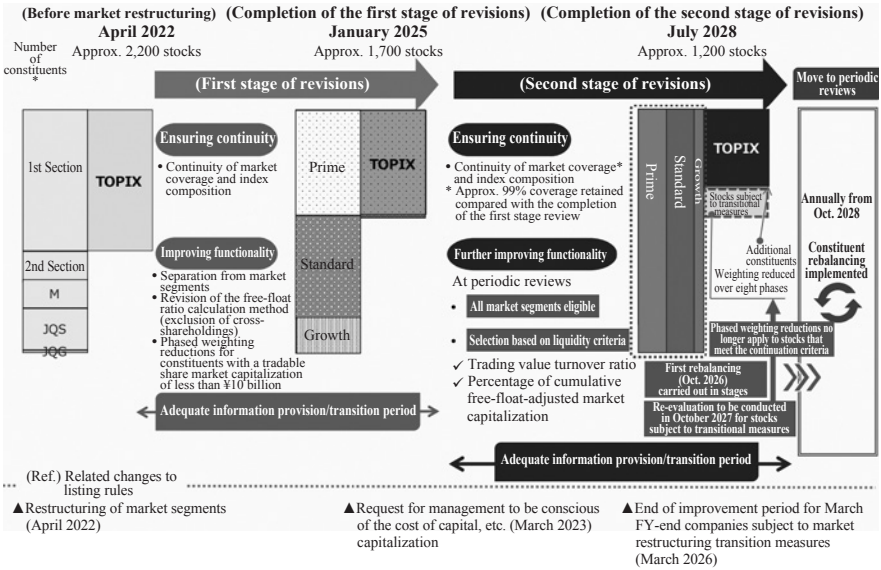
The "Doubling Asset-based Income Plan" set out by the Kishida administration in 2020 aims to increase household income from financial assets in addition to working income and includes measures such as expanding and making permanent the small investment tax exemption system (NISA) in 2024. In addition, 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.

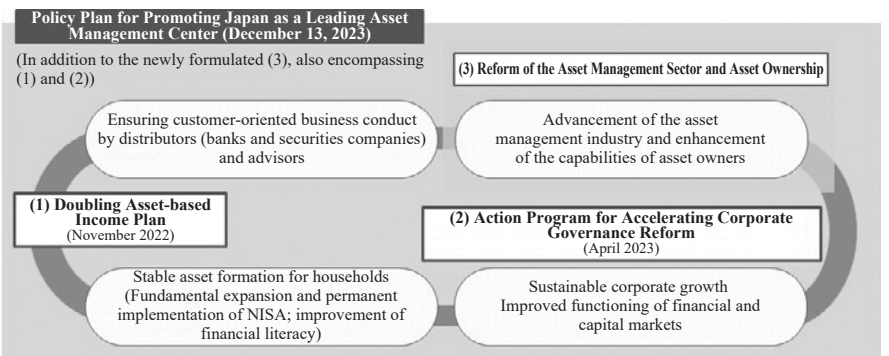
As mentioned above, stocks that do not meet certain criteria regarding market capitalization and liquidity will be excluded, so TOPIX will not be able to reflect price movements in these stocks. Calculation of the "TOPIX Next-tier" as an alternative indicator of price movements in these stocks is scheduled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

CHAPTER II

The History of the Japanese Securities Market

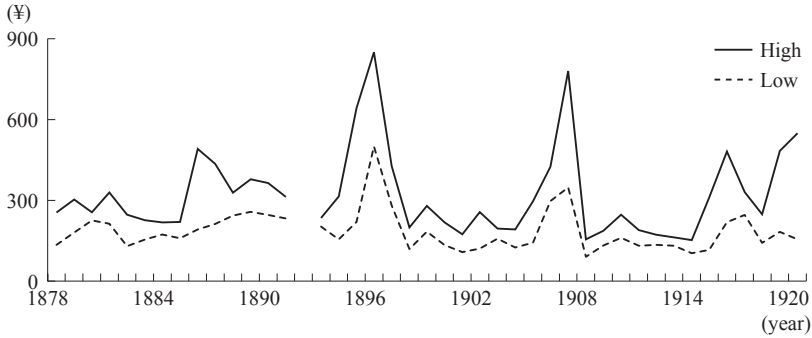
1. The Securities Market in the Prewar Period

If we take the point of origin of Japan's securities market to be the first issuance of securities, this occurred in 1870 with the issue of a foreign currency denominated government bond bearing 9% interest in London, England. If we consider the birth of a secondary market based on a legal ordinance, this happened in 1878 with the establishment of stock exchanges in Tokyo and Osaka. Whichever definition is used, Japan's securities market has been in existence for about 150 years. The stock exchanges started off as markets for trading government bonds, such as as old and new public bonds and *chitsuroku* bonds Although the stocks of the exchanges and banks were later listed, government bonds continued to account for the majority of trading for some time. Around 1886, there was a period of rapidly emerging businesses, mainly railway and textile companies, that ushered in more active trading in stocks.

The formation of corporations (*kabushiki kaisha*) in Japan was not related to the huge capital investments that are required to develop the heavy and chemical industry. Instead, corporations were introduced to deal with the low level of capital accumulation in the economy. In conjunction with that action, schemes were established to facilitate the paying in of capital, such as the stock installment payment system and stock collateral loans. As a result, the corporations set up in the Meiji era were mostly small companies primarily involved in light industry. These could really be considered as corporations in name only in terms of their generally intended function of raising capital. The turning point for that function in Japan came with the shift in the composition of industry toward he heavy and chemical industry prompted by World War I. Only then did the country see a sharp increase in large albeit mainly financial combine (*zaibatsu*)-related companies with paid-in capital exceeding ¥5 million.

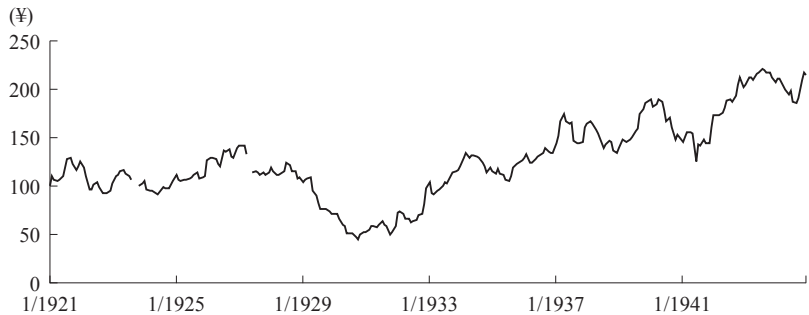
There were practically no shares of major companies listed on stock exchanges in the secondary market because the *zaibatsu* held exclusive ownership of their group companies. And as a result of the lack of investment capi-

Chart II-1. Changes in Stock Prices (Long-term margin transactions) (1878−1920)



Source: Complied from *Tokyo shoken torihikisho no nijyunen shi-kisoku to tokei* (A 20-year History of the Tokyo Stock Exchange-Regulations and Statistics).

Chart II-2. Stock Price Movement (Major Stock Price Index) (1921−1944)



Source: Complied from *Tokyo shoken torihikisho tokei nenpo* (Tokyo Stock Exchange Annual Statistics Reports) and *nisho tokei geppo* (Japan Securities Exchange Monthly Statistics Reports).

tal and inadequate credit provision by banks before World War II, the secondary market developed around futures trading called settlement dealings and forward transactions. Even the main trading issues of exchanges' stocks were subject to speculative investment. For that reason, the prewar stock market can be characterized as speculative. Another feature that can be highlighted in retrospect is the imposition of wartime regulations. Following the Showa depression, the government sought to achieve economic recovery by devaluing the currency to promote exports and by creating inflation through expansive government spending, principally on the military. After the outbreak of the Sino-Japanese War, the government implemented a war-

Table II-1. Issues Listed on the Tokyo Stock Exchange

(as of end of 1878)

Bonds: New and old public bonds, *Chitsuroku* public bonds, *Kinroku* public, bonds, *Kigyo* public bonds
Stocks: Tokyo Stock Exchange, Daiichi National Bank, Tokyo Kabutocho Rice Merchant Association, and Tokyo Kakigara-cho Rice Merchant Association

Source: Complied from *Tokyo shoken torihikisho no gojyunen shi* (A 50-year History of the Tokyo Stock Exchange).

Table II-2. Number of Issues Listed on the Japan Securities Exchange, by Industry

(as of May 31, 1945)

Subscription certificates, 2; banks, trust companies, and insurance companies, 64; investment companies, colonization companies, and securities companies, 28; stock exchanges, 2; railroad and electric railroad companies, 62; transportation and communication companies, 28; gas and electric utilities, 43; mining companies, 86; shipbuilding and machinery companies, 232; steel companies, metal companies, and smelting companies, 81; textile industrial companies, 58; sugar manufacturing and milling companies, 18; food processing companies and fisheries companies, 29; chemical companies, 65; ceramics companies, 25; paper and pulp, printing, and tanning companies, 26; other industrial companies, 31, rubber and tobacco companies, 23; land, building, and warehousing companies, 17; commercial companies, 46

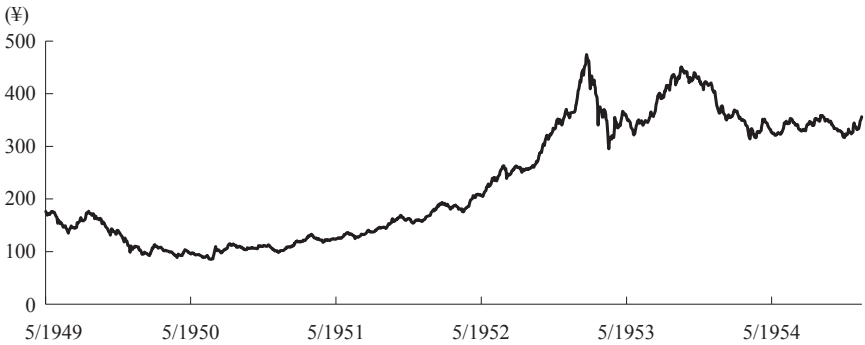
Source: Japan Securities Exchange.

time regime and imposed regulations on the securities market. It restricted the issuance of securities for non-essential industries, instituted planned corporate bond issuance, put controls on stock prices, and introduced a licensing system for securities companies. Japan's 11 stock exchanges, furthermore, were merged into the Japan Securities Exchange in 1943.

2. The Period of Postwar Economic Rehabilitation (1945−54)

After the war, Japan was placed under the control of the General Headquarters (GHQ) of the Supreme Commander for the Allied Powers. There was immediate movement within Japan's securities industry to reopen the market. At one point, in fact, the Ministry of Finance decided to restart the stock exchanges on October 1, 1945. However, the GHQ did not approve this, and the market was not reopened. The securities industry continued to lobby en-

Chart II-3. Stock Price Movements (1949−1954)



Source: Compiled from Nomura Securities' *Shoken tokei yoran* (Manual of Securities Statistics).

Table II-3. Number of Members and Listed Companies of Each Exchange at Establishment

	Establishment	No. of members (at the time the fund was established)	Listings
Tokyo Stock Exchange	May 16, 1949	116 official members, 12 specialists	681
Osaka Securities Exchange	May 16, 1949	76 official members, 11 specialists	523
Nagoya Stock Exchange	May 16, 1949	50 official members, 8 specialists	268
Kyoto Stock Exchange	July 4, 1949	41 members	217
Kobe Stock Exchange	July 4, 1949	34 members	189
Hiroshima Stock Exchange	July 4, 1949	28 members	119
Fukuoka Stock Exchange	July 4, 1949	29 members	181
Niigata Stock Exchange	July 4, 1949	24 members	176
Sapporo Securities Exchange	April 1, 1950	17 members	103

Source: Complied from *shoken torihiki iinkai hokokusho* (a Securities and Exchange Commission Report).

thusiastically for a restart of market operations, but the GHQ rejected the idea as premature and instead gave priority to economic reforms (land reform, dismantling of the *zaibatsu*, and labor reform), as well as political and social reforms. Consequently, it took nearly four years to reopen the stock exchanges, during which time the Japan Securities Exchange remained

Table II-4. Member Securities Companies at the Establishment of Tokyo Stock Exchange (April 1, 1949)

Nikko Securities, Tamazuka Securities, Yamaichi Securities, Yachiyo Securities, Taguchi Securities, Maruhiro Securities, Nitto Securities, Yamazaki Securities, Kaneju Securities, Irimaru Securities, Yamayoshi Securities, Aizawa Securities, Kokusai Heiwa Securities, Marusui Securities, Toyama Securities, Meiwa Securities, Sekitani Securities, Daiwa Securities, Sekito Securities, Shinko Securities, Nomura Securities, Matsuya Securities, Tokuda Securities, Sanko Securities, Yamaka Securities, Kanaman Securities, Bokutoku Securities, Naruse Securities, Daifuku Securities, Rokushika Securities, Daito Securities, Oda Securities, Tokyo Daiichi Securities, Ninomiya Securities, Yamakanou Securities, Osawa Securities, Obuse Securities, Marusan Securities, Tabayashi Securities, Kakumaru Securities, Koyanagi Securities, Tsukuba Securities, Chiyoda Securities, Nippon Kangyo Securities, Tachibana Securities, Marusugi Securities, Mie Securities, Haratada Securities, Maruya Securities, Fukuyama Securities, Irinaka Securities, Ikko Securities, Rokko Securities, Nippon Sangyo Securities, Toyo Securities, Totan Securities, Toko Securities, Tokyo Showa Securities, Tokyo Shinei Securities, Tokyo Jiyu Securities, Chugai Securities, Marukuni Securities, Ikanagashira Securities, Kaga Securities, Kadoman Securities, Yoshikawa Securities, Yoshimura Securities, Taihei Securities, Taiyo Securities, Tanaka Securities, Takai Securities, Taishichi Securities, Taisei Securities, Naigai Securities, Nakahara Securities, Nakajima Securities, Hachisu Securities, Ueno Securities, Ono Securities, Osaka Shoji, Oda Securities, Yamani Securities, Yamawa Securities, Fukuri Securities, Yamamaru Securities, Yamafumi Securities, Yamasachi Securities, Yamasan Securities, Marutoyo Securities, Maruwa Securities, Marusan Securities, Maruju Securities, Matsui Securities, Fuso Securities, Koiei Securities, Ebisu Securities, Ando Securities, Yamata Securities, Sanshin Securities, Sansei Securities, Sakai Securities, Kyowa Securities, Kyodo Securities, Misawaya Securities, Miki Securities, Shimizu Securities, Shinei Securities, Jujiya Securities, Juzen Securities, Joichi Securities, Jonan Securities, Hinode Securities, Hiyama Securities, Hirahara Securities, Central Securities, Marugo Securities Specialists: Daiichi to Daijuni Jitsuei Securities

Source: Compiled from *Tokyo shoken torihikisho no jyunen shi* (A 10-year History of the Tokyo Stock Exchange).

closed. This has been the only "blank period" in the operation of stock exchanges in the history of the securities market in Japan.

Despite trading being halted on the floors of the stock exchanges and official secondary market, the demand for securities trading persisted even in the confusion of postwar Japan. Securities trading naturally emerged at the offices of securities companies in the form of over-the-counter (OTC) trading. When it became clear, moreover, that the stock exchanges were not going to restart anytime soon, "group transactions," which involved institutionalized OTC trading at fixed locations and times in parallel with the OTC trading at individual securities companies, also got under way. By the end of 1945, group transactions, which first emerged in Tokyo and Osaka, had spread to Nagoya, Niigata, Kyoto, Kobe, Hiroshima, Fukuoka, and other cities.

It would, of course, have been difficult to reopen the stock exchanges merely by continuing the prewar exchange organization and securities legislation. To democratize the securities industry, the Japanese government com-

menced the formulation of a new legal framework. In 1947, it promulgated the Securities and Exchange Law, which drew on the Securities and Exchange Act of the United States. Initially, only those articles of the law dealing with the Securities and Exchange Commission, which was patterned after the U.S. Securities and Exchange Commission (SEC), were enforced. Then a full-scale revision of the law was promulgated in 1948. This amended law formed the legal framework for the new postwar securities market, replacing the licensing system for securities companies with a system of registration with the regulatory authority and putting in place regulations such as the separation of banking and securities businesses.

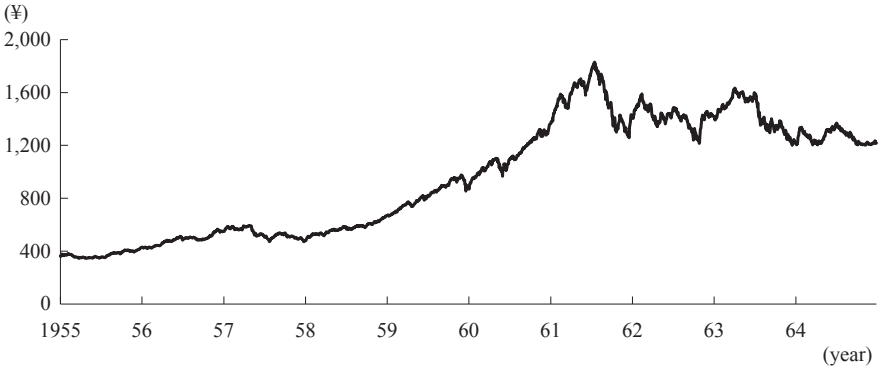
Stock exchanges were established in Tokyo, Osaka, Nagoya, and other cities from May 1949. The GHQ, however, instructed Japan's Securities and Exchange Commission to ensure the strict observance of its Three Principles of Market Operation: (1) recognize transactions in order of the occurrence, (2) concentrate trading on stock exchanges, and (3) prohibit futures trading. All stock exchanges pledged to strictly follow these principles, enabling the long-awaited reopening of stock exchanges (participants in group transactions and the issues they had traded moved en masse to these stock exchanges and restarted trading on a cash transaction basis only). However, because it was difficult to match buys and sells based only on actual demand, a movement got under way in the industry to push for the revival of prewar forward transactions for the purpose of introducing hypothetical demand. Since the management of the exchanges and the GHQ were against this proposal, a margin trading system modeled on the U.S. margin trading system was introduced in 1951.

3. The Securities Market during the First Period of Rapid Economic Growth (1955−64)

As indicated by the statement "The postwar period is over" in the 1956 Economic White Paper, Japan completed its postwar recovery in the latter half of the 1950s and entered its first period of rapid economic growth, exemplified by the Jinmu and Iwato booms. Against a backdrop of favorable growth in corporate performance, stock prices rose almost universally during the period from the latter half of 1955 to July 1961. An investment trust boom at the time also contributed to the rising securities market.

Japan had introduced a postwar securities investment trust system in 1951, but the market for these investment trusts struggled until 1955. From 1956 on, however, stock prices surged, and the outstanding principal of investment trusts expanded sharply. Investment trusts became such a force in the securities market that they were referred to as the "whale in the pond." Another

Chart II-4. Stock Price Movements (TSE's Modified Stock Price Average) (1955−1964)



Source: Compiled from Nomura Securities' *Shoken tokei yoran* (Manual of Securities Statistics) and the Tosho tokei nenpo (TSE Annual Report).

Table II-5. Changes in Assets of Stock Investment Trusts and Bond Investment Trusts (Principal basis)

(millions of yen)

	Stock Investment Trusts					Bond Investment Trusts				
	Sales (A)	Cancellation (B)	Redemption (C)	Year-end Principal	Net asset change (D=A–(B+C))	Sales (A)	Cancellation (B)	Redemption (C)	Year-end Principal	Net asset change (D=A–(B+C))
1955	26,381	31,792	13,640	59,519	−19,051					
1956	51,431	27,163	16,039	67,748	8,229					
1957	92,544	16,178	7,199	136,915	69,166					
1958	106,412	25,741	7,890	209,695	72,780					
1959	182,480	58,876	3,219	330,081	120,385					
1960	362,066	87,945	−	604,202	274,120					
1961	588,205	155,751	9,810	1,026,845	422,643	244,490	88,470	−	156,020	156,020
1962	347,116	229,174	14,161	1,130,627	103,781	83,819	107,160	−	132,679	−23,341
1963	331,873	274,226	17,884	1,170,388	39,761	109,857	71,021	−	171,515	38,836
1964	330,158	293,573	45,415	1,161,558	−8,829	122,332	84,811	−	209,036	37,521
1965	196,829	349,502	42,556	966,328	−195,229	120,665	110,132	−	219,569	10,533

Source: Compiled from *Shokenshintaku sanjyugonen shi* (35-year History of Securities Investment Trusts).

Table II-6. Categories of Investible Custody Securities and Investment Uses

(millions of yen)

	Total Assets Under Management	Category			Investment Area	
		Special debt		Corporate bonds	Deposited collateral	Others
			Of above, bank debentures			
Sept. 1958	62,701	61,984	61,384	568	53,812	5,283
Sept. 1959	108,347	107,602	105,381	673	88,793	19,420
Sept. 1960	146,076	144,875	141,666	969	116,061	30,015
Sept. 1961	139,833	138,552	134,794	1,239	116,988	22,845
Sept. 1962	154,284	152,127	143,946	2,005	129,030	25,254
Sept. 1963	209,197	205,337	196,967	3,386	156,319	52,877
Sept. 1964	249,079	244,685	235,557	3,714	195,891	53,189

Source: Compiled from the Securities Bureau of the Ministry of Finance, *Nenpo* (Annual Report).

factor in the bull market was the system of "investable custody." Under that system, securities companies borrowed bank debentures (primarily discount bank debentures) that they had sold in the market on a commission basis from unspecified multiple customers for a predetermined fee through a custody system. The securities companies then raised capital from small and medium-sized financial institutions or in the call money market by using the bank debentures as collateral and invested it in stocks or bonds through their own proprietary trading accounts. In this manner, against the backdrop of an expanding economy and bullish securities market, OTC trading value rose sharply, and the number of companies approved to sell their securities OTC grew rapidly, concentrated mainly on start-up and growth companies. To deal with the rapid expansion in the OTC market, the Tokyo, Osaka, and Nagoya stock exchanges each established Second Sections.

Japan, though, was striving to balance its current account, and when the balance of payments fell into the red it tightened the money supply. When the interest rate was raised in July 1961 to improve the balance of international payments, Japanese companies began liquidating their stockholdings. In combination with corporations' focus on increasing capital, this trend caused a worsening in the demand-supply balance for stocks. The resultant drop in stock prices forced an end to the investment trust boom, as the mechanism that had been driving up stock prices reversed and caused further declines in stock prices. The increase in the official discount rate also produced a rise in the number of redemptions of bond investment trusts, especially by compa-

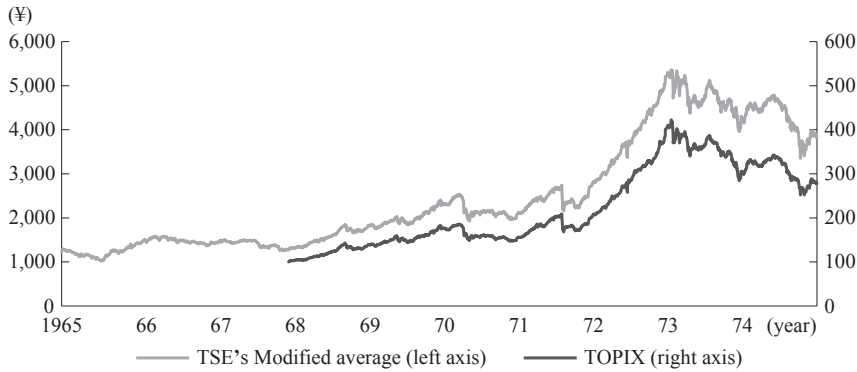
nies. This action placed a great financial burden on the securities companies, which were forced to buy bonds that were being removed from the pool of investment trust assets. These factors became a cause of panic in the securities market.

For that reason, the market took steps, such as urging business corporations to rearrange their financing plans (cutting back or postponing their planned increase of capital) and persuading commercial banks to make loans secured by bonds to four bond investment trusts. Despite these efforts, stock prices continued to decline, partly because of the Kennedy Shock triggered by the proposed U.S. Interest Equalization Tax. To deal with the issues, the industry formed stock purchasing organizations. In January 1964, banks and securities companies contributed capital to create the Japan Joint Securities Co., Ltd., while in January 1965 a group of securities companies jointly established the Japan Securities Holding Association. Both of these organizations carried out share purchasing operations in the market and assumed ownership of shares held by investment trusts with the aim of improving the demand and supply balance in the stock market. In the latter part of May 1965, however, the news that Yamaichi Securities Co., Ltd., was on the verge of bankruptcy hit the market, plunging it into a state of panic.

4. The Securities Market during the Second Period of Rapid Economic Growth (1965−74)

The curtain rose on the 10-year period from 1965 onward with a securities panic. At the end of the first half of fiscal 1964 (September 30, 1964), the cumulative losses of securities companies in Japan amounted to ¥26.4 billion. In particular, Yamaichi Securities' performance had deteriorated significantly. By March 31, 1965, the company had racked up a loss of ¥28.2 billion, compared with total capital of only ¥8 billion. On May 21, 1965, it was revealed that Yamaichi Securities was on the brink of failure. To avoid a loss of confidence in the market, a move was made to bail out the company. Late at night on May 28, the government invoked Article 25 of the Bank of Japan Act and announced that Yamaichi Securities would receive a special unsecured loan from the Bank of Japan for an unlimited amount (although in actual fact some collateral was secured). Stock prices continued to fall for some time following the announcement but rallied when the government made clear that it intended to issue deficit-covering bonds for the first time since the war. Meanwhile, the panic in the securities market also served as the basis for a reorganization of the securities industry. The government amended the Securities and Exchange Act, introducing a licensing system for securities companies. This forced many securities companies to combine their operations, or

Chart II-5. Stock Price Movement (TSE's Modified Average, TOPIX) (1965−1974)



Source: Compiled from data the *Shoken tokei yoran* (Manual of Securities Statistics), the *Nihon Keizai Shimbun*, and the *Tosho tokei nenpo* (TSE Annual Report).

merge, to prepare for the new system. In combination with the securities companies that had their registration revoked around the time of the securities panic and those that dissolved their operations, the number of securities companies at the time of the conversion to the new licensing system declined to 277 companies, compared with 593 companies at the end of 1963.

During the decade from 1965 to 1974, progress was made in internationalizing Japan's securities market. In 1964, Japan became an Article 8 country member of the International Monetary Fund (IMF), joined the Organization for Economic Cooperation and Development (OECD), and publicly promised to liberalize capital transactions. Consequently the government implemented measures to liberalize the capital market in five stages beginning in July 1967. This process steadily eased the restrictions on ownership of Japanese stock by foreigners, and these were finally fully lifted with the exception of certain stock categories. The liberalization of capital transactions was not limited to foreign investors; foreign issuers and intermediates were also able to operate in Japan's securities market. In 1970, the Asian Development Bank started issuing yen-denominated foreign bonds in Japan. Foreign shares were made available to buy in Japan in 1972. The Tokyo Stock Exchange established a Foreign Section in 1973. Around the same time, foreign securities companies commenced operations in Japan. Merrill Lynch opened a Tokyo branch in 1972, becoming the first foreign securities company to receive a securities business license in Japan.

The liberalization of capital transactions also meant that it was now possible for foreign companies to take over Japanese companies. Japanese companies countered this new threat by focusing on building stable shareholder

Table II-7. Changes in Number of Securities Companies

	Changes in the number of companies		Companies at financial year-end	Number of Business Offices	Total Capital (in ¥ mil.)	Per-Company Capital (¥ mil.)
	Increase	Decrease				
FY1948	959	11	948			
1949	292	113	1,127	1,889	3,014	2.7
1950	18	209	936	1,601	3,454	3.7
1951	11	109	838	1,642	3,767	4.5
1952	71	73	836	1,794	6,683	8.0
1953	52	52	836	2,105	10,115	12.1
1954	11	83	764	1,997	10,713	14.0
1955	2	66	700	1,901	10,826	15.5
1956	7	55	652	1,848	12,022	18.4
1957	7	77	582	1,904	18,062	31.0
1958	7	32	557	1,984	19,569	35.1
1959	15	26	546	2,233	29,221	53.5
1960	36	30	552	2,565	39,094	70.8
1961	48	10	590	2,841	74,991	127.1
1962	23	12	601	2,934	78,114	130.0
1963	8	16	593	2,893	100,573	169.6
1964	0	82	511	2,424	126,118	246.8
1965	0	86	425	2,109	125,599	295.5
1966	2	30	397	2,009	118,632	298.8
1967	0	113	284	1,869	119,955	422.4
1968	0	7	277	1,572	119,904	432.9

Note: Figures for "Number of Business Offices" and "Capital" for the years preceding 1959 are as of the end of the calendar year concerned.
Source: Compiled from the Securities Bureau of the Ministry of Finance, *Nenpo* (Annnual Report).

Table II-8. Changes in Stock Ownership Among Investor Categories

By Owner \ FY		1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
National and local government organizations		0.3%	0.2%	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%
Corporations	Financial institutions	26.8%	29.8%	30.6%	32.0%	31.9%	32.3%	33.9%	35.1%	35.1%	35.5%	36.0%
	Securities companies	5.4%	5.4%	4.4%	2.1%	1.4%	1.2%	1.5%	1.8%	1.5%	1.3%	1.4%
	Business corporation, etc.	21.0%	18.6%	20.5%	21.4%	22.0%	23.1%	23.6%	26.6%	27.5%	27.1%	26.3%
	Foreign corporations	1.9%	1.7%	1.7%	2.1%	3.1%	3.0%	3.4%	3.4%	2.8%	2.4%	2.5%
Corporate investor total		55.1%	55.5%	57.2%	57.6%	58.4%	59.6%	62.4%	66.9%	66.9%	66.3%	66.2%
Individual	Individuals and others	44.4%	44.1%	42.3%	41.9%	41.1%	39.9%	37.2%	32.7%	32.7%	33.4%	33.5%
	Foreign investors	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%
Individual investor total		44.6%	44.3%	42.5%	42.1%	41.3%	40.1%	37.4%	32.8%	32.8%	33.5%	33.6%

Note: Investment trust portion is included in financial institutions.
Source: Compiled from *Kabushiki bunpu jokyo chosa* (Survey of Stock Distribution Status).

bases. If companies held shares in each other, this reduced the number of shares available in the market, making it easier to defend against takeover attempts. Cross-shareholdings were viewed from the perspective of takeover prevention. Later, after Japanese companies switched the format of their capital increases from rights issues to existing shareholders at par value to public offerings of stock at market prices, issuers pursued share crossholdings because they favored a high share price for their public offerings. As a result, there was a change in the shareholding composition of the market, with the proportion of corporate shareholdings increasing and the proportion of individual investor shareholdings declining.

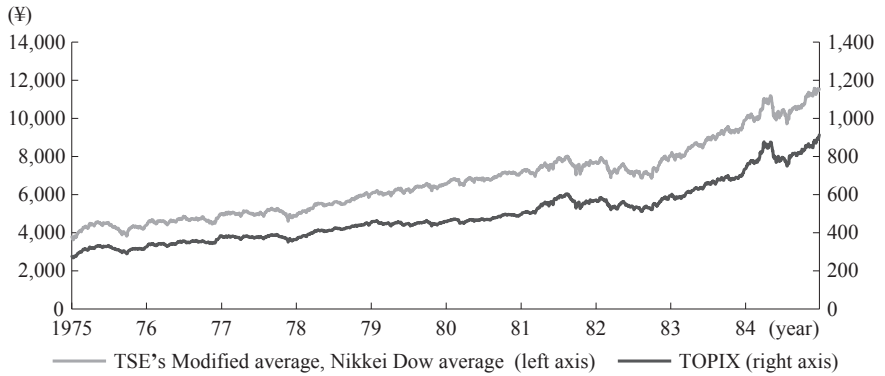
5. Measures Taken to Cope with the Oil Crisis (1975−84)

At the end of the previous 10-year period, there had been a succession of major events that shook the Japanese economy, including the Nixon Shock (1971), the introduction of a floating exchange rate system (1973), and the first oil shock (1973). The second oil shock occurred later, in 1979. With Japanese companies practicing energy conservation management in the face of back-to-back oil crises, the government seemed intent on getting through the crises using a fiscal expansion strategy. Underpinning that strategy was the massive issuance of deficit-covering Japanese government bonds (JGBs).

As previously mentioned, government bond issuance after the war began in fiscal 1965. The main feature of these bonds was that they were issued at low interest rates without regard to market conditions and were forcibly allocated among financial institutions belonging to the underwriting syndicate according to their capital strength. Maintaining this artificially low and fixed interest rate market meant that financial institutions could not be permitted to sell JGBs freely in the market. Since the government was trying to keep JGB issuance at that time within the scope of the growth in the money supply, the Bank of Japan purchased almost all JGBs that had been held by the financial institutions for one year (liquidity policy). The reason, in fact, that JGB issuance after the oil shocks was said to be massive was that JGB issuance after fiscal 1975 exceeded the growth in the money supply.

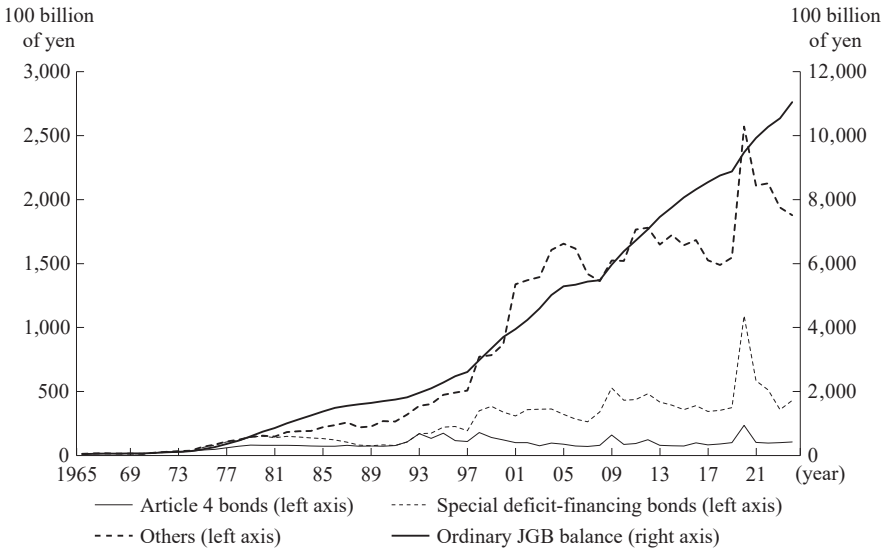
With the massive issuance of JGBs, the liquidity policy reached its limits, making it impossible to avoid issuing JGBs in the public market. Accordingly, the government approved JGB sales on the bond market in 1977 with certain restrictions. Following this change, the restrictions on sales were liberalized in stages, resulting in the deregulation of the JGB secondary market. The interest rate yields for JGB subscribers, on the other hand, were the base rates given by the regulated interest rate structure in Japan. To deregulate these rates would have forced the government to change its artificially regu-

Chart II-6. Stock Price Movement (TSE's Modified Average, Nikkei Dow Average and TOPIX) (1975−1984)



Source: Compiled from data from the *Nihon Keizai Shimbun*, the *Tosho tokei nenpo* (TSE Annual Report), and the *Shoken tokei nenpo* (Annual Securities Statistics).

Chart II-7. Change in JGB Issuance and Outstanding Balance (until the end of FY2024)



Notes: 1. JGB issuance amounts are calculated on a proceeds basis.
2. Special deficit-financing bonds include temporary-bridging, tax-reduction offset, and disaster-recovery special public bonds.
3. Others represents the total of pension plan funding special deficit-financing bonds, reconstruction bonds, FILP bonds, and refunding bonds.

Source: Compiled from the web site of the Ministry of Finance.

lated interest rate policy. For this reason, there was significant resistance to the deregulation of the JGB primary market within the government, and deregulation proceeded at a snail's pace. However, when the designated underwriting syndicate refused to underwrite the planned issuance of JGBs in June 1981, issuance conditions for JGBs were deregulated, setting the stage for deregulation of the different types of long-term interest rates.

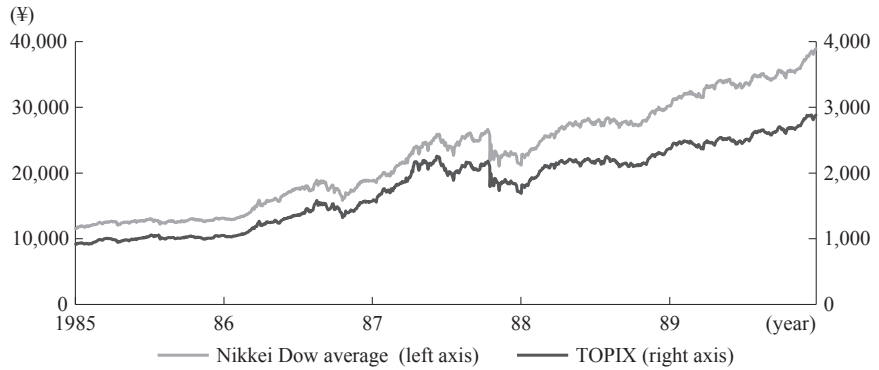
Another development during this period was internationalization. During the period from 1975 to 1984, Japan's trade surplus with the United States ballooned, causing trade and economic friction between the two countries. Perceiving the reason for the problem to be the closed nature of Japan's financial, capital, and service markets, the United States demanded the overall reform of Japan's economic structure. As part of that process, the two countries formed the Japan-U.S. Yen/Dollar Committee. The United States argued that deregulated financial and capital markets driven by a market mechanism would enable the optimum allocation of capital in Japan. It therefore pushed strongly for the removal of various restrictions placed on those markets by the Japanese government that it considered obstructive to open markets. In this manner, internationalization formed the basis for financial deregulation in Japan.

6. Developments before and after the Economic Bubble (1985−89)

In a Japan-U.S. Yen/Dollar Committee Report released in 1984, the United States brought pressure on Japan to liberalize its financial and capital markets and to internationalize the yen. The Japanese government responded by liberalizing the domestic financial market through actions such as deregulating interest rates on bank deposits. It also moved to improve foreign financial institutions' access to the Japanese market through measures such as opening up membership on the Tokyo Stock Exchange (TSE). As the first step toward internationalizing the yen, the government liberalized the Euroyen market. The TSE, meanwhile, heeded the request of the government to open its membership by revising the fixed number of membership seats in its Articles of Incorporation in 1985 and accepting its first round of new members. A total of three rounds were eventually conducted, resulting in seats on the TSE for 25 foreign securities companies.

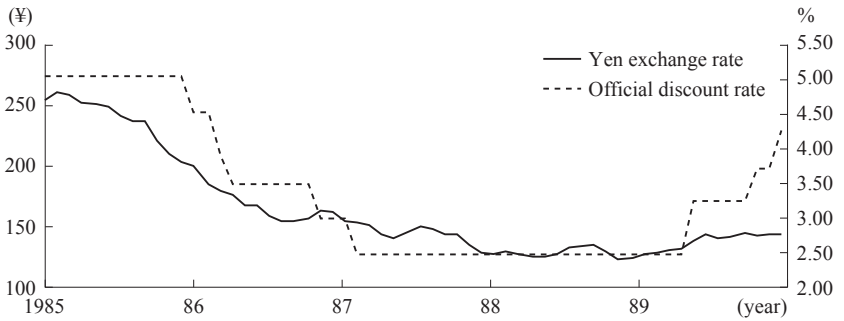
The deregulation of interest rates began in 1985 with the deregulation of interest rates on large deposits. After that, the deregulation of interest rates on deposits progressed rapidly. As a result, the proportion of funds raised by banks at market interest rates jumped to 53% in 1989 from 7.5% at the end of fiscal 1984, greatly increasing banks' funding costs. Major corporations concurrently shifted their financing from bank loans to security issuance, result-

Chart II-8. Stock Price Movement (Nikkei Dow and TOPIX) (1985−1989)



Source: Compiled from data from the *Nihon Keizai Shimbun* and the *Shoken tokei nenpo* (Annual Securities Statistics).

Chart II-9. Yen to US$ Exchange Rate and Japan's Official Discount Rate



Source: Compiled from the web site of the Bank of Japan.

ing in a decline in the balance of loans being extended by major banks to their core customer base (he heavy and chemical industry). To cope with the loss of business, the leading Japanese banks expanded the scope of their loan operations to include real estate, construction, and other industries and launched international operations. They also began planning to enter the securities business, creating friction between the banking and securities industries.

In 1985, the Plaza Accord was signed, after which the yen appreciated sharply against the U.S. dollar. The rate movement raised concerns about a strong yen-related economic recession in highly export-dependent Japan. The

Table II-9. Stock Trading Composition by Investor Category

(100 million shares)

	Total Brokerage Trading	Individuals	Foreigners	Life and Non-Life Insurance Companies	Banks	Investment Trusts	Corporations	Others
1983	1,250.7	59.5%	15.9%	1.3%	3.5%	4.4%	9.3%	6.1%
1984	1,344.5	54.6%	17.3%	1.2%	5.3%	4.4%	11.5%	5.7%
1985	1,615.6	49.5%	15.4%	1.2%	10.6%	5.0%	11.6%	6.6%
1986	2,772.0	41.7%	13.8%	1.1%	16.1%	5.4%	15.4%	6.5%
1987	3,683.4	36.8%	12.4%	1.0%	21.5%	5.6%	17.0%	5.8%
1988	3,979.2	34.8%	9.1%	1.2%	24.7%	6.8%	17.7%	5.7%
1989	3,395.1	32.3%	10.8%	1.2%	25.4%	10.0%	14.6%	5.7%

Note: Total brokerage trading equals the buying and selling of all securities companies on the first and second sections of the TSE, Osaka, and Nagoya exchanges.
Source: Compiled from the *Tosho yoran* (TSE Fact book).

Bank of Japan's reaction was to implement successive reductions in the official discount rate from January 1986 onward, and the economy responded by entering a recovery phase. Amid this low interest rate climate, Black Monday rocked the U.S. market on October 19, 1987, causing nations around the world to initiate monetary easing to avert recessions. Japan, meanwhile, was still in an economic recovery phase, and its official discount rate remained at a low level. Consequently, the price of land and stocks continued to rise. Against this backdrop of asset inflation, corporations began taking advantage of their ability to raise capital through bank loans and securities, using financial engineering, or *zaitech*, to boost their financial income. Financial institutions, hurt by the decline in loan balances, also aggressively invested capital in securities. Increased investment in securities pushed the Nikkei Dow index up from ¥12,716.52 (September 30, 1985) before the Plaza Accord to a record high of ¥38,915.87 at the end of 1989.

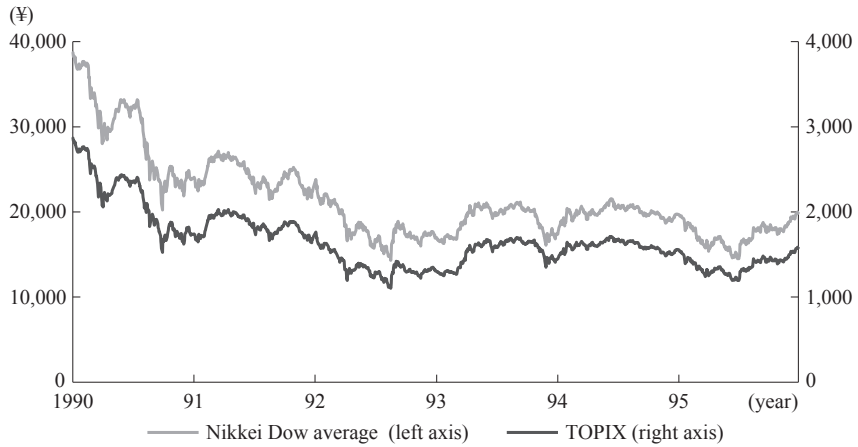
New trading methods were also introduced during this period, commencing with bond futures trading in 1985. Stock index futures trading was introduced in 1987, and stock index options in 1989. Japan's securities market thus gained a full complement of cash, future, and options trading.

7. The Reform of the Financial System after the Stock Market Scandals (1990−95)

The debate on financial system reform began in Japan in the mid-1980s. It arose in response to the global trend toward financial deregulation and to the change in the financing methods of Japanese corporations. The Financial System Research Council took the lead in the debate with a review of the specialized financial institution system, including the separation of long-term finance from short-term finance, commercial banks from trust banks, and the banking industry from the securities industry. These systems were the pillars of the postwar financial system in Japan. The Financial System Research Council, however, was positive about banks being allowed to enter the securities business and decided that the best approach would be to allow mutual entry into the banking, trust and securities businesses based on wholly-owned subsidiaries. It requested the Securities and Exchange Council to revise the system separating the banking and securities industries. But the Securities and Exchange Council was wary of allowing banks into the securities business, recognizing that the securities industry overall was far less enthusiastic about this idea than the banking industry. The Securities and Exchange Council nevertheless decided to approve mutual entry through subsidiaries on the condition that firewalls were established between subsidiaries and parent companies. And for the time being bank subsidiaries, including indirectly owned subsidiaries, were prohibited from operating in the stock brokerage market. The Institutional Reform Law was enforced in June 1992 based on those conditions, and mutual entry into these financial sectors became a reality.

Around the time that the debate on financial system reform was dying down, the uncovering of major financial and securities scandals shook the banking and securities industries. For the securities industry scandals were unveiled by tax audits showing that during the financial bubble major securities companies had been compensating their largest corporate clients for losses incurred (in August 1991, total compensation by the four major securities companies and 17 second-tier and medium-sized companies had reached approximately ¥172 billion). Dealings with members of known crime syndicates and market manipulation charges also surfaced, escalating the problems into a social issue. Most of the loss compensation related to *eigyo tokkin* accounts (discretionary accounts managed by the securities company). The commonly used methods involved arranging to have the client earn a profit on transactions disguised as bond transactions or shifting losses between corporate clients with differing fiscal year-ends to avoid reporting the loss by temporarily transferring securities with losses at book value between their

Chart II-10. Stock Price Movement (Nikkei Dow and TOPIX) (1990−1995)



Source: Compiled from data from the *Nihon Keizai Shimbun* and the *Shoken tokei nenpo* (Annual Securities Statistics).

accounts in a process called *tobashi*.

Since at that time it was not actually illegal to pay compensation for losses on trades after the fact, the Securities and Exchange Act was immediately amended to ban securities trading under a discretionary account and loss compensation before or after the fact. Criticism mounted that "excessive profits of securities companies due to the regulator's protection, problematic administration, and fixed rate commissions had made loss compensation possible." It was said that "the required solution is not the banning of loss compensation or the punishment of securities companies, but the implementation of financial system reform itself." In September 1991, the Provisional Council for the Promotion of Administrative Reform recommended the liberalization of brokerage commissions, the promotion of new market entries, and the separation of the market surveillance organization from the Ministry of Finance. In July 1992, the authorities established the Securities and Exchange Surveillance Commission. The rest of the Provisional Council's recommendations were included in the financial Big Bang reforms that came later, contributing to the formation of a new framework for Japan's financial and capital markets.

Table II-10. Establishment of Securities Subsidiaries of Banking Institutions

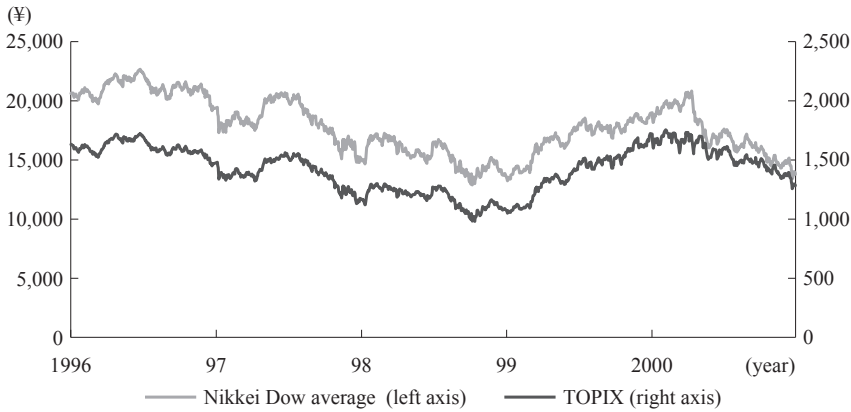
Month/Year	Companies Starting New Securities Business
Jul. 1993	IBJ Securities (currently Mizuho Securities), LTCB Securities (currently UBS Securities), and Nochu Securities (currently Mizuho Securities)
Nov. 1993	Sumitomo Trust Securities (liquidated in 2000) and Mitsubishi Trust Securities (currently Mitsubishi UFJ Morgan Stanley Securities)
Jul. 1994	Asahi Securities (dissolved in 1999)
Aug. 1994	Yasuda Trust Securities (currently Mizuho Securities)
Nov. 1994	Sakura Securities (currently Daiwa Securities), Sanwa Securities (currently Mitsubishi UFJ Morgan Stanley Securities), Daiichi-Kangyo Securities (currently Mizuho Securities), Fuji Securities (currently Mizuho Securities), Mitsubishi Diamond Securities (currently Mitsubishi UFJ Morgan Stanley Securities), and Sumitomo Capital Securities (currently Daiwa Securities)
Mar. 1995	Tokai International Securities (currently Mitsubishi UFJ Morgan Stanley Securities)
Apr. 1995	Hokkaido Takushoku Securities (dissolved in 1998)
May 1995	Mitsui Trust Securities (terminated business in 1999)
Oct. 1995	Toyo Trust Securities (liquidated in 1999)
Nov. 1996	Shinkin Securities and Yokohama City Securities (both liquidated in 1999)
Aug. 1997	Tokyo Forex Securities (currently ICAP Totan Securities), and Nittan Brokers Securities (currently Central Totan Securities)
Nov. 1997	Ueda Tanshi Securities (dissolved in 2001)
Oct. 1998	Hitachi Credit Securities (currently DBJ Securities)

Source: Complied from data from the *Nihon Keizai Shimbun*, the Securities Bureau of the Ministry of Finance, Nenpo (Annual Report). "The First Year of the Financial Supervisory Agency", and "The First Year of the Financial Services Agency."

8. The Debate on, and Enforcement of, the Act on Revision, etc. of Related Acts for the Financial System Reform (1996−2000)

The bursting of the economic bubble left deep scars on the economy. The trauma from the collapse of stock prices emerged in the form of securities scandals, while that from the collapse of land and real estate prices manifested itself as the non-performing loan problem in the financial industry. In particular, the non-performing loan problem lingered on without the implementation of a fundamental solution. Subsequently, the banking industry struggled for almost 10 years to resolve the bad debt problem. During this long process, foreign companies and investors and financial transactions withdrew from the Japanese market, making the "hollowing out" of the financial market real. Japan's way of addressing the issue was the financial Big Bang initiative proposed by the prime minister at the time, Ryutaro Hashi-

Chart II-11. Stock Price Movement (Nikkei Dow and TOPIX) (1996−2000)



Source: Compiled from data from the *Nihon Keizai Shimbun* and the *Shoken tokei nenpo* (Annual Securities Statistics).

moto in 1996. The goals of this initiative were to wrap up the cleanup of non-performing loans by 2001 and rebuild the Japanese financial market into an international market comparable to the New York and London markets based on the principles of "free, fair, and global."

Discussions on financial reform took place in the Securities and Exchange Council, the Financial System Research Council, the Insurance Council, the Council on Foreign Exchange and Other Transactions, and the Business Accounting Council. These discussions resulted in recommendations to change Japan's established bank intermediation-based capital allocation system (indirect financing) to a market-based capital allocation system (direct financing). Passed in October 1998, the Act on Revision, etc. of Related Acts for the Financial System Reform called for a wider range of asset management instruments, services based on vigorous intermediation, a market system with special characteristics, and a framework for trading that users could trust. Among its many revisions, the deregulation of stock brokerage commissions and the shift to the registration system of securities companies provided incentive for securities companies to reform their business models. Its elimination of the obligation to trade stocks only on exchanges, on the other hand, promoted competition between markets.

Almost at the same time as the financial Big Bang initiative was being proposed, major financial institutions experienced business and financial crises that led to bankruptcies. The troubled banks included Hokkaido Takushoku Bank, Ltd., the Long-Term Credit Bank of Japan, Ltd., and the Nippon

Table II-11. Schedule for Reforming the Securities Market During the Big Bang

	FY1997	FY1998	FY1999	FY2000	FY2001
I. Investment Vehicles (Attractive investment instruments)					
1. Diversity of the types of bonds					
2. Diversity of derivatives products					
3. Developing Investment Trust Products					
(1) Introduction of Cash Management Account (wrap account)					
(2) OTC sales of investment trusts products by banks					
(3) Private placement of investment trusts					
(4) Investment company type funds					
4. Review of the definition of securities			-----	---->	
5. Enhancement of corporate vitality and efficient use of capital					
II. Markets (An efficient and trust framework for transactions)					
1. Improvement of transaction system on stock exchanges					
2. Improvement of OTC (JASDAQ) market system					
3. Deregulation of sales solicitations by securities firms for unlisted, unregistered stock					
4. Improvement of share lending market					
5. Improvement of clearing and settlement system			-----	---->	
6. Strengthening inspection, surveillance and enforcement systems			-----	---->	
7. Strengthening disclosure			-----	---->	
III. Financial Intermediaries (Diverse investment services to meet client needs)					
1. Deregulating brokerage commissions					
2. Diverse activity by intermediaries					
3. Use of holding company structure					
4. Strengthening asset management					
5. Enhancing monitoring system for soundness of securities companies					
6. Entry regulations for securities companies					
(1) Licensing system reform					
(2) Enhancing mutual entry into banking, securities and trust businesses					
7. Investor protection related to exits of intermediaries from the market					
(1) Strict separation of client assets from securities companies' own assets					
(2) Enhancing the securities Deposit Compensation Fund scheme					
Review of the taxation related to securities					
Shift to the new administrative regime					

Source: Drawn from the Securities and Exchange Council's report "Comprehensive Reform of the Securities Market—For a Rich and Diverse 21st Century"

Credit Bank, Ltd. The list of securities companies included second-tier Sanyo Securities Co., Ltd., and one of the four major securities companies, Yamaichi Securities Co., Ltd. These companies would previously have been rescued by being absorbed by or merged with other major financial institutions. But there were no financial institutions with the financial strength to do this. The myth that banks could not fail was shattered, and the so-called convoy system of securities companies came to an end. Forced into action by the crisis, the major financial institutions reorganized beyond traditional corporate lines, consolidating into four major financial groups. These new groups also began reorganizing their affiliated securities companies from second-tier to small and medium-sized ones. Amid major changes, such as the shift to a registration system and the deregulation of brokerage commissions, an information technology (IT) revolution occurred. This resulted in a rush into the market of securities companies with online brokerage businesses and other new business models, producing a change in key market players.

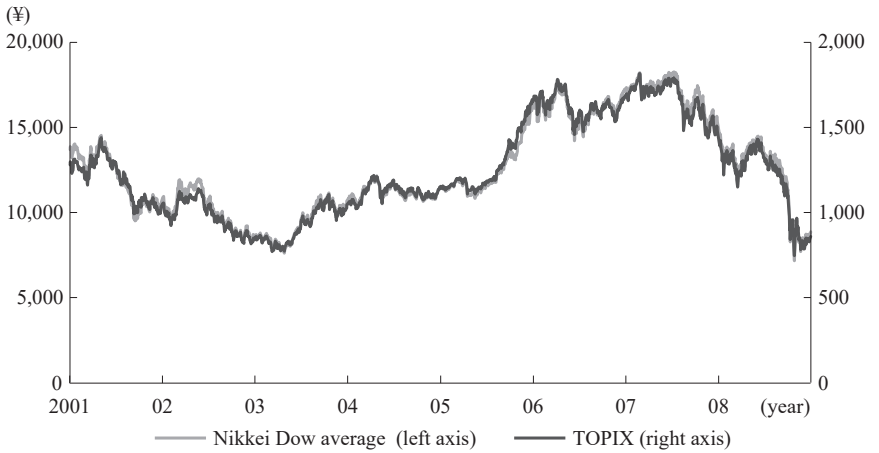
9. Developments Since the Big Bang (2001−08)

Entering the 2000s, the non-performing loan problem reached a turning point. Prime Minister Junichiro Koizumi championed structural reform and oversaw the final clearing of this bad debt from the banking sector based on the Financial Revitalization Program in October 2002 that prioritized eliminating non-performing loans. Because this approach threatened dangerously low levels of capital reserves at banks, a rise in bankruptcies in the corporate sector, and an increase in unemployment, the government took steps to control its adverse effects. It injected capital into banks to maintain the stability of the financial system and established restructuring mechanisms for corporations. These mechanisms included the enactment of the Civil Rehabilitation Act and of the function of the Resolution and Collection Corporation (RCC) and the setting up of the Industrial Revitalization Corporation of Japan (IRCJ).

Under the slogan of "From Savings to Investment," Japan's government also implemented policies and programs to shift to a market-based financial system with a strongly rooted securities market at its core in which a diverse range of investors would participate. The policies and programs included the Basic Policies for Economic and Fiscal Management and Reform (June 2001), the Program for Structural Reform of Securities Markets (August 2001), and the Program for Promoting Securities Markets Reform (August 2002). These policies and programs put an emphasis on the expansion and improvement of sales channels (lifted a ban on banking and securities joint branch offices and introduced a securities intermediary system); the diversification of financial instruments and services (lifted a ban on wrap accounts, etc.); and the fairness and transparency of the financial business (thorough disclosure and the greater supervisory oversight of audit corporations, etc.). The authorities aimed at establishing a market that participants would have confidence in and that would attract a wide range of investors. Thanks to these reforms, the allocation of household financial assets into risk-class assets, such as stocks, bonds, investment trusts, and other securities, trended upward until 2006. However, the reforms also resulted in an increase in the number and volume of complex financial instruments and transactions that demanded a comprehensive set of regulations to ensure the thorough observance of investor protection rules and the coverage of an expanding and increasingly diversified range of investment instruments. In response, the government revised the Securities and Exchange Act, reintroducing it as the Financial Instruments and Exchange Act.

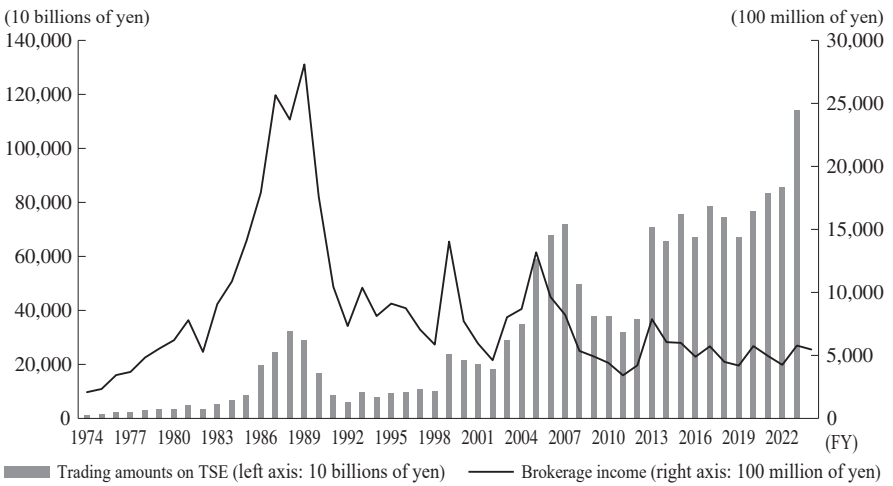
In the aftermath of the financial Big Bang, retail securities business reform and inter-market competition between stock exchanges began in earnest. In

Chart II-12. Stock Price Movement (Nikkei Dow average and TOPIX) (2001−2008)



Source: Compiled from data the *Nihon Keizai Shimbun*, the *Tosho tokei geppo* (TSE Monthly Report), *Shoken tokei nenpo* (Annual Securities Statistics), and the web site of the Tokyo Stock Exchange.

Chart II-13. Trading Amounts on TSE and Brokerage Income (as of the end of FY2024)



Source: Produced based on data from the *Tosho tokei geppo* (TSE Monthly Report), the *Tosho yoran* (TSE Fact Book), the *Shoken* and the website of the Tokyo Stock Exchange.

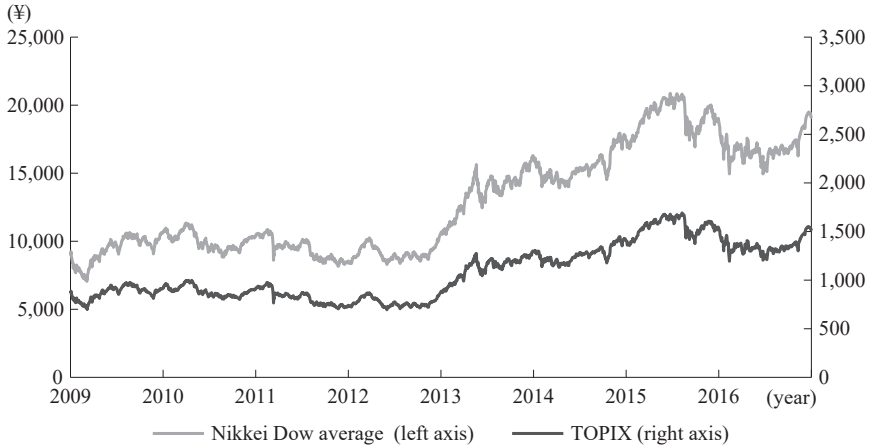
the retail securities business, ever since the liberalization of brokerage commissions, the level of commission income had become sluggish. Therefore leading securities companies that used to focus on the brokerage business shifted direction to a marketing approach that paid greater attention to asset management in an effort to break away from being dependent on market conditions. Meanwhile, inter-market competition was focused on attracting new listings and increased transaction volume. The exchanges started targeting new listings around 2000, launching start-up company markets, and start-up companies and growth companies successively listed their stocks on exchanges. In the battle for greater transaction volume, Tokyo Stock Exchange (TSE) quickly took the lead. The TSE introduced electronic stock trading and off-floor trading, strengthening its dominant position. The concentration of stock trading on the TSE, however, produced a notable decline in support for other regional stock exchanges, leading to successive reorganizations that began around 2000.

10. Changes after the Lehman Crisis (2009−19)

From the summer of 2007 onward, the liquidity crisis at financial institutions in Europe and the United States, triggered by defaults on subprime mortgages due to falling housing prices, escalated into a global financial crisis, plunging the world economy into a simultaneous recession. Furthermore, the Greek debt crisis in 2009 spread to countries with large current account and budget deficits, triggering a crisis among financial institutions in the United Kingdom, France, and Germany, which held significant amounts of government debt in those countries, leading to the European debt crisis. In response, countries staved off this crisis through massive fiscal stimulus and monetary easing.

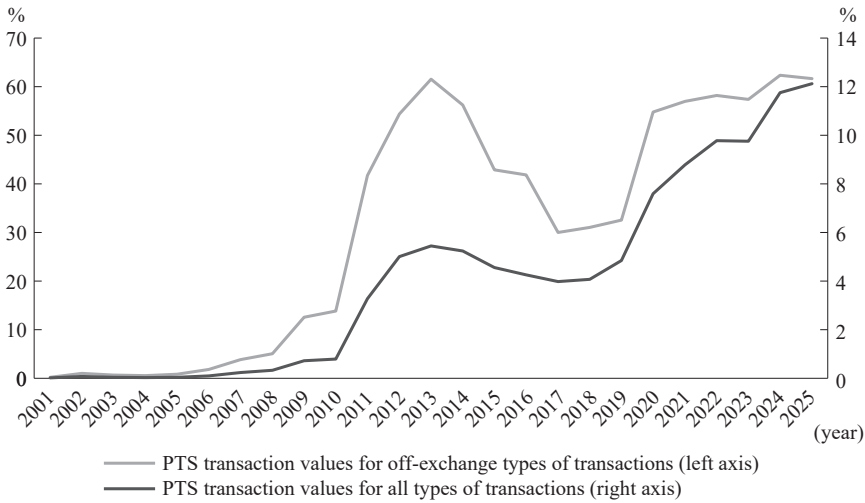
Although Japanese financial institutions suffered fewer losses related to the subprime loan crisis and the European debt crisis than their European and U.S. counterparts, the Japanese economy was severely impacted by the appreciation of the yen against the backdrop of monetary easing in the U.S. and Europe. The Bank of Japan adopted a comprehensive monetary easing policy and began purchasing not only government bonds but also exchange-traded funds (ETFs), but was unable to break the deflationary cycle. When the Liberal Democratic Party regained power at the end of 2012, the Bank of Japan initiated further monetary easing (quantitative and qualitative monetary easing) aimed at combating deflation. Stock prices rose sharply in response to the massive monetary easing. However, the country failed to break out of deflation, and the Bank of Japan introduced a negative interest rate policy in 2016.

Chart II-14. Stock Price Movement (Nikkei Stock Average and TOPIX) (2009−2016)



Source: Compiled from data the *Nihon Keizai Shimbun*, the *Tosho tokei nenpo* (TSE Annual Report), and the *Shoken tokei nenpo* (Annual Securities Statistics), and the web site of the Tokyo Stock Exchange.

Chart II-15. Transactions on Proprietary Trading Systems (as of July 2025)



Source: Compiled from the data published on the website of the Japan Securities Dealers Association.

In parallel with monetary easing, the government also initiated corporate governance reforms in 2014 with the aim of achieving sustainable growth in the Japanese economy and improving corporate value. In 2015, the Corporate Governance Code and Stewardship Code were formulated, and the Companies Act was amended to strengthen the earning power of Japanese companies. The Codes have continued to be revised subsequently, and the 2021 revision of the Corporate Governance Code was a factor in the subsequent significant increase in the number of appointments of independent outside directors and these directors' share of the board of directors.

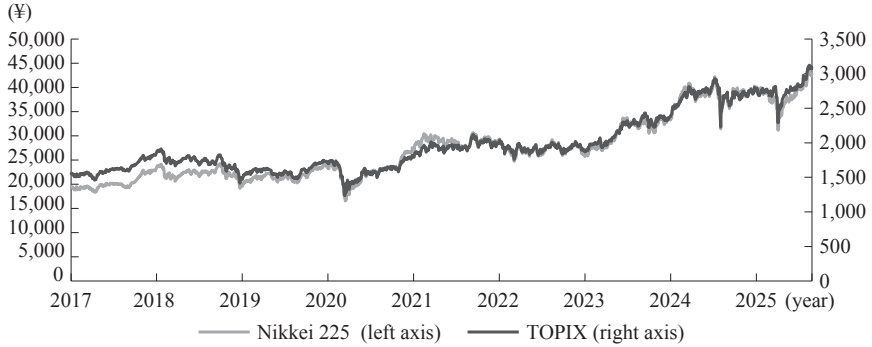
The securities market also saw the entry of high-frequency trading (HFT) in earnest in 2010, when the TSE updated its trading system. A series of deregulations has also led to an increase in the use of proprietary trading systems (PTSs), with PTSs' share of total trading value of listed stocks accounting for more than 5% in 2012. When the ban on margin trading on PTSs was lifted in 2019, trading volume began to increase again and the share of total trading value is now over 10%. Such full-fledged inter-market competition has increased the system costs of the stock exchanges. At the same time, the presence of the Japanese market in the global market has continued to decline. In January 2013, the Tokyo Stock Exchange and the Osaka Securities Exchange merged to create the Japan Exchange Group with the aim of strengthening the international competitiveness of the Japanese market and improving its convenience.

11. Recent Developments in the Securities Market (2020 onwards)

Global monetary easing in the wake of the Lehman Crisis prompted active monetary easing in Japan from 2013 onwards, aimed at overcoming deflation. Accordingly, the Bank of Japan's assets have expanded rapidly, from ¥164 trillion at the end of March 2013 to ¥748 trillion at the end of 2024. Moreover, the Bank of Japan also purchased ETFs and Real Estate Investment Trusts (REITs) not purchased by foreign central banks, amounting to about ¥37 trillion based on book value. Such large purchases of JGBs and ETFs raised concerns that the Bank of Japan's presence in the market was causing a deterioration in the market's proper functioning. More than a decade of global monetary easing began to be unwound in 2022, and the Bank of Japan took the first step toward the normalization of monetary policy in 2024 by deciding to discontinue its ETF purchases and scale back its purchases of JGBs.

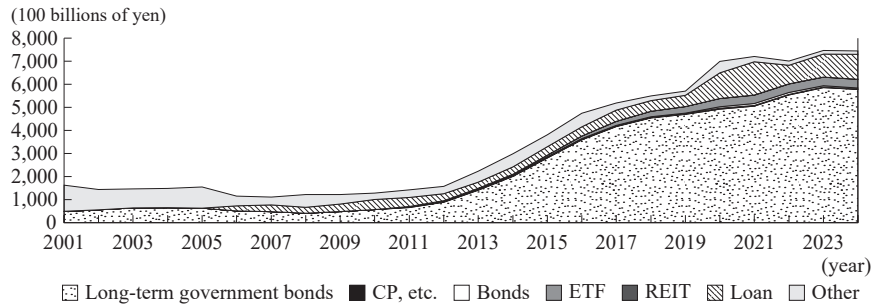
It has often been pointed out that household financial assets in Japan are heavily weighted toward savings and deposits. In 2022, the government launched the Doubling Asset-based Income Plan to achieve sustainable

Chart II-16. Stock Price Movement (Nikkei 225 and TOPIX) (2017 onward)



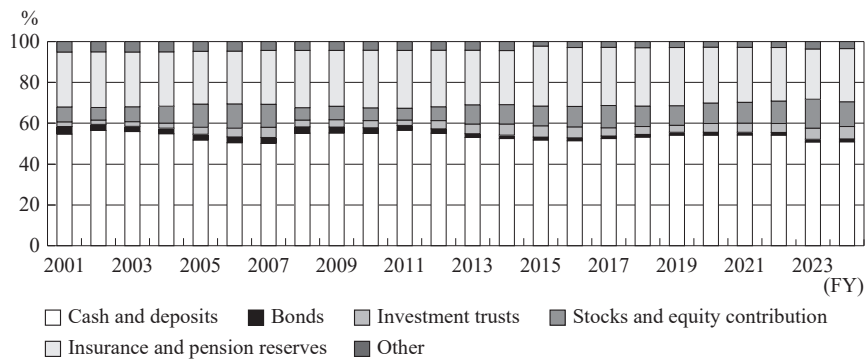
Source: Compiled from data the *Nihon Keizai Shimbun* and the web site of the Tokyo Stock Exchange.

Chart II-17. Changes in the Central Bank Assets (at the end of March 2024)



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

Chart II-18. Changes in the Composition of Household Assets (at the end of each FY)



Source: Compiled from the web site of the Bank of Japan.

growth in Japan, aiming to realize a virtuous cycle of growth and increased asset income by linking household financial assets to investment. Specifically, the NISA system was fundamentally expanded and made permanent, the iDeCo contribution limit was raised, financial and economic education was expanded, creating a mechanism to support household investment. Furthermore, the "Policy Plan for Promoting Japan as a Leading Asset Management Center" was announced in 2024, aiming for reforms across the entire investment chain. As a result of these measures, the number of NISA accounts opened increased from 18.01 million at the end of 2022 to 25.59 million at the end of 2024, when the new NISA system started, and the amount purchased in NISA accounts increased from 30 trillion yen at the end of 2022 to 53 trillion yen at the end of 2024. The proportion of investment products in Japanese household financial assets has also begun to increase.

Another change has been the increasing use of IT in securities trading, typified, for example, by high-frequency trading (HFT), robo-advisors and digital securities. HFT, which entered the market in earnest around 2010, is increasing its presence on the TSE, accounting for 35% of total trading value and 75% of orders on the TSE in 2024. In addition, robo-advisor services, which were first launched in Japan in 2016, are seeing an increase in users, especially among those in their 20s and 30s. Assets under management for specialized firms alone were in excess of ¥1.4 trillion at the end of 2023. In addition, the issuance of digital securities using blockchain technology is also increasing, and is expected to exceed ¥300 billion in 2025. Currently, most of these relate to real estate assets, but coverage is now expanding to include corporate bonds and unlisted stocks.

CHAPTER III

The Primary Stock Market

1. Corporations and Shares

For the purp-ose of the Companies Act, companies are classified into corporations (*kabushiki kaisha*); general partnerships (*gomei-gaisha*); limited partnerships (*goshi-gaisha*); and limited liability companies (*godo-gaisha*). Of these, corporations have a number of advantages compared to other types of company in that (1) ownership interest in a company is divided into shares of stock; (2) investors may recoup contributed capital simply by selling their shareholdings; and (3) investors shall be held liable only to the extent of capital contributed by them (limited liability). These advantages help a corporation to raise a large amount of capital from various investors.

The shares issued by a corporation are capital securities, or narrowly defined securities, in that they represent certain claims and rights of their investors. Shareholders contribute capital in exchange for their shareholdings, which give them privileges to (1) participate in the management of the corporation (by attending general shareholder meetings and exercising voting rights that are proportionate to their shareholdings); (2) claim distribution of profits; (3) claim residual corporate assets; and (4) file derivative suits. Issued shares, unlike bonds, are not redeemable except when shares are repurchased by the corporation or upon liquidation. Because contributed equity may not usually be repaid by the corporation, shareholders wishing to monetize their holdings can only do so by selling them in the market. In order to increase liquidity, stock is divided into a standard unit of shares and often represented by share certificates. On the other hand, with corporate bonds, another class of capital securities, the repayment value is backed by the issuing company.

The legal framework for stocks has undergone substantial changes through a series of amendments to the Commercial Code introduced since 2001. Pursuant to the amendments that took effect on October 1, 2001, par value stock was abolished and all stocks are now issued with no par value. Accordingly, the par value-based *tan'i-kabu* round-lot system was replaced by the new, discretionary *tangen-kabu* system. Under the amendments enforced on April

Table III-1. Principal Rights of Shareholders

Rights for personal interest (rights on benefits of owing property)	Rights for common interest (rights on participating in management)
・Right to claim dividend of surplus ・Right to subscribe for new shares ・Right to demand distribution of residual assets ・Right to request registration of name transfer ・Right to request purchase of shares	・Right to exercise votes at general shareholder meetings ・Right to bring representative suit ・Right to convoke a general shareholder meeting ・Right to demand suspension of illegal action by a director ・Right to make a shareholder proposal ・Right to request dissolution ・Right to demand dismissal of a corporate officer ・Right to request inspection, etc.

Table III-2. Recent Amendments to the Commercial Code Relating to Equity Financing and Main Contents of the Companies Act

The amendments made in 2001 (enforced on October 1, 2001):
A revision of the system of acquiring and holding one's own shares (the ban on holding treasury shares was lifted); the abolition of the system of issuing shares with face value (under this system, all shares are issued without par value); the abolition of the requirement of net asset value (a minimum of ¥50,000 or $487.8 at the rate of ¥102.50 to the dollar); the abolition of the *tan'i-kabu* system in favor of *tangen-kabu* system; and the relaxation of the legal reserve system, etc.

The amendments made in 2001 (enforced on April 1, 2002):
The institution of the equity warrant system and the abolition of regulation of the stock option system, the electronification of corporate documents, and a revision of regulation of the classified stock (the lifting on the ban of tracking stock*), etc.

The amendments made in 2002 (enforced in April 2003):
A revision of regulation of the classified stocks, the institution of the system relating to lapses of stock certificates, and the rationalization of the procedure for reducing capital, etc.

The amendments made in 2003 (enforced on September 25, 2003):
The acquisition of one's own shares by a resolution of the board of directors under the provisions of the articles of incorporation and a revision of the method of computing a limit on interim dividends, etc.

The amendments made in 2004 (enforced on October 1, 2005):
The adoption of a system of not issuing stock certificates, the introduction of a system of issuing notices by electronic means, etc.

Amendments in conjunction with the enactment of the Companies Act in 2005 (enforced on May 1, 2006):
A revision of regulations to make the share transfer system more flexible, the rationalization of the system of retiring shares, a revision of regulations relating to issuing of share certificates, and the abolition of fractional shares, etc.

The amendments made in 2014 (enforced on May 1, 2015):
Revision of new share issuance procedure involving transfer of controlling shareholders Introduction of a cash-out method that allows a special controlling shareholder to request other shareholders to sell their shares, etc.

The amendments made in 2019 (enforced on March 11, 2021):
Founding the system of share delivery

Note: The ban on tracking stock (under this system, dividends are paid not out of the earnings of a company as a whole but out of the earnings of a specific division or a subsidiary of such company) was lifted.

1, 2002, (1) new subscription rights/warrants were introduced; (2) the regulation of stock options was relaxed; and (3) the regulations on class shares were relaxed. The Commercial Code as amended in 2004 and the Law Revising the Act on Book Entry of Corporate Bonds and Shares, etc. for Streamlining Settlement of Transactions in Stocks, etc., introduced a no-share-certificate system. As a result of the revision of the Companies Act, share certificates of public companies were dematerialized from January 2009. Transfer restrictions on any and/or all classes of stock and issuance of classified stocks subject to wholly call were put in place in May 2006, and a cash-out system allowing a Special Controlling Shareholder to require other shareholders to sell their shares was introduced in May 2015. The amended Companies Act of 2019 introduced a new stock delivery system as a way for companies to acquire other companies in exchange for their own shares (effective March 2021).

2. Forms of Issuing New Shares

Shares are first issued when a corporation is established. Establishment of a corporation can be roughly divided into incorporators-only establishment and by-subscription establishment. When a corporation is established only with the funds contributed to its capital stock by its promoters, this method of establishing a corporation has the advantage of its shares being fully subscribed to, but it has a drawback in that the number of shares it can issue is limited to the funds its promoters can raise. On the other hand, establishing a corporation with the capital raised by publicly offering its shares to an unspecified large number of investors is called "establishment through a public offering of shares." While a large amount of capital can be raised through this method, one major drawback is that it takes time to successfully complete the public offering, and if its shares are not fully subscribed to by investors during the public offering period, the corporation cannot be established. Under the old provisions of the Commercial Code, the issue price of shares issued by a corporation at the time of establishment had to be ¥50,000 or more, but this restriction was abolished by virtue of the 2001 amendment to the Commercial Code.

Even after a corporation is established, it is a general practice for a corporation to issue new shares in order to raise funds, transfer control of its management to a third party, or to enhance the liquidity of its shares. Usually, the method of issuing new shares is divided into paid-in capital increase and stock splits (and gratis issues). Issuing new shares against the payment for them by shareholders is called a paid-in capital increase, and a corporation can raise equity capital by this method. Paid-in capital increases are also di-

Table III-3. Forms of Issuing New Shares

Payment required
Capital increase through a public offering
Capital increase through a third-party allocation of new shares
Capital increase through a rights offering
The exercise of subscription rights/warrants
Payment not required
Stock split
Merger
Swap of shares
Stock transfers
Share delivery

Table III-4. Funds Raised by Equity Financing

(100 million yen)

Year	Rights offering		Public offering		Third party allotment		Exercise of subscription rights/warrants		Preferred stock and others		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
2000	2	82	24	4,941	46	9,228	87	1,056	4	1,073	163	16,381
2001	3	320	18	12,015	57	4,772	85	374	5	2,161	168	19,642
2002	0	0	19	1,533	62	4,844	78	2,763	36	9,968	195	19,107
2003	2	15	35	5,672	84	2,232	121	366	74	25,322	316	33,607
2004	1	27	78	7,502	129	5,726	228	995	50	13,626	486	27,877
2005	2	37	74	6,508	150	7,781	336	1,669	45	11,678	607	27,673
2006	0	0	69	14,477	145	4,165	371	1,513	26	5,597	611	25,751
2007	1	81	60	4,570	117	6,621	347	1,650	12	7,955	537	20,877
2008	1	1	27	3,417	93	3,958	240	209	9	5,937	370	13,523
2009	0	0	52	49,668	115	7,146	169	188	28	4,740	364	61,743
2010	1	7	50	33,089	88	5,356	159	246	10	736	308	39,433
2011	0	0	45	9,678	66	3,952	171	261	7	693	289	14,584
2012	1	4	53	4,518	71	1,593	174	218	17	12,755	316	19,088
2013	1	10	114	11,137	151	3,719	350	1,904	3	1,200	619	17,970
2014	0	0	129	13,780	190	3,928	412	1,087	14	2,242	745	21,037
2015	1	1	131	9,620	187	1,635	437	815	6	7,513	762	19,583
2016	1	2	95	2,577	151	6,230	483	901	7	1,480	737	11,191
2017	2	1	116	4,242	238	8,816	526	1,926	7	613	889	15,599
2018	0	0	129	4,016	303	2,146	597	2,277	6	595	1,035	9,034
2019	0	0	93	2,198	307	9,104	572	1,431	10	1,508	982	14,241
2020	1	4	108	7,328	342	4,042	624	2,203	11	1,947	1,086	15,524
2021	1	2	159	13,692	467	17,791	709	2,235	36	1,612	1,372	35,332
2022	1	1	85	1,293	440	2,733	665	1,239	18	630	1,209	5,895
2023	0	0	107	5,887	474	3,277	686	1,638	11	3,946	1,278	14,748
2024	0	0	97	5,730	492	3,263	709	1,986	12	3,238	1,310	14,218

Source: Website of the Tokyo Stock Exchange.

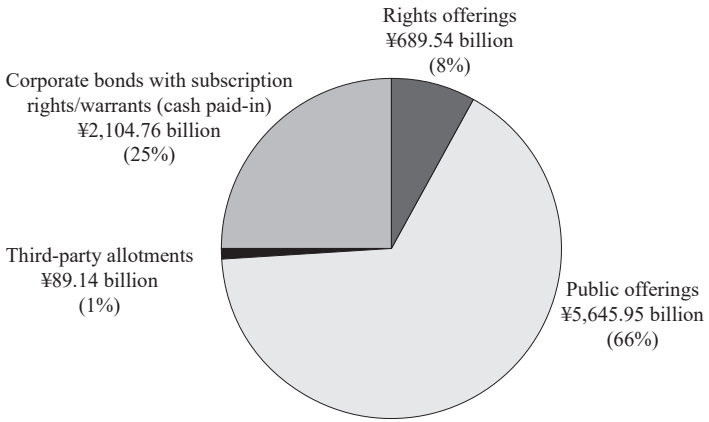
vided on the basis of investors to whom shares are issued into public offerings, rights offerings, and allotments of new shares to a third party. By definition, a stock split, the act of splitting one share into two or more shares, does not by itself increase the assets or the capital of a corporation. However, new shares issued via a stock split play an important role. The stock split increases the number of the corporation's shares in issue, and the resultant fall in the price per share enhances liquidity, making it easier to raise funds through equity financing in the future. Until 2001, there was a rule banning any stock split that reduces the value of net assets per share to less than ¥50,000, but this rule was abolished by virtue of the 2001 amendment to the Commercial Code. This step was taken because of widespread complaints among venture businesses—those that have high growth potential and whose shares are traded at high prices despite limited net assets—that on account of the restrictions on stock splits, they could not improve the liquidity of their shares. However, it was desirable to prevent share certificates from being in short supply during the period from the record date of stock split (day on which the shareholders to whom new shares are allocated are determined) to the effective date (day on which shareholders' rights to new shares go into effect), which can disrupt the demand-supply balance and cause stock prices to fluctuate violently. Hence, it was decided that the effective date would fall on the day following the record date from January 2006.

Other cases in which a corporation is authorized to issue new shares include the exercise of new share subscription rights/warrants, a new type of warrant introduced by the amendment to the Commercial Code that took effect in April 2002; share exchanges with the shares of a company becoming a subsidiary under the share exchange system; allocation of shares to shareholders of a subsidiary under the stock transfer system; and the newly introduced share delivery system.

3. Procedures for Issuing New Shares

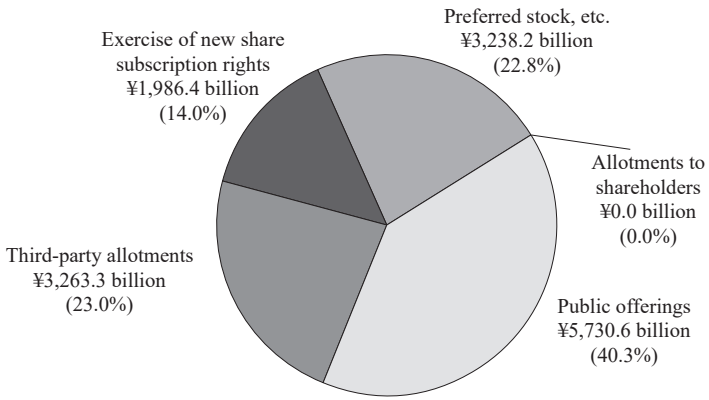
New shares can be issued in exchange for capital paid in by investors in the form of a public offering, third-party allotment, or rights offering. In a rights offering, registered shareholders as of a specified record date are given subscription rights in proportion to their stockholdings. In the case of public companies, the grant of subscription rights or allotment of new shares to nonshareholders are subject to board approval. Under the Companies Act, a shareholder allotment by a private company, in principle, requires a special resolution at the general shareholders meeting, but it may be conducted by ordinary resolution when provided for in the Articles of Incorporation. A rights offering to existing shareholders is a means of capital raising that is

Chart III-1. Equity Financing in 1989 by TSE-Listed Companies, by Type of Financing (Total capital procured: ¥8,529.39 billion)



Source: Tokyo Stock Exchange, *the Tosho tokei geppo* (TSE Monthly Report).

Chart III-2. Equity Financing in 2024 by TSE-Listed Companies, by Type of Financing (Total capital procured: ¥14,328.5 billion)



Source: Web page of the Tokyo Stock Exchange.

neutral to the control of corporations, in that it does not affect proportionate ownership of the shareholders. An offering of rights at par used to be the principal measure of equity financing, but these offerings are no longer common, partly due to the elimination of par value of stocks under amendments to the Commercial Code in 2001. Public offerings grant subscription rights to the general public. A public offering raises more capital for an issuing company with the same amount of shares than an offering of rights at par under the par value system at the time based on the premium of the issue price over par. From the viewpoint of investors, however, it deprives investors of the opportunity to earn the premium, thereby losing their incentive to subscribe. Although public offerings declined in the 1990s, they are now the primary means of raising equity capital today. A third-party allotment raises capital by granting subscription rights to certain third parties, including banks or business corporations with special relationships with the issuing company and/or its director(s). This method is often used to bail out troubled companies, strengthen relationships with corporate partners, and form a business and capital alliance rather than simply to raise capital. Additionally, the method has recently been noted as a measure for fending off hostile takeovers. Third-party allotments cause dilution of ownership of existing shareholders. These may be approved by board resolution except when shares are allotted at a price particularly favorable to the grantee(s) compared with the market price. In such a case, a special resolution by the general shareholders meeting is required because it would harm the interests of existing shareholders (advantageous issuance). An issuing company pursuing a capital increase by third party capital allocation has an obligation to explain the rationale and necessity of the capital increase in its securities registration statement.

Under the revised Companies Act of 2014, which took effect in 2015, when the issuance of new shares by a public company results in a change in the controlling shareholder (holding one-half or more of the voting rights), the name and other information of the subscriber must be notified to existing shareholders. Furthermore, if there is opposition by 10% or more of voting rights, the share issuance is subject to a resolution not only by the board of directors but also by the general shareholders meeting. This strengthens the involvement of shareholders in share issuance.

4. The Current State of the New Issue Market

New shares are usually issued (1) in exchange for capital contribution (equity financing in the form of public offerings, third-party allotments, rights offerings, exercise of subscription rights, etc.); (2) in conjunction with stock splits (and gratis issues); and (3) for the purpose of corporate acquisitions. (Share

Table III-5. The State of Issuing New Shares by Listed Companies

(in thousands of shares)

Year	Paid-in capital increase	Rights offering	Public offering	Third party allotment	Preferred stock, conversion of a corporate bond with subscription rights/ warrants of the convertible bond type into shares, etc.	Subscription rights/warrants	Stock split	Others	Total
1984	5,312,713	1,170,322	778,686	319,665	2,835,670	208,370	4,033,612	169,830	9,516,159
1985	5,580,645	909,635	590,696	118,126	3,514,706	447,179	4,390,653	93,169	10,064,468
1986	4,503,842	371,191	346,883	78,308	2,831,297	876,161	3,939,802	621,924	9,065,569
1987	8,600,184	547,900	718,327	314,650	4,753,694	2,265,611	3,300,518	510,942	12,411,644
1988	9,052,096	849,464	1,286,177	169,633	4,623,233	2,123,587	4,004,200	96,212	13,152,509
1989	12,467,106	803,396	3,558,558	94,151	5,522,653	2,488,346	5,906,047	44,848	18,418,003
1990	4,733,374	758,546	1,284,250	252,593	1,859,145	578,839	8,283,600	1,632,879	14,649,854
1991	1,604,596	420,553	39,850	182,776	600,930	360,485	3,451,047	1,581,058	6,636,703
1992	766,227	244,895	2,180	190,340	139,205	189,605	1,584,403	414,121	2,764,752
1993	1,605,059	87,091	4,150	479,440	347,764	686,612	901,948	1,147,000	3,654,008
1994	1,530,474	24,152	33,360	543,846	445,479	483,635	2,330,679	1,190,447	5,051,602
1995	1,433,831	249,876	10,400	490,557	343,684	339,311	1,015,654	359,334	2,808,819
1996	2,546,611	455,200	200,883	583,427	506,753	800,348	847,835	1,873,163	5,267,610
1997	3,093,475	204,686	93,250	1,493,319	1,034,959	267,261	551,076	251,712	3,896,265
1998	3,641,490	7,707	97,337	2,380,126	1,079,024	77,295	168,263	22,696	3,832,450
1999	9,627,895	–	54,599	8,402,531	976,593	194,170	742,946	61,952	10,432,793
2000	3,709,565	87,140	84,200	2,621,987	835,744	80,492	1,599,465	1,158,762	6,467,792
2001	4,526,944	143,051	49,760	3,328,896	935,912	69,324	624,199	3,330,016	8,481,160
2002	4,260,986	–	238,268	2,719,749	546,153	756,815	692,917	1,412,881	6,366,784
2003	4,541,171	20,352	431,517	2,995,729	679,841	413,729	333,448	5,931,549	10,806,168
2004	5,659,174	18,193	516,166	1,586,466	2,404,691	1,133,656	2,975,260	24,497	8,658,931
2005	11,393,111	53,120	616,574	2,957,298	6,241,871	1,524,246	3,051,215	△13,967,015	477,311
2006	7,459,697	–	1,638,972	850,680	4,450,694	519,349	6,713,875	△1,201,938	12,971,634
2007	5,341,133	80,862	409,532	1,521,236	2,928,468	401,032	11,749,106	△3,504,021	13,586,219
2008	3,542,021	6,998	687,868	1,549,130	1,119,159	178,863	120,552	△542,754	3,119,819
2009	22,418,250	–	12,049,714	3,192,219	6,846,482	329,833	16,193,816	238,890	38,850,955
2010	10,464,418	68	7,548,008	1,935,650	835,992	144,697	877,229	△860,938	10,480,708
2011	6,391,284	–	2,947,644	2,283,962	839,211	320,465	1,842,238	625,267	8,858,789
2012	4,309,521	34,504	2,371,349	663,776	1,024,399	215,492	3,759,441	576,904	8,645,867
2013	5,226,016	613	1,244,084	2,058,111	1,400,302	522,905	27,099,251	△8,996,091	23,329,176
2014	4,624,642	–	1,422,172	627,019	1,933,058	642,391	8,841,942	△6,101,224	7,365,361
2015	3,717,412	1,560	679,898	767,728	1,797,390	470,834	7,060,155	△12,958,857	△2,181,288
2016	5,403,536	3,699	140,825	4,152,569	798,326	308,115	2,232,113	△29,020,941	△21,385,291
2017	4,747,915	1,312	320,095	2,934,439	606,854	885,214	4,836,899	△71,033,038	△61,448,223
2018	2,380,544	–	251,482	572,821	323,032	1,233,208	4,567,464	△26,497,834	△19,549,824
2019	4,691,381	–	110,331	3,895,668	59,353	626,026	6,495,653	△5,056,466	6,130,569
2020	2,955,070	6,155	338,199	1,380,132	214,293	1,016,292	7,360,701	△25,389,212	△15,073,440
2021	3,209,240	1,131	731,719	838,352	310,522	1,327,515	18,870,342	△2,441,419	19,638,164
2022	1,683,949	269	87,458	479,437	594,731	522,053	5,199,521	△4,241,371	2,642,091
2023	5,762,571	–	689,182	3,097,458	1,010,208	965,722	106,479,133	△4,420,084	107,821,620
2024	2,365,526	–	420,250	384,546	481,566	1,079,163	95,382,164	△6,342,605	91,405,085

Source: Tokyo Stock Exchange, *Shoken tokei nenpo* (Annual Securities Statistics) and *Tosho tokei geppo* (TSE Monthly Report).

counts are reduced when treasury stock is cancelled.) In 2024, the leading source of new shares issued by listed companies was stock splits and gratis issues (increase of 95.38 billion shares), followed by the exercise of new share subscription rights (1.08 billion shares). The amendments to the Commercial Code in 1991 defined stock splits to cover stock dividends, gratis issues and reclassification of paid-in capital in excess of par into capital stock, all of which did not involve payments by investors at the time of issuance of new shares.

Today, in Japan, equity financing is the leading source of new shares. Listed companies on the Tokyo Stock Exchange (TSE) raised approximately ¥1.4 trillion in equity in 2024. By contrast, equity financing, except for initial public offerings, is less used in the United States and the United Kingdom because it tends to dilute existing shareholders' ownership interests and consequently pushes down the stock price. It should be noted, however, that over the past years, equity financing in Japan has undergone many changes. During the period of rapid economic growth, corporations mostly used the method of rights offering at par to raise equity capital because investors did not have enough accumulation of financial assets, while issuing companies suffered a chronic shortage of funds (stock par value was abolished in 2001). In those days, corporations mostly relied on bank borrowings for their funding requirements, and the stock market was a marginal marketplace for raising capital. However, as the economy slowed after the oil shocks, the funding needs of businesses were reduced, and due in part to the necessity of securing a strong stockholder base, public offerings at market price became the prevalent means of raising equity among business corporations. Meanwhile, rights offerings also shifted from rights offering based on par value to offerings based on a median of par and market values. In the second half of the 1980s, with progress in deregulation concerning debt financing, issuance of convertible corporate bonds and corporate bonds with subscription rights/warrants increased, as did their conversion and exercise. Particularly, as banks came under pressure to meet Tier 1 capital requirements imposed by the Basel regulatory standards, they scrambled to shore up their capital base, and such issuance accounted for about half of equity financing at the time.

In the 1990s, there was a marked decline in public offerings because of stagnant stock prices, and increasing capital through public offerings remained stagnant thereafter. However, following the global financial crisis which started in 2008, equity financing picked up in 2009 as companies sought to shore up their weakened financial bases by public stock offerings. From 2015 to 2020, the total number of shares outstanding decreased due to factors such as a high level of share buybacks and cancellations. Since then, however, the number has resumed an upward trend. In recent years, the exercise of subscription rights/warrants has been relatively active, while stock

splits have remained at a high level in response to the Tokyo Stock Exchange's request to reduce trading units and minimum investment amounts.

5. New Share Underwriting

The method of issuing shares may be divided into direct offering and indirect offering, and public offering and private placement. When the issuing company itself performs the administrative procedures necessary for issuing shares and sells them to investors, this is called "direct offering (or self-offering)." Although this method helps the issuing company save the fees payable to an intermediary, it is not an easy task to perform the technically complicated procedures and sell the securities to an unspecified large number of investors. When the issuing company commissions a specialist intermediary to handle the public offering of its shares, this is called "indirect offering." The intermediary provides the issuing company with expert advice, handles the distribution of shares and performs the necessary administrative procedures on behalf of the issuing company, and takes over the shares remaining unsold after the public offering period. At present, almost all shares are offered through the indirect offering method. A "public offering" is the public solicitation of an unspecified large number of investors for the purchase of new shares, while a "private placement" is the private solicitation of a specified small number of investors. In public offerings of new shares, indirect offering through underwriting securities companies is the general rule.

In the case of an indirect offering, the issuing company concludes an underwriting agreement with a securities company. Underwriting agreements are divided into standby underwriting (the underwriting securities company commits itself to buying up any shares remaining unsold) and firm commitment underwriting (it agrees to buy up the entire issue from the start). Today, the latter has become the general practice. When the total amount of shares offered is too large, a single securities company cannot accept the underwriting risk involved. Therefore, multiple securities companies form an underwriting syndicate together. Of these securities companies, the firm that plays the leadership role in organizing the syndicate members and in negotiating the terms and conditions of the underwriting agreement with the issuing company is called the "lead underwriter." The group of securities companies that assumes no underwriting risk and only sells the securities is called the "selling group."

In a public offering or secondary distribution, it is necessary to have a strategy for balancing supply and demand. Using an over-allotment option allows the securities company acting as the lead underwriter of an offering to borrow shares from existing shareholders and sell them if demand exceeds

Table III-6. Number of Lead Managing Underwriters in Shares of Securities Companies (IPOs)

(Existing stock exchanges and start-up markets in 2024)

Securities companies	Prime		Standard		Growth		Other regional markets	
	No. of co.	% of total	No. of co.	% of total	No. of co.	% of total	No. of co.	% of total
Nomura	3	75.0	4	30.8	7	10.9	–	–
SMBC Nikko Securities	1	25.0	2	15.4	19	29.7	–	–
Daiwa	–	–	4	30.8	9	14.1	–	–
Mizuho	–	–	1	7.7	13	20.3	–	–
SBI	–	–	1	7.7	10	15.6	–	–
Tokai Tokyo	–	–	1	7.7	3	4.7	–	–
Mitsubishi UFJ Morgan Stanley	–	–	–	–	2	3.1	–	–
Okasan	–	–	–	–	1	1.6	1	20.0
J Trust Global	–	–	–	–	–	–	3	60.0
Aizawa	–	–	–	–	–	–	1	20.0
Total	4	100.0	13	100.0	64	100.0	5	100.0

Source: PRONEXSUS, *Kabushiki Kokai Hakusho* (White Paper on Public Listings).

Table III-7. Flow from additional secondary distribution by over-allotment in initial public offering to syndicate cover transaction



Board of directors' meeting on issuance of new shares and secondary distribution
Set OA offering limit

Determine provisional terms

BB (Report demand)

Set open price
Set OA offering volume

Listing date (Trading start date)

SC transaction or GS exercise

BB = Book Building
OA = Over-Allotment
SC transaction = Syndicate Cover (short cover) transaction
GS exercise = Exercise of Green Shoe option

Note: SC transactions and exercise of GS must be executed within 30 days from the day following the date on which the period during which investors submit their applications to securities companies is completed (normally, 2 or 3 business days prior to the listing date).

the original scheduled number of shares. In Japan, the over-allotment option has been available for offerings in which the lead underwriter enters into an underwriting agreement, beginning with offerings for which such agreements were concluded on or after January 31, 2002. This option allows the sale of additional shares up to 15% of the scheduled number of shares in the public offering or secondary distribution. The way in which the short position arising from the lead underwriter utilizing the over-allotment option is closed out varies depending on whether the price in the secondary market has risen or fallen compared with offer price. If the price of the shares has fallen, the lead underwriter purchases the excess shares in the secondary market (syndicate cover). When the price of the shares has risen, the lead underwriter exercises a green shoe option (right to acquire additional shares from the issuing company or from investors who have lent shares).

6. The Offer Price Setting Process

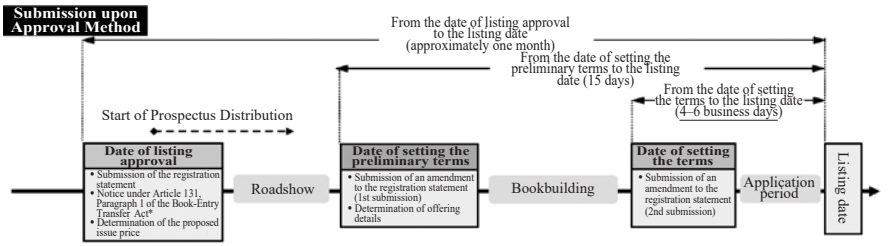
The offer price for an initial public offering (IPO) is generally set through filing a securities registration statement, assessing demand from institutional investors via a roadshow, setting preliminary terms, and assessing demand through bookbuilding.

In most IPOs, the issuing company submits the securities registration statement when approval for listing is given by the stock exchange (submission upon approval method). Under this method, the securities registration statement contains offer information such as the proposed issue price. The proposed issue price is the basis for the offer price. It is based on the theoretical price and other factors after discussions between the issuing company and the lead underwriter, and is provided as a guide to investment decisions. In addition, in order to incorporate the price expectations of institutional investors into the proposed issue price, the lead underwriter may conduct a demand survey before filing the securities registration statement.

In the roadshow, the issuing company presents its business and other key details to an audience primarily of institutional investors, and the lead underwriter conducts a demand survey, including the target purchase price and desired number of shares. The results of this survey will be used to determine the preliminary terms of the offer (usually a pricing range) to be indicated in the bookbuilding.

Next, the lead underwriter conducts a bookbuilding, in which it assesses general investor demand (including institutional investors) with respect to desired purchasing price and number of shares based on the preliminary terms. Subsequently, based on the results of its assessment, market conditions, and risks of price volatility ahead of the listing date, the issuing com-

Chart III-3. Illustration of the "Submission upon Approval" and "Pre-Approval Submission" Methods



*Notice regarding the issuing company's request to forward account notifications to existing shareholders

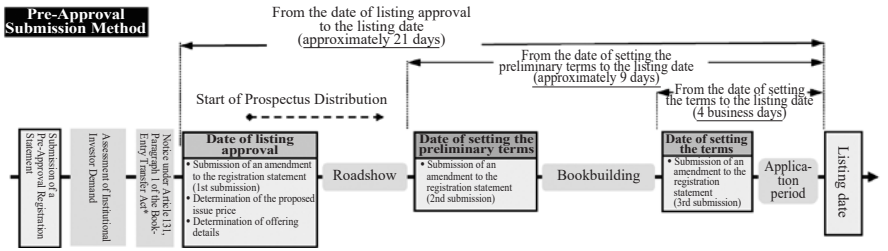


Table III-8. Certain range for setting the offer price outside the provisional price range and changing the number of shares offered

Summary of Changes, etc.	Within a Certain Range
• Setting the offer price outside the provisional price range • Changes to the number of shares offered	• Certain Range refers to cases where all of the following conditions (1) through (3) are met. (1) The offer price is determined within a range of not less than 80% of the lower limit of the preliminary terms and not more than 120% of the upper limit of the preliminary terms. (2) The number of shares to be sold at the time the offer price is set is within a range of not less than 80% and not more than 120% of the number of shares to be sold at the time the preliminary terms are set. (3) The offering size at the time the offer price is set (number of shares (sum of the number of shares offered and the number of shares sold) × offer price) must be within the range from the lower limit of the preliminary terms × the number of shares at the time the preliminary terms are set × 80% to the upper limit of the preliminary terms × the number of shares at the time the preliminary terms are set × 120%.

*Within a certain range, the above procedures may be followed without repeating the bookbuilding process.
*The securities registration statement and prospectus must state that the above changes may occur.

pany and lead underwriter discuss and determine the offer price. Provided that the required disclosures are made in the securities registration statement or other relevant documents, the offer price may, within prescribed limits, be set outside the preliminary terms, and the number of shares offered may also be changed, without the need to conduct a new round of bookbuilding.

Alternatively, issuing companies may submit a securities registration statement (which generally indicates that details such as the proposed issue price are not determined, but includes a provisional listing date) prior to receiving listing approval from the stock exchange (pre-approval submission method). The basic process is the same as the submission upon approval method. However, under this method, a securities registration statement is submitted prior to listing approval and prospective demand among institutional investors is assessed prior to listing approval. This shortens the period between listing approval and the actual listing date, generally allowing the proposed issue price to be determined with less exposure to price fluctuations. On the other hand, since issuing companies must file amended securities registration statements more frequently than under the submission upon approval method, additional costs for disclosure are involved.

7. Private Equity Market

Public offerings and other equity financing initiatives that raise capital from the general public are mostly conducted by public companies whose shares are traded on an exchange or other public market. However, that does not mean that private companies have to deal with particular legal restrictions in equity financing. In fact, equity financing regulations for private companies can be said to be more relaxed than for public companies. For example, there is no requirement to include information on the issuer's operating performance or financial position in the written notice of securities because, unlike the securities registration statement, this is not a disclosure of detailed information to investors. Furthermore, under the Financial Instruments and Exchange Act and other Cabinet Office Orders currently in force, if the proceeds from a proposed offering or secondary distribution of shares (securities) are less than ¥100 million, private companies are exempt from filing a securities registration statement. Instead the requirement is simply for a written notice of securities to be filed, regardless of whether or not there is solicitation of 50 or more people. In principle, if the proceeds from the offering are ¥10 million or less, or fewer than 50 persons are solicited, the issuer is not even obliged to file a written notice of securities. However, when viewed from the standpoint of investors, private equity investments, given the limitations on information available to them, involve higher risks. While

Table III-9. Criteria for Requirement to Submit Securities Registration Statement or Written Notice of Securities Under the Financial Instruments and Exchange Act, and Cabinet Office Order, etc.

		No. of Investors*1, 2	
		Less than 50	50 or more
Issue Amount	100 million yen or more*3	Not necessary	Securities Registration Statement
	10 million yen or greater but less than 100 million yen	Not necessary	Written Notice of Securities
	10 million yen or less	Not necessary	

Notes: 1. Under the current FIEA and Cabinet Office Orders, etc., even when the number of persons solicited is less than 50, if, for example, the total number of persons solicited for the same type of securities issued within the past six months is 50 or more, whether a securities registration statement or written notice of securities is required is determined based on the total issue price.

2. In accordance with the revision of Cabinet Orders effective April 1, 2003, issuance regulations were relaxed as follows.
   (1) Under certain conditions, such as the number of Qualified Institutional Investors being 250 or less, the number of professional securities investors, i.e., Qualified Institutional Investors, may be excluded from the count of 50 persons solicited.
   (2) Equity-related products, such as shares, were added to the scope of so-called "professional private placements," meaning solicitations for applications to acquire securities made only to Qualified Institutional Investors where there is little risk of transfer to persons other than Qualified Institutional Investors. In this case, regardless of the number of investors, a written notice of securities is required only for issues of ¥100 million or more (for cases involving fewer than 50 persons, see Note 1 above).

3. Consideration is being given to amending the FIEA in 2026 to raise the ¥100 million-or-more threshold, which triggers the requirement to file a securities registration statement for offers to 50 or more investors, to ¥500 million or more.

stock prices of public companies are properly formed through market transactions, reasonable values of private stocks are not easy to determine since there are various methods to estimate private stock prices, including the net asset method of estimating based on the company's net assets, the income method based on cash flows, and the dividend discount method based on future dividend projections. Moreover, the problem with private equity investments is the difficulty of recovering invested funds due to lack of liquidity. It is hard to recover funds until the investee company goes public. Thus investment in private equity tends to be limited to a small number of investors, such as venture capital funds, which have the economic capacity to tolerate the high risk and long investment periods associated with such investments. In order to stimulate entrepreneurial activity and foster startup businesses, streamlining the fund raising mechanism prior to going public has been dis-

Table III-10. Examples of methods of calculating stock values of private companies

1. Net assets approach
(1) Book value method Price per share = Book value of net assets/Total number of issued shares (2) Adjusted book value method Price per share = Book value of net assets reflecting unrealized gain and losses/Total number of issued shares (3) Market value method Price per share = Market value of net assets/Total number of issued shares
2. Income approach
(1) Income capitalization method (direct return method) Price per share = (Projected future net profit after tax/Capitalization ratio)/Total number of issued shares (2) DCF method Price per share = Total amount of discounted present value of projected future profit/Total number of issued shares
3. Dividend discount approach
(1) Dividend discount method Price per share = (Projected future annual dividends/Capitalization ratio)/Total number of issued shares (2) Gordon Growth Model method Price per share = (Projected future annual dividends/(Capitalization ratio-Investment return ratio × Retained ratio)

cussed as a matter of priority. The Japan Securities Dealers Association launched a public quotation system (Green Sheet system) for private equity and unlisted shares in July 1997. Securities companies became eligible to solicit investment in private equities for issues of OTC securities that met certain standards of information disclosure and for which the securities companies provide publicly announced buy and sell quotes. This system was succeeded by the Shareholders Community System, which was launched in May 2015. In July 2022, the J-Ships system was introduced to allow unlisted stocks and other securities to be issued and distributed to specified investors through securities companies. In addition, under the equity investment crowdfunding system, which was launched in May 2015, the investment cap of ¥500,000 for specified investors (professional investors) was abolished following the 2022 amendments to the Enforcement Order of the Financial Instruments and Exchange Act and the Cabinet Office Ordinance on Financial Instruments Business. In addition, raising the current cap on the aggregate issuance amount from less than ¥100 million is also under consideration.

CHAPTER IV

The Secondary Stock Market

1. Structure of the Secondary Stock Market (1)—Exchange Trading

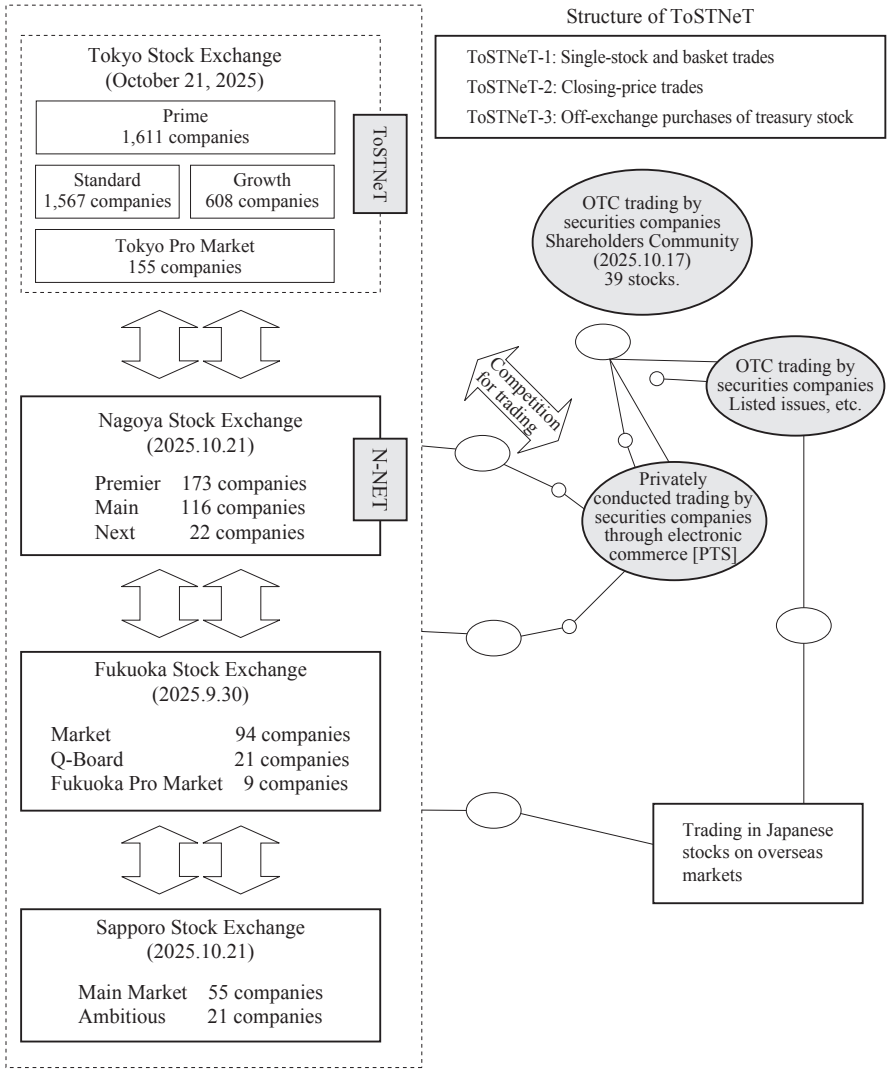
The secondary stock market is where listed shares are traded by investors. The central exchange market is provided by stock exchanges, and there are four stock exchanges in Japan: the Tokyo Stock Exchange, and the Nagoya, Fukuoka and Sapporo exchanges. Following the 2000 amendment to the Securities and Exchange Act, stock exchanges were permitted to operate as stock companies. Today, the Japan Exchange Group, which owns the Tokyo Stock Exchange, and the Nagoya Stock Exchange are corporations.

Shares of listed stocks (1) that meet certain listing requirements are traded on the stock exchange (2) during fixed trading hours (3) by auction, and (4) the stock exchanges manage and supervise the trading process and the business conduct of securities companies as self-regulatory organizations with a view to ensuring that trading is fair.

In January 2013, the Tokyo Stock Exchange and the Osaka Securities Exchange merged to form the Japan Exchange Group. In July 2013, the cash equity market was consolidated into the Tokyo Stock Exchange, and four market segments were opened on the TSE: First Section, Second Section, Mothers, and JASDAQ (“Standard” and “Growth”). However, various issues have been highlighted with this structure. For example (1) the concept of each market segment is ambiguous and is thought to be impractical by many investors, and (2) listed companies do not feel sufficiently motivated to continuously improve their corporate value under this structure. TSE began a review of market segments in autumn 2018. In April 2022, it introduced three new market segments, “Prime,” “Standard,” and “Growth.” The TSE also offers off-floor trading (ToSTNeT) for listed securities.

The stock exchanges are constantly upgrading their trading systems to meet the needs of market participants and changes in methods of buying and selling securities. The Tokyo Stock Exchange introduced “arrowhead”, a world-class, high speed cash trading platform in January 2010, in response to the emerging trend of algorithmic trading. Subsequently, the system was upgraded in September 2015, November 2019, and November 2024 in response

Chart IV-1. Inter-market Competition in Japan



to changes in the stock market environment, such as increased number of orders, increased concentration of orders in short periods of time, and new needs of investors.

2. Structure of the Secondary Stock Market (2)—Off-Exchange Trading

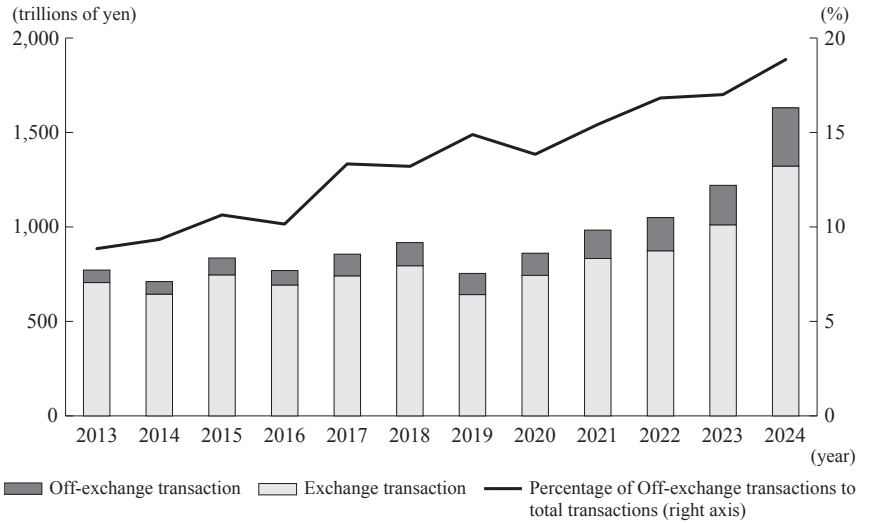
In addition to stock exchange trading, the secondary market includes off-exchange trading, which involves buying and selling outside the stock exchange. This is also called "off-floor trading" or "over-the-counter trading." The basic function of the stock market is to efficiently allocate funds by finding a price at which all demands are matched with the supply available. At a stage when information technology (IT) was not fully developed, there was a need to concentrate securities trading in one place in order to achieve that purpose. However, with the development of information and communication technology, if the elements of securities trading, namely, integration of trading information, transmission and execution of orders, delivery of securities, settlement, and custody, are integrated via computer networks and processed in real time, then equilibrium prices can be found even in decentralized networks with multiple trading platforms. Advances in information and communication technology have spurred the growth of off-exchange trading.

The principal form of off-exchange trading is the Private Trading System (PTS), which was permitted under the 1998 amendment to the Securities and Exchange Act. A computer system operated by a securities company is used to conduct trades without going through an exchange and match orders outside regular exchange hours. In Japan, PTSs have been operated by two companies, Japan Next Securities and Cboe Japan (Cboe Japan ceased PTS operations in August 2025), but in recent years, new entrants have emerged. Osaka Digital Exchange (ODX) entered the market in 2022. In 2024, the Japan Alternative Market (JAX) launched PTS operations.

Meanwhile, with the increasing institutionalization of the securities market, there has been growing demand for trading systems that ensure anonymity and minimize market impact costs. In addition, there has been an increase in special types of transactions, such as large-lot transactions and basket trades. In response to this growing demand for trading, dark pools have become increasingly prevalent. Dark pools match buy and sell orders within a securities company's internal system and then route those orders to the Tokyo Stock Exchange's off-floor trading system (ToSTNeT) to execute the trades.

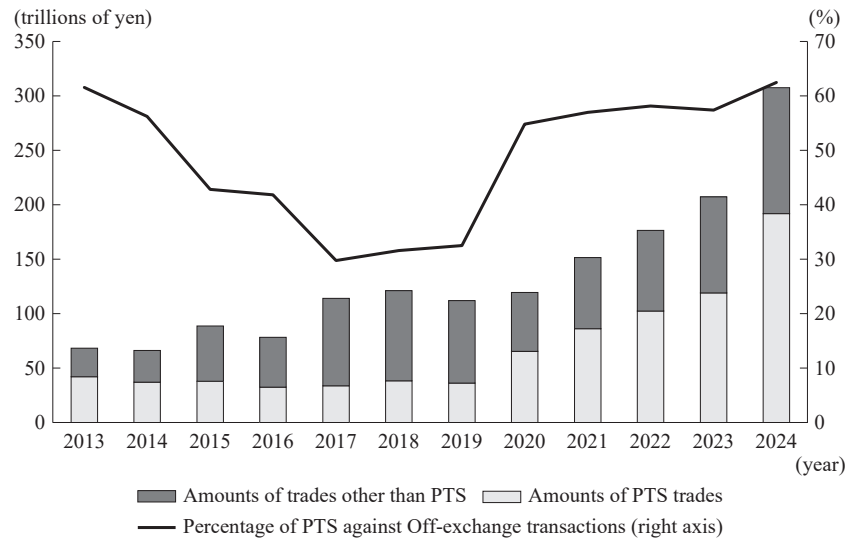
With the emergence of a diverse range of trading markets such as PTS platforms and dark pools in addition to exchanges, there has been growing interest in Smart Order Routing (SOR), a mechanism that routes orders to the market most likely to offer the most favorable terms for buying or selling stocks.

Chart IV-2. Trading Amounts of Exchange Transactions and Off-exchange Transactions



Source: Japan Securities Dealers Association.

Chart IV-3. Breakdowns of Off-exchange transactions



*Source:*Japan Securities Dealers Association.

3. Structure of the Secondary Stock Market (3)—Trading in Unlisted Stocks

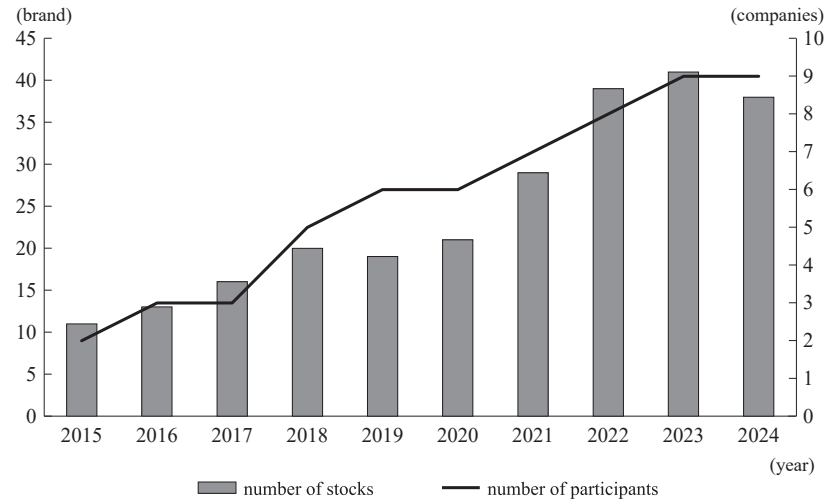
Trading in unlisted stocks is one form of off-exchange trading. Shares of unlisted companies are traded outside stock exchanges, typically in negotiated over-the-counter (OTC) transactions conducted through securities firms. Japan formerly had an OTC Approved Issues System and an OTC Registration System, and trading in unlisted stocks has a long history dating back to the postwar period. The Green Sheet market was established in 1997. Issues meeting certain disclosure requirements were designated as Green Sheet issues, making them eligible for investment solicitation. However, trading activity became sluggish owing to factors such as the imposition of timely disclosure requirements, and the market was abolished at the end of March 2018.

The Shareholders Community system was established in May 2015 as a system for secondary trading of unlisted shares in place of the Green Sheet market. This is a system for the trading of and financing through unlisted shares that was originally set up in May 2015 to facilitate trading and cash-raising for unlisted shares as a way of supporting the financing needs of local businesses. Under this system, securities companies form shareholder communities for individual OTC securities but can only solicit investment from investors who have registered to participate. A securities company wishing to establish and operate a shareholder's community must file prior notification with the JSDA and be designated as an operating member. A key feature of the system is that transactions are exempt from insider trading regulations because trading is limited to members of shareholders communities established and managed by securities companies for individual issues, with liquidity maintained only at a level sufficient to meet a certain degree of trading and liquidity needs. The system is expected to be used by companies whose shares are likely to be traded by investors familiar with the issuer, as well as by start-ups, growth companies, and locally based businesses.

Since then, efforts have been made to promote the use of the system in response to issues such as the fact that securities companies' ability to solicit investment is limited to the shareholders community. In 2022, reforms were implemented to make the system more user-friendly, such as lifting the ban on soliciting specified investors (professional investors with expertise in investment as defined in the Financial Instruments and Exchange Act) for participation in shareholders' communities.

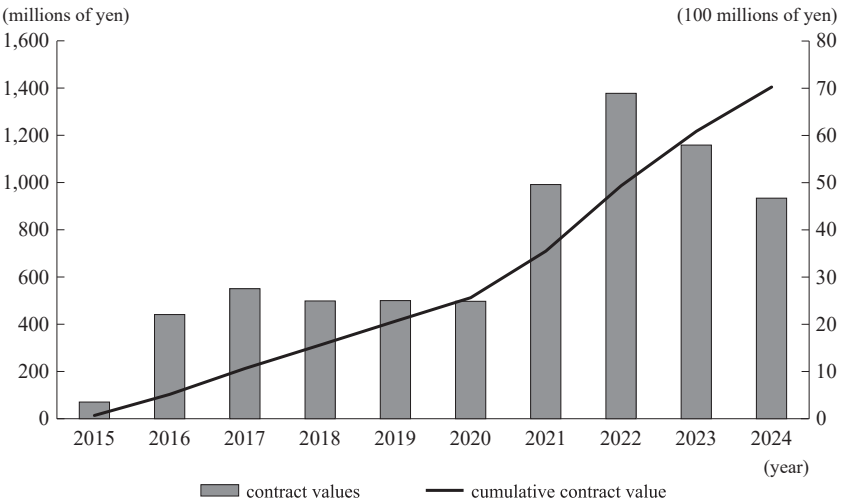
Trading activity under the Shareholders Community system has been increasing. Cumulative trading value exceeded ¥5 billion in February 2023 and has since surpassed ¥7 billion. As of October 24, 2025, there were 39 issues operated under the system and nine operating members.

Chart IV-4. Changes in the number of stocks and participants in the Shareholders Community system



Source: Japan Securities Dealers Association.

Chart IV-5. Changes in contract values and cumulative contract value in the Shareholders Community system



Source: Japan Securities Dealers Association.

4. Transaction Size of the Secondary Stock Market

As of the end of 2024, the number of companies listed on the national exchanges (including multiple listings) stood at 4,070, with 500.8 billion shares listed. The trading volume was 652.7 billion shares, and the trading value totaled ¥1,323 trillion. Of these, the number of listed shares for the 3,969 companies listed on the Tokyo Stock Exchange is 499.4 billion shares, with a trading volume of 652.3 billion shares and a trading value of ¥1,322.8 trillion. The Tokyo Stock Exchange accounts for the majority of listed stocks, and the vast majority of trading volume and value also takes place on the Tokyo Stock Exchange. Thus, exchange trading of shares in Japan is heavily concentrated on the Tokyo Stock Exchange.

Two main factors account for this: (1) the stock market has a hierarchical structure with the TSE Prime Market at the top, and many companies regard listing on the Prime Market as a key management objective; (2) the "order flow externality" means that trading becomes increasingly concentrated in markets with high trading volume and liquidity, since trades can be executed more easily in such markets.

The Prime Market is a market for companies with a focus on constructive dialogue with global investors. As of the end of 2024, it consisted of 1,639 listed stocks with a market capitalization of ¥960 trillion. The trading volume was 513.3 billion shares and the trading value was ¥1,255 trillion. By contrast, the Standard Market was established as a market for companies with sufficient liquidity and governance standards to make them eligible as investments in the public market. The Standard Market had 1,590 listed stocks and a market capitalization of ¥29 trillion as of the end of 2024. The trading volume was 94.6 billion shares and the trading value was ¥34.7 trillion. TSE also has the Growth Market for companies with high growth potential. It consisted of 607 listed stocks with a market capitalization of ¥8 trillion as of the end of 2024; the trading volume was 44.4 billion shares and the trading value was ¥33.5 trillion.

The Nagoya Stock Exchange has three markets: Premier, Main, and Next, with a total of 313 companies listed (as of the end of October 2025). In 2024, the trading volume was 160 million shares, and the trading value was ¥90.5 billion.

The Fukuoka Stock Exchange comprises the Main Market, the Q-Board market for emerging companies, and the Fukuoka PRO Market, a market for professional investors established in May 2024. A total of 124 companies were listed on these markets as of the end of September 2025. In 2024, the trading volume was 15.93 million shares and the trading value was ¥17 billion.

Table IV-1. Trends in TSE Trading Volumes by Each Market Segment

		April 2022	October 2022	April 2023	October 2023	April 2024	October 2024	April 2025
Trading volume (in thousands of shares)	Prime	24,354,567	29,433,788	24,266,922	37,621,612	41,486,632	47,002,273	51,041,519
	Standard	3,962,616	4,753,693	4,830,580	6,832,733	9,449,785	6,742,832	9,114,357
	Growth	2,335,720	2,179,310	2,843,346	2,255,591	2,500,969	4,186,026	4,377,927

Source: Japan Securities Dealers Association, Japan Exchange Group.

Table IV-2. Trends in TSE Trading Value by Each Market Segment

		April 2022	October 2022	April 2023	October 2023	April 2024	October 2024	April 2025
Trading amount (millions of yen)	Prime	57,651,017	71,085,575	59,496,350	88,366,450	106,255,003	105,971,002	111,605,961
	Standard	1,366,865	1,703,020	2,791,520	2,174,659	2,768,711	2,016,362	2,695,032
	Growth	2,878,334	2,632,552	3,549,073	2,169,019	2,618,534	2,302,932	3,501,404

Source: Japan Securities Dealers Association, Japan Exchange Group.

Table IV-3. Trading Volume and Value by Stock Exchanges and Respective Market Share (2024)

Stock Exchanges	Trading Volume (millions of shares)	Market Share %	Trading Value (millions of yen)	Market Share %
Tokyo	652,281	99.932	1,322,793,003	99.984
Nagoya	159	0.024	90,474	0.007
Fukuoka	16	0.002	17,002	0.001
Sapporo	270	0.041	102,453	0.008
Total	652,726	100	1,323,002,932	100

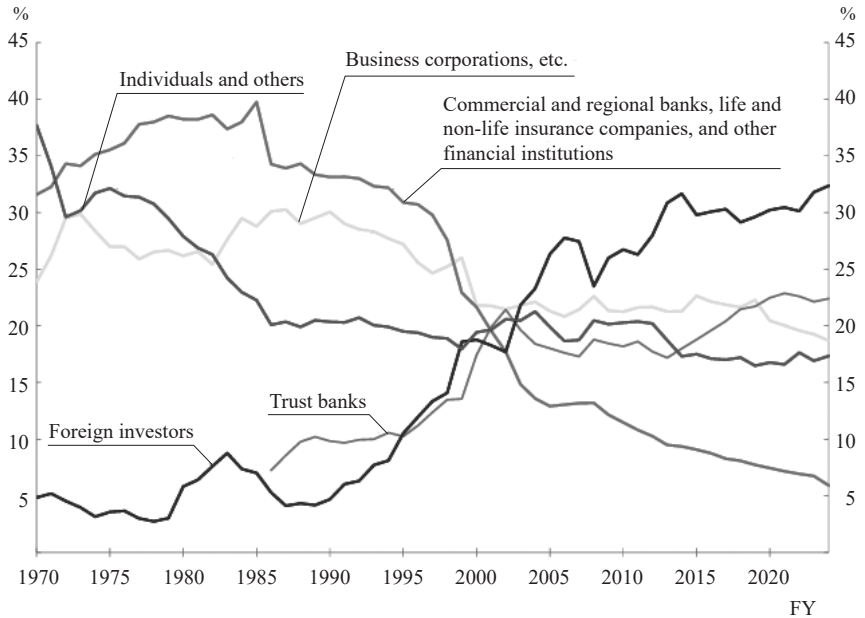
Note: Total percentage may not add up to 100% due to rounding.
Source: Japan Exchange Group.

The Sapporo Securities Exchange has the regular market and the Ambitious market for emerging companies, with a total of 85 companies listed (as of the end of October 2025). In 2024, the trading volume was 270 million shares, and the trading value was ¥102.5 billion.

5. The Structure of Share Ownership

Following the liquidation of the *zaibatsu* (great industrial or financial con-

Chart IV-6. Trends in the Ratio of Shares Held by Different Categories of Investors



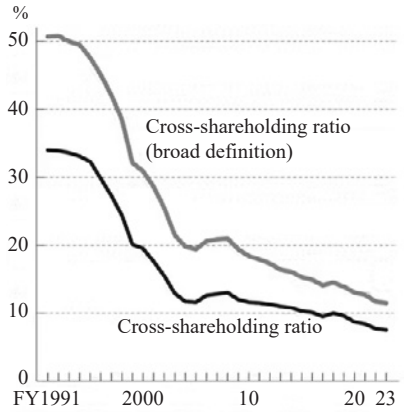
Notes: 1. Results of Trust banks are included in that of Commercial and Regional banks in and before 1985 Survey.
2. Results from FY 2004 to FY 2021 include the portion of companies listed on JASDAQ, and those after FY 2022 include JASDAQ figures within Osaka Securities Exchange or Tokyo Stock Exchange.

Source: 2024 Shareownership Survey.

glomerates or holding companies) after the war, shares held by these companies were released to the stock market for distribution among individual investors. The ratio of shares held by individual shareholders rose to 69.1% in 1949. However, since many of these individual investors could obviously not afford to hold these shares over the long term, they liquidated their holdings soon after acquiring them. As a result, the ratio of individual investors' shareholdings declined rapidly thereafter. Partly due to the fact that certain investors had bought up shares in large quantities, groups of companies that had belonged to the former financial conglomerates (*zaibatsu*) started cross-holding shares of one another to strengthen their group solidarity.

In the 1960s, capital transactions were liberalized following the post-war restoration initiatives. However, in fear of a hostile takeover by foreign firms taking advantage of liberalized capital transactions, Japanese firms sought to build a strong shareholder base, and the ratio of the shareholdings of business

Chart IV-7. Trends in cross-shareholding ratio of listed companies



Note: Based on research by Nomura Capital Markets Research Institute. The cross-shareholding ratio, as broadly defined, includes insurance companies.
Source: Nihon Keizai Shimbun online edition, July 8, 2024.

corporations and financial institutions increased. Subsequently, the system of issuing shares at par value shifted to one of issuing at market price, making it necessary for business corporations to keep their share prices elevated if only for the benefit of raising funds through capital increases. Consequently, the ratio of the shareholdings of business corporations continued to increase in the run up to 1975. Meanwhile, encouraged by the long-lasting bull market, financial institutions also continued to build their equity portfolios and increased the ratio of their stock holdings until the speculative bubble at the end of the 1980s.

This corporate domination of the shareholding structure brought about a material impact on the formation of stock prices. While individuals and institutional investors bought stocks as an investment to earn yields (profit-earning securities), business corporations or financial institutions bought shares on their own proprietary accounts, in many cases, for the purpose of holding shares to strengthen corporate affiliations or business tie-ups as a means of gaining control of the management. Therefore, these corporations were more determined to hold these shares for the long term (management-stake securities) without consideration of yields on investment, and yields on these tended to decline. As a result, the prices of these shares rose to levels that were beyond the reach of individual investors who invested in shares on the basis of yield, and the ratio of stock holdings by individual investors dropped further. In addition, as individual investors had no choice but to look for capital

gains even under such circumstances, they needed to accelerate the rate of turnover of their investments. Against this backdrop, individual investors engaged in highly speculative investment, bringing about the special structure of the stock market in this country.

However, as unrealized capital gains on stock investment shrank sharply due to falls in stock prices after the burst of the speculative bubble, holding shares was no longer an attractive investment even for corporate investors. In recent years, there has been an acceleration in the reduction of cross-shareholdings. Among other factors, this is advocated by the Corporate Governance Code. It is also one of the listing criteria for the Prime Market that the tradable share ratio should be at least 35%. In addition, companies also sold shares due to their need to secure their cash reserves during the COVID-19 pandemic.

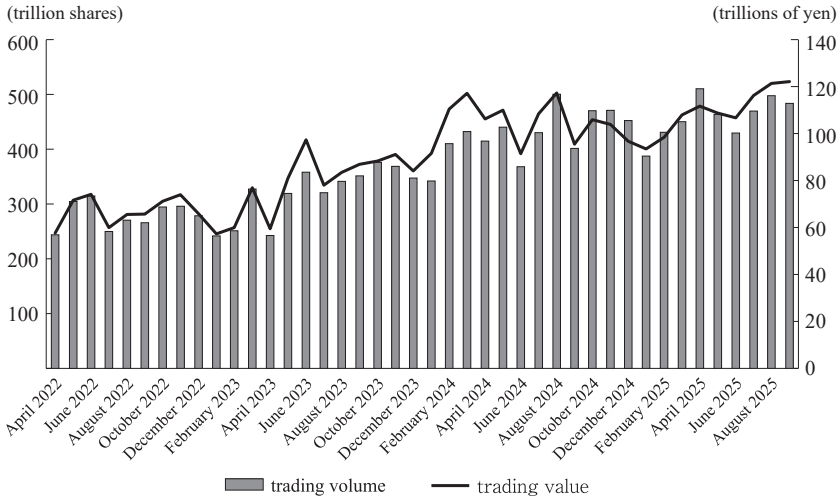
6. Stock Prices and Indicators for Investment (1)

Theoretical prices of assets that generate regular income, such as stocks, can be expressed as dividends by a certain rate of capitalization (interest rate plus risk premium). However, actual asset prices fluctuate according to the investment actions of buyers and sellers depending on their intentions. Investors' activity levels are reflected in the daily changes of trading volumes and trading values.

Only a small portion of listed stocks are actually traded on the stock exchange. Therefore, market capitalization is calculated using the total number of outstanding shares based on the price of completed transactions. For example, on October 31, 2025, the market capitalization of the TSE Prime Market was approximately ¥1,137 trillion, but the value of shares traded was approximately ¥8.6 trillion. This indicates that the total market capitalization of the TSE is computed on the basis of share prices formed through the trading of approximately ¥8.6 trillion worth of shares (In fact, the market capitalization of the entire market represents a sum total of the market valuation of all listed stocks, and the above explanation is intended to simplify the picture).

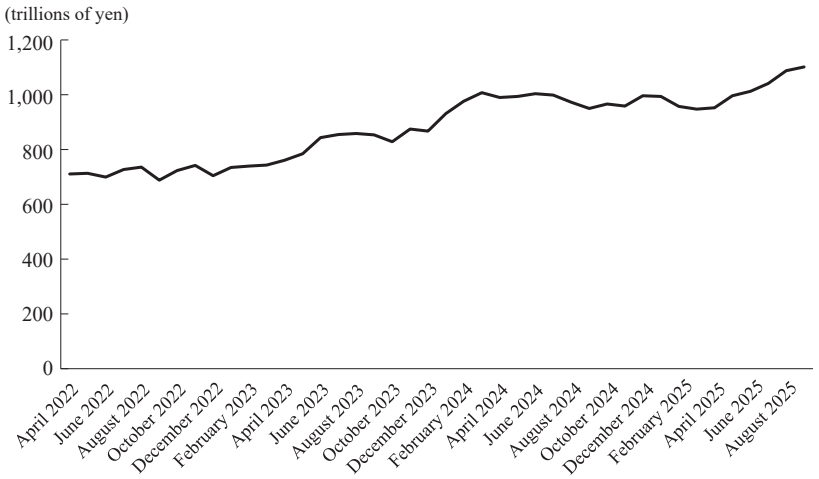
Trends in the secondary stock market are reflected in the movements of stock price indices. The Nikkei Stock Average (Nikkei 225), calculated and published by Nihon Keizai Shimbun (Nikkei Daily), is the most well-known stock price index in Japan. It is calculated by adding up and averaging the share prices of 225 representative stocks in each industry out of all the stocks listed on the Tokyo Stock Exchange (Dow-type adjustment). The divisor is not 225 but is adjusted for corporate events such as stock splits or dividend payments, or else whenever one issue in the index is replaced by another. The current divisor (as of September 30, 2025) is 29.699.

Chart IV-8. Trends in trading volume and trading value in TSE Prime Market



Note: Data on domestic shares. Excludes domestic preferred shares, equity securities and foreign shares.
Source: Japan Exchange Group.

Chart IV-9. Trends in market capitalization on TSE



Note: The total TSE market includes data for the Standard, Growth and TOKYO PRO Market in addition to the Prime Market.
Source: Japan Exchange Group.

The first reason for using a revised divisor is to adjust for the impact of stock splits and stock dividends. For example, a stock split theoretically lowers a stock price, disrupting the continuity of the index. Therefore, an adjustment is made by reducing the divisor. The second reason is to offset the impact of stock replacements. This is because continuity is lost when replacements occur between issues with significantly different stock prices.

Thus, the problem with Dow-type indexes is that they reflect rises or falls in the simple average of stock prices at a scale several times larger than the actual reality. Because these are unweighted average indexes, they can be susceptible to fluctuations in the price of scarce or highly-priced stocks. One way to avoid these drawbacks is to base the index on market capitalization.

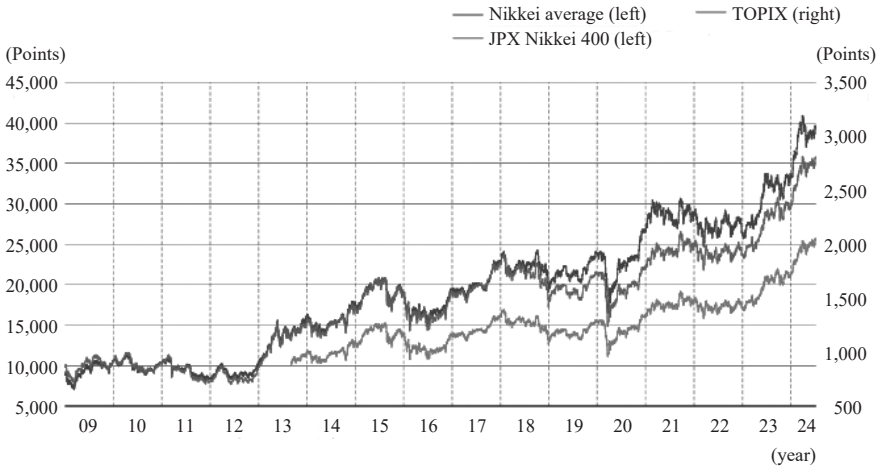
7. Stock Prices and Indicators for Investment (2)

TOPIX (Tokyo Stock Price Index) is another well-known index in Japan. It measures the current market capitalization of the former First Section of the TSE with the market capitalization as of the base date (January 4, 1968) set at 100. It has been calculated and published by the TSE (now JPX Market Innovation & Research, Inc.) since July 1, 1969. TOPIX has the following characteristics: (1) it covers all issues listed on the former First Section of the TSE and therefore reflects changes in the country's industrial structure and market trends, and is not susceptible to potential discontinuity when constituent issues are replaced; (2) it allows easy determination of changes in market size from the perspective of market capitalization; and (3) it is not unduly affected by price fluctuations in thinly traded or high-priced stocks.

Although TOPIX has long played an important role as a benchmark for many institutional investors, it is not seen as a practical investment benchmark because it comprises all the issues in the former First Section. For this reason, TSE has been reviewing TOPIX to improve its functionality as an investment benchmark while ensuring its continuity as an index. While TOPIX component stocks were included in the index regardless of their selected market segment after the new market segmentation came into effect in April 2020, constituents with a tradable share market capitalization of under ¥10 billion were designated as "phased weighting reduction constituents" and their weighting was reduced every quarter in ten (10) stages starting from the end of October 2022 to the end of January 2025.

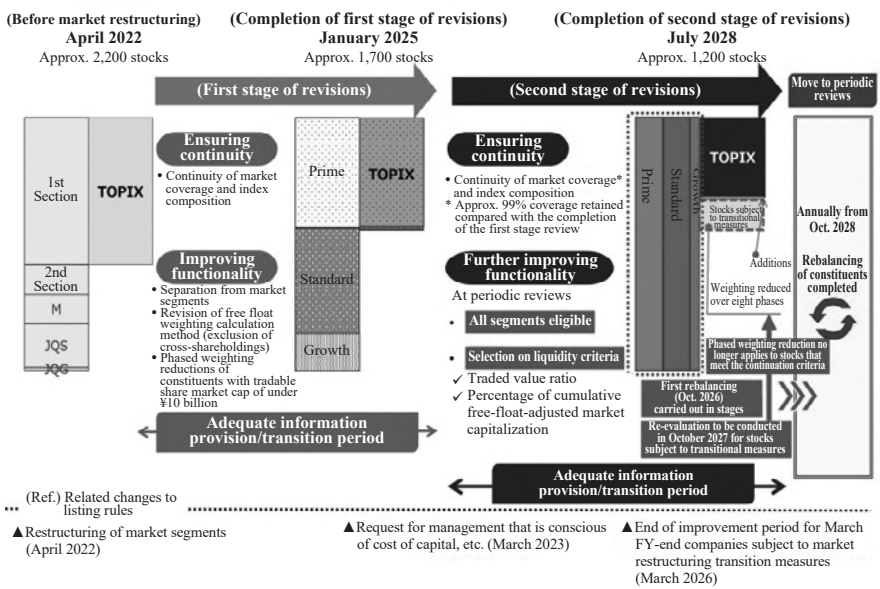
In addition, the method for calculating the free-float weight ratio was changed to better reflect actual market conditions by adding strategic shareholdings to non-free float shares. The revision is being carried out in stages, taking account of the potential market impact from adjustments by passive funds. In addition, initiatives for gathering opinions from market participants,

Chart IV-10. Transitions in Stock Prices



Note: The record date of JPX Nikkei 400 is August 30, 2013 (base value of 10,000 points). As of the end of June 2024.
Source data: Bloomberg.
Source: Japan Securities Dealers Association.

Chart IV-11. Flow of TOPIX Revisions



Source: Japan Exchange Group.

such as Index Consultations and the Index Advisory Panel, have been introduced in order to improve governance of the index.

Following the index consultation conducted from June to August 2024, the review has now entered its second phase. The objective is to further enhance TOPIX's investment functionality as a market benchmark while maintaining its broad market coverage and ensuring index continuity. Key elements include expanding the scope of eligible constituent stocks to include those listed on the Standard and Growth Markets, in addition to the Prime Market, and introducing periodic constituent reviews. The periodic constituent changes will be implemented following a phased transition period from October 2026 to July 2028. The second-stage review is expected to reduce the number of eligible constituent stocks to around 1,200.

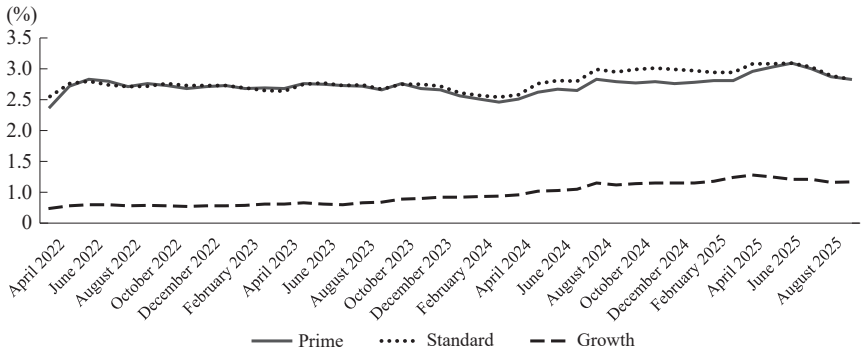
8. Stock Prices and Indicators for Investment (3)

Investors look at various indicators when making decisions to buy or sell. A representative indicator is the dividend yield. It is calculated by dividing the annual dividend by the purchase price of the stock. It is compared with market interest rates, an objective indicator, to assess whether the dividend yield is relatively high or low. However, yield becomes less useful as an investment indicator if many companies adopt a financial policy of not paying dividends and instead retaining and reinvesting their profits. In this case, it is necessary to find a way of relating a company's stock price to its potential for earnings growth.

The price-to-earnings ratio (PER) is a widely used investment indicator. It is calculated by dividing the stock price by the earnings per share and shows the multiple of earnings at which an underlying share is bought and sold. Investors compare the PER of an issue with the industry average or with other issues to determine whether a share is over- or undervalued. Stocks with a high PER reflect market expectations of high future growth potential. However, while dividend yield can be compared with an objective indicator, such as market interest rate, the PER can only be used for relative comparisons.

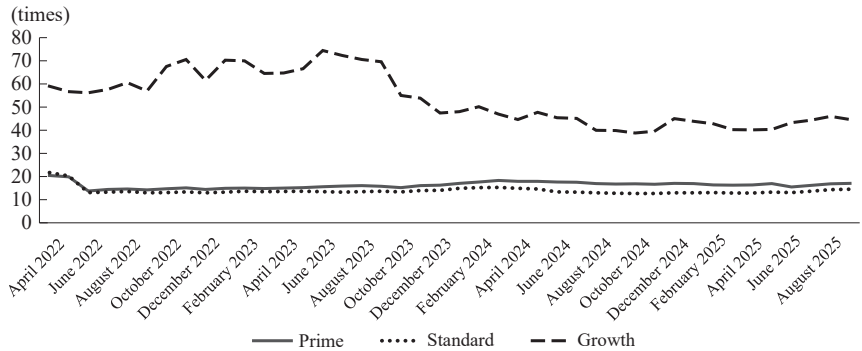
Another commonly used investment indicator is the price-to-book ratio (PBR). PBR is calculated by dividing the stock price by net asset value per share. It is an indicator that compares a company's stock price with its net asset value per share, which is regarded as its liquidation value. If the PBR is below 1, indicating that the stock price is below its liquidation value, the stock is often considered undervalued. However, the usefulness of PBR as an investment indicator depends on book value accurately reflecting the company's actual asset value. If the actual value of its assets is lower than book value because of unrealized losses on land or shareholdings, the stock may not

Chart IV-12. Dividend yield of TSE-listed companies (simple average)



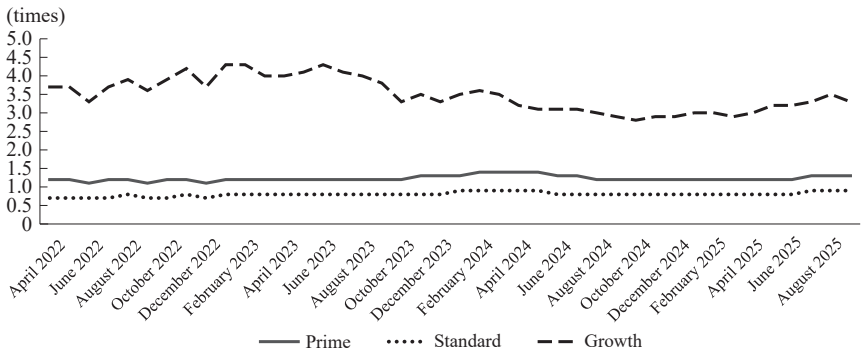
Source: Japan Exchange Group.

Chart IV-13. PER (simple average) of TSE-listed companies (consolidated)



Source: Japan Exchange Group.

Chart IV-14. PBR (simple average) of TSE listed companies (consolidated)



Source: Japan Exchange Group.

be undervalued even if its PBR is below 1. In March 2023, TSE issued a notice requesting listed companies who had PBR below 1x for an extended period of time (on the Prime and Standard Markets) to disclose and implement measures to address this. This initiative is intended to encourage listed companies to be more conscious of the cost of capital and stock prices, and thereby increase the attractiveness of the Tokyo market to investors.

Finally, there is return on invested capital (ROIC). ROIC is calculated by dividing operating income by invested capital (shareholders' equity plus interest-bearing debt). It indicates how efficiently a company generates profits from the capital employed in its business operations. If ROIC exceeds the weighted average cost of capital (WACC), the company is generally considered to be generating returns that exceed investors' required rate of return.

9. The Margin Trading System (1)

(1) Overview of Margin Trading

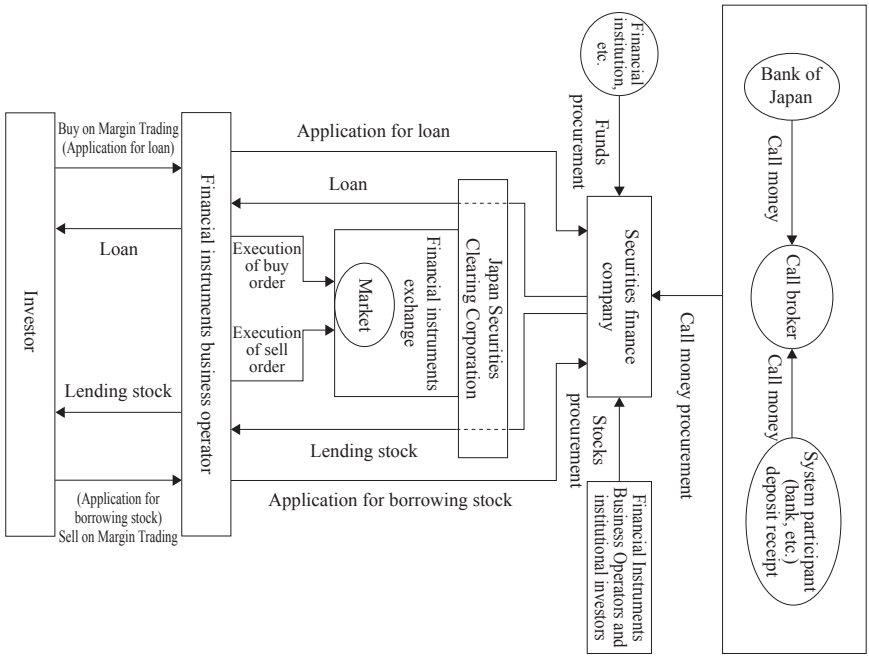
Shinyo torihiki (margin trading) is a system crafted on the model of the margin trading conducted in the United States and was introduced into Japan in June 1951 with a view to stimulating speculative demand for securities trading. Margin trading is a transaction in which an investor receives credit from a Financial Instruments Business Operator (securities company) and can buy a certain number of shares of a stock or sell shares without owning the funds to buy or the shares to sell, provided that they deposit a certain amount of margin money. On the other hand, the Financial Instruments Business Operator who receives such an order must settle the transaction on the settlement day.

(2) A Loan for Margin Transaction

Loan for margin transactions as the money markets and the securities markets in Japan were not fully integrated to begin with, loans for margin transactions were introduced by securities finance companies to help ease the requirement on Financial Instruments Business Operators to provide cash or stock certificates for the settlement of standardized margin trading.

A loan for margin trading is where a securities finance company lends a Financial Instruments Business Operator (a participant in a financial instrument exchange) funds or stock certificates that are needed to settle standardized margin trading through the settlement mechanism of the financial instruments market. The amount of funds and shares required is reduced by first internally offsetting applications for financing against applications for stock loans for the same issue—that is, by lending the proceeds from sales collected as collateral from margin sellers to margin buyers, and the shares pur-

Chart IV-15. Outline of Margin Trading and Loans for Margin Transactions



⦿Standardized margin trading (between a customer and a Financial Instruments Business Operator)
Collateral: Shares bought (or the proceeds from the sale of shares sold)
Margin: 30% or more of the market price of the shares bought (or sold) on margin. (When a substitute security is deposited, such security will have a collateral value of up to 80% or less of its market price.) However, the minimum amount of the margin in all cases is ¥300,000.

⦿Loans for margin transactions (between a Financial Instruments Business Operator and a securities finance company)
Collateral: Shares bought (or the proceeds from the sale of shares sold)
Guarantee deposit: 30% or more of loan balance (or the lending stock balance) (When a substitute security is deposited, such security will have a collateral value of up to 80% of its market price.)

⦿Call money share collateral deposit receipt system (participating in the system are securities finance companies, call money dealers, companies affiliated with the deposit receipt system, financial instruments exchanges, and the Bank of Japan).

Under this system, stock certificates pledged as collateral for a loan for margin transaction received by a securities finance company (only such issues recognized as appropriate by the Bank of Japan) are transferred to the account of a financial instruments exchange opened with the Japan Securities Depository Center and the securities finance company takes in call money by pledging as collateral the deposit receipt issued by the financial instruments exchange based on the aforesaid stock certificates.

In other words, the system enables collateral to be used to procure the funds necessary for the loan transaction, effectively using the stock as collateral. The deposit receipt also serves as collateral when borrowing money from the Bank of Japan through a call money dealer.

Note: The margin rate and the ratio of collateral value above may change based on margin trading regulations.

chased and collected as collateral from margin buyers to margin sellers. Next, for any requirement of funds after offsetting, the securities finance company meets the shortage by borrowing the amount of the shortfall from a bank or by raising funds from the call market, or from the Bank of Japan. For any stock lending requirements, the securities finance company may borrow by inviting bids from Financial Instruments Business Operators and institutional investors (see the chart on the next page). Issues selected by the financial instruments exchange as eligible for standardized margin trading are classified into loanable issues, which are eligible for both financing and stock lending under loans for margin transactions, and financing-only issues, which are eligible only for financing. Loanable issues are selected from the perspective of ensuring liquidity to handle speculative demand based on the number of tradable shares or the number of shareholders.

(3) Securities finance companies

Securities finance companies were established in 1950 as specialized financial institutions in the securities market. They began providing loans for margin transactions with the introduction of the margin trading system in June 1951. Since the role of securities finance companies on the securities market increased as margin trading expanded, to strengthen their function, the government introduced a licensing system from April 1956, requiring securities finance companies to be authorized by the Minister of Finance (currently, the Prime Minister). Since then, there has been significant consolidation among the securities finance companies established on regional stock exchanges. As of today, there is only one such company: Japan Securities Finance Co., Ltd.

10. The Margin Trading System (2)

(4) Types of Margin Trading

Based on the amendments to the Securities and Exchange Act (now the Financial Instruments and Exchange Act) in 1998, Financial Instruments Business Operators were permitted to borrow stocks without going through securities finance companies and to engage in stock lending and borrowing transactions among themselves (the so-called "stock lending market"). At the same time, general margin trading was also permitted, allowing Financial Instruments Business Operators to freely determine stock lending fees, settlement deadlines, and other trading terms with their customers. At this juncture, conventional margin transactions backed by loans for margin transactions came to be called standardized margin trading because the financial instruments exchanges determine stock lending fees, settlement deadlines, and other trading terms (see Table IV-4). Negotiable margin trading be-

Table IV-4. Comparison of Standardized and Negotiable Margin Trading

	Standardized margin trading	Negotiable margin trading
Margin deposit	30% or more of trade contract value	30% or more of trade contract value
Loan rate (negative interest)	Rate set xby the financial instruments exchange	Determined by Financial Instruments Business Operator
Repayment due date	Up to six months	Determined by Financial Instruments Business Operator
Eligible issues	Selected by financial instruments exchanges, etc.	Selected by Financial Instruments Business Operator
Rights processing	Method set by the financial instruments exchange	Method specified by Financial Instruments Business Operator
Financing (loan transaction)	Available	Not available

Source: Compiled from the Japan Exchange Group website and other sources.

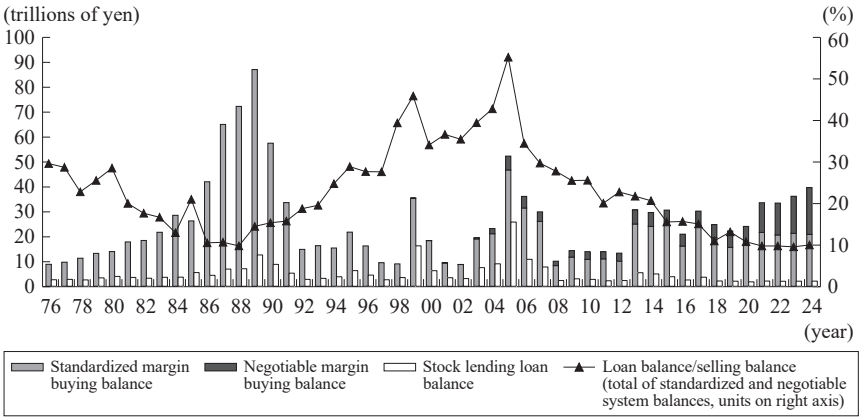
came increasingly popular once internet trading was available in Japan from 2003.

(5) Trends in Outstanding Balances

With regard to the demand for funds and shares by Financial Instruments Business Operators, the ratio of outstanding financing under loans for margin transactions to outstanding purchases under standardized margin trading declined almost continuously until 1988, reflecting, among other factors, the accumulation of internal reserves by Financial Instruments Business Operators. Since 1990, however, the ratio has turned upward owing to the deterioration in their financial strength following the collapse of the asset price bubble, the emergence of online securities companies, and the sharp increase in outstanding margin purchases accompanying the market recovery from 1999 onward. In recent years, however, the dependency on loans for margin transactions has again trended downwards because of the greater diversification of financing sources for Financial Instruments Business Operators. Negotiable margin trading has been increasing, partly because some transactions have no settlement deadline, and now accounts for around 40% of outstanding margin purchases.

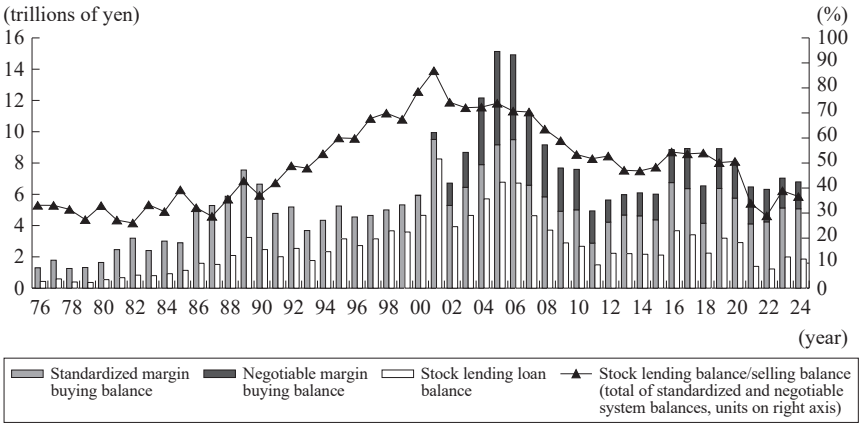
Next, looking at the outstanding balance of stock loans under loans for margin transactions related to the demand for shares, although short selling itself was previously limited, with the increasing institutionalization of the stock market since the late 1990s, Financial Instruments Business Operators have increasingly borrowed shares from securities finance companies to take the opposite side of buy orders on a proprietary basis. In addition, active

Chart IV-16. Margin Buying Balances (standardized and negotiable trading) and Loan/Selling Balances



Note: Previous to 2012, figures included the margin balances of companies listed on the Osaka Securities Exchange.
Source: Compiled from the Japan Exchange Group website and other sources.

Chart IV-17. Margin Selling Balances (standardized and negotiable trading) and Loan/Stock Lending Balances



Note: Previous to 2012, figures included the margin balances of companies listed on the Osaka Securities Exchange.
Source: Compiled from the Japan Exchange Group website and other sources.

short selling by individual investors through online securities companies has contributed to an increase in the outstanding balance (see chart).

(6) Trading markets

Margin trading systems have changed and diversified along with the development of the securities market in Japan. The margin trading system has been expanded on a number of occasions as part of measures to revitalize the market. Margin trading was introduced on the JASDAQ market in October 1997 and on proprietary trading systems (PTSs) in August 2019. Securities finance companies also launched loans for margin transactions for the JASDAQ market in April 2004 and for PTSs in August 2019, respectively. Currently, margin trading and loans for margin transactions are available on the Tokyo Stock Exchange, the Nagoya Stock Exchange, the Sapporo Securities Exchange, the Fukuoka Stock Exchange, and three proprietary trading systems (PTSs) (as of February 28, 2026).

CHAPTER V

New Issues of Bonds in the Primary Market

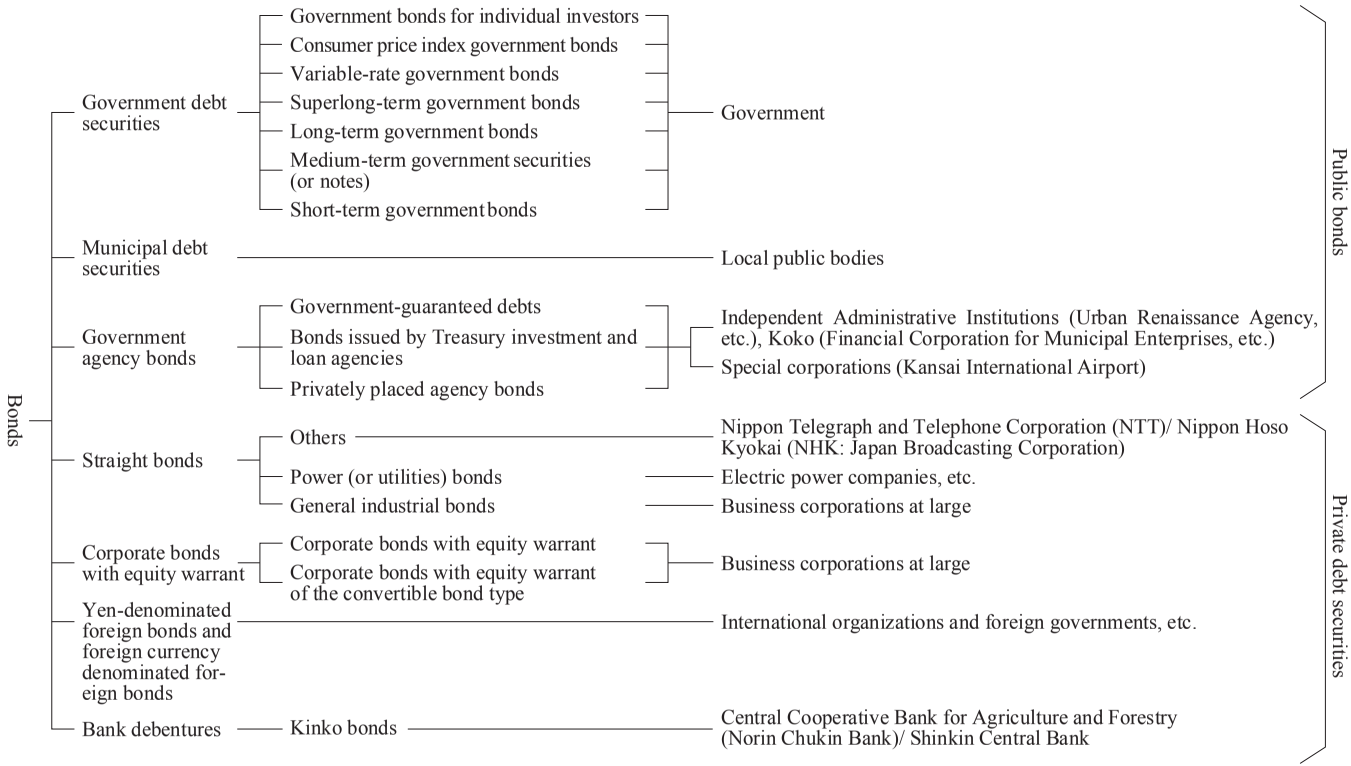
1. Types of Bonds

The term "bonds" generally refers to debt securities issued by governments and other public entities as well as by private companies. The issuance of bonds is a means of direct financing, through which the issuer raises funds, but, unlike equity financing, the issuer has an obligation to repay the principal at maturity. Bonds are classified by type of issuer into government bonds, municipal bonds, government agency bonds, bank debentures, corporate bonds (industrial bonds), and foreign bonds.

Government bonds are bonds issued by the national government, and they are classified as short-term bills (maturing in one year or less), medium-term notes (maturing in two to five years), long-term bonds (maturing in 10 years), or super long-term bonds (maturing in ten years or more) to distinguish an issue's term to maturity. Issuance of 10-year government bonds for individual investors (variable rate) was introduced in fiscal 2002. In January 2003, issuance began of bonds designated by the Finance Minister as STRIPS bonds, whereby the principal and interest portions can be traded separately as book-entry transfer JGBs. In addition, the government started issuing 10-year CPI (consumer price index)-linked bonds, 5-year bonds for individua investors, 40-year fixed-rate bonds, and 3-year bonds for individual investors in fiscal 2003, 2005, 2007, and 2010 respectively.

Municipal bonds can be roughly divided by type of funds into "public sector funds" and "private sector funds." The former are raised through fiscal loan funds and Japan Finance Organization for Municipalities, while the latter are raised in the public market or underwritten by banks and other financial institutions. Among these funds, the funds raised in public markets are divided into nationally placed municipal bonds, jointly offered municipal bonds, and municipal bonds targeting local residents (mini-local bonds). While the municipal bonds underwritten by banks and other financial institutions are called bank underwritten bonds, they come in two types, funds borrowed on deeds from banks and other financial institutions or debt securities issued in the market. Government agency bonds are debt securities issued by

Chart V-1. Types of Bonds



Note: Local government bonds represent debt issued under local government laws and fiscal policies. However, only those publicly placed or underwritten by banks or other financial institutions based on the issue of debt securities are included in public bonds.

various government-affiliated entities, such as independent administrative agencies. Agency issues with a government guarantee are categorized as government-guaranteed bonds. On the other hand, non-guaranteed government agency bonds can be further divided into Fiscal Investment and Loan Program (FILP) agency bonds (publicly placed bonds) and privately placed bonds directly underwritten by certain financial institutions. The three categories of debt securities mentioned above are sometimes collectively called "public bonds."

Bank debentures are debt securities issued by certain banking institutions under special laws and mainly consist of 5-year interest-bearing and 1-year discount debentures. As bank debentures and government agency bonds fall within the category of "debentures issued by a juridical person under a special Act" stipulated in Article 2, paragraph 1, item (iii) of the FIEA, they are sometimes called "special bonds" (*tokushusai*). Corporate bonds are those issued by private-sector companies and are also known as industrial bonds. In addition to non-financial enterprises, banks and consumer finance companies may also issue corporate bonds. Foreign bonds are defined as debt securities issued in Japan by foreign governments and companies (non-residents). Those denominated in yen, in particular, are separately classified as yen-denominated foreign bonds.

2. Status of Bond Issuance

The total amount of bond issuance in fiscal 2024 was ¥213 trillion, continuing the downward trend that began in 2020. If we look at the breakdown of issuance by type, total government bond issuance in fiscal 2024 was ¥185.3 trillion, accounting for about 87% of total bond issuance. Although lower than the ¥221.4 trillion recorded in fiscal 2020, issuance remained at a high level as government spending continued to expand owing to economic stimulus measures introduced after the COVID-19 pandemic, measures to cushion soaring energy prices following Russia's invasion of Ukraine in 2022, and responses to rising inflation. Compared with the pre-COVID-19 period, the composition of issuance shows a particularly heavy reliance on treasury bills.

Government bond issuance in fiscal 2024 can be broken down into super long-term government bonds (¥36.9 trillion), long-term government bonds (¥37.5 trillion), medium-term government bonds (¥62.9 trillion) and treasury bills (¥40.8 trillion). In addition, under the "Act on the Promotion of a Smooth Transition to a Decarbonized Growth-Oriented Economic Structure," which was enacted in May 2023, new government bonds known as "Decarbonized Growth-Oriented Economic Structure Transition Bonds (GX Economic Transition Bonds)" were issued for a total amount of ¥15.4 trillion in

Table V-1. The Value of Bonds Issued

(¥1 billion)

	Total of bonds		Government bonds		Of which, Interest-bearing government bonds		Of which, 10-year interest-bearing government bond		Of which, 5-year interest-bearing government bond		Of which, 4・2-year interest-bearing government bond		Of which, Short-term discount government bonds		Of which, Government bonds for individual investors	
FY	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount
2000	5,386	148,356	78	105,392	10	5,894	9	18,019	9	11,755	17	20,015	24	42,841	0	0
2001	4,651	181,531	68	144,493	11	7,392	8	20,600	7	20,425	12	19,663	24	39,596	0	0
2002	9,608	181,109	73	147,298	15	10,589	10	21,800	7	22,979	12	20,731	24	43,595	1	384
2003	13,827	196,008	79	157,797	17	12,986	11	23,000	10	23,189	12	22,185	24	47,998	4	2,967
2004	19,252	223,796	79	185,101	18	16,753	10	23,000	9	25,007	12	21,742	24	47,195	4	6,821
2005	24,485	221,001	84	180,692	20	19,579	9	23,100	10	25,718	12	22,338	24	41,907	5	7,271
2006	19,433	204,033	79	170,432	17	19,331	8	23,959	9	26,038	12	22,789	22	36,799	8	7,138
2007	12,926	173,003	63	136,504	13	17,343	5	23,533	7	25,773	12	22,041	14	22,796	8	4,662
2008	2,140	156,867	68	123,867	12	16,787	9	24,354	11	25,039	12	23,126	14	21,000	8	2,293
2009	1,507	188,807	63	156,023	11	23,141	7	28,880	7	29,621	12	29,397	18	32,899	8	1,360
2010	1,601	192,981	67	160,411	12	25,926	7	30,856	7	30,288	12	33,001	12	29,999	17	1,028
2011	1,500	196,954	72	167,283	12	26,136	8	31,360	8	31,036	12	34,514	12	29,999	20	2,426
2012	1,436	204,091	73	174,957	12	28,068	7	31,872	6	32,421	12	34,008	12	29,999	24	1,875
2013	1,458	210,040	72	180,171	10	29,349	5	33,727	8	35,216	12	36,176	12	29,999	24	3,349
2014	1,397	204,622	82	176,065	9	31,776	5	33,607	6	35,158	12	33,177	12	26,700	36	2,633
2015	1,280	199,414	78	173,670	9	34,787	4	35,519	4	32,128	12	30,766	12	25,800	36	2,137
2016	1,377	197,142	78	168,001	9	33,040	4	35,172	4	30,878	12	29,654	12	25,000	36	4,556
2017	1,409	183,344	78	155,903	9	33,172	4	33,029	4	29,336	12	28,360	12	23,800	36	3,449
2018	1,478	177,678	74	148,696	7	31,686	3	33,275	3	26,115	12	27,109	12	21,600	36	4,693
2019	1,527	174,176	78	142,985	9	30,956	4	30,195	4	25,343	12	25,775	12	21,600	36	5,248
2020	1,544	253,242	90	221,416	9	34,701	4	35,347	4	30,003	12	34,442	24	80,899	36	3,029
2021	1,421	244,546	88	215,409	9	37,638	4	36,639	4	31,307	12	37,227	22	66,899	36	2,973
2022	1,323	238,044	86	213,029	9	36,779	4	37,320	6	32,773	12	36,491	18	63,100	36	3,418
2023	1,354	228,177	92	200,671	9	37,078	5	38,436	11	33,985	12	36,069	18	48,700	36	3,403
2024	1,380	212,978	90	185,340	9	36,939	5	37,547	12	29,886	12	32,967	15	40,800	36	4,494

Source: Japan Securities Dealers Association.

	Municipal debt securities		Government-guaranteed debts		Bonds issued by Treasury investment and loan agencies		Straight bonds		Asset backed corporate bonds		Corporate bonds with equity warrant of the convertible bond type		Bank debentures		Yen-denominated non-resident bonds	
FY	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount
2000	86	2,269	67	5,141	1	50	367	7,637	140	342	18	283	696	21,043	89	2,618
2001	90	2,225	55	4,315	24	731	333	8,172	127	394	17	283	755	16,867	41	1,308
2002	151	2,837	55	4,446	63	2,565	312	7,318	85	517	13	205	666	12,023	30	671
2003	226	4,621	95	6,898	86	2,663	353	6,993	82	200	9	77	667	9,271	39	943
2004	262	5,660	94	8,752	105	3,019	307	5,895	46	187	19	191	598	7,960	45	1,677
2005	312	6,189	94	7,002	115	4,722	335	6,904	28	354	13	113	563	8,756	47	1,592
2006	334	5,860	77	4,301	101	4,399	335	6,830	25	143	10	495	496	6,730	25	798
2007	365	5,721	79	4,298	125	4,941	425	9,401	5	153	3	30	407	6,505	78	2,647
2008	375	6,346	69	4,752	123	4,159	313	9,605	8	181	1	150	384	5,517	58	2,082
2009	418	7,361	78	4,667	164	4,735	388	10,300	2	100	3	249	347	4,180	40	1,192
2010	412	7,482	64	4,197	172	5,063	459	9,933	2	120	3	78	352	3,777	70	1,919
2011	394	6,663	61	3,331	212	5,735	394	8,277	5	200	2	33	284	3,438	76	1,994
2012	392	6,577	71	4,722	206	5,312	416	8,152	4	200	3	29	220	3,000	51	1,142
2013	421	7,069	69	5,060	212	4,678	462	8,142	1	50	10	77	121	2,618	90	2,174
2014	407	6,943	68	4,220	199	3,997	439	8,715	1	60	5	37	121	2,499	75	2,086
2015	406	6,772	68	3,146	212	4,489	348	6,941	1	50	4	166	91	2,365	72	1,816
2016	360	6,249	79	3,107	184	4,857	546	11,413	2	100	5	55	76	1,738	47	1,622
2017	362	6,101	82	3,956	210	4,814	560	10,063	2	100	1	10	76	1,330	38	1,067
2018	373	6,312	77	3,104	231	5,020	583	10,452	3	270	2	16	76	1,446	59	2,362
2019	371	6,450	49	1,803	233	4,962	704	15,759	0	0	12	9	40	1,116	40	1,092
2020	375	6,991	36	1,419	281	6,297	692	15,613	0	0	6	23	40	1,016	24	467
2021	373	7,240	30	1,129	206	4,114	646	14,860	0	0	4	13	40	989	34	792
2022	339	5,527	33	948	201	3,529	579	12,895	0	0	3	3	40	1,003	42	1,111
2023	355	5,518	57	1,962	181	2,868	560	14,779	0	0	5	23	40	857	64	1,499
2024	356	5,370	71	2,091	164	2,471	588	15,333	0	0	4	21	40	810	67	1,541

Note: From April 2019 onwards, the figures for general bonds other than JGBs are based on statistical data from the Japan Securities Depository Center (JASDEC).
Source: Japan Securities Dealers Association.

fiscal 2023 and ¥14 trillion in fiscal 2024.

Local government bond issuance totaled ¥5.4 trillion in fiscal 2024. This is basically due to the deterioration in the fiscal position of local governments, resulting in the introduction of publicly offered municipal bonds targeting local residents in fiscal 2001 and publicly offered joint municipal bonds in fiscal 2003.

Issuance of straight corporate bonds has been on an increasing trend since fiscal 2016, with both the number of corporate bond issues and the value of bonds issued remaining at high levels in recent years. Corporate bond issuance was boosted by large-scale issues amid the decline in long-term interest rates in 2019 and by further monetary easing in response to the COVID-19 pandemic in 2020. In fiscal 2024, 588 issues totaling ¥15.3 trillion were issued.

The total amount of bank debentures issued in fiscal 2024 (all interest-bearing) stood at ¥0.8 trillion, continuing to decline from the ¥43 trillion recorded in fiscal 1995. The backdrop to the decline includes the virtual disappearance of the long-term credit banks that had acted as suppliers of long-term capital to industry, the discontinuation of bank debenture issues by Bank of Tokyo-Mitsubishi (now the Bank of Mitsubishi-Tokyo UFJ) in March 2002, followed by Mizuho Corporate Bank (excluding debentures for asset building purposes) in March 2007 and Aozora Bank in September 2011. Among government agency bonds, issuance of government-guaranteed bonds in fiscal 2024 was ¥2 trillion and issuance of FILP agency bonds was ¥2.5 trillion. Back in fiscal 2000, the Government Housing Loan Corporation issued its first ¥50 billion FILP agency bond, following the reform of the fiscal investment and loan program. Since then, FILP agency bond issuance has grown considerably. The amount of yen-denominated foreign bonds was ¥1.5 trillion in fiscal 2024.

3. Methods of Issuing Public Bonds

Government securities are issued in the public market or directly to individual investors or underwritten by the public sector. This section deals with the former two methods of issuance.

When issued in the market, government bonds are primarily sold through public auctions based on competitive bidding on price (or on yield), as the method of underwriting by syndicates was discontinued in fiscal 2006. In accordance with the terms of offering set forth by the Ministry of Finance, auction participants submit their bid prices and amounts, and they are then aggregated to determine the issue price and amount. Depending on the type of securities to be auctioned, the issue price is set either in a conventional auc-

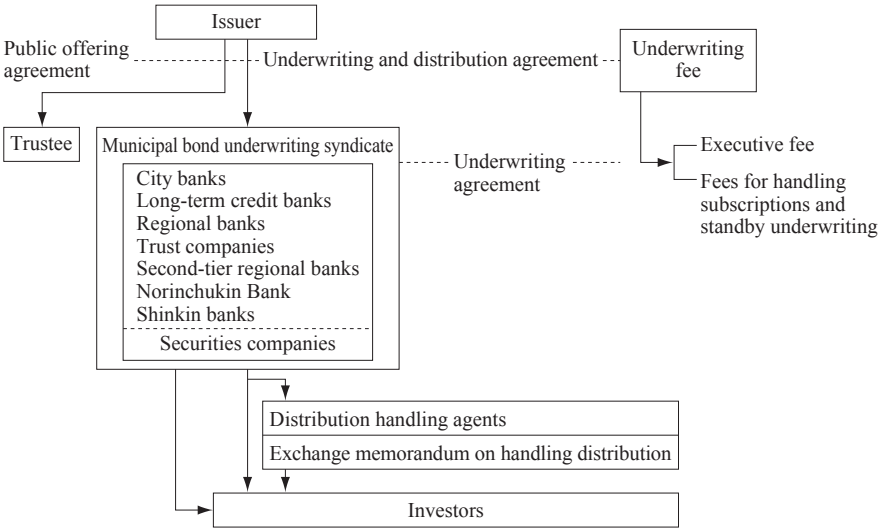
Table V-2. Categories of Government Securities

Maturity	Short-term government bonds		Medium-term government bonds	Long-term government bonds
	6 months	1-year	2-year, 5-year	10-year
Type of issue	Discount government bonds		Interest-bearing government bonds	
Minimum denomination	¥50,000		¥50,000	
Issuance method	Public auction		Public auction OTC sales (based on subscriptions to offering)	
Auction method	Price-competitive bidding Conventional style		Price-competitive bidding Conventional style	
Noncompetitive bidding, etc.	Non-price competitive auctions I		Non-competitive bidding Non-price competitive auctions I Non-price competitive auctions II	
Transfer restriction	No		No	

Maturity	Super long-term government bonds			Inflation-indexed government bonds	Climate transition bonds	Individual investor government bonds
	20-year	30-year	40-year	10-year	5-year, 10-year	3-year, 5-year fixed; 10-year floating
Type of issue	Interest-bearing government bonds					
Minimum denomination	¥50,000			¥100,000	¥50,000	¥10,000
Issuance method	Public auction			Public auction	Public auction	OTC sales (based on subscriptions to offering)
Auction method	Price-competitive bidding Conventional style		Yield-competitive bidding / Dutch auction	Competitive bidding / Dutch auction	Yield-competitive bidding / Dutch auction	–
Noncompetitive bidding, etc.	Non-price competitive auctions I Non-price competitive auctions II		Non-price competitive auctions II	– (Note 1)	–	–
Transfer restriction	No			No	No	Yes (Note 2)

Notes: 1. Type II non-price competitive auctions for inflation-indexed government bonds have been discontinued since May 2020.
2. Government bonds for individuals, including trustees of trusts, are transferable only to individuals.
Source: The Ministry of Finance, *Debt Management Report* 2025, p.49.

Chart V-2. Organization of Underwriting Publicly Offered Municipal Bonds at a Glance



Source: Japan Local Government Bond Association.

tion, where bonds are issued to successful bidders at their respective bid prices, or in a Dutch auction, where the issue price (yield) is set at the lowest price (highest yield) among accepted bids. Other than competitive bidding, two-, five-, and 10-year fixed rate government bonds are also offered through a noncompetitive bidding process that facilitates small- and medium-sized bidders and through Non-price Competitive Auctions I and II reserved for special participants (19 companies are designated since December 27, 2023). Private financial institutions handle subscriptions for individuals in offering government bonds for individuals and in offering two-, five-, and 10-year fixed rate government bonds under the new over-the-counter sales approach.

To issue municipal bonds, a local public body must prepare a budget plan that defines the use of proceeds from the proposed bond issue and obtains the approval of the local assembly. The actual issuance is also subject to consultation with the Minister of Internal Affairs and Communications (MIC) or the governor of the prefecture concerned (local bond consultation system). Even when the issuer is authorized to issue a municipal bond, the proceeds of such bonds can be used only for authorized projects - to finance a publicly run corporation, for equity contributions and loans, and to roll over maturing debts, etc. As of October 2025, 41 prefectures and 20 cities (“designated cities”) that have been designated by an ordinance of the Ministry of Internal

Affairs and Communications have issued municipal bonds through public offerings. In most cases, the issuer negotiates the terms of issue with the underwriting syndicate that handles its public offering, under which the underwriting syndicate buys up whatever bonds remain unsold after the public offering. Joint offered public municipal bonds on the primary market (municipal bonds jointly issued by 36 local public bodies) in and after fiscal 2003 are also handled by underwriting syndicates, but with municipal bonds targeted at local residents introduced in March 2002 local financial institutions are generally commissioned to handle the administration for underwriting and subscription. In November 2023, the joint issuance of bonds to fund decarbonization projects was also started.

The issuance of government-guaranteed bonds is planned as part of the Fiscal Investment and Loan Program, and annual ceilings on the issue amount must be approved by the Diet. They are issued by way of either an underwriting syndicate or issued by separate and individual bidding by competing underwriters. In the former method, the terms of issue are determined based on the results of recent government bond monthly competitive bidding. In the latter, both the terms of issue and the lead underwriter are determined through competitive bidding. FILP agency bonds are also issued as interest-bearing bonds, and in issuing them, the issuing agency usually selects a lead managing underwriter who, in turn, forms an underwriting syndicate.

4. Methods of Issuing Corporate Bonds

The issuance of straight bonds was historically subject to strict regulations, and the corporate bond trustee system was the cornerstone of these regulations. Against the backdrop of the main bank system in Japan at the time, banks had an extremely strong influence on individual corporate straight bond issues under the corporate bond trustee system. Even in the overall corporate bond primary market, banks had a greater voice than securities companies. However, as the role played by the corporate bond trustee system declined in the 1980s, the Commercial Code was amended in 1993 to drastically change the system. This marked a major step forward in the deregulation of issuance of corporate bonds.

The issuing corporation appoints managing underwriters and other underwriters that together constitute an underwriting syndicate, a bond manager or a fiscal agent, and providers of other relevant services and obtains a preliminary credit rating. When preparations are completed, the underwriting syndicate, under the leadership of the lead underwriter, conducts pre-marketing in order to build a book for the bonds. Based on this, the issue terms of the bonds are finalized and the offering begins. The bookbuilding method is one

Table V-3. Major examples of SDG bond (ESG bond) issuance in 2025 (as of the end of October 2025)

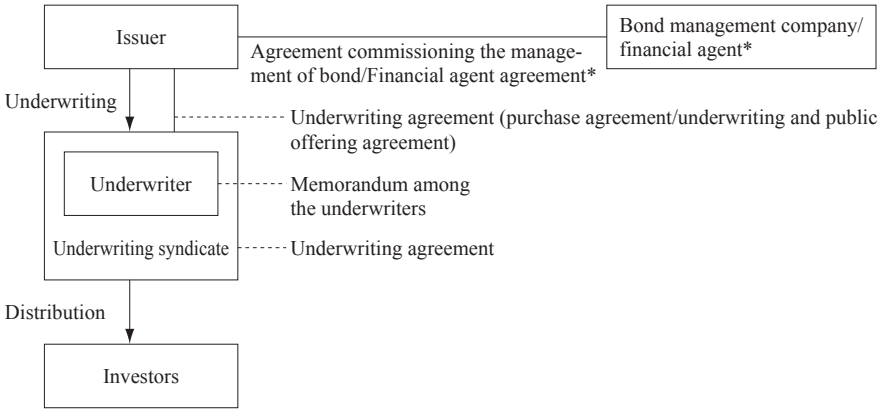
Date of setting of terms	Issuer	Amount issued	Interest rate	Term	Credit rating	ESG bond categories
May 23	Mitsui Fudosan	¥50 billion	1.38%	5-year	AA (JCR) AA − (R&I)	Green
May 23	Mitsui Fudosan	¥50 billion	2.11%	10-year	AA (JCR) AA − (R&I)	Green
May 30	Tokyo Tatemono	¥50 billion	2.66%	37-year	BBB + (JCR)	Sustainability
July 18	Nipro	¥50 billion	3.07%	35-year	BBB (JCR) BBB − (R&I)	Social
March 7	Tokyu Fudosan Holdings	¥40 billion	2.21%	35-year	A − (JCR)	Green
April 24	Dai Nippon Printing	¥40 billion	1.25%	5-year	AA − (R&I)	SLB
February 28	Mazda	¥35 billion	1.86%	7-year	A − (JCR)	Transition Social
May 23	Kirin Holdings	¥30 billion	1.41%	5-year	A + (R&I)	Social
June 11	Nomura Real Estate Holdings	¥27 billion	1.43%	5-year	A (R&I) A + (JCR)	Green
February 6	Hanshin Expressway	¥25 billion	0.94%	3-year	AA + (R&I) AAA (JCR)	Sustainability
April 4	Kansai Electric Power	¥25 billion	1.77%	10.1-year	AA (JCR) AA − (R&I) A3 (Moody's)	Transition

Note: SLB: Sustainability-linked bond.
Source: ESG Bond Information Platform.

under which the lead underwriter asks syndicate member companies to gauge investors' interest in the bonds and then decides on the issue terms on the basis of the findings of that survey. Previously, many issuers employed "spread pricing", a method under which investors' appetite in an issue is measured in terms of a spread over the yield of a government bond or an interest rate swap with the same maturity date, to set the interest rate. However, after the introduction of negative interest rate policy by the Bank of Japan in January 2016, so-called "absolute value pricing" has become an established practice, whereby investor demand is projected based on an absolute yield figure.

In terms of issuer ratings, the majority of issuers continue to issue bonds with high ratings; only a small proportion of bonds have low ratings, which is a characteristic of Japan. The reason can be attributed to the fact that major institutional investors limit their investment in corporate bonds to issues with

Chart V-3. Mechanism of Underwriting Corporate Bonds



Note: *The issuer signs this agreement with a trustee company in the case of a mortgage bond.
Source: Daiwa Securities Co., *Saiken no joshiki*.

ratings of A or higher.

Issuance of SDG bonds (ESG bonds) by domestic companies is also required to comply with issuance guidelines and standards set by ICMA (International Capital Markets Association), the Financial Services Agency and the Ministry of the Environment, along with having a positive assessment by external organizations and a high credit rating. Issuance volume has been on a downward trend since reaching a peak in 2023.

Bond-type class shares are legally classified as shares without voting rights or conversion rights to common stock (preferred shares), but their overall characteristics are similar to corporate bonds. In 2023, SoftBank's bond-type class shares issued to individual investors became the first of their kind in Japan to be listed on the Tokyo Stock Exchange Prime Market. Subsequently, bond-type class shares issued by Infroneer Holdings were listed on the Prime Market in August 2024, followed by a second issue by SoftBank in October 2024 and an issue by Zensho Holdings in October 2025.

5. Credit-Rating Agencies and Rating of Bonds

Credit rating is a classification of credit risk, indicated by a rating symbol based on measurement of the certainty of payment of the principal of, and interest on, a bond, and it is ordinarily given by a credit-rating agency specializing in rating credit. Originally, the system developed in the bond market of

Table V-4. Definitions of Credit-Rating Symbols

Rating and Investment Information, Inc. (R&I)	
Credit Rating	Definition
AAA	Highest creditworthiness supported by many excellent factors.
AA	Very high creditworthiness supported by some excellent factors.
A	High creditworthiness supported by a few excellent factors.
BBB	Creditworthiness is sufficient, though some factors require attention in times of major environmental changes.
BB	Creditworthiness is sufficient for the time being, though some factors require due attention in times of environmental changes.
B	Creditworthiness is questionable and some factors require constant attention.
CCC	Creditworthiness is highly questionable and a financial obligation of an issuer is likely to default.
CC	All of the financial obligations of an issuer are likely to default.
C	R&I believes that all of the financial obligations of an issuer are in default.

Japan Credit Rating Agency, Ltd. (JCR)	
Credit Rating	Definition
AAA	The highest capacity of the obligor to honor its obligation to its financial commitment.
AA	A very high capacity to honor its obligation to its financial commitment.
A	A high capacity to honor its obligation to its financial commitment.
BBB	An adequate capacity to honor its obligation to its financial commitment. However, this capacity is more likely to diminish in the future than in the cases of the higher rating categories.
BB	Although the capacity to honor the financial commitment on the obligation is not considered problematic at present, this capacity may not persist in the future.
B	A low capacity to honor its obligation to its financial commitment, giving cause for concern.
CCC	There are factors of uncertainty that the obligation to financial commitment will be honored, and a possibility of default.
CC	A high default risk.
C	A very high default risk.
LD	JCR has determinedthat, while the issuer has not fulfilled its obligations in accordance with the terms, it has fulfilled its obligations as agreed with respect to other debts.
D	In default.

Moody's Investor Service	
Credit Rating	Definition
Aaa	Obligations rated "Aaa" are judged to be of the highest quality, subject to the lowest level of credit risk.
Aa	Obligations rated "Aa" are judged to be of high quality and are subject to very low credit risk.
A	Obligations rated "A" are considered upper-medium grade and are subject to low credit risk.
Baa	Obligations rated "Baa" are subject to moderate credit risk. They are considered medium grade and as such may possess certain speculative characteristics.
Ba	Obligations rated "Ba" are judged to be speculative elements and are subject to substantial credit risk.
B	Obligations rated "B" are considered speculative and are subject to high credit risk.
Caa	Obligations rated "Caa" are judged to be speculative of poor standing and are subject to very high credit risk.
Ca	Obligations rated "Ca" are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
C	Obligations rated "C" are the lowest rated class and are typically in default, with little prospect for recovery of principal or interest.

Standard & Poor's	
Credit Rating	Definition
AAA	An obligation rated "AAA" has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its obligation to its financial commitment is extremely strong.
AA	An obligation rated "AA" differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its obligation to its financial commitment is very strong.
A	An obligation rated "A" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its obligation to its financial commitment is still strong.
BBB	An obligation rated "BBB" exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its obligation to its financial commitment.
BB	An obligation rated "BB" is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertaintes or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its obligation to its financial commitment.
B	An obligation rated "B" is more vulnerable to nonpayment than obligations rated "BB," but the obligor currently has the capacity to meet its obligation to its financial commitment. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its obligation to its financial commitment.
CCC	An obligation rated "CCC" is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its obligation to its financial commitment. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its obligation to its financial commitment.
CC	An obligation rated "CC" is currently highly vulnerable to nonpayment. The "CC" rating is used when a default has not yet occurred, but Standard & Poor's expects default to be a virtual certainty, regardless of the anticipated time to default.
C	An obligation rated "C" is currently highly vulnerable to nonpayment, and the obligation is expected to have lower relative seniority or lower ultimate recovery compared to obligations that are rated higher.
D	An obligation rated "D" is in default or in breach of an imputed promise. For non-hybrid capital instruments, the "D" rating category is used when payments on an obligation are not made on the date due, unless Standard & Poor's believes that such payments will be made within five business days in the absence of a stated grace period or within the earlier of the state period or 30 calendar days. The "D" rating also will be used upon the filing of a bankruptcy petition or the taking of similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. An obligation's rating is lowered to "D" if it is subject to distressed exchange offer.

the United States and is believed to have taken root during the Depression of the 1930s. It was introduced to Japan in the 1980s, and today, obtaining a credit rating has become a general practice among issuers of corporate bonds.

In assigning a credit rating to a given bond issue, a credit-rating agency investigates and verifies whether the bond is secured, whether it is subject to financial covenants, and its seniority or subordination relative to other liabilities; analyzes the issuer's financial position and business; determines its capacity to pay the principal of, and interest on, the proposed bond; and assigns a rating symbol on the basis of the findings of such investigations. Normally, any debt security with an AAA rating indicates that its issuer has the highest credit standing and is virtually free from the uncertainties of paying the principal of and interest on the obligation. The creditworthiness of a bond declines as its rating goes down, in order, from AAA to AA, A, and BBB, and a bond with any of these four ratings is called an investment-grade bond. Bonds with a credit rating of BB, B, CCC, CC, or C are called "junk bonds." As these bonds carry high credit risk, their issuer offers a high yield to attract buyers. Thus they are called "high-yield bonds," and their primary market has become well-established in the United States and Europe. This type of junk bond primary market did not exist in Japan because of a policy that excluded bonds that did not meet the eligibility standards from the market. However, today no such regulations restrict the issuance of junk bonds because the eligibility standards were abolished in 1996. Nevertheless, very few BBB-rated bonds have been offered in the market despite being an investment-grade category; with the exception of a BB-rated issue (by AIFUL) in 2019.

Designated credit-rating agencies now include both domestic players, such as Rating and Investment Information (R&I) and the Japan Credit Rating Agency (JCR), and global agencies, such as Standard & Poor's and Moody's and Fitch. In Japan, the new credit rating agency registration system replaced the conventional system based on the Act for Partial Amendment of the Financial Instruments and Exchange Act enforced in April 2010. Further, in recent years, municipal bonds and FILP agency bonds have also been assigned ratings.

The U.S. subprime mortgage crisis raised severe doubts over the way ratings were given. To begin with, credit-rating agencies were criticized because they tended to give generous ratings based on the fact that their source of income was rating fees collected from issuers. At the same time, ratings were acknowledged as merely a reference indicator. Currently, however, ratings are used in various financial regulations and policies. Credit-rating agencies today operate under a global registration system under administrative supervision.

6. Corporate Bond Management

A drastic reform of the conventional corporate bond trustee system was carried out by an amendment of the Commercial Code in June 1993 to clarify the basic functions of the current corporate bond manager system. Under this amendment, the conventional name "bond trustee company" was changed to "bond management company." In addition, (1) the establishment of a bond management company was made mandatory, in principle, and the eligibility for becoming one was restricted to banks, trust companies, and companies that have received a license under the Mortgage Bond Trust Law; (2) services to be provided by a bond management company were restricted to the management of outstanding bonds; and (3) the powers, duties, and liabilities of the bond management company were clarified. Put another way, the back-office services provided by the trust company at the time a bond is offered will not become the core services of the bond management company, and the services to be provided by the bond management company after a bond is issued are restricted to bond management.

As a result of the amendment, the potential for a bond trustee company to be involved in the issuance of corporate bonds of individual issuers has been legally removed, and the power of the conventional bond trustee system regulating individual issuers has thus come to an end. The amendment has resulted in the following changes: (1) The fee previously collected by the trustee bank was renamed the "bond management fee," and was reduced; (2) by instituting exceptional provisions with respect to the mandatory establishment of a bond management company (this applies when the face value of a bond certificate is in excess of ¥100 million), issuers can appoint a fiscal agent in lieu of a bond management company, and use of just a fiscal agent is now commonplace.

Under the New Companies Act enforced in May 2005, a bond management company is now known as a "bond manager," and its liabilities and powers have been expanded. More specifically, (1) under the former Commercial Code, the term "management of corporate bond" referred only to the exercise of power legally granted to the bond management company and did not include the exercise of power based on an agreement, etc., entrusting the management of bonds (contractual power); under the new Companies Act, however, the exercise of the contractual power is included in "management of bonds" and the bond manager owes the duty of fairness and the duty of due care of a prudent manager; (2) when the agreement entrusting the management of bonds contains a provision to that effect, the bond manager may act in relation to filing a lawsuit and taking bankruptcy or rehabilitation proceedings for all of the bonds without obtaining a resolution at the bondhold-

Table V-5. Appointment, Power, and Liability of the Bond Manager under the Companies Act

Item	Contents	Article
Appointment and Power		
When a bond manager has to be appointed	A corporation issuing a corporate bond must appoint a bond manager. However, when the face value of a bond certificate is in excess of ¥100 million, and in such other cases as may be prescribed by an ordinance of the Ministry of Justice as one which poses no threat to the protection of bondholders, the issuer need not appoint a bond manager.	Article 702 of the New Companies Act
Qualifications for becoming a bond manager	Banks, trust companies, and equivalent financial institutions	Article 703
Matters entrusted	The bond manager will be entrusted to receive payments, to preserve rights of claim, and to take other steps necessary for the management of bonds on behalf of bondholders.	Article 702 of the New Companies Act
Duty of the bond manager	The bond manager must perform the administration of bonds in a fair and sincere manner on behalf of the bondholders (“duty of fairness”). The bond manager must manage the bonds with due care of a prudent manager to the bondholders (“duty of due care of a prudent manager”).	Article 704
Power of the bond manager	The bond manager has the authority do all judicial and non-judicial acts on behalf of bondholders that are necessary to receive payments relating to the bonds or to preserve the realization of claims relating to the bonds. When the bond manager deems it necessary to take such steps, the bond manager may, with the permission of the court, investigate the status of the business and assets of the bond-issuing company.	Paragraphs 1 and 4 of Article 705
Special regulation on the power of the bond manager	When the bond manager plans to take the steps described below, it must obtain a resolution of a bondholders' meeting. (1) With respect to all of the bonds, granting extension for the payment of those bonds, or releasing, or settling liability arising from the failure to perform the obligations of those bonds (2) With respect to all of the bonds, prosecuting lawsuits, or proceeding with bankruptcy procedures, rehabilitation procedures, reorganization procedures or procedures regarding special liquidation (“lawsuit” includes court-mediated settlement) Under the Act, the bond manager has the power to take these actions without a resolution of a bondholders' meeting if the bond management agreement so prescribes.	Paragraphs 1 and 2 of Article 706 Item (viii), Article 676
Power of the bond manager in taking steps for the protection of creditors	When a bondholder wants to object to any action taken by the issuer, he/she must obtain a resolution of a bondholders' meeting, in principle, but the bond manager can express its objection on behalf of bondholders. This, however, shall not apply in cases where there is a provision to the contrary in the contract entrusting bond management.	Paragraghs 1 and 2, Article 740
Liability		
Liability (damages)	When the bond manager takes an action in violation of the Companies Act or any resolution of the bondholders' meeting, it is jointly and severally liable for damages incurred by bondholders.	Paragraph 1 of Article 710
Statutory special liability (damages)	(1) When the bond manager has received from the issuer of a bond collateral for the obligation represented by such a bond or when the issuer has taken an action extinguishing such obligation within three months prior to a default on the redemption of, or on the payment of interest on, the bond, or the suspension of payment by its issuer (2) When the bond manager has received from the issuer collateral for the obligation or repayment with respect to the credit of the bond manager (3) When the bond manager transfers its credit to a company controlling, or controlled by, such bond manager, or to another company that has a special relationship with the bond manager (4) When a bond manager who has a credit to the issuer of the bond concludes an agreement with the issuer authorizing it to dispose of the property of the issuer for the purpose of offsetting such credit, or when the bond manager concludes an agreement to take over any obligations of any company that owes a debt to the issuer. (5) When a bond manager that owes a debt to the issuer offsets such debt by taking over a credit to the issuer.	Paragraph 2 of Article 710
Exemption of debt	The bond manager is exempt from debt when it has not been derelict in its management of the bond, or when it is established that any loss caused to the bondholders is not blamable to an action taken by the bond manager.	Proviso to Paragraph 2 of Article 710
Resignation of the bond manager and its liability	(1) The bond manager may resign with the consent of the bond issuer and the bondholders' meeting. (However, the bond manager must appoint in advance a successor who will take over the administration of the bonds.) (2) In case the bond manager has an unavoidable reason to resign, it may resign with permission of the competent court. (3) The bond manager may resign based of the causes prescribed in the agreement entrusting the management of the bonds. (However, such agreement must have a provision designating a succeeding bond manager that will take over the job.) *) A bond manager that resigns after the issuer has defaulted on the redemption of the bond or on the payment of interest on such bond, or that has resigned for reasons prescribed in the agreement commissioning the management of the bond within three months prior thereto, is not exempted from liability to pay damages under Paragraph 2 of Article 710.	Article 711 Article 712

Source: Compiled from the data drawn from Akihiro Sato, *Shinkaishaho de kawatta kaisha no shikumi* (The Changed Company System under the New Companies Act), Nihon Horei, 2005, pp. 179 and 181.

ers' meeting; and (3) in taking steps to protect the creditors in the case of a capital reduction or a merger, the bond manager may, in principle, object to such a capital reduction or merger without obtaining a resolution of the bondholders' meeting. However, the stringent obligations, responsibilities, and qualification requirements increased the cost of appointing a bond manager, contributing to a rise in the number of bonds issued without one.

The revised Companies Act, which came into effect in March 2021, introduced the assistant bond manager system, under which assistant bond managers provide support for administrative procedures relating to corporate bonds and the preservation of claims. The system is applicable to bonds for which no bond manager is established, and financial institutions as well as lawyers and law firms familiar with bankruptcy affairs can take on these responsibilities.

7. Corporate Bonds with Subscription Rights/Warrants and Structured Bonds

Subscription rights/warrants give their issuer an obligation to either issue new shares or transfer shares in its treasury at a predetermined price to the rights/warrants holder upon the exercise of their rights/warrants within a prescribed period.

Corporate bonds with subscription rights/warrants are divided into those that in effect correspond to convertible bonds and those with undetachable warrants. Corporate bonds with subscription rights/warrants correspond to the former and refer to bonds (1) from which the rights cannot be detached or separately transferred, (2) whose issue value is equal to the amount of money payable upon the exercise of the rights, and (3) for which the exercise of the subscription rights/warrants is always based on the contribution in kind of the corporate bonds (debt equity swap). Except in the case of a stock split, the conversion price is fixed at the time of its issue. In certain cases, however, the conversion price of rights may be revised downward when the price of the underlying stock falls. In these cases, bonds issued under the condition that the conversion price can be adjusted downward with a frequency of one or more times every six months are called "corporate bonds with subscription rights/warrants with adjustable conversion price (MSCBs: moving strike convertible bonds)." Because of market concerns about this type of "death spiral" financing, however, few of these bonds have been issued recently. On the other hand, since corporate bonds issued with detachable warrants are viewed as a concurrent offering of corporate bonds and equity warrants, only those with undetachable warrants are included in the definition of "corporate bonds with subscription rights/warrants." In such cases, the money paid upon

Table V-6. Kinds of Structured Bonds

[Variable Cash Flow Bonds]

Step-up Bond: A bond issued initially with a coupon rate that is lower than the going rate then prevailing and that rises after the lapse of a certain period. By its very nature, the issuer often issues such a bond with a call option.

Step-down Bond: A bond issued initially with a coupon rate that is higher than the going rate then prevailing and that declines after the lapse of a certain period.

Deep-Discount Bond: This bond carries an interest rate lower than the going rate throughout its life, but it is issued at an under-par price to help its holders make up for the lower coupon by a redemption gain.

Reverse Floater Bond: The coupon rate of this bond falls when the interest rate rises, and the coupon rate rises when the interest rate declines. This is a kind of derivative bond using interest rate swap.

[Index Bonds]

Stock, interest rate, or bond-index-linked bond: These are bonds whose redemption principal is linked to the Nikkei average, whose coupon rate is linked to the Nikkei average, whose coupon rate is linked to the interest swap rate, or whose redemption principal is linked to the Japanese government bond futures price.

Exchange Rate Index Bond: Most of these dual-currency bonds are divided into those with a principal and coupon in yen that are redeemable in a foreign currency and into reverse dual-currency bonds with a principal and coupon redeemable in yen that carry a coupon in a foreign currency. As the amount of principal is normally larger than the coupon, dual-currency bonds carry a larger risk of exchange rate fluctuation.

[Bonds with Options]

Exchangeable Bonds (EB): Issuers of this bond may at their discretion pay redemptions with a pre-fixed number of shares of another company. For the purchaser, this means the sale of a put option, and under this arrangement, the coupon increases by as much as the option premium.

Other Bonds with Options: Included in this kind are callable bonds (the issuer can call the bond in advance of its maturity at the discretion of the issuer); puttable bonds (its holder can demand redemption in advance of its maturity); and knock-in, dual-currency bonds (a dual-currency bond with an exchange-rate option).

Source: Compiled on the basis of the data drawn from the website of Hephaistos Investment Research (http://hephaistos.fc2web.com/bond_guide/shikumi_sai.html) (Japanese) and the website of The Central Council for Financial Services Information.

the exercise of subscription rights/warrants should be paid separately, and the bond remains outstanding.

"Structured bond" is the name popularly given to a bond structured with derivatives. In recent years, various types of structured bonds have been issued. The derivative elements embedded in structured bonds include equities, interest rates, exchange rates and credit risk. The Nikkei 225 Index-linked Bond is a form of structured bond, which incorporates Nikkei 225 options trading, a form of derivative component exposed to equities-related risks. In general, when the Nikkei 225 index rises, returns improve; but when it falls, the option is exercised, causing a loss, and the bond price falls below its par

value. A corporate bond with a clause to convert it into shares of another company (“exchangeable bond” or EB) is a bond that incorporates a stock option of the target company. In general, when the stock price of the underlying company rises, the return increases as the holder acquires the option premium, but when the price of the stock falls, the option is exercised, and the holder has to accept delivery of the shares at the predetermined price, resulting in a loss. Inappropriate sales of structured bonds by some financial institutions have become a social issue, and the Japan Securities Dealers Association has imposed self-regulation on investment solicitation and customer management since July 2023.

8. Issuance of Bonds for Individuals

As outlined in Chapter 1, the total financial assets held by Japanese households have continued to grow steadily. However, comparing with other countries, cash and deposits still account for a relatively high proportion of household financial assets, while the share of securities remains comparatively low. However, a closer look at the breakdown reveals an increasing trend in stock ownership, driven by the benefits of the new NISA program launched in January 2024 and a strong stock market. By contrast, household bond holdings remain at a low level. One factor behind this trend is the protracted zero-interest-rate policy, as well as the limited availability of bond-type financial products for individual investors. One issue regarding the management of Japanese households’ financial assets is the extremely low level of bond-type financial assets which bridge the gap between savings and stock investments. For example, in the United States, money market funds (MMFs) are recognized as an alternative to deposits, and as of the end of March 2025, they accounted for 3.6% of total financial assets held by households (including NPOs). In addition, Treasury securities account for 2% and municipal bonds for about 1.5%, highlighting the significant role that bond-type securities play in the asset management of U.S. households. In March 2024, Japan also ended its zero-interest-rate policy, marking a return to a positive interest-rate environment. Bonds are expected to play an increasingly important role in household asset management going forward.

The most representative bonds available to individual investors in Japan are interest-bearing government bonds for individual investors. The first, a 10-year floating-rate bond, was introduced in March 2003 to promote individual investment in Japanese government bonds. This was followed by the introduction of a five-year fixed-rate bond in January 2006 and a three-year fixed-rate bond in July 2010. Interest-bearing Japanese government bonds for individual investors have the following features: (1) a minimum interest rate

Table V-7. Three Types of Retail Government Bonds

	Fixed-rate, 3-year maturity	Fixed-rate, 5-year maturity	10-year floating-rate bond
Interest rate type	Fixed interest rate	Fixed interest rate	Variable interest rate
Method of setting interest rates	Benchmark rate − 0.03% (Note 1)	Benchmark rate − 0.05% (Note 1)	Benchmark rate × 0.66 (Note 2)
Lower bound of interest rates	0.05% (annual rate)		
Receipt of interest	Twice a year, every six months		
Unit purchase price	Starting at ¥10,000, in increments of ¥10,000		
Redemption amount	¥100 per ¥100 face value (same for early redemption)		
Early redemption	Early redemption is possible at any time after one year has elapsed since issuance. (The amount equivalent to each of the last two interest payments, after tax, multiplied by 0.79685 is deducted) (Note 3)		
Frequency of issuance	Every month (12 times a year)		

Notes: 1. The benchmark interest rate is the estimated yield on 5-year or 3-year fixed-rate government bonds, calculated based on prevailing market yields as of two business days prior to the start of the subscription period.
2. The benchmark interest rate is the average successful bid yield in the last auction of 10-year fixed-rate government bonds up to the month before the start date of the interest calculation period (for the initial interest rate, the last auction up to the start date of the offering period).
3. The reason why the amounts equivalent to the interest (before tax) for the two most recent periods are multiplied by 0.79685 is that a tax of 20.315% is withheld when interest on government bonds is received.

Source: Ministry of Finance website.

Table V-8. Value of Interest-Bearing Government Bonds Issued to Individuals

(¥1 billion)

Fiscal year	2002	2004	2005	2008	2010	2012	2014	2016	2018	2020	2021	2022	2023	2024	2025
3-year fixed-rate	−	−	−	−	462.0	361.0	385.4	533.9	461.0	692.6	523.1	451.1	238.3	569.2	537.1
5-year fixed rate	−	−	1,128.5	2,051.9	422.1	204.2	432.8	1,251.0	196.0	205.7	230.2	257.5	621.9	1,302.4	1,590.1
10-year floating rate	383.5	6,821.0	6,142.7	241.0	143.7	1,111.2	1,814.4	2,770.7	4,035.7	2,130.7	2,219.5	2,709.8	2,543.2	2,622.2	1,112.8
Total	383.5	6,821.0	7,271.2	2,292.9	1,027.8	1,676.4	2,632.6	4,555.6	4,692.7	3,029.0	2,972.8	3,418.4	3,403.5	4,493.8	3,240.0

Notes: 1. As of the end of October fiscal 2025, a total of ¥4.6 trillion was scheduled to be issued.
2. Issued as reconstruction bonds from January 2012 to June 2013.
3. The figures for the 10-year floating-rate bonds in fiscal 2012 include the issuance value of Reconstruction Support Government Bonds for individuals (including those issued in the following fiscal year).

Source: Ministry of Finance, "Debt Management Report 2025".

Table V-9. Major Retail Corporate Bonds Issued in 2025

Month of issuance	Issuer	Amount issued	Interest rate	Term	Rating
March	Mazda	¥35 billion	1.86%	7-year	A − (JCR)
May	SoftBank Group	¥600 billion	3.34%	5-year	A (JCR)
June	SBI Holdings	¥170 billion	1.885%	4-year	A − (R&I)
June	Rakuten Card	¥80 billion	1.68%	1-year	BBB + (R&I), A − (JCR)
July	Mitsubishi UFJ Financial Group	¥69 billion	2.389%	10-year	AA − (R&I), AA − (JCR)
July	Kintetsu GH	¥25 billion	1.568%	5-year	BBB + (R&A), A − (JCR)
July	Keio Corporation	¥10 billion	1.38%	5-year	AA (JCR)
August	Rakuten Group	¥130 billion	2.336%	3-year	A − (JCR)

of 0.05%; (2) a minimum purchase amount of ¥10,000; and (3) after one year from the date of issue, they may be redeemed through the government's buy-back program at ¥100 per ¥100 of face value (with no risk of principal loss). These bonds are sold through authorized distributors, including securities firms, banks, and post offices. Issuance exceeded ¥7 trillion in fiscal 2005, but had fallen to around ¥1 trillion by fiscal 2010. Issuance has since recovered to over ¥4 trillion.

Issuance of corporate bonds to individual investors has been on the rise in recent years. According to I-N Information Systems, corporate bonds for individual investors totaling nearly ¥3 trillion were issued in 2024. The one-year retail corporate bond issued by Pan Pacific International Holdings in August 2025 attracted attention as a digital bond. Issued on the Securitize platform using distributed ledger technology, the bond pays interest at a rate of 1%, consisting of 0.3% in cash and 0.7% in points redeemable at the company's retail stores.

CHAPTER VI

The Secondary Markets for Bonds

1. Trading of Bonds

Bonds are traded in two different ways: (1) trading on a market operated by a financial instruments exchange, and (2) negotiated transaction between an investor and a securities company or other market intermediary. The former is referred to as an exchange transaction and the latter as an over the-counter (OTC) transaction. OTC transactions account for the majority of transactions on the secondary bond market.

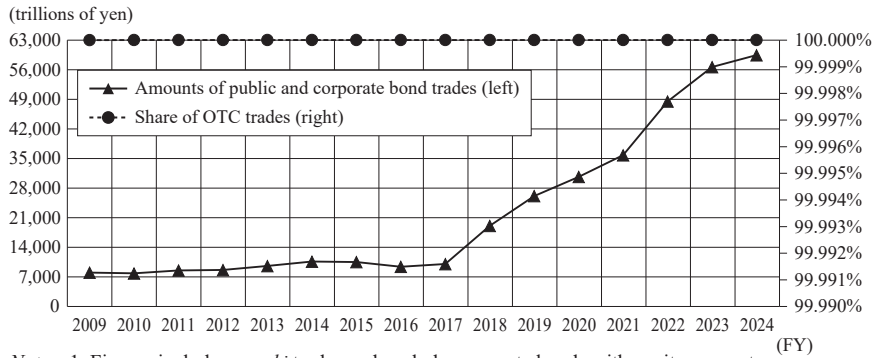
The trading volume of public and corporate bonds in the secondary market (including JGB basket trades from May 2018; the same applies here in Section 1 below) was only ¥58 trillion in fiscal 1975, but continued to grow thereafter, hitting ¥10 quadrillion in fiscal 2007. Although trading volume decreased to ¥7.7 quadrillion in fiscal 2010 due to the impact of the Lehman Crisis and other factors, it has recently increased significantly due to the shift from general collateral repos to repurchase repo transactions, and was just under ¥60 quadrillion in fiscal 2024.

Looking at bond trading volume by bond type, trading of JGBs accounts for over 99% of all trading. The government has continuously been issuing massive amounts of JGBs, resulting in a large increase in the outstanding balance in the market and driving the expansion of the secondary bond market.

This trend has continued in recent years. Between fiscal 2010 and 2024, the overall trading volume of public and corporate bonds increased by ¥42.124 quadrillion, while the trading volume of JGBs increased by ¥42.176 quadrillion. As such, government securities far outweigh other categories of bonds in overall fixed income trading volume. The dominance of government debt stems from the difference in liquidity, which in turn is mainly because government debt is considered risk free in Japan and attracts funds for various investment needs.

For the future development of secondary markets for bonds in Japan, it is important that bonds other than JGBs are traded actively. Recognizing the need to revitalize the corporate bond market, which plays an important role in corporate finance, the Japan Securities Dealers Association (JSDA) issued

Chart VI-1. Annual Amount of Purchasing and Selling of Bonds (Face Value Basis) and Share of OTC Trades



Notes: 1. Figures include *gensaki* trades and exclude corporate bonds with equity warrants.
2. The purchase price is, in principle, based on original face value, but government bond basket transactions from May 2018 onwards are based on execution price.

Source: Compiled from statistics on the Japan Securities Dealers Association website (OTC trading volume of public and corporate bonds; OTC trading volume by bond type) and the Japan Exchange Group website (transaction volume and value)

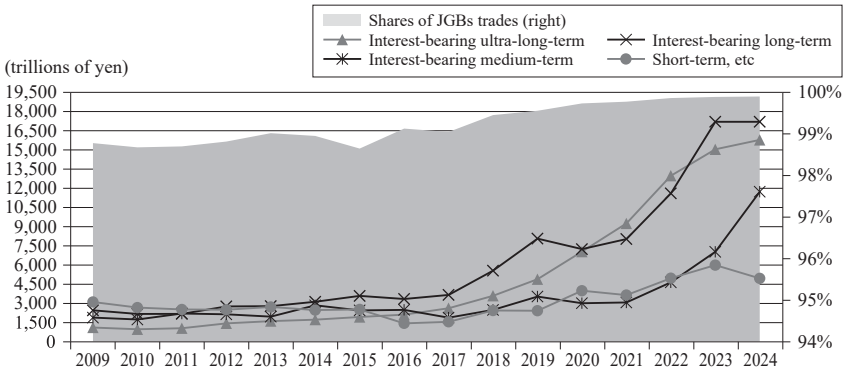
a report in 2010, "Toward Vitalization of the Corporate Bond Market" that identified the issues faced by the country's corporate bond market and also proposed specific measures to create a more efficient corporate bond market with higher transparency and liquidity. The report went on to state that revitalization of the Japanese corporate bond market would be an important factor in Japan's new economic growth strategy and that the public and private sectors should actively cooperate in advancing the measures.

Some of the specific initiatives taken by the JSDA in response to this report are described later in this Chapter.

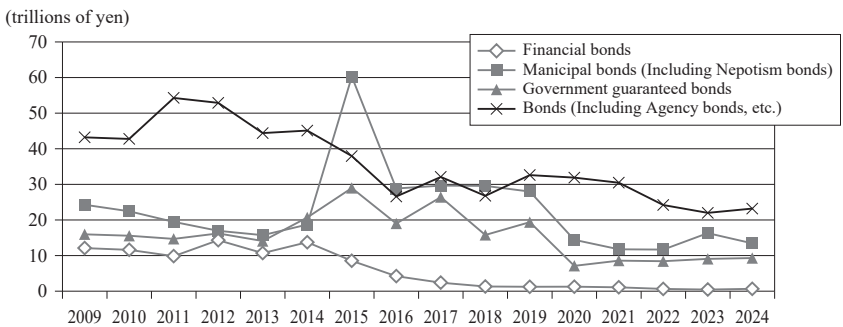
2. Participants in the Secondary Bond Market

Looking at the OTC bond market by type of investor or transaction party, trading is dominated by bond dealers, such as securities companies. OTC trading of public and corporate bonds requires dealers to promptly cope with a broad range of trading requirements from investors. However, the large number of bonds and the wide variety of available transaction formats make it difficult to quickly find a matching counterparty for certain transactions. Therefore, in most bond transactions, securities companies or dealer banks act as the counterparty, buying or selling as principal against clients' needs to facilitate smooth transactions. Furthermore, securities companies, etc. trade

Chart VI-2. Bond Trading volume by Bond Type



Note: Figures include *gensaki* trades (excluding JGB basket transactions from May 2018) and exclude corporate bonds with equity warrants.
Source: Compiled from statistics on the Japan Securities Dealers Association website (OTC trading volume of public and corporate bonds; OTC trading volume by bond type)



Note: Figures include *gensaki* trades and exclude corporate bonds with equity warrants.
Source: Compiled from statistics on the Japan Securities Dealers Association website (OTC trading volume of public and corporate bonds; OTC trading volume by bond type)

bonds on a proprietary basis, which adds to overall dealer trading volumes. The next largest category is "non-residents," aggressively trading short-term government bonds such as Treasury Bills, as well as long-term and super-long-term bonds. Their purpose of investing in the Japanese bond market is more as a means to invest in the yen rather than in bonds. The "Other" category includes the Bank of Japan, which functions as the underwriting agent for JGBs and also buys and sells a range of debt securities as part of its open market operations. In addition, with the difficult investment environment recently, city banks, in pursuit of profit, are vigorously engaging in proprietary

Table VI-1. Trends in Bond Transactions by Investor Type

(Figure on the top line is the total of buy and sell; figure on the lower line is the net of buy and sell and negative figure denotes selling on balance)

(¥10 billion)

	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
City (commercial) banks	12,709	6,085	10,231	9,135	10,077	12,401	17,232	16,090	12,491	11,055
	(－973)	(1,064)	(2,209)	(352)	(158)	(3,259)	(2,179)	(1,143)	(160)	(363)
Regional banks	3,480	2,525	1,640	1,560	1,476	1,604	1,809	2,073	1,815	2,215
	(51)	(－80)	(－60)	(16)	(304)	(517)	(278)	(－36)	(374)	(587)
Trust banks	10,861	10,000	10,074	10,581	12,231	13,788	15,544	17,520	18,172	16,961
	(561)	(299)	(516)	(422)	(881)	(1,964)	(3,290)	(2,142)	(3,848)	(3,520)
Agriculture-related banking institutions	1,000	975	980	1,026	1,040	1,245	1,346	1,596	1,160	1,318
	(232)	(240)	(325)	(230)	(288)	(408)	(178)	(121)	(191)	(－74)
Other banking institutions	2,128	1,631	733	613	545	706	1,108	697	698	776
	(806)	(578)	(155)	(109)	(140)	(244)	(530)	(55)	(137)	(300)
Life and property casualty insurance companies	1,956	1,555	1,507	1,701	1,880	2,256	2,418	2,886	2,222	3,171
	(507)	(404)	(371)	(406)	(564)	(728)	(653)	(581)	(428)	(500)
Investment Trusts	3,961	2,139	2,159	2,499	2,915	3,639	3,943	5,003	5,071	5,706
	(2,284)	(416)	(240)	(381)	(519)	(733)	(945)	(1,000)	(690)	(1,094)
Public employees mutual aid associations	115	84	86	82	65	109	73	76	99	88
	(15)	(5)	(7)	(3)	(5)	(－32)	(11)	(－5)	(－2)	(2)
Corporations	320	81	98	144	180	160	135	145	189	305
	(256)	(40)	(75)	(94)	(109)	(120)	(80)	(115)	(127)	(253)
Entities not domiciled in Japan	37,609	36,466	34,992	40,444	45,439	54,653	56,933	75,656	86,575	84,623
	(21,575)	(21,814)	(21,208)	(24,486)	(23,939)	(27,909)	(27,534)	(29,633)	(29,485)	(24,491)
Others	61,742	56,869	48,849	46,837	44,085	70,883	56,716	59,952	56,050	49,702
	(－24,673)	(－22,866)	(－24,303)	(－26,216)	(－26,874)	(－37,612)	(－36,974)	(－34,956)	(－37,243)	(－33,539)
Bond dealers	142,679	116,243	117,185	111,706	111,984	101,576	100,652	109,423	105,626	125,500
	(－446)	(－465)	(28)	(34)	(7)	(－135)	(－274)	(－22)	(69)	(53)
Total (including other investors)	281,281	236,550	230,135	228,532	233,708	265,029	259,940	293,128	292,223	303,841
	(557)	(1,490)	(881)	(474)	(340)	(－799)	(－520)	(305)	(－958)	(－1,292)

Note: Excludes trades of corporate bonds with equity warrants, other than *gensaki* bonds.
Source: Compiled from statistics on the Japan Securities Dealers Association website (OTC trading volume of public and corporate bonds; OTC trading volume by bond type)

bond trading and also reselling municipal and other bonds underwritten by themselves. It should also be noted that trust banks have traditionally allocated large shares of assets under management or administration, including pension assets, to bonds.

As measured in terms of difference between selling and buying transactions, almost all business categories were net buyers of bonds in fiscal 2018 and 2019, except "Others". The reason why "Others" is constantly and sig-

nificantly oversold is that primary JGBs issued by auction are settled via the Bank of Japan and reported as sales by the central bank. In fiscal 2020, government bond issuance increased significantly due to two supplementary budgets in response to the pandemic. This drove a sharp rise in the net sale amount in the "Others" category but also a large increase in the net value in many categories, including city banks and non-residents. JGB issuance has remained at historically high levels since fiscal 2021. Although the JGB issuance plan for fiscal 2025 calls for a lower issuance amount than in the previous fiscal year, the planned volume remains extremely high. Therefore, categories other than "Others" are expected to continue to be net buyers.

3. Over-the-Counter Bond Transactions

Depending on where transactions take place, the trading of bonds may be broadly divided into exchange transactions and over-the-counter (OTC) transactions.

The overwhelming majority of bond transactions take place over the counter rather than on exchanges. This is due to the following reasons: (1) there are so many issues of bonds that it is practically impossible to list all of them on exchanges; (2) due to the wide variety of bond transaction formats and other specifications that different buyers and sellers require, it is difficult to instantly locate a matching counterparty for a particular transaction; (3) corporate investors, who account for the bulk of the bond trading volume, tend to trade in large lots and often carry out complex transactions involving more than one issue; and (4) tax on bond interest varies according to the tax profiles of bondholders. For these reasons, bond transactions, in general, do not lend themselves to trading on exchanges, where the terms of transactions need to be standardized. Bonds are more efficiently traded over the counter, where trades are executed based on the terms individually negotiated between buyers and sellers.

Unlike exchange markets, where all orders for a particular instrument are concentrated in a single marketplace, OTC trading, in essence, is a decentralized, free transaction process based on one-to-one negotiation between the parties that is conducted over the counter at individual securities companies and other institutions. In that sense, it may be said that the counter of each securities company is a market in itself and that there are as many OTC markets as there are securities companies.

A wide variety of transactions may be executed over the counter once an investor and a securities company agree on their terms. Private placement bonds as well as publicly offered bonds may be traded, with the delivery and settlement procedures agreed upon between the buyer and the seller. The

Table VI-2. Bond Trading by Market

(¥10 billion)

		Government securities	Corporate bonds with subscription rights/ warrants	Others
FY2015	Stock Exchanges	0	30	0
	Over the counter	1,025,087	20	14,432
FY2016	Stock Exchanges	0	18	0
	Over the counter	921,027	31	7,335
FY2017	Stock Exchanges	0	6	0
	Over the counter	983,609	13	8,717
FY2018	Stock Exchanges	0	4	0
	Over the counter	1,889,240	11	8,141
FY2019	Stock Exchanges	0	3	0
	Over the counter	2,596,658	8	7,979
FY2020	Stock Exchanges	0	4	0
	Over the counter	3,052,768	7	5,090
FY2021	Stock Exchanges	0	1	0
	Over the counter	3,566,258	1	5,426
FY2022	Stock Exchanges	0	1	0
	Over the counter	4,840,739	1	4,506
FY2023	Stock Exchanges	0	0	0
	Over the counter	5,655,966	0	5,025
FY2024	Stock Exchanges	0	0	0
	Over the counter	5,937,665	0	5,021

Notes: 1. The figures for exchange trading volume are double those actually reported by exchanges to account for both buy and sell sides of transactions.
2. OTC trading volume includes *gensaki* trades (including JGB basket transactions (execution amount basis) from May 2018)

Source: Compiled from statistics on the Japan Securities Dealers Association website (OTC trading volume of public and corporate bonds; OTC trading volume by bond type) and the Japan Exchange Group website (transaction volume and value)

transaction price can also be decided between the two parties, often in reference to the prices of other relevant financial instruments.

In OTC trading, a securities company, etc. first buys bonds that a client offers to sell and then resells them to another client afterward. When a client wants to buy bonds, it sells them out of its own inventory or looks to acquire them from other brokers. These types of transactions, in which a securities

Table VI-3. Breakdown of Major Bond Categories, by Outstanding Balance and Number of Issues

(¥1 trillion, No. of issues)

		Government securities	Municipal bonds (public offering)	Government-guaranteed bonds; FILP agency bonds	Straight bonds	Corporate bonds with subscription rights/ warrants	Bank debentures (interest bearing and discount)
FY2015	No. of Issues	497	3,008	2,151	2,828	24	526
	Outstanding balance	901	59	69	57	0	11
FY2016	No. of Issues	506	3,059	2,244	2,961	26	428
	Outstanding balance	927	60	68	60	0	10
FY2017	No. of Issues	512	3,100	2,370	3,070	23	366
	Outstanding balance	948	60	68	60	0	9
FY2018	No. of Issues	516	3,152	2,505	3,269	17	364
	Outstanding balance	966	61	68	62	0	8
FY2019	No. of Issues	520	3,193	2,475	3,556	25	235
	Outstanding balance	978	62	67	70	0	7
FY2020	No. of Issues	536	3,261	2,624	3,769	23	223
	Outstanding balance	1,065	62	68	76	0	6
FY2021	No. of Issues	538	3,375	2,657	3,993	18	215
	Outstanding balance	1,096	64	65	82	0	5
FY2022	No. of Issues	539	3,462	2,670	4,161	16	206
	Outstanding balance	1,127	64	63	86	0	5
FY2023	No. of Issues	551	3,551	2,856	4,175	12	197
	Outstanding balance	1,147	64	60	91	0	5
FY2024	No. of Issues	556	3,644	2,898	4,291	12	197
	Outstanding balance	1,170	63	58	95	0	4

Note: Outstanding balance figures are in trillions of yen. The aggregation method has been partially changed since April 2019.

Source: Compiled from statistics on the Japan Securities Dealers Association website (issuance and redemption amount of public and corporate bonds)

company takes part in a transaction as the client's counterparty, are generally referred to as "principal transactions" and make up a significant proportion of trades in the bond market.

4. Reference Statistical Prices (Yields) for OTC Bond Transactions (1)

As OTC bond trading is a negotiated process between a securities company, etc. and a client, it is difficult for a third party to discover the price at which a transaction is completed. Disclosure of prices and other information concerning OTC bond transactions not only helps efficient and orderly trading of bonds but is also of critical importance from the standpoint of investor protection by promoting the formation of fair prices and facilitating investors' access to trading at the best possible price. Publication of bond prices is thus indispensable for the development of bond markets.

With a view to providing investors, securities companies, and others with reference information, the JSDA instituted the System for Dissemination of Reference Statistical Prices (Yields) for OTC Bond Transactions, which publishes (mid-price between buy and sell quotes) quotes for publicly offered bonds that meet certain criteria. The system was originally instituted in August 1965 by the Bond Underwriters Association of Japan for publishing OTC Quotes for Industrial Debentures and was succeeded by the Tokyo Securities Dealers Association, the predecessor of the JSDA, which began the system for dissemination of OTC quotations of bonds in March 1966. The initiatives were implemented against the backdrop of social necessity to promote the formation of fair prices and efficient and orderly trading for JGBs, issuance of which had been resumed after the war with a view to contributing to public interest and investor protection. The system has since undergone

Table VI-4. The System for Dissemination of Reference Statistical Prices (Yields) for OTC Bond Transactions

1. Outline

(1) Purpose

To publish quotations reported by member companies appointed by the Japan Securities Dealers Association to be used as reference by member companies of the association and their clients in trading bonds over the counter between them.

Note: In August 1965, the Bond Underwriters Association started publishing quotations on OTC industrial bonds. Subsequently, the Tokyo Securities Dealers Association started publishing OTC bond quotations in March 1966, and improvements have been made on several occasions thereafter.

(2) Calculation of Reference Statistical Prices (Yields) for OTC Bond Transactions

The JSDA receives reports from its member companies affiliated with the system (12 securities companies as of December 31, 2023) on quotations of trades with a face value of approximately ¥500 million as of 3:00 p.m. each trading day. The JSDA computes the reference prices (yields) of a given issue on the basis of an arithmetic average of quotations on issues with respect to which it has received reports from five or more member companies.

Table VI-5. History of System for Dissemination of Reference Statistical Prices (Yields) for OTC Bond Transactions

	Kinds of selectable issues	No. of selected issues
March 1966 Over-the-counter quotes announced · Date of announcement (Thursday of each week)	Government securities, municipal bonds, government-guaranteed bonds, coupon bank debentures, corporate bonds, telegraph and telephone (TT) coupon bonds subscribed to by subscribers, discount TT bonds, and such other bonds as may be recognized by the Japan Securities Dealers Association (JSDA)	No. of issues announced: 280 (as of May 12, 1966)
January 1977 · Announcement of bench-mark and standard quotes (Benchmark quotes are announced every day except Saturday. Standard quotes are announced once a week on Thursday.)	(1) Benchmark quotes (for institutional investors) are selected from such bonds whose volume of trading correctly reflects the movement of the market. (2) Standard quotes (for small-lot investors) are selected from one of government securities, municipal bonds, special debts, bank debentures, corporate bonds, and yen-denominated foreign bonds, other than those listed in (1) above in terms of maturities and interest rates.	(1) Benchmark quotes: Issues announced: 14 (as of January 31, 1977) (2) Standard quotes: Issues announced: 77 (as of January 27, 1977)
August 1978 · Announcement of bench-mark and standard quotes (bid and ask quotations are announced). (Benchmark quotes are announced every day except Saturday. Standard quotes are announced once a week on Thursday.)	The same as above.	(1) Benchmark quotes: Issues announced: 19 (as of August 31, 1978) (2) Standard quotes: Issues announced: 137 (as of August 31, 1978)
January 1992 · Standard quotes on OTC bonds are announced daily.	One of the government securities, municipal bonds, government-guaranteed bonds, bank debentures, corporate bonds, and yen-denominated foreign bonds that are not listed is selected in terms of kinds, maturities, and interest rates.	Issues announced: 298 (as of January 31, 1992)
April 1997 · No. of selectable issues was sharply increased (the new system started operating.)	Publicly offered but unlisted bonds (with a remaining life of one year or longer) that maintain a fixed interest rate throughout their life and redeem their principal in a lump sum were selected.	Issues announced: 1,746 (as of May 1, 1997)
December 1998 · The duty to concentrate its trading on the exchange market was abolished.	Publicly offered bonds (with paid-in principal, interest, and redemption money all paid in yen) are selected.	Issues announced: 2,867 (as of December 1, 1998)
August 2002 · Name of system changed to "Reference Statistical Prices (Yields) for OTC Bond Transactions." In addition to average values, highs, lows and medians are announced.	The same as above.	Issued announced: 4,198 (as of August 1, 2002)
December 2013 · Decision made to revise the calculation method for corporate and other bonds and announce quotes earlier.	The same as above.	Issued announced: 7,931 (as of December 2, 2013)
November 2015 · Start of operation of revised system	The same as above.	Issued announced: 8,257 (as of November 2, 2015)
May 2018 · Change of last announcement date due to the shortened settlement period (T+1) of JGBs.	The same as above.	No. of issues announced: 9,345 (as of May 1, 2018)
July 2020 · Change of last announcement date due to the shortened settlement period (T+2) of non-JGB bonds.	The same as above.	No. of issues announced: 10,423 (as of July 13, 2020)

Note: Selected issues reported on and after August 5, 2002, were transferred to the System for Dissemination of Reference Statistical Prices (Yields) for OTC Bond Transactions.

many changes and improvements in response to the changing environment surrounding the bond market. During that period, the number of published issues has ballooned from about 300 when the system was introduced to approximately 12,200. In August 2002, the JSDA changed the name of the data from Standard Quotes on OTC Bonds to Reference Statistical Prices (Yields) for OTC Bond Transactions to clearly indicate that the data is offered as a reference for OTC bond transactions. At the same time, the system was enhanced by publishing high, low, and median values of quotes in addition to the average, which had previously been the only data available.

Since the system started publishing bond quotes 60 years ago, its use has evolved from the original purpose of providing price references for OTC bond trading in Japan. In addition to that role, it has become widely used for mark to market valuation for financial reporting and tax accounting purposes and the valuation of collateral for different types of transactions. The expansion of usage required an even greater degree of confidence in the system. As a result, in 2013 a review was conducted of the quotation system primarily with regard to publishing reference statistical prices (yields) for corporate straight bonds. The new system arising from that review began operation in November 2015.

5. Reference Statistical Prices (Yields) for OTC Bond Transactions (2)

To provide reference information on bond prices, the JSDA publishes Reference Statistical Prices (Yields) for OTC Bond Transactions each business day based on the values of quotations for trades with a face value of roughly ¥500 million reported as of 3:00 p.m. by members designated by the JSDA (hereinafter referred to as "Designated-Reporting Members"). With calls made to further increase the reliability and stability of this publication system, however, the JSDA made some revisions to the system, primarily to the matters relating to corporate bonds. The new system was implemented in November 2015.

Major enhanced elements in the new system are as follows.

(1) Stricter designation standards for Designated-Reporting Members: Recognizing the need to appoint members with the capability to report appropriate quotations that reflect movements of the corporate bond market as Designated-Reporting Members in order to increase reliability of Reference Statistical Prices (Yields) for OTC Bond Transactions, stricter designation standards, such as the member's trading volume of corporate bonds, etc. must be within the top 20, were added.

(2) Enhancement and reinforcement of guidance and management structure at the JSDA: To ensure that proper reporting is made by Designated-Re-

Chart VI-3. Illustrated Flow of Procedure up to the Publication of Reference Statistical Prices (Yields) for OTC Bond Transactions

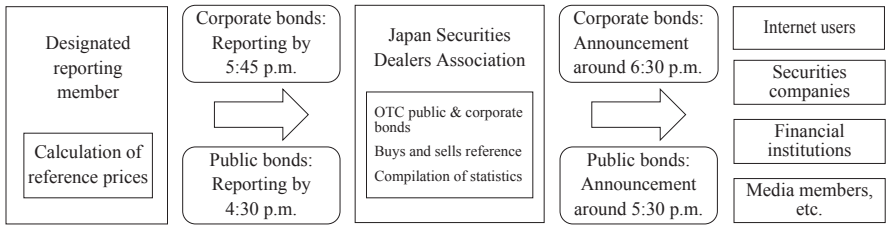


Table VI-6. Designation of Designated-Reporting Members

The Japan Securities Dealers Association screens members intending to become Designated-Reporting Members based on the following designation standards to specify Designated-Reporting Members.
(1) The member understands the purport of the System for Dissemination of Reference Statistical Prices (Yields) for OTC Bond Transactions and intends to become a Designated-Reporting Member.
(2) The member is well versed in the operations for OTC bond trades.
(3) The member has in place an organizational structure and staffing required for properly executing the operation for reporting quotations.
(4) Other matters set forth by the JSDA.
*For further details on screening standards, please see the website of the JSDA.

porting Members, the JSDA performs checks to detect (i) any inappropriate quotations for each business day and (ii) any problems with the reporting framework of each Designated-Reporting Member.

(3) Revised calculation method for Reference Statistical Prices (Yields) for OTC Bond Transactions: When the reported corporate bond quotations are relatively dispersed and there is major price volatility in the market, quotations that deviate significantly from the average quote may actually be more appropriate, and because abnormal values are eliminated in the checking performed in (2), it was decided that truncating the highest and lowest values of reported quotations, which was previously done mechanically, would no longer be performed.

(4) Pushing back the reporting deadline and the time of announcement: In consideration of feedback from non-reporting members raising the need to push back the reporting deadline for bond quotations in order to make reports, the deadlines for trade reporting and for announcement were pushed back by 75 minutes and 60 minutes respectively.

(5) Promoting better understanding of Reference Statistical Prices (Yields) for OTC Bond Transactions: It was decided that more easy-to-understand explanations of the characteristics of the Reference Statistical Prices (Yields)

Table VI-7. Revisions to Reference Statistical Prices (Yields) for OTC Bond Transactions

Revision measures	Outline	Revisions to bonds applicable to reporting
(1) Stricter designation standards for Designated-Reporting Members	Added the following specific standards in acknowledging that the member is "well versed in the operations for OTC bond trades." · A Designated-Reporting Member that reports quotations on corporate bonds, etc. shall be ranked within the top 20 in terms of the bond trading volume. · However, reporting may be made for bond trades for which the member serves as the lead managing underwriter.	Corporate bonds, TMK bonds, yen-denominated foreign bonds
(2) Enhancement and reinforcement of guidance and management structure at the JSDA	· Adoption of a process to check the reported quotations (including warnings issued to Designated-Reporting Members) every business day · Adoption of a process to check the reporting systems of Designated-Reporting Members · Setting self-regulatory regulation of prohibiting information exchange, etc. relating to quotation standards between Designated-Reporting Members	All debt securities
(3) Revisions to the method of calculating reference statistical prices for OTC bond transactions	· Removal of the step to cut off the highest and lowest quotations reported	Corporate bonds, TMK bonds, yen-denominated foreign bonds
(4) Pushing back the time of reporting deadline and the time of announcement	· Pushed back the time of reporting deadline by 1 hour and 15 minutes to 5:45 p.m. · Pushed back the time of announcement by about 1 hour to 6:30 p.m.	Corporate bonds, TMK bonds, yen-denominated foreign bonds
(5) Promoting better understanding of reference statistical prices (yields) for OTC bond transactions	· Easier-to-understand explanations on the nature, etc. of reference statistical prices (yields) for OTC bond transactions, such as the possible deviation from actual trade prices, on the JSDA website, etc.	All debt securities

for OTC Bond Transactions should be posted on the JSDA website, etc., such as the fact that the Reference Statistical Prices (Yields) for OTC Bond Transactions referred to the mid-price of bid and ask, and therefore may differ from actual transaction prices.

6. Reporting & Announcement System of Corporate Bond Trading

Recognizing the importance of increasing transparency of information on corporate bond prices and securing reliability through providing bond trading data in an aim to vitalize the corporate bond market, the JSDA decided to disclose actual trading prices of corporate bond trades on the OTC market from November 2015.

This system is composed of the JSDA's system to receive reporting on transaction prices, etc. from member securities companies and the system to disclose the reported transaction prices, etc.

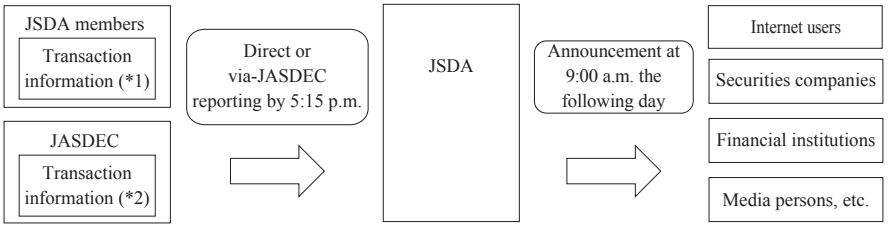
(1) System of reporting corporate bond transactions: JSDA's Self-Regulatory Rules set out reporting requirements on securities companies (JSDA members) that participate in a bond transaction. Reporting is required for bonds that meet the following criteria: (i) publicly offered or sold in Japan, (ii) issued in Japan, (iii) principal, interest, and redemption proceeds are yen-denominated (excluding short-term corporate bonds and corporate bonds with subscription rights/warrants). Transactions subject to reporting include the following: (i) transactions that are reported every business day (trades with a face value of ¥100 million or above) and (ii) transactions that may be reported on a monthly basis if notified to the JSDA (trades with a face value of less than ¥100 million; provided, however, that transactions with a face value of less than ¥10 million may be omitted from reporting).

(2) System of disclosing corporate bond transactions: The JSDA announces information on bond trades on its website on the business day following the day on which reports on trades are received from securities companies. Disclosed items are: (i) contract date, (ii) issue code, (iii) name of issue, (iv) due date, (v) coupon rate, (vi) trading value (whether the face value is ¥500 million or more), and (vii) unit price (traded price per face value of ¥100 yen), and (viii) buy or sell (whether the counterparty of securities company is a buyer or seller). In addition, eligible corporate bonds are those with an issue rating equivalent to AA or higher, or an issue rating equivalent to A and an issue size of ¥30 billion or more (excluding subordinated bonds and bonds with a remaining maturity of 20 years or more).

In addition, when certain conditions apply, such as abnormal fluctuations in the Reference Statistical Prices (Yields) for OTC Bond Transactions, the announcement of such corporate bond transactions is suspended.

(3) Periodical verification: The JSDA has decided to periodically review the impact, etc. of the implementation of the system of disclosing corporate bond transaction information on the liquidity of corporate bonds and to consider revising the system if needed.

Chart VI-4. Illustrated Flow of Reporting & Announcement of Corporate Bond Trading



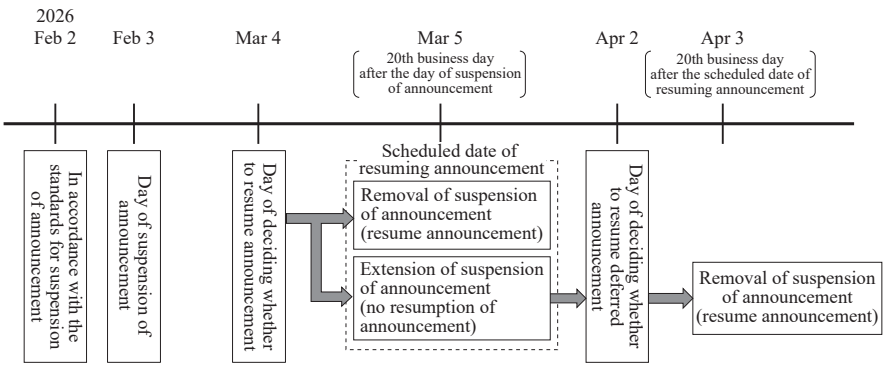
(*1) Transactions processed (or approved) by the system between 3:00 p.m. on the previous business day and 3:00 p.m. on the day.
(*2) Trade reporting data transmitted to the settlement reconciliation system between 4:45 p.m. on the previous business day and 4:45 p.m. on the day.

Chart VI-5. Information announced

○Announced on December 1, 2021
Trade contract date: November 30, 2021

Issue code	Issue name	Redemption date	Coupon rate	Trading type	Transaction volume (face value basis) of ¥500 million or above	Transaction volume (face value basis) of less than ¥500 million	Contracted unit price (¥)	[Reference] Reference Statistical Prices (Yields) for OTC Bond Transactions (Average Prices)
000039023	XX Industries 3	2027/09/20	1.9	Sell	*		102.△△	102.09
000039023	XX Industries 3	2027/09/20	1.9	Buy		*	102.××	102.09
000039023	XX Industries 3	2027/09/20	1.9	Sell		*	102.●●	102.09

Chart VI-6. Example of suspension of announcement and removal of suspension of announcement



7. Book-Entry Transfer System for Bonds

In the past, investors held bonds in various forms—more specifically, as physical certificates issued by the issuers; in registered form, where bondholders are registered on the registry at the registrar designated for the issue; and as book-entry JGBs, where physical certificates are deposited with the BOJ so that trades can be settled by book-entry transfers (within the system established in 1980) via the accounts of brokers and other system participants (account management institutions).

However, with the increasing bond trading volume, it was evident that the existing management measures of bondholders' ownership by means of certificates, which needed to be physically delivered, or registered bonds, whose transfer required amendment in records of bond-specific registries, would encounter a capacity bottleneck in terms of settlement procedures, and that the book-entry transfer system for JGBs had several shortcomings. The situation indicated that the settlement procedures for bonds were in need of review. There was a growing perception that Japan urgently needed to update its existing system to create a safer and more efficient infrastructure that would

Chart VI-7. Structure of Book-Entry Transfer System for Bonds

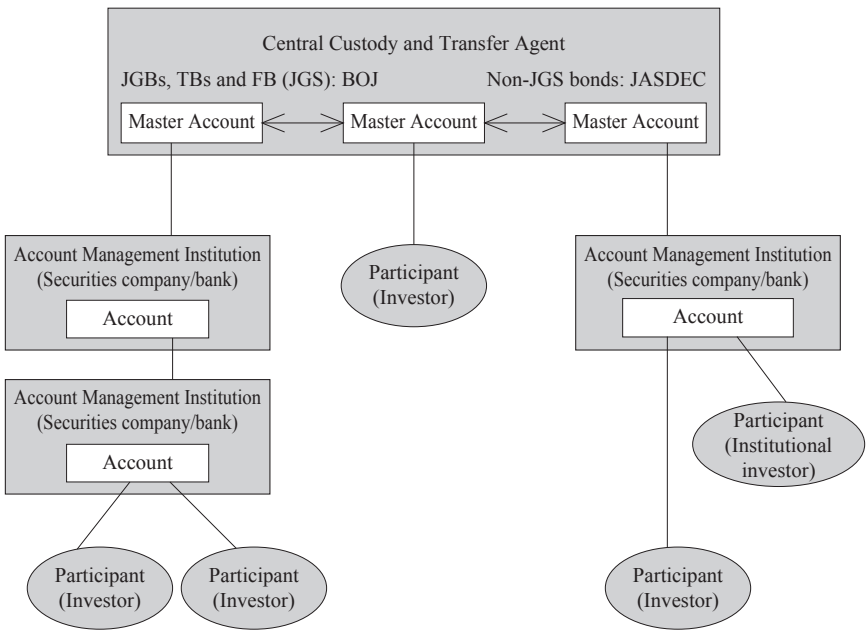


Table VI-8. Bonds under Custody and Book-Entry Transfer Volume

(No. of transactions, millions of yen)

		Increase: Underwriting new issues	Decrease: Redemptions and retirement by purchase	Transfer	Number of participating issues (at fiscal year-end) Account balance
FY2015	No.	25,722	30,604	524,130	53,825
	Amount	31,146,061	32,462,918	204,529,981	250,462,702
FY2016	No.	27,401	28,040	349,226	58,288
	Amount	41,737,175	35,052,475	131,163,539	257,147,401
FY2017	No.	28,345	27,238	287,072	63,087
	Amount	34,276,788	34,479,534	140,831,156	256,944,654
FY2018	No.	28,885	26,163	289,272	68,826
	Amount	36,439,329	31,520,591	145,921,506	261,863,392
FY2019	No.	26,765	26,564	318,896	74,569
	Amount	37,743,822	31,844,372	146,798,435	267,762,842
FY2020	No.	21,821	25,775	300,113	77,900
	Amount	41,438,860	31,240,061	127,984,617	277,961,641
FY2021	No.	21,625	26,606	279,406	79,698
	Amount	34,443,264	30,376,651	135,203,174	282,028,255
FY2022	No.	19,853	27,238	278,021	79,759
	Amount	29,526,381	30,182,012	120,348,438	281,372,624
FY2023	No.	18,705	29,391	258,430	76,935
	Amount	31,747,907	33,520,994	119,361,277	279,599,537
FY2024	No.	17,068	29,556	270,417	72,040
	Amount	31,341,335	31,952,888	125,538,256	278,987,983

Note: The JGB book-entry system began on January 10, 2006.
Source: Compiled from Japan Securities Depositary Center website (Book-Entry Transfer System for Corporate Bonds)

make the country's securities markets globally competitive. Against this background, the Securities Settlement System Reform Law was enacted in June 2002, and, pursuant to its provisions, the existing legislation for book-entry transfer was later amended and renamed the Act on Book Entry of Corporate Bonds and Shares with objectives including the complete dematerialization of securities ("going paperless"), the shortening of settlement cycles, and the reduction in settlement risk. The amended law provided for the legal framework of new book-entry transfer systems for corporate and government

Table VI-9. Reforms of Bond Delivery and Settlement System

Month/Year	Changes implemented
April 1994	Delivery versus payment (DVP) of government bonds through the Bank of Japan network starts.
April 1977	System of T+3 government bond rolling settlement starts.
October 1999	System of T+3 general bond rolling settlement starts.
January 2000	Real-time gross settlement (RTGS) of government bonds starts.
January 2003	Act on Book Entry of Corporate Bonds and Shares (stipulating paperless trading in bonds, etc.) is enforced. Paperless trading in government bonds starts.
May 2004	DVP trading in bonds other than government bonds starts.
May 2005	Trading in government bonds through a settlement organization starts.
January 2006	Paperless issuance of and paperless trading in bonds other than government bonds starts.
April 2012	Shortening of settlement of JGBs starts. (T+2)
May 2018	Shortening of settlement of JGBs starts. (T+1)
July 2020	Shortening of settlement of retail JGBs and general bond transactions starts. (T+2)

securities. On the basis of that framework, the BOJ renovated the existing JGB book-entry system in January 2003, and the Japan Securities Depository Center (JASDEC) started operating a new central custody and book-entry transfer system for securities, including non-government bonds in January 2006.

The book-entry transfer system has a multi-tier, tree-like structure. At the top tier of the system are the Book-entry Transfer Institutions—the Bank of Japan for government bonds and JASDEC for other eligible securities. The second tier consists of Account Management Institutions (such as securities companies and other institutions that maintain accounts with a Book-entry Transfer Institution). Beneath each Account Management Institution are other securities companies and investors that maintain accounts with that institution. Ownership of bonds is recorded through entries in the Transfer Account Books maintained by the Book-entry Transfer Institutions and the Account Management Institutions. In principle, all bonds in the book-entry transfer system are incorporated into the system at the time of issuance. With the entire issue being dematerialized, none of those book-entry bonds may be withdrawn over their life in the form of either physical certificates or registered bonds.

The Securities Settlement System Reform Law also provided measures to abolish the Corporate Bond Registration Law following the setup of the book-entry transfer system.

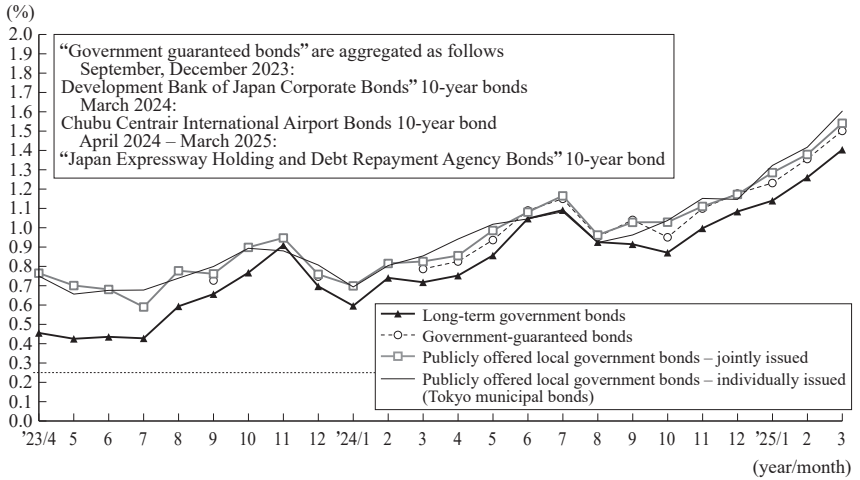
8. Bond Yields and Terms of Issuance

Those who raise funds (fund-raising party) by issuing bonds look for the lowest possible cost. On the other hand, investors who buy bonds choose issues that offer the highest possible return within the range of tolerable risk. In theory, the terms of issuance of a new bond (subscriber's yield) are determined at a certain level where opportunities for arbitraging its subscriber's yield to maturity and the secondary market yield (yield to maturity) of outstanding issues of a nature similar to that of the bond are balanced. When such a balance is achieved, it is said that "the terms of issuance that adequately reflect the secondary market conditions have been established." Important conditions for efficient arbitrage to occur include the following: the outstanding balance and trading volume of comparable bonds are sufficiently large, new bonds are issued regularly, and the secondary market yields of comparable bonds are available for reference at the time of pricing new issues. It can be said that in the Japanese bond market, yields of newly issued bonds have come into line with yields of comparable bonds as new issues of bonds and secondary trading volumes of such bonds have increased.

More specifically, while JGBs had been issued through the underwriting syndicate program for smooth and stable financing, the proportion of bond issuance through competitive bidding that more closely reflect market conditions has steadily increased under a market-oriented national debt management policy, replacing the previous emphasis on non-competitive, syndicated underwriting, where issue terms were based on the official discount rate or other benchmarks. Currently, in principle, all government bonds (excluding those for retail investors) are issued through auctions (the syndicated underwriting program for JGBs was discontinued in March 2006).

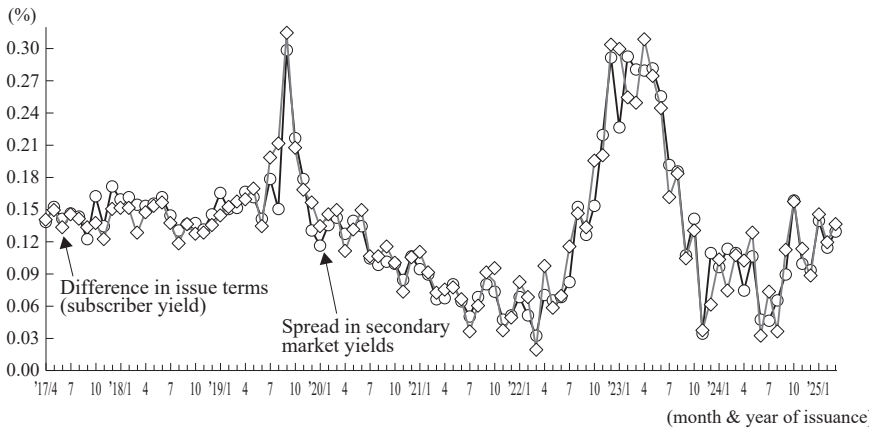
The market-oriented transition of bond issuance has also been clear in pricing spreads among bonds with different credit qualities. For example, yields at the issue of government-guaranteed bonds and local bonds are determined in reference to the yield at issue of 10-year JGBs issued earlier in the month. From time to time in the past, the spreads of issues among the three classes of bonds deviated from market spreads. In recent years, however, as investors started to focus more on differences in credit quality, the spreads of issues among the three classes have increasingly tended to move more in line with credit spreads prevailing in the market. Another case in point that demonstrates the increased market orientation in bond issuance is that a growing portion of government-guaranteed bonds is now issued through a competitive bidding process (as individual issues). Investors are also showing an increasing tendency to differentiate corporate bonds based on credit ratings by rating agencies, ESG initiatives and other factors. In re-

Chart VI-8. Changes in Issue Terms (Yields) of Bonds



Source: Compiled from statistics on the Ministry of Finance website (JGB auction results) and the Japan Securities Dealers Association website (list of Bond Issues).

Chart VI-9. Changes in the Difference in Issue Terms and Secondary Market Yields between Publicly Offered, Jointly Issued Municipal Bonds and Government-Guaranteed Bonds



Notes: 1. Spread in secondary market yields is the difference in reference prices of OTC traded public and corporate bonds (average value: simple interest) on the day prior to the term determination date of jointly issued local government bonds and of government guaranteed bonds (10-year long-term).
2. Difference in issue terms (subscriber yield) is jointly issued local government bonds minus government guaranteed bonds (each 10-year bonds).

Source: Compiled from statistics on the Japan Securities Dealers Association website (Issuing, Redemption and Outstanding Amounts of Bond, Reference Statistical Prices (Yields) for OTC Bond Transactions)

sponse to this, many issuers go through a premarketing process to identify and estimate investors' demand and determine the terms of issuance accordingly.

9. *Gensaki* Market for Bonds (1)

A repurchase agreement (*gensaki* transaction) (a conditional purchase or sale) is a form of trading between a seller and a buyer of bonds whereby the seller (or the buyer) agrees to repurchase (or resell) the securities at an agreed-upon price at a stated time. When the holder of bonds sells them to a buyer under an agreement to buy them back (a *gensaki* sell transaction), the holder can raise funds on a temporary basis. When the counterparty buys bonds from a seller under a repurchase agreement to sell them back to the seller (a *gensaki* buy transaction), the buyer can earn a certain amount of interest by investing funds for a short period. When a securities company, etc. acts as an intermediary and arranges a *gensaki* transaction by introducing a buyer who wants to invest idle cash in bonds to a seller which wants to raise funds by selling bond holdings, such a deal is called a brokered repurchase agreement. When a securities company, etc. that is in need of short-term cash sells bonds out of its inventory to an investor under a repurchase agreement, it is called a proprietary repurchase agreement. As the repurchase (or resale) price includes an amount equivalent to a return on investment or financing charge based on an agreement by the buyer and seller, the price does not usually correspond to the market price of the bond prevailing at the time of its repurchase (or resale).

Despite some annual fluctuations, *gensaki* transactions have maintained a significant level of trading volume because they conveniently meet short-term funding and cash management requirements. The outstanding balance of *gensaki* transactions reached almost ¥50 trillion at the end of fiscal 2007, compared with ¥7 trillion in the latter 1980s. Although there have been some dips in the balance since then due primarily to the effects of the global financial crisis, the trend has been upward since 2010. After the settlement period for government bond transactions was compressed (to T+1) in May 2018, the trading volumes and outstanding balance of *gensaki* transactions have increased sharply in line with the shift from general collateral repos to repurchase repo transactions. The trading volume in fiscal 2024 exceeded ¥56 quadrillion, and the outstanding balance as of the end of fiscal 2024 was approximately ¥300 trillion.

Previously, the overwhelming majority of *gensaki* transactions were for short-term government securities (Treasury Bills (TBs) and Financing Bills (FBs)), supported by the increasing trading activity of TBs and FBs, which

Chart VI-10. Working Mechanism of Bond Lending (secured with cash deposit)

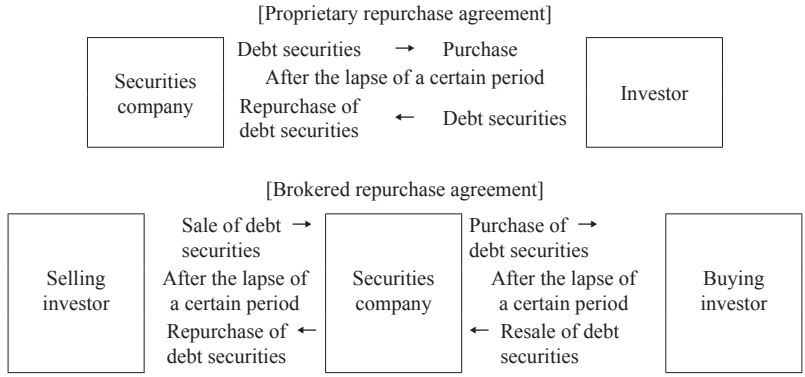


Table VI-10. Turnover and Balance of Bond Repurchase Agreements (*Gensaki*)

(¥10 billion, %)

FY	Turnover of bonds (A)	Turnover of repurchase agreements (B)	B/A	Balance of repurchase agreements
2015	1,039,539	758,277	72.9	3,053
2016	928,393	691,841	74.5	3,344
2017	992,339	762,223	76.8	4,024
2018	1,897,392	1,668,849	88.0	11,642
2019	2,604,641	2,370,929	91.0	15,635
2020	3,057,865	2,792,828	91.3	14,841
2021	3,571,685	3,311,744	92.7	17,846
2022	4,845,247	4,552,117	94.0	21,462
2023	5,660,991	5,368,769	94.8	26,667
2024	5,942,686	5,638,845	94.9	29,991

Notes: 1. Figures include government bond basket transaction from May 2018.
2. Fiscal year-end balance (March 31st)

Source: Compiled from statistics on the Japan Securities Dealers Association website (OTC trading volume of public and corporate bonds; OTC trading volume by bond type; monthly outstanding amounts of conditional sale and purchase of bonds (*gensaki* transactions) by investor type)

Table VI-11. Balance of Bond Repurchase Agreements, by Major Investor Group

(¥10 billion)

	FY2015		FY2016		FY2017		FY2018		FY2019		FY2020		FY2021		FY2022		FY2023		FY2024	
	Selling balance	Buying balance	Selling balance	Buying balance	Selling balance	Buying balance	Selling balance	Buying balance	Selling balance	Buying balance	Selling balance	Buying balance	Selling balance	Buying balance	Selling balance	Buying balance	Selling balance	Buying balance	Selling balance	Buying balance
Trust banks	0	0	0	0	0	0	1,715	1,396	1,895	1,537	1,638	1,386	1,943	1,658	2,263	1,785	2,728	2,114	2,818	2,101
Other banking institutions	0	0	5	0	0	0	1,843	776	2,179	1,136	2,423	1,035	3,596	851	4,688	616	4,744	1,265	5,516	1,673
Investment Trusts	0	0	0	0	0	0	0	27	0	14	0	26	0	21	0	21	0	128	0	169
Corporations	0	4	0	3	0	3	0	2	0	2	0	1	0	1	0	1	0	1	0	2
Entities not domiciled in Japan	754	2,228	572	2,373	882	2,988	1,175	2,995	1,818	4,254	1,329	3,888	1,271	4,952	1,271	5,948	2,469	6,730	2,716	7,989
Others	66	46	384	55	151	119	820	1,392	1,731	1,844	1,731	2,256	1,952	2,336	2,515	3,225	4,087	4,209	4,551	4,342
Bond dealers	2,233	774	2,383	914	2,991	913	6,088	5,054	8,012	6,846	7,719	6,250	9,084	8,027	10,726	9,867	12,638	12,220	14,390	13,716
Total	3,053	3,053	3,344	3,344	4,024	4,024	11,642	11,642	15,635	15,635	14,841	14,841	17,846	17,846	21,462	21,462	26,667	26,667	29,991	29,991

Source: Compiled from statistics on the Japan Securities Dealers Association website (OTC trading volume by bond type; monthly outstanding amounts of conditional sale and purchase of bonds (*gensaki* transactions) by investor type)

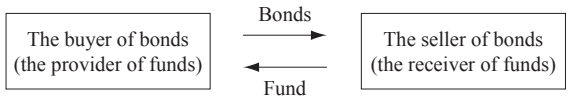
have maturities and credit quality more suitable for *gensaki* transactions compared to other instruments in the secondary market. More specifically, these short-term government securities dominated the market because in 1986, (1) the government introduced public auctions for TBs on the basis of the principle that the government securities must be absorbed by private-sector market participants, and (2) the method by which the BOJ sold FBs acquired at issuance to the market was changed to the *gensaki* format, and in 1999 (3) the government introduced public auctions for FBs on the basis of the same principle. Subsequently, the issuance of both TBs and FBs has been regular and of large volume. Although the *gensaki* market developed primarily against the backdrop of this expansion of the short-term government securities market, interest-bearing JGBs have taken center stage in recent years, partially because of the massive overall issuance of government bonds.

10. *Gensaki* Market for Bonds (2)

In an effort to modernize and strengthen the international competitiveness of Japan's money market, the *gensaki* was reformed to improve its functions as a repo market to meet the need for both short-term financing and bond borrowing, and thus what came to be called new *gensaki* transactions started in April 2001. Up to that point, *gensaki* transactions were bought and sold much

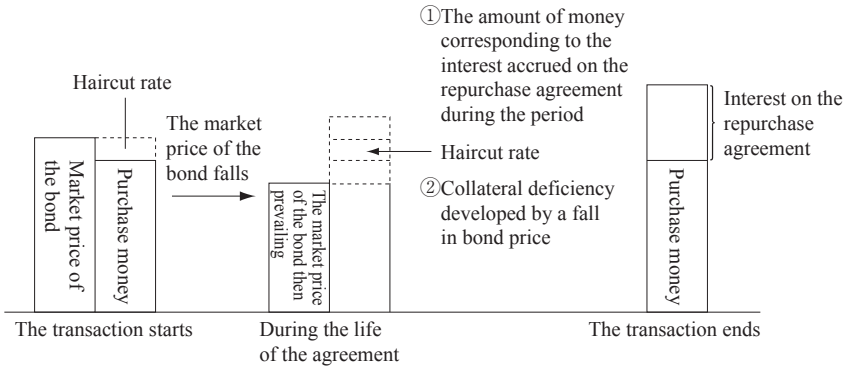
Chart VI-11. Working Mechanism of the New *Gensaki* Transaction System

1. Start of transaction



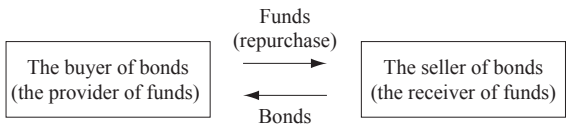
- Purchase money for bonds
  The market price of the bonds prevailing at the time a deal is struck ÷ (1 + haircut rate) × number of bonds traded

2. Control of credit risk during the life of the agreement



- Credit given to the seller of the bonds by the buyer of the bonds (the provider of funds) = ① + ②
- In the case referred to above, the buyer of the bonds can demand collateral (cash and/or bonds) of the seller, the value of which is equal to the credit given him (margin call).

3. End of transaction



- Money to repurchase the bonds is necessary for the seller at the time the transaction is consummated.
- The money of the buyer is needed to purchase the bonds at the time the transaction started + interest accrued on the repurchase agreement.

like the transactions commonly known as repo trades in the U.S. and Europe but had various shortcomings that cried out for reform. In particular, the *gensaki* market did not have functional risk management facilities or standard rules for dealing with counterparty default. Therefore, measures were taken to establish new *gensaki* transactions, on the basis of the existing system, in

accordance with global standards through the development and expansion of various mechanisms including risk management.

The new provisions for risk management and other purposes (clauses in the repurchase agreement) are as follows:

(1) Risk control clause:
The amount of collateral (bonds) is adjusted flexibly so as not to cause a shortage of collateral on account of a fall in the price of bonds submitted as collateral.
(i) Application of the ratio for computing the purchase/sale value of bonds (the haircut clause): A mechanism is established to ensure that the unit price used in the repurchase agreement is lower by a certain rate than the market price of the bonds at the time of execution, so that there is no shortfall in collateral even if the market value of the bonds declines during the trading period.
(ii) Application of a margin call clause (collateral management, etc.): A mechanism is established to ensure that the amount of credit extended is maintained by adjusting collateral so that the market value of the bonds is consistent with the amount of collateral (i.e. the buyer has the right to require the seller to put up collateral if the market value of the bonds declines).
(iii) Application of repricing: If the market price of the underlying bonds falls sharply from the price at the time of the repurchase agreement, the parties to the agreement agree to cancel the agreement and renegotiate a new agreement on the basis of the price then prevailing, on terms and conditions identical to those of the agreement thus canceled.

(2) Substitution of underlying bonds:
Under this clause, the seller of bonds can replace the underlying bonds with other bonds with the consent of the buyer, allowing the seller to use the underlying bonds if necessary.

(3) Institution of a netting-out system:
If the other party goes into default for any reason, such as bankruptcy, the value of all transactions covered by the agreement will be reassessed based on market prices, and the difference between claims and obligations will be settled.

11. Bond Lending

When investors have shorted bonds (or sold bonds that they do not own) and failed to buy them back before the settlement date, they enter into bond lending transactions to borrow bonds to deliver. When cash is used as collateral

Chart VI-12. Trading Mechanism of Repurchase Agreements

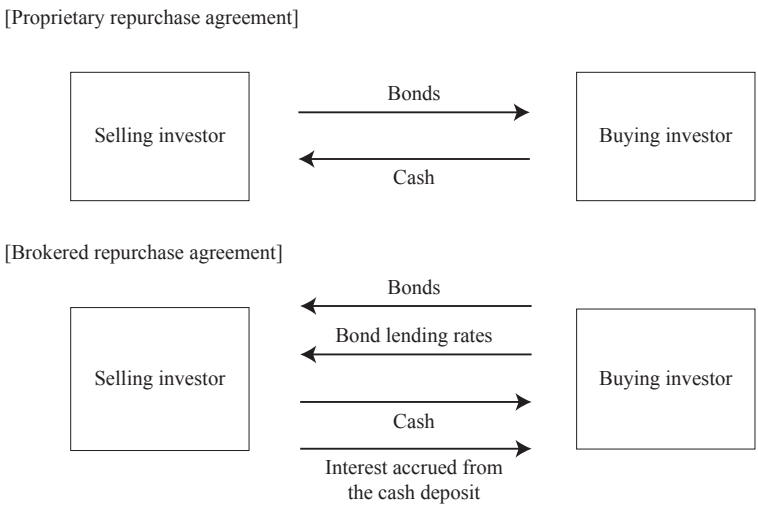


Table VI-12. The Balance of Bond Lending Transactions, by Type of Collateral (on the basis of delivery and face values)

(¥10 billion)

End of	Bonds lent				Bonds borrowed			
	Secured transactions	Secured by cash deposit	Unsecured transactions	Total	Secured transactions	Secured by cash deposit	Unsecured transactions	Total
2015	9,680	9,454	450	10,130	9,680	9,454	450	10,130
2016	12,316	12,178	428	12,744	12,316	12,178	428	12,744
2017	13,093	12,903	806	13,899	13,093	12,903	806	13,899
2018	5,536	5,370	846	6,382	5,536	5,370	846	6,382
2019	5,589	5,419	1,160	6,749	5,589	5,419	1,160	6,749
2020	5,232	5,041	1,040	6,273	5,232	5,041	1,040	6,273
2021	5,645	5,413	919	6,564	5,645	5,413	919	6,564
2022	7,347	7,101	760	8,108	7,347	7,101	760	8,108
2023	6,926	6,702	883	7,808	6,926	6,702	883	7,808
2024	8,013	7,733	965	8,978	8,013	7,733	965	8,978

Note: Breakdowns of bond lending transactions have been published since January 1997. A partial revision was made to the calculation method in January 2009.

Source: Compiled from statistics on the Japan Securities Dealers Association website (bond borrowing and lending transactions - list)

for bond lending transactions, some of these transactions are conducted for short-term funding or investment, similar to *gensaki* transactions. Bond lending services enable investors to execute sell orders even if they do not own bonds (short sell), which is expected to lead to improvement of bond market liquidity.

Bond lending was instituted by the lifting of the practical ban on bond short selling in 1989. Traditionally, market participants had refrained from short selling bonds because of concerns over potential repercussions on brokers' and financial dealers' financial soundness and the potential impact on bond pricing. This ban, however, was lifted to help encourage active market making in cash bonds, and arbitrage between cash bonds and futures. Bond lending was introduced as a means to locate bonds for delivery. Initially, cash collateral bond borrowing and lending was restricted in light of potential conflicts with the *gensaki* market and other considerations, and, subsequently, most transactions were uncollateralized. However, with credit fears rising, the bond lending market remained stagnant and cash collateral bond borrowing and lending transactions were effectively deregulated in 1996 in order to invigorate the market.

When viewed from a legal standpoint, a bond lending transaction is deemed to be a contract for a loan for consumption. A borrower borrows bonds for the purpose of consumption and, when due, the borrower has only to return bonds identical in kind and quantity with those originally borrowed. Bond lending transactions may be broadly classified into "secured transactions" and "unsecured transactions" depending on whether they are collateralized or not. Secured bond lending transactions may be further divided into "cash-collateralized transactions" and "securities-collateralized transactions" by the type of collateral being pledged. Cash-collateralized transactions used to borrow specific bond issues are called SC *torihiki* (specified collateral trades), while those without such specifications that mainly aim for financing and cash management are termed GC *torihiki* (general collateral trades). The size of the bond lending transactions market (in terms of the balance of outstanding loans) has generally been on the rise since cash-collateralized transactions were deregulated in 1996. The market has grown from approximately ¥34 trillion at the end of fiscal 1996 (including approximately ¥17 trillion in cash-collateralized transactions) to ¥139 trillion at the end of fiscal 2017 (including approximately ¥129 trillion in cash-collateralized transactions). At the end of fiscal 2024, the market had fallen to around ¥90 trillion (including approximately ¥77 trillion in cash-collateralized transactions), reflecting the recent trend toward increased usage of *gensaki* transactions.

CHAPTER VII

Investment Trusts

1. Overview

An investment trust is a financial instrument that raises money from multiple investors in order to establish a large fund which is then managed by an investment specialist across a diverse range of domestic and international assets, such as stocks and bonds, with the returns distributed to investors in proportion to their contributions.

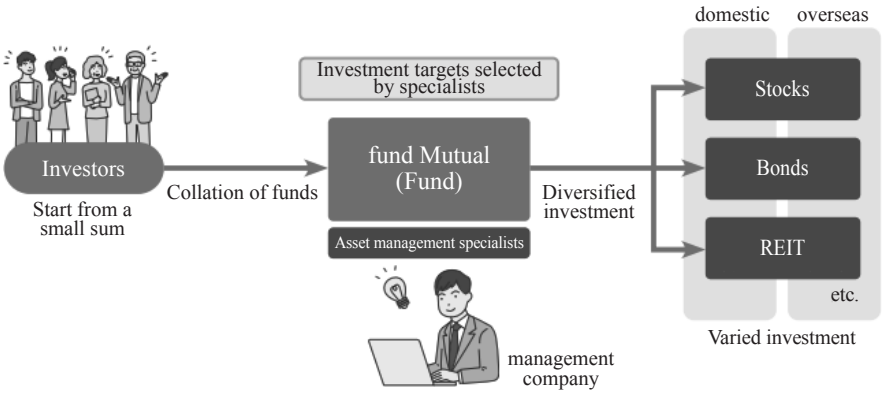
For investors, even if the size of their individual investment is small, their funds are managed efficiently on a large scale, providing cost advantages (economies of scale). In addition, since a single product allows for investment across a variety of assets, it helps diversify risk. Furthermore, the ability to benefit from professional expertise in gathering and analyzing information is another significant advantage. However, since returns fluctuate depending on investment performance, the repayment of the principal is not guaranteed. The market offers a wide variety of products, from those prioritizing stability to those aiming for higher returns by taking on increased risk.

The structure of the Japanese investment trust system is stipulated in the Act on Investment Trusts and Investment Corporations. In addition, the conduct of asset management companies (investment trust management companies) is regulated by the Financial Instruments and Exchange Act (FIEA), and investor protection is further ensured by the rules of the Investment Management Association of Japan (formed by the merger of the Investment Trusts Association with the Japan Investment Advisers Association in April 2026).

Investment trusts serve not only as a means for individuals' asset building but also play a significant role in the national economy by channeling pooled funds into the market and supporting corporate fundraising. They also perform the function of contributing to efficient price formation in the market as institutional investors.

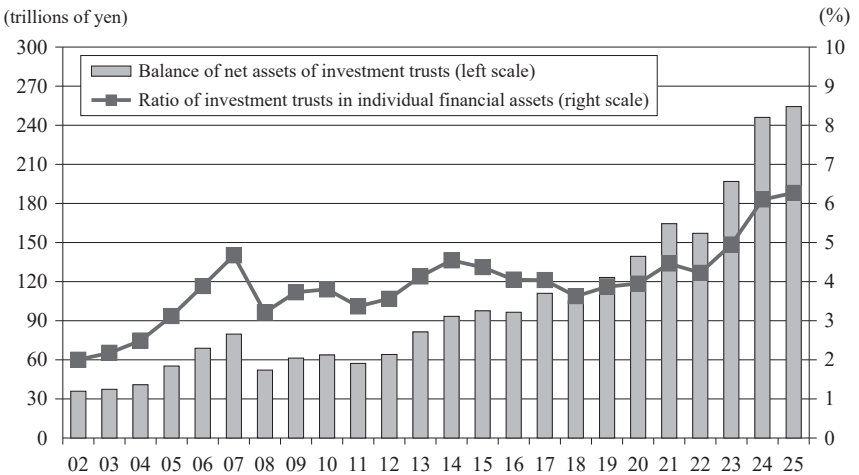
The net assets of publicly offered investment trusts in Japan have been growing in recent years. After recovering following the global financial crisis and reaching ¥100 trillion in mid-2015, this figure declined temporarily in 2022 but began to rise again in 2023. In particular, with the launch of the

Chart VII-1. Investment Trust Concept



Source: The Investment Trusts Association, Japan.

Chart VII-2. Trend of Total Net Assets of Publicly Offered Investment Trusts and Their Positions



Note: Figures for fiscal 2025 are as of the end of June (the percentage of household financial assets is based on preliminary figures as of the end of June).

Source: Balance of net assets of investment trusts: the Investment Trusts Association, Japan; ratio of investment trusts in individual financial assets: Bank of Japan "Flow of Funds Accounts".

new NISA program in 2024 serving as a catalyst, the shift "from savings to asset building" gained significant momentum, leading to rapid expansion in net assets, which surpassed ¥250 trillion by the end of June 2025. The proportion of investment trusts in household financial assets is also on the rise.

As of the end of 2024, the global assets under management for publicly offered investment trusts reached $68.5 trillion, although Japan's share remained at just 2.3%. While the domestic market is growing rapidly, there is still significant room for expansion on an international scale. With the growing popularity of the new NISA program and other factors, investment trusts are expected to become increasingly important as a core financial product supporting stable asset building for individuals.

2. History of Investment Trusts

Investment trusts, a form of collective investment scheme, have proved popular in various forms around the world since their inception in the U.K. in the late nineteenth century. The current investment trust system in Japan dates back to the enactment of the Securities Investment Trust Act in June 1951. At that time, investment trusts were unit-type stock investment trusts of the contractual type. Unlike in Europe and the United States, where such systems arose naturally from investor needs, this system was introduced for policy purposes, including balancing supply and demand for the large volume of shares released following the break-up of the *zaibatsu* and raising capital for industry during the post-war reconstruction period.

Since the system was established, a series of legislative amendments have been enacted to protect investors. In particular, in 1967, following the stock market crash, measures were taken to clarify the fiduciary duties of investment trust management companies to beneficiaries and to strengthen the provisions prohibiting certain conduct. The financial "Big Bang" of the late 1990s marked a turning point that significantly transformed the nature of investment trusts. The major reforms implemented under the 1998 Act on Revision, etc. of Related Acts for the Financial System Reform introduced corporate-type investment trusts, the mainstream model in Europe and the United States, and shifted the establishment of funds from an approval system to a filing system. This allowed investment trust management companies to outsource investment management instructions to outside parties. Furthermore, the complete deregulation of over-the-counter sales by banks and other financial institutions expanded distribution channels. These amendments led to the launch of a succession of investment trusts with diverse investment strategies, thereby fostering competition.

In the 2000s, investment assets became increasingly diverse. A legal

Table VII-1. History of the Investment Trust in Japan (Post-war)

System	Products	Marketing	Management
The Securities Investment Trust Act was implemented (1951)	Investment trusts were launched in the form of unit-type investment trusts (1951)	Investment trusts became available at securities companies	Assets were invested mainly in domestic stocks
	Open-type investment trust was launched (1952)		
Investment trust management business was separated from securities companies (beginning operations in 1960)	Bond investment trusts were established (1961)		The weight of domestic bonds substantially increased (1961)
The Securities Investment Trust Act was amended to add provisions for the duty of loyalty of investment trust management companies to beneficiaries and the duty of disclosure, etc. (1967)			
		The marketing of foreign investment trusts in Japan was liberalized (1972)	Foreign securities began to be included in assets of investment trusts (1970)
Investment trust management companies entered the investment advisory business (1984)	The medium-term government bond investment trusts were established (1980)		
Foreign companies entered Japanese investment trust management business (1990)			
Bank affiliates entered investment trust management business (1993)	MMFs were established (1992)	Investment trust management companies started to sell investment trusts directly (1993)	
Investment trust reform was determined (1994)			
Reform was implemented in 1995	Nikkei 300 Exchange Traded Fund was established (1995)		Investment restrictions were deregulated, including utilization of derivatives for purposes other than hedging (1995)
Act on Revision, etc. of Related Acts for the Financial System Reform was implemented (1998)		Banks and insurance companies started to sell investment trusts (1998)	
	Private placement investment trusts were launched (1999)		
The Act on Investment Trusts and Investment Corporations was implemented (2000)	Corporation type investment trusts were established (2000)		Target of investment trusts expanded to a variety of fields, including real estate (2000)
Portfolio valuation method of bond investment trusts shifted to market value accounting (2001)	Real estate investment trusts were established (J-REITs) (2001)	The Act on Sales, etc. of Financial Instruments was implemented (2001)	Some MMFs' net asset value fell below their principle amount (2001)
Defined contribution pension plaus started (2001)	In-kind contribution ETFs were listed (2001)		
Revision of Investment Advisory Service Act lifted the ban on securities companies offering discretionary investment services, such as on discretionary investment services such as wrap accounts (2004)			
		Sales of investment trusts started at post offices (2005)	
The Financial Instruments and Exchange Act was implemented (2007)	Monthly distribution investment trusts are popular		Target of investment trusts was expanded to commodities (2008)
			ETF purchases by BOJ began (2010)
Launch of NISA (2014)			
		FSA promotes customer-first business practices (2017)	Implementation of credit risk regulations (2014)
Launch of Tsumitate NISA (2018)			MMF balances go to zero on negative interest rates (2017)
		Introduction of Critical Information Sheet (2021)	
Decision to expand NISA, make the system permanent and make tax-free holding period indefinite after 2024 (2022)	Listing of Actively Managed ETFs(2023)		

Source: Materials prepared by Mr. Koji Sugita (modified by the author)

amendment in 2000 expanded the scope of investment to include real estate, giving rise to "Real Estate Investment Trusts (J-REITs)." Consequently, the law was renamed the Act on Investment Trusts and Investment Corporations. In 2007, the FIEA came into effect, and the rules of conduct regarding investment trusts, such as the duty of good faith and the obligation to explain products to customers, were transferred to this Act, establishing a more comprehensive and cross-cutting framework for investor protection.

In recent years, investment trusts have played an increasingly important role in asset building for individuals. With the expansion of programs offering tax advantages such as NISA (Nippon Individual Savings Account, small-amount investment tax exemption scheme) and iDeCo (individual-type defined contribution pension plan), many individual investors have started to buy investment trusts through these programs. In light of these circumstances, distributors and other entities are under increasing pressure to adopt "customer-first business practices" that prioritize the interests of their customers. The Financial Services Agency is also working to create an environment that makes it easier for investors to choose better products, including by encouraging clear disclosure of fees. For investment trusts to truly contribute to stable asset building for the public, it remains important to create an environment for the healthy development of the market from both a regulatory and investment management perspective.

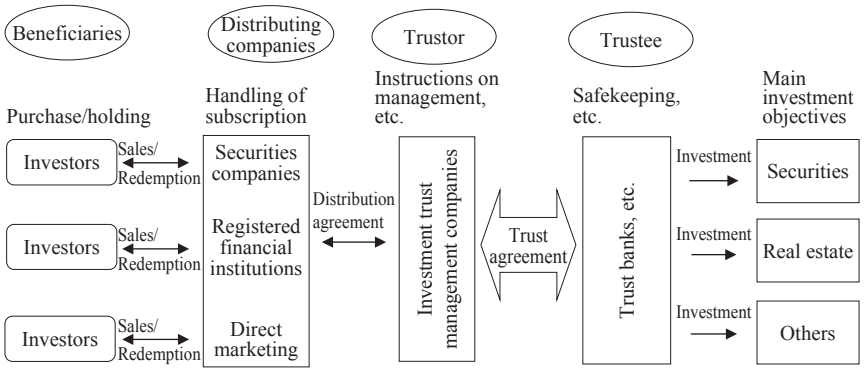
3. Types of Investment Trusts

Investment trusts are broadly classified into the contractual type and the corporate-type.

Contractual type investment trusts are structured based on a trust agreement between an asset management company and a trust bank, and account for the majority of investment trusts in Japan. Contractual type investment trusts are divided into trusts with investment instructions from trustors and those without investment instructions from the trustor, with the former accounting for the majority.

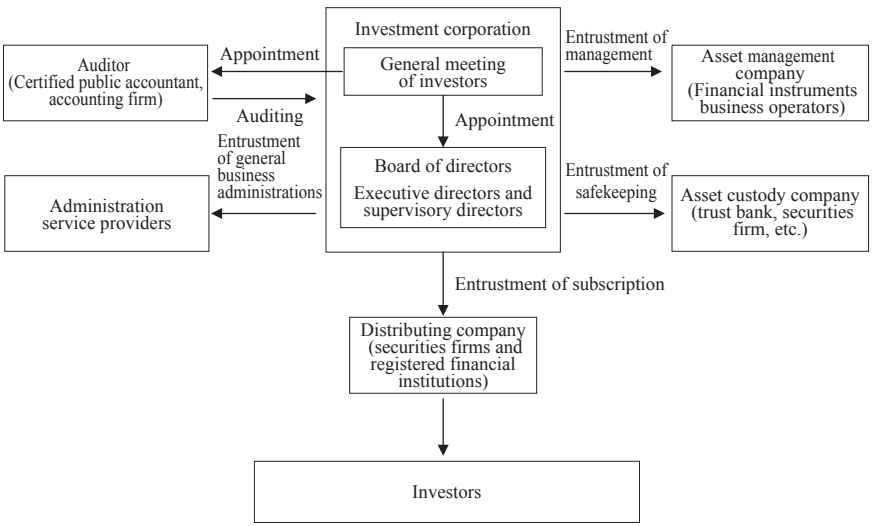
An investment trust with investment instructions from the trustor consists of the following three parties (see upper diagram on the next page). The trustor (investment trust management company) designs the fund, prepares a trust deed, files it with the relevant authorities, issues investment instructions to the trustee regarding the management of the trust assets, and prepares investment reports for the beneficiaries. The trustee (such as a trust bank) buys, sells, holds, and manages the trust assets in accordance with the trustor's instructions, and the trust assets are managed on a segregated basis. Beneficiaries (investors) are investors who have purchased investment trusts and are

Chart VII-3. The Operating Structure of Investment Trusts with Instructions from Trustors



Source: Partially adjusted flowchart from the Investment Trusts Association, Japan's report on "Investment Trusts in Japan 2014."

Chart VII-4. Operating Structure of Corporation Type (Investment Corporation) Investment Trusts



Source: The Investment Trusts Association, Japan, "Investment Trusts in Japan 2014."

entitled to receive investment returns in the form of distributions or redemptions.

In the case of an investment trust without investment instructions from trustors, the trustee manages the assets on a discretionary basis without receiving instructions from the trustor.

For corporate-type investment trusts (investment corporations), an "investment corporation" is established for the purpose of asset management and is operated in a manner similar to a corporation (see diagram on next page). Investors purchase investment securities issued by the investment corporation to become investment trust investors (unit holders). These investors have voting rights at general meetings of investors, just like shareholders of a corporation. However, the investment corporation itself serves merely as a vehicle for asset management. Actual asset management, custody of the fund's assets, and general business administration, must by law be outsourced to outside specialist companies. Typical examples include J-REITs (real estate investment trusts) that invest in real estate and infrastructure funds that invest in infrastructure facilities.

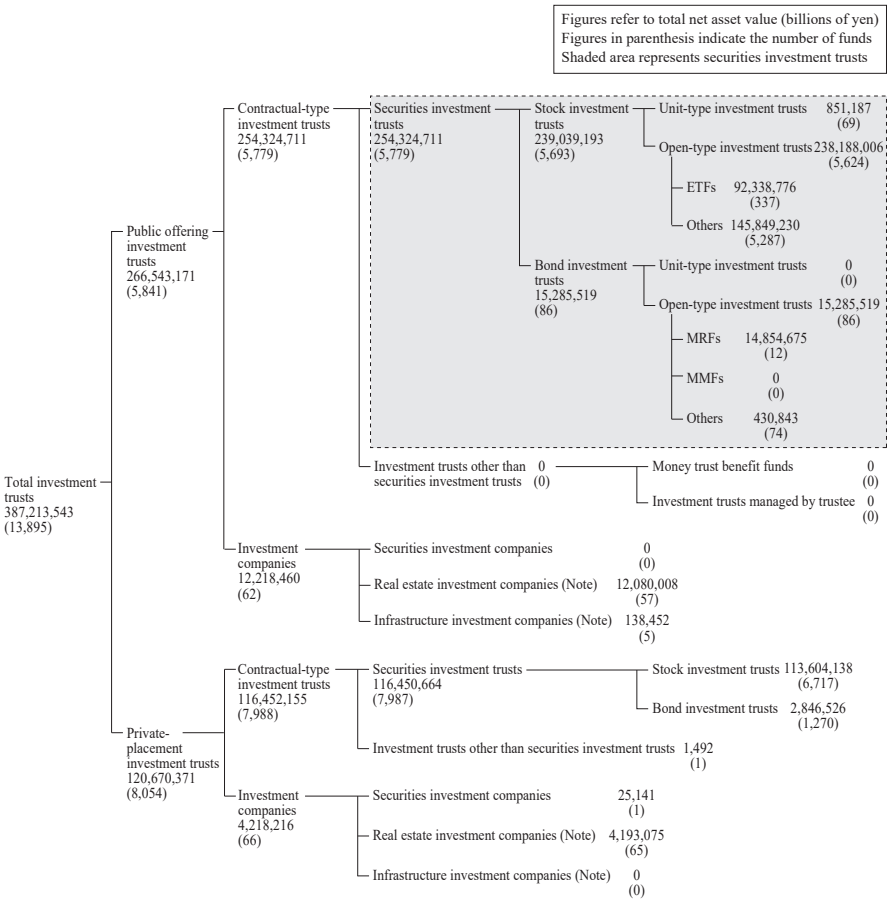
Besides their organizational structure, investment trusts are also classified by the methods that investors use to liquidate their investments. This is an important classification related to the liquidity of investment trusts. The open-end type accepts beneficiary requests and redeems the certificates at market price by selling trust assets, while the closed-end type does not accept beneficiary requests to redeem their certificates. In the latter case, many are listed on stock exchanges and traded at market prices so that investors can convert them into cash. Examples of this include J-REITs and ETFs (exchange-traded funds). In Japan, contractual type investment trusts are principally of the open-end type, while corporate-type investment trusts are of the closed-end type (listed).

4. Categories of Investment Trust Products

In broad terms, the overall landscape of investment trusts is summarized in the diagram on the next page. Among these, contractual-type securities investment trusts (shaded area), which account for a large portion of assets under management, are classified as follows.

Classification by target investors: Publicly offered and privately offered investment trusts are broadly classified based on their target investors
Publicly offered investment trusts are targeted at a broad range of investors, and includes investment trusts that are purchased by ordinary individual investors through securities companies and other intermediaries. On the other

Chart VII-5. Overview of Investment Trusts (total net assets, number of funds)
As of June 30, 2025



Note: Shading indicates contract-type securities investment trusts.
Data for REITs and infrastructure investment trusts is from the previous month (one month lag).
Source: The Investment Trusts Association, Japan.

hand, privately offered investment trusts are offered exclusively to specified institutional investors or a small number of investors, fewer than 50. Private placements are subject to less stringent regulations regarding investment management than publicly offered investment trusts and can be designed as flexible products tailored to investors' needs.

Classification by subscription and redemption method: Open-end and unit-type funds are categorized based on how they accept capital
Open-end funds allow investors to purchase units at market value at any time after the fund is established while the fund is operational. In contrast, unit-type funds can only be purchased during the initial offering period, and no additional purchases can be made after investment begins.

Classification by investment assets
The types of assets in which an investment trust invests are the most critical factors determining its profitability and risk. The Investment Trusts Association classifies products into categories such as equities, bonds, and multi-asset based on a fund's investment targets. Each fund's prospectus specifies which category it belongs to.

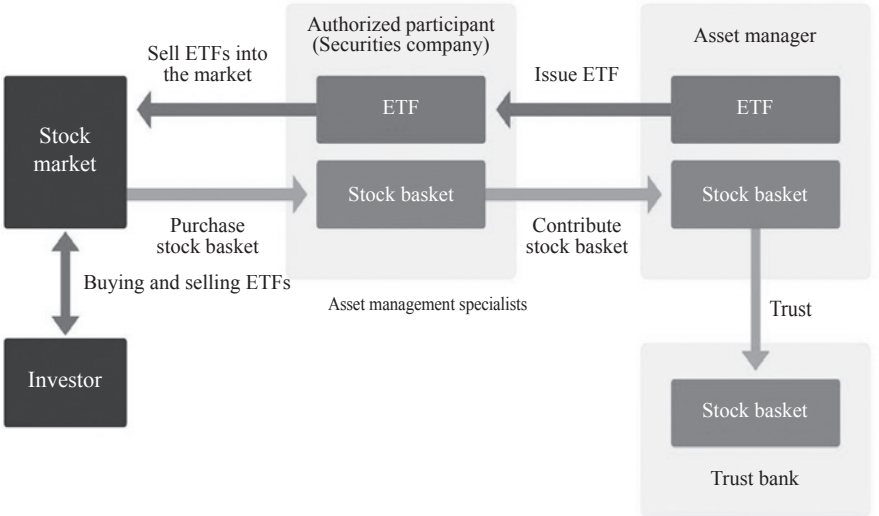
Tax classification: Stock and bond investment trusts
Under Japanese tax law, investment trusts are classified as either stock investment trusts or bond investment trusts based on whether their articles of incorporation permit the inclusion of stocks. A bond investment trust does not hold any stocks and invests solely in bonds and short-term financial instruments. All other investment trusts are classified as stock investment trusts regardless of whether they actually hold stocks. Due to restrictions such as the inability to make daily additional subscriptions in bond investment trusts (excluding daily settlement type funds), even funds that invest exclusively in bonds are often established as stock investment trusts.

Exchange-Traded Investment Trusts: Exchange-Traded Funds (ETFs)
Among open-end investment trusts, those listed on an exchange and tradable like stocks in real time during trading hours are called ETFs (Exchange-Traded Funds). ETFs are explained in more detail in the next section.

5. Exchange-Traded Funds (ETF)

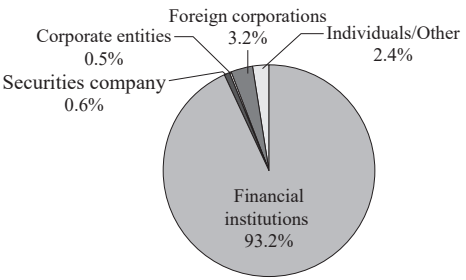
Investment trusts listed on financial instruments exchanges are also called exchange-traded funds. Unlike ordinary investment trusts, which are traded at a net asset value calculated once a day, ETFs can be bought and sold in real time while the market is open at market prices that fluctuate in response to supply and demand, just like stocks. As a result, investors can place limit orders at specified prices and conduct margin trades, which allows them flexibility in trading. In addition, management fees tend to be lower than those of conventional investment trusts, and disclosure of portfolio holdings ensures a high level of transparency, which is another advantage.

Chart VII-6. Structure of in-kind type ETFs (stock ETF example)



Source: Investment Trusts Association.

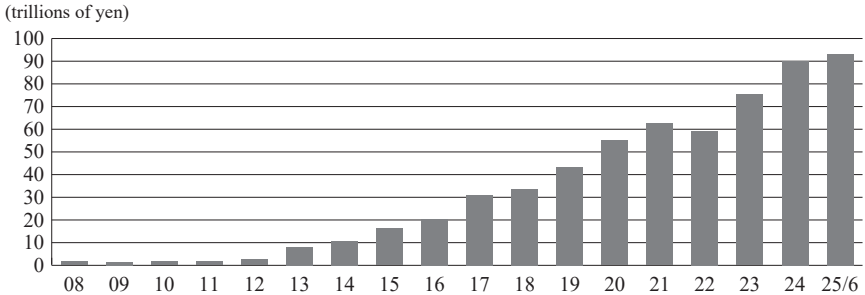
Chart VII-7. ETF holding ratio by investment sector (July 2024)



Note: The holdings of financial institutions include holdings of the Bank of Japan.
Source: Compiled from JPX's "ETF Beneficiary Information Survey".

As a general rule, the creation and redemption of ETFs are conducted through in-kind creation and redemption, in which a basket of physical securities is exchanged for ETF beneficiary certificates. This is a system in which institutional investors, such as securities companies, known as authorized participants, procure a basket of stocks that make up the target index on the market and, in exchange, receive beneficiary certificates of the ETF from the

Chart VII-8. Total net assets of domestic ETFs



Source: Compiled from JPX's "Monthly Report".

asset management company. Because of this mechanism, when a price difference arises between the market price of an ETF and its underlying net asset value, arbitrage trading takes place, ensuring that any price discrepancy is kept to a minimum. Furthermore, for some ETFs that track overseas assets and are difficult to exchange in physical form, creation and redemption can also be conducted for cash.

For a long time, Japan's ETF market was dominated by passive (index) investment products that track major domestic stock price indices, such as the Nikkei 225 and TOPIX. However, in recent years, investment targets have expanded beyond domestic stocks to include J-REITs (real estate investment trusts) and foreign stocks. Furthermore, the market has become increasingly diversified with the addition of products such as leveraged and inverse funds, designed to achieve daily target returns that are several times the rate of change of an index or move inversely to the underlying instrument. Furthermore, in September 2023, the first actively managed ETF in Japan was listed. It does not track a specific benchmark, with fund managers selecting stocks based on proprietary strategies with the aim of outperforming the market average. This has further expanded investors' options by allowing them to benefit from the real-time aspect of ETFs while also investing in professional active management strategies.

The Japanese ETF market expanded rapidly following the Bank of Japan's ETF purchase program which started in 2013 (at one time, the central bank's holdings exceeded 80% of the market), with the impact on price formation a concern. Subsequently, the Bank of Japan reversed its policy, ending new purchases in March 2024 and announcing a long-term plan to sell its ETF holdings in September 2025. The Bank of Japan's policy shift as the largest buyer will have a significant impact on future market supply and demand, making its actions a focus of attention.

6. Sale of Investment Trusts

In terms of the distribution of investment trusts in Japan, the monopoly of securities companies ended with the entry of banks in 1998 and post offices in October 2005, and the sales network expanded nationwide. The share of publicly offered investment trust assets sold through financial institutions was over 40% in the late 2000s, but has since fallen to 19.6% as of June 2025, partly due to the rise of online brokerages. Meanwhile, privately placed investment trusts, which are primarily aimed at institutional investors, have a significant presence in the market, accounting for over 80% of total assets. The share of direct sales by investment trust management companies for publicly offered investment trusts has remained at a low level of 0.6% to 0.7% over the past 20 years.

In addition to traditional face-to-face sales, online transactions have grown significantly. According to a 2024 survey by the Japan Securities Dealers Association, the most common place for purchasing investment trusts was at a financial institution branch (34.9%), followed by online trading through a securities company (31.7%) and at a securities company branch (27.8%). While face-to-face sales still have a share of the market, it is clear that online transactions are on the rise. In addition, online trading through financial institutions accounted for 11.2% of sales, indicating that online purchases are now commonplace.

Distributing companies are obliged to comply with strict investor protection rules under the Financial Instruments and Exchange Act (FIEA) and regulations established by the Japan Securities Dealers Association and other bodies. Specifically, they must comply with the suitability rule, which prohibits inappropriate solicitation activities based on a customer's circumstances; the obligation to explain products to customers, which requires explaining risks and other factors; regulations regarding prohibited activities, such as providing conclusive evaluations; and the duty of good faith and fair dealing. When depositary institutions, such as banks, sell these products, they are also required to take measures to prevent customers from mistaking investment trusts for deposits. As part of recent developments, the use of Critical Information Sheets, designed to facilitate product comparisons, was introduced in 2021. Furthermore, in 2024, a section on product governance was added to the "Principles for Customer-First Business Practices." Based on this, distributors are required to establish a framework that ensures the best interests of customers are served through integrated sales and investment management. This includes understanding the asset management company's initiatives to improve product governance and utilizing this information in product selection, as well as sharing post-sale customer information with the asset

Chart VII-9. Changes in Composition of Total Net Assets of Publicly Offered Investment Trusts by Distribution Channel

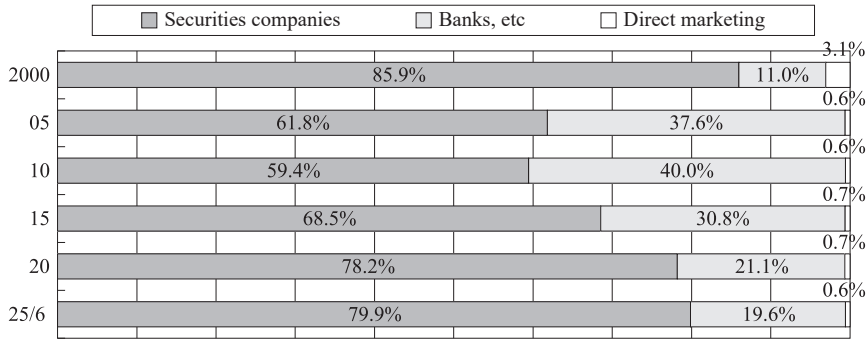
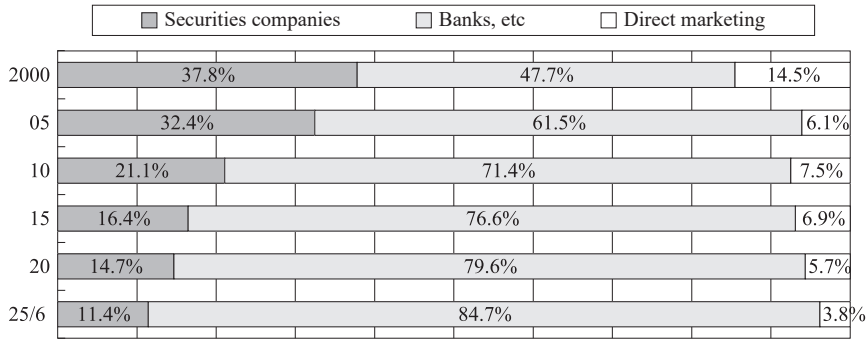


Chart VII-10. Changes in Breakdown of Total Net Assets of Overall Private Placement Trusts by Distribution Channel

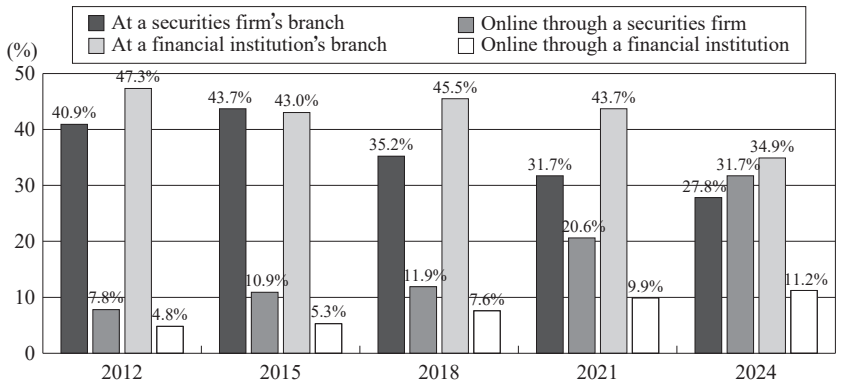


Source: All the above are based on statistics of the Investment Trusts Association, Japan.

management company.

Until sales commissions were liberalized in 1998, the sales commission for each investment trust was fixed. Since the market was liberalized, competition among distributors has led to different commissions even for the same fund depending on the distributor. Fees have also been steadily declining. In particular, many online-only brokerage firms now offer investment trusts with no sales commission, which has shifted investors' awareness of costs.

Chart VII-11. Where Individual Investors Can Purchase Investment Trusts



Source: Compiled by the author based on the "National Survey on Securities Investment (2012-2024, every three years)" (Japan Securities Dealers Association).

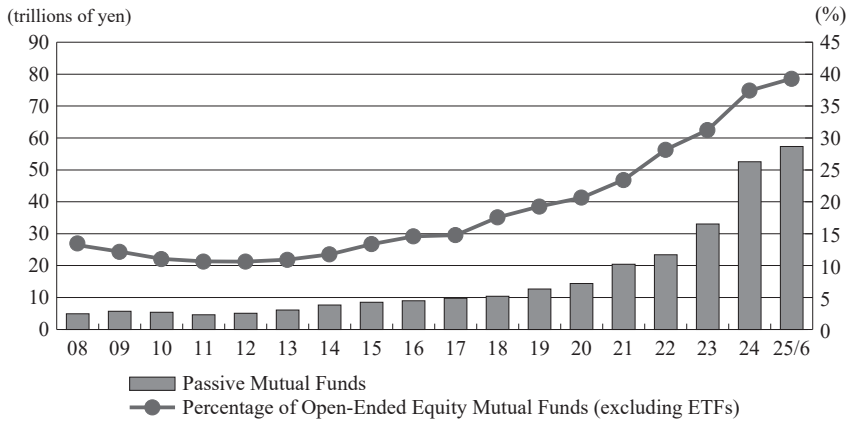
7. Management of Investment Trusts

In managing an investment trust, the professional asset management company pools funds raised from investors and looks to generate returns through investing in stocks, bonds, and other assets in line with its investment policy. Investment styles are broadly categorized into passive and active investing, each with a distinct economic role in the market.

Passive investment aims to track market indices such as the Nikkei Stock Average. Based on the "efficient market hypothesis," which posits that it is difficult to consistently outperform the market because all information is instantly reflected in prices, management fees are kept low by eliminating the need for research on individual stocks. Investors can benefit from the growth of the overall market at low cost, and as an option for long-term asset building, assets under management have expanded rapidly in recent years, as shown in the data on the next page, now accounting for 40% of open-end stock investment trusts.

In contrast, active management aims to generate returns that exceed the benchmark, based on the assumption that markets are inefficient. Fund managers and others identify undervalued stocks and growth companies through their own research and invest in them. This activity plays a role in promoting the efficient allocation of resources across the economy by providing funding to companies driving innovation and enhancing the market's price discovery function.

Chart VII-12. Net Assets of Publicly Offered Passive Mutual Funds



Source: Nomura Research Institute.

The asset management companies responsible for these operations are subject to strict legal duties in their capacity as trustees. The cornerstones of this are the "duty of due care of a prudent manager" and the "duty of loyalty." To effectively ensure this, the Financial Instruments and Exchange Act specifically prohibits conduct that could lead to conflicts of interest. For example, proprietary trading for the benefit of the asset management company itself, transactions between investment assets (i.e., between funds) (with certain exceptions), and unnecessary transactions conducted for profit purposes for the parent of the asset management company or group companies are all prohibited. Furthermore, the Act on Investment Trusts and Investment Corporations and the self-regulatory rules of the Investment Trusts Association establish a multi-layered framework governing specific investment instruments and credit risk management, thereby ensuring thorough investor protection.

Furthermore, as part of its proactive efforts to fulfill its responsibilities to these beneficiaries, the asset management company also assumes responsibilities as a shareholder of the companies in which it invests. In accordance with the "Principles for Responsible Institutional Investors," it promotes improvements in corporate governance and strives to enhance corporate value through dialogue with companies and the exercise of voting rights. As shown in the data on the following page, asset management companies consistently vote against proposals, such as executive retirement benefits and takeover defense measures, that could potentially undermine shareholder value, thereby playing a role in holding company managements accountable in the market. This is an important responsibility of the trustee in ultimately serving the

Table VII-2. Status of voting on domestic stocks at shareholders' meetings of investment trust management companies (one-year period ending June 2024): voting status on proposals submitted by companies; total for 70 companies managing domestic stocks

Proposals		For (A)	Against (B)	Abstain (C)	Blank mandate (D)	Total Against and Abstain (E) (B)+(C)	Total number of proposals (E) (A)+(E)+(D)	Percentage of votes against, etc. (E)/(F) %
Proposal about Organs	Election and Dismissal of Directors (*1)	332,770	47,813	68	11	47,881	380,662	12.6%
	Election and Dismissal of Company Auditors (*1)	37,909	5,166	5	0	5,171	43,080	12.0%
	Election and Dismissal of Accounting Auditors	832	20	0	0	20	852	2.3%
Proposal about Remuneration for Officers	Remuneration for Officers (*2)	16,479	1,559	0	0	1,559	18,038	8.6%
	Payment of Retirement Benefits for Retired Officer	308	1,059	0	0	1,059	1,367	77.5%
Proposal about Capital policy (except for Proposal about Articles of Association)	Disposal of surplus	28,998	1,273	6	1	1,279	30,278	4.2%
	Reorganization related (*3)	494	29	0	0	29	523	5.5%
	Introduction/update/abolition of takeover defense measures	27	721	1	0	722	749	96.4%
	Other capital policy proposal (*4)	1,192	98	0	0	98	1,290	7.6%
Proposal about Articles of Association		9,232	473	0	1	473	9,706	4.9%
Total of Other proposals		159	30	0	0	30	189	15.9%
Total		428,400	58,241	80	13	58,321	486,734	12.0%

*1 Revision of executive compensation, issuance of stock options, introduction/revision of performance-based compensation system, officer bonus, etc.
*2 Merger, business transfer/acquisition, share exchange, share transfer, company split.
*3 Purchase of treasury shares, decrease in statutory reserve, capital increase by third-party allotment, capital decrease, share consolidation, issuance of class shares, etc.
Source: "Results of the Survey on the Japanese Stewardship Code" (May 2025, The Investment Trusts Association, Japan).

best interests of the beneficiaries.

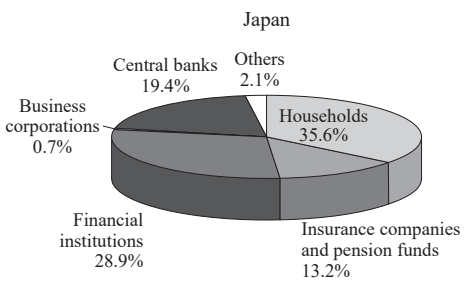
8. Customer Base of Investment Trusts

As of the end of 2024, the breakdown of Japanese holders of investment trusts (based on asset value) was as follows: individuals, 35.6%; financial institutions, 28.9%; the central bank, 19.4%; and insurance and pension funds, 13.2%. In the United States, individual holders account for 58.6% and insurance and pension funds for 27.3%. Therefore, the proportion held by individuals is significantly lower in Japan than in the United States. In Japan, financial institutions' share of holdings is high, especially for private placement investment trusts. In addition, the central bank's share is also high due to the Bank of Japan's purchases of ETFs (exchange-traded funds).

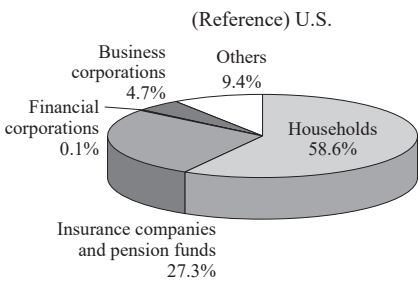
The penetration rate of investment trusts among individual investors is steadily increasing. According to a survey by the Japan Securities Dealers Association, the proportion of the adult population holding investment trusts rose from 8.8% in the 2018 survey to 12.6% in the 2024 survey. Although this does not match the household penetration rate of over 16% recorded in 1988 during the bubble economy, it has been on a steady recovery since bottoming out at 6.1% in 2003, and that pace has accelerated in recent years.

Of particular note is the significant shift in the age profile of ownership. While ownership was historically high among the elderly, in recent years ownership among younger and middle-aged people has expanded significantly. In 2018, among men, the highest ownership rate was 16.2% for men aged 75-79, but by 2024, the highest rate was 21.6% for men aged 65-69, followed by 20.1% for men aged 40-44. This indicates that ownership is spreading to younger generations. This is because an increasing number of people, partic-

Chart VII-13. Breakdown of Holders of Investment Trusts (as of the end of 2024)



Source: Compiled from the Bank of Japan's "Flow of Funds Accounts (Final)".



Source: Compiled from FRB, *Fund of Funds Accounts*.

Table VII-3. Profiles of Individual Investors Holding Investment Trusts (2024)

Investment trust holding ratio by age			Investment trust holding ratio by annual income	
	Male	Female		
Aged 18 to 19	1.2%	1.3%	Less than ¥1 million	7.4%
Aged 20 to 24	3.9%	3.3%	¥1 million or above, less than ¥2 million	9.3%
Aged 25 to 29	8.0%	10.4%	¥2 million or above, less than ¥3 million	11.6%
Aged 30 to 34	13.0%	3.5%	¥3 million or above, less than ¥4 million	15.4%
Aged 35 to 39	14.4%	12.6%	¥4 million or above, less than ¥5 million	15.2%
Aged 40 to 44	20.1%	9.7%	¥5 million or above, less than ¥7 million	22.8%
Aged 45 to 49	18.8%	12.5%	¥7 million or above, less than ¥10 million	26.7%
Aged 50 to 54	15.5%	15.4%	¥10 million or above	47.8%
Aged 55 to 59	16.0%	16.5%		
Aged 60 to 64	16.4%	15.9%		
Aged 65 to 69	21.6%	15.5%		
Aged 70 to 74	14.4%	13.8%		
Aged 75 to 79	12.4%	10.4%		
Aged 80 to 84	12.2%	5.2%		
Aged 85 to 89	7.6%	4.4%		
Aged 90 or above	14.3%	4.2%		
Overall average:12.6%				

Note: 7,000 respondents overall.
Source: Compiled from JSDA "Nationwide Survey (on individuals) concerning Securities Investment Trusts)" FY2024.

Table VII-4. Purpose of individual investors' purchase of investment trusts

Japan		Reference: USA	
Living expenses after retirement	55.5%	Post-retirement funds	80%
Diversify risk assets	28.2%	Supplement current income	6%
To learn about finance, economics, and investment	15.5%	In case of emergency	5%
Be prepared for contingencies	10.7%	Home or high value purchase	3%
Inflation (to prepare for rising prices)	10.2%	Tax savings	3%
To fund payment of life events, such as marriage, housing, etc.	9.6%	Funds for education	2%
Funds for items such as children's or grandchildren's education	8.3%	Other	1%

Source: Investment Trusts Association, "Questionnaire on Investment Trusts", 2024, multiple responses, top answers only shown.
USA: ICI "Profile of Mutual Fund Shareholders" 2024 Single answer responses to survey on "Primary Purpose of Owning Mutual Funds".

ularly the younger generation, are beginning to engage in asset building using new programs such as the NISA (small-amount investment tax exemption scheme), which was introduced in 2024. That said, in the United States, the ownership rate of investment trusts by generation stands at 35% for Gen Z (18-27 years old) and 58% for Baby Boomers (60-78 years old) (as of 2024), which is far higher than in Japan, indicating that there is still significant room for growth.

There have also been changes in the investment objectives of individual investors. According to a 2024 survey by the Investment Trusts Association, the most common reason for buying investment trusts (55.5% of respondents) was to fund living expenses after retirement. This percentage has been rising every year. This is followed by diversify investment risk (28.2%), but in recent years, protection from inflation has also ranked high among the top reasons, showing the impact of current economic conditions on investment motivation. In the United States, post-retirement savings accounts for 80% of investment purposes, and there is a well-established culture of making regular contributions through defined-contribution plans such as 401(k)s. In Japan, too, with the growing popularity of NISA and iDeCo (Individual-Type Defined Contribution Pension), the regular purchases of investment trusts for long-term purposes, such as living expenses after retirement, are expected to accelerate.

9. Disclosure of Investment Trusts

Disclosure of investment trusts is conducted in accordance with the Financial Instruments and Exchange Act (FIEA) and the Act on Investment Trusts and Investment Corporations (the Investment Trust Act) for the purpose of protecting investors. While the Investment Trust Act was originally the primary governing framework, as a result of the Act on Revision, etc. of Related Acts for the Financial System Reform in 1998, which shifted the establishment of funds from an approval system to a filing system, the Securities and Exchange Act (now the Financial Instruments and Exchange Act) started to be applied to investment trusts, in the same way as it was for stocks and other securities. Disclosure can be broadly categorized into issuance disclosure at the time of purchase and continuous disclosure during the holding period.

With regard to disclosure in connection with a securities offering, the FIEA requires the filing of a securities registration statement with the regulatory authorities and the distribution of a prospectus to investors. While securities registration statements are made available for public inspection, prospectuses serve as a key source of information for investors considering a purchase. Since 2004, prospectuses have been divided into two types with a focus on

Table VII-5. Publicly Offered Securities Investment Trusts Disclosure System of Japan

	Statutory disclosure				Voluntary disclosure
	Disclosure for supervisory authorities and for public inspection		Individual disclosure for investors		Public disclosure for investors
	FIEA	Act on Investment Trusts and Investment Corporations	FIEA	Act on Investment Trusts and Investment Corporations	The Investment Trusts Association, Japan Rules, etc.
Issuance Disclosure (Disclosure at offering)	Securities Registration Statement Amendment of Securities Registration Statement	Registration on the contents of the agreement	Prospectus (Summary prospectus) (Detailed prospectus)	Document summarizing the contents of the agreement (may be indicated in the prospectus)	Define the Guidelines on Preparation of Prospectus
Periodic Disclosure (disclosure while under management)	Annual Securities Report Semi-annual Securities Report Extraordinary Report	Financial report (investment report)		Financial report (investment report) (Summary financial report) (full-version financial report)	Monthly disclosure of MMF, MRF and timely disclosure on the website of each investment management company

Source: Created by Mr. Koji Sugita.

making them easier for investors to understand. One is the summary prospectus, which must be provided in advance to all investors prior to purchase; the other is the detailed prospectus, which is provided upon request by the investor and contains more detailed information.

On the other hand, while disclosure requirements under the Investment Trust Act include notification of the details of the trust agreement to the regulatory authorities, this requirement can be satisfied by including the information in the prospectus.

In addition to disclosures required under these legal frameworks, the use of a Critical Information Sheet has been recommended since 2021. While a prospectus aims to provide comprehensive information to comply with the law, this document summarizes important information such as fees and risks in an easy-to-understand format of one to two A4 pages, making it easier for investors to compare similar funds. Although there is no legal obligation to provide a Critical Information Sheet, financial institutions are increasingly adopting them.

Table VII-6. Major Items in Summary Prospectus (Explanatory Document) of Publicly Offered Investment Trust

Items recorded	Contents recorded
(Items recorded on the front page, etc.)	
(1) Name of fund and product category	Name of the fund indicated on the securities registration statement and product category in the Guidelines Concerning Product Categories set forth by the Investment Trusts Association, Japan.
(2) Information on investment trust management company, etc.	Name of investment trust management company, date of establishment, paid-in capital, total net asset value of investment trusts managed, website address, telephone number, name of trustee, etc.
(Items recorded in the main text)	
(1) Fund objective and characteristics	Fund characteristics and investment focus based on the basic investment policy, investment attitude, etc. provided in the agreement; Matters reflecting the fund characteristics, e.g., fund structure, investment method, investment process, investment restrictions, and distribution policy; If investment management is outsourced, the name of the investment manager and the content of outsourcing
(2) Investment risks	Factors underlying fluctuations in standard price, risk management system, comparison with other assets
(3) Investment performance	(i) Transition of standard prices and net assets in the last decade—standard prices illustrated using a line graph; net assets illustrated using a bar or area graph (ii) Transition of distributions in the last decade (iii) Status of core assets—top 10 portfolio issues, ratio by industry, ratio by asset type, etc. (iv) Transition of annual earnings ratio in the last decade—illustrated using a bar graph. For funds with benchmarks, also indicate the percentage changes of benchmarks
(4) Procedure, commission, etc.	(i) Subscription memo (purchase price, application procedure, trust period, taxes, etc.) (ii) Fund costs (commission at purchase, partial redemption charge, investment management cost (trust fees) and allocation thereof, other expenses, taxes
(5) Additional information	If there is a need to provide explanations on fund characteristics and risks in a greater detail (e.g., for fund of funds, use of structured bonds and derivatives), the details

Source: Created by Koji Sugita from Cabinet Office Order on Disclosure of Information on Regulated Securities and the JITA Rules on Preparation of Summary Prospectus.

With regard to continuous disclosure, a securities report must be filed after the end of each accounting period in accordance with the FIEA (a semi-annual report is also required when funds settle accounts once a year). This information is primarily available for public inspection. Individual investors are provided with a management report in accordance with the Investment Trust Act. Since 2014, this fund management report has also been structured in two volumes: a "summary management report" issued to all beneficiaries, and a "management report (full version)" published on the website.

In addition, in accordance with the self-regulatory rules of the Investment Trusts Association, each asset management company publishes monthly reports and other information on its website and other platforms as timely disclosures, giving investors access to more up-to-date information.

10. Services and Products Based on Investment Trusts

General Securities Account

MRFs (Money Reserve Funds), which are open-end corporate bond investment trusts, are held in general securities accounts. Dividends and proceeds from the sale of stocks credited to this account are automatically invested in MRFs, and funds for the purchase of securities are drawn from MRFs upon redemption. Because MRFs are also used for the settlement of securities transactions, there are rules in place that prioritize safety and liquidity, such as investing in short-term financial instruments with high credit ratings. As of June 2025, the balance of MRFs managed in general securities accounts is ¥14.9 trillion (Source: Investment Trusts Association, Japan).

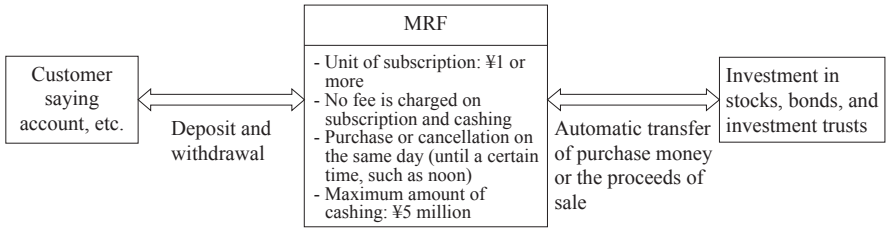
Wrap Account

A wrap account is a discretionary asset management service aimed mainly at individuals. Securities companies assess clients' tolerance of risk through consulting with them and provide comprehensive services ranging from asset allocation and selection of securities to trading and investment reports based on that assessment. The provision of wrap accounts in Japan began in 2004, when the Investment Advisory Service Act was revised to allow securities companies to offer discretionary investment services. Investment trust wrap accounts focus exclusively on investment trusts, and the balance of funds held in these has been rapidly increasing since around 2013. According to the Japan Investment Advisers Association, the balance of assets held in investment trust wrap accounts was ¥22.3 trillion as of June 2025.

Defined Contribution Pension Plans (DC)

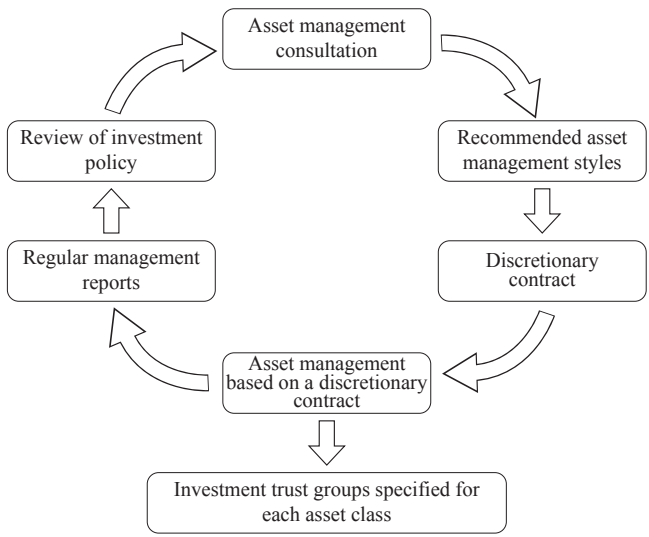
DC pension plans were established in 2001. There are two types: the corpo-

Chart VII-14. Outline of a Securities General Account



Source: Information compiled by reference to product introductions on securities firms' websites.

Chart VII-15. Flow of Wrap Account Service (example)



Source: Information compiled by reference to Daiwa Securities website etc.

rate type, in which the employer introduces the plan and primarily makes contributions (employees may also make additional contributions), and the individual type (commonly known as iDeCo), in which individuals select a financial institution and primarily make contributions themselves. In both types, scheme participants are responsible for managing their own investments, such as investment trusts, bank deposits, and insurance funds, at their own risk, and the future benefits vary depending on the performance of those investments. As of March 2025, investment trusts held through DC pension

plans amounted to ¥22.0 trillion, accounting for 70.7% of total pension assets (source: Management Organization Liaison Council).

Variable insurance and variable annuities
These are financial products in which the insurance premiums paid by the policyholder are invested in investment trusts, and the insurance benefits and pension benefits received in the future fluctuate based on investment performance. In addition to direct sales by insurance companies, banks and securities companies also sell these products as agents. Investments in investment trusts through variable insurance and variable annuities are estimated to be approximately ¥8 trillion as of March 2025 (according to information disclosed by the insurance companies).

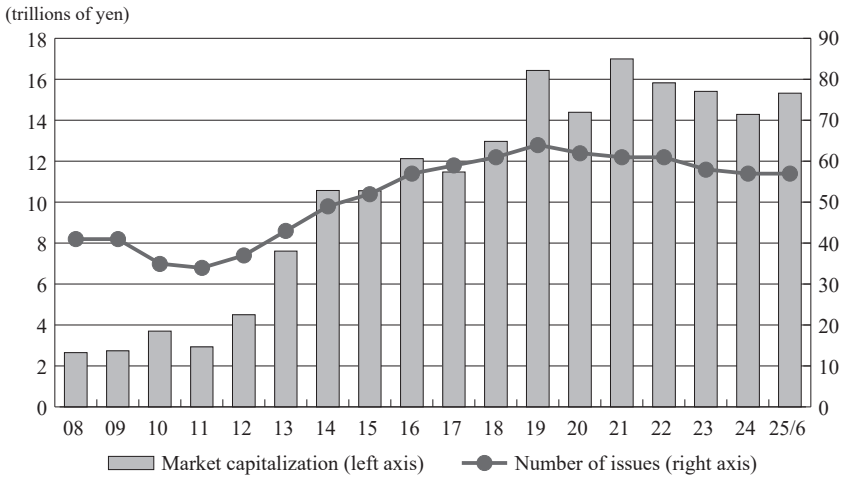
11. Real Estate Investment Trusts

Following the amendment to the Investment Trust Act in November 2000, Japan's first real estate investment trust (J-REIT) was listed on the Tokyo Stock Exchange in September 2001. Since the market was established, the number of listed issues has increased, peaking at 64 at the end of 2019. Since then, the number has decreased due to mergers and other factors, and as of June 2025, there are 57 listed issues. However, while the total market capitalization has fluctuated somewhat since peaking in 2021, it reached ¥15.3 trillion as of June 2025 and has now grown into one of the major asset classes.

In essence, a real estate investment trust (REIT) is a financial product in which an investment corporation pools funds from investors, invests in and manages multiple real estate and other assets, and makes distributions to investors from rental income and other income. Under the Investment Trust Act, there are three types of investment vehicles: the trust-type investment trust with investment instructions from the trustor, the trust-type investment trust without investment instructions from the trustor, and the corporate-type investment corporation. In an investment trust with instructions by the trustor, the asset manager instructs the trust bank on how to manage the assets, whereas in an investment trust without instruction by trustor, the trust bank manages the assets at its own discretion. With regard to investment corporations, the corporation owns the assets and outsources the management of the assets to a third party. All listed J-REITs are structured as "investment corporations," and investors purchase investment securities that are similar in nature to stocks.

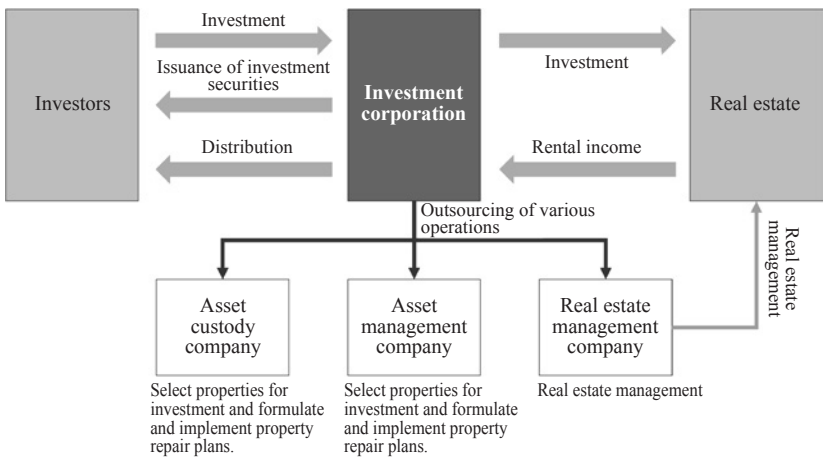
The advantage for investors is that they are able to invest in real estate, which typically requires a large amount of capital, with small amounts of money. Because the securities are listed and highly liquid, investors can buy

Chart VII-16. Market Capitalization and Number of Listed Issues of Japan Real Estate Investment Trusts (J-REITs)



Source: The Association for Real Estate Securitization's "J-REIT Statistics" Compiled from statistics.

Chart VII-17. Structure of Real Estate Investment Trusts



Source: Author.

and sell them freely on the market. Because J-REITs tend to move differently from stocks and bonds, they can help diversify a portfolio. From a tax perspective, if certain requirements are met, such as distributing more than 90% of income, pass-through tax treatment applies, effectively exempting the company from corporate income tax, which is a factor behind REITs' high distribution.

A key feature of J-REITs is that management of the assets is not handled by the investment corporation itself, but is outsourced to outside specialists. At the heart of this process is the "asset management company," which makes key decisions that determine the performance of J-REITs, such as formulating investment strategies and selecting, acquiring, and selling real estate, as well as raising capital. In addition, the day-to-day management and operation of individual properties, including aspects such as tenant recruitment, rent collection, and building maintenance, is often outsourced to specialist "property management companies." Thus, involving experts from various fields enables efficient real estate management.

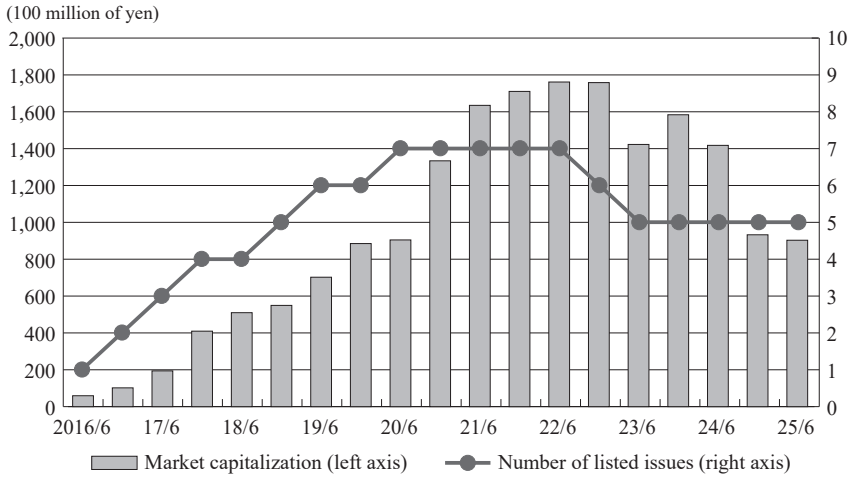
On the other hand, outsourcing asset management can lead to conflicts of interest between the investment corporation and the asset management company. For example, there could be a risk that a J-REIT might purchase real estate held by an affiliate of the asset management company at an inflated price. In light of these risks, expanding disclosure and strengthening governance structures remain ongoing challenges for the market in terms of investor protection.

12. Listed Infrastructure Funds

In April 2015, the Tokyo Stock Exchange established an infrastructure fund market for financial products that invest in infrastructure facilities such as renewable energy power generation facilities and concessions for the operation of public facilities. Following its launch, the market expanded steadily up to June 2022, when its market capitalization peaked. However, since then, the market has been on a downward trend due to a decline in the number of listed issues resulting from mergers, as well as concerns over rising operating and financing costs driven by inflation and rising interest rates. As of the end of June 2025, five issues are listed, with a total market capitalization of ¥90.3 billion.

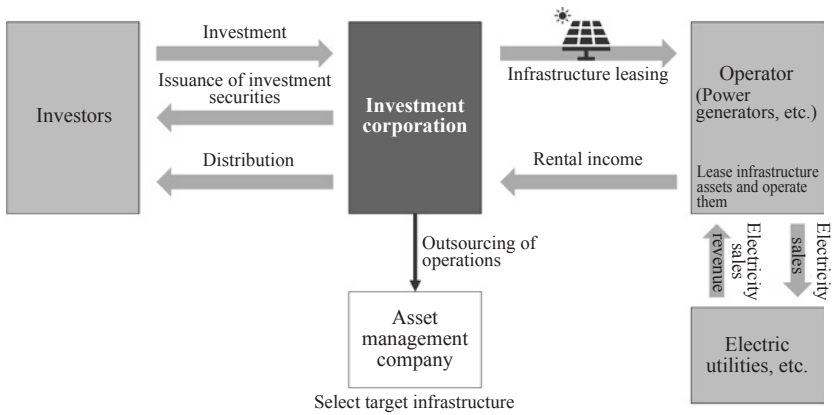
The basic structure is similar to that of real estate investment trusts (J-REITs). Funds raised from investors are used to acquire infrastructure assets, and the income generated from those assets is distributed to investors. All listed products are structured as investment corporations, similar to J-REITs, and investors trade investment securities that are similar in nature to

Chart VII-18. Market Capitalization and Number of Listed Infrastructure Funds in Japan



Source: Author.

Chart VII-19. Structure of Infrastructure Funds
(For an infrastructure fund targeting solar power generation facilities)



Source: Author.

stocks. From a tax perspective, the "pass-through treatment" applies, effectively exempting the infrastructure fund from corporate income tax provided that certain conditions are met, such as distributing more than 90% of its income (however, in the case of infrastructure funds, this is limited to a period of 20 years from the date when the renewable energy facilities were first leased). This is a key factor behind the high distribution yields.

The main difference compared to J-REITs is that the investment corporation does not manage the infrastructure assets itself, but leases them to specialist operators, with the rent providing the source of income. All of the investment assets for the currently listed funds are solar power generation facilities. This is because the Feed-in Tariff (FIT) program guarantees that electricity will be purchased at a price set by the government for a certain period, ensuring a stable income stream over that period. Against this backdrop, infrastructure funds are viewed as "medium-risk, medium-return" income products that are less susceptible to economic fluctuations and are expected to generate stable distributions. In addition, since they tend to have low correlation with traditional assets such as stocks, they can help diversify a portfolio.

The current infrastructure fund market faces the challenge that its investment assets are heavily skewed toward solar power facilities that rely on the Feed-in Tariff (FIT) system. In addition to the impact on profitability after the FIT program expires and changes to the program itself, the 20-year time limit on tax incentives is also a source of uncertainty for long-term investment. In light of these challenges, diversifying investment assets is considered an urgent priority for revitalizing the market. In the future, we can expect to see the emergence of funds that incorporate a diverse range of infrastructure assets beyond solar power, such as wind power generation, public facilities like airports and roads, as well as data centers and telecommunications infrastructure.

13. Foreign Investment Trusts/Foreign-Registered Investment Trusts

The sale of foreign investment trusts established under foreign laws in foreign countries was liberalized in 1972. Initially, these investment trusts were subject to regulations, such as a requirement to be invested in foreign-currency-denominated assets, out of concern for the impact on domestic investment trusts. On the other hand, because foreign investment trusts were not subject to the Investment Trust Act, private placement investment trusts, which were not permitted in Japan at the time, could also be introduced.

However, with the 1998 amendment to the Act on Investment Trusts and Investment Corporations, foreign investment trusts also became subject to

Table VII-7. Total Net Assets of Foreign Investment Trusts in Japan (¥100 million) and Their Ratio to Total (Public Offering) Investment Trusts

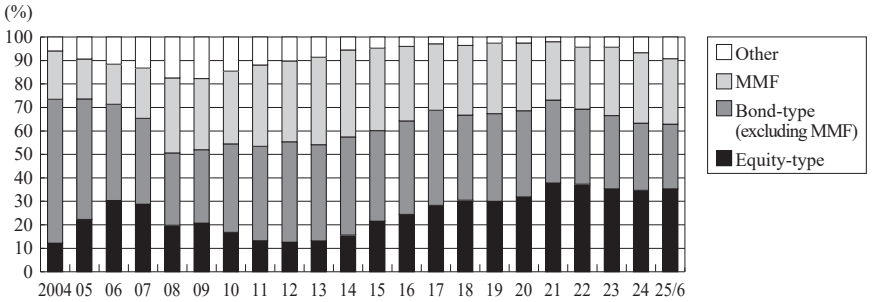
Year-end	Total net assets of foreign investment trusts (A)	Total net assets of domestic investment trusts (B)	Total (C)	(A)/(C)
2004	62,409	409,967	472,376	13.2%
05	79,669	553,477	633,146	12.6%
06	87,102	689,276	776,378	11.2%
07	79,507	797,606	877,113	9.1%
08	51,473	521,465	572,938	9.0%
09	59,306	614,552	673,858	8.8%
10	58,800	637,201	696,001	8.4%
11	52,358	573,274	625,632	8.4%
12	57,839	640,638	698,477	8.3%
13	59,625	815,232	874,857	6.8%
14	62,893	935,045	997,938	6.3%
15	54,248	977,562	1,031,810	5.3%
16	53,540	966,415	1,019,955	5.2%
17	60,913	1,111,920	1,172,832	5.2%
18	54,143	1,051,592	1,105,735	4.9%
19	62,094	1,231,723	1,293,817	4.8%
20	65,735	1,394,311	1,460,046	4.5%
21	68,886	1,645,000	1,713,885	4.0%
22	63,347	1,571,992	1,635,339	3.9%
23	76,095	1,969,070	2,045,164	3.7%
24	94,879	2,460,115	2,554,994	3.7%
25/6	95,362	2,543,247	2,638,609	3.6%

Note: The total net assets of domestic investment trusts are the total net assets of publicly offered investment trusts in Japan.

Source: Total net assets of foreign investment trusts and domestic investment trusts were taken from the Japan Securities Dealers Association and the Investment Trusts Association, Japan, respectively.

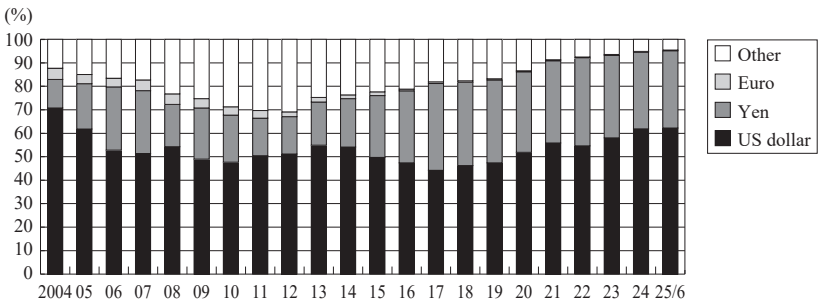
the Act and to the same regulations as domestic investment trusts. Specifically, the provisions included requirements to notify the regulatory authorities in advance for selling products domestically, as well as provisions allowing courts to suspend offerings in cases of inappropriate investment management or where there was an urgent need to protect investors. At the same time, yen-denominated funds also became permitted, and the tax treatment is now the same as that for domestic investment trusts. The disclosure system for prospectuses and other documents is essentially in line with that for Japanese investment trusts. The Japan Securities Dealers Association has Selection Criteria of Foreign Investment Trust Beneficiary Certificates to set the requirements for foreign funds to be available in Japan.

Chart VII-20. Breakdown of Total Net Assets of Foreign Investment Trusts in Japan by Product Category



Source: Compiled by the author based on materials disclosed by the Japan Securities Dealers Association.

Chart VII-21. Breakdown of Total Net Assets of Foreign Investment Trusts in Japan by Presentation Currency



Source: Compiled by the author based on materials disclosed by the Japan Securities Dealers Association.

Total net assets of foreign investment trusts sold in Japan have fluctuated due to factors such as exchange rate movements. In the early 2000s, demand for high-yield foreign bonds surged amid ultra-low interest rates, leading to a sharp increase in sales; by 2004, they accounted for more than 13% of Japan's total investment trust market. Since then, while the assets under management in domestic investment trusts have continued to grow, the balance of foreign funds has remained flat. However, in recent years, driven by rising global stock prices, a weak yen, and the need for diversified investment options, interest in investing in overseas assets has grown. As a result, total net assets of foreign investment trusts have resumed their upward trend, reaching a record high of approximately ¥9.5 trillion as of the end of June 2025. However, since the overall growth of domestic investment trusts during this peri-

od has outpaced foreign funds, their share of the total market has continued to gradually decline, and was 3.6% at the same point.

While money market funds and bond funds still account for a large share of the total assets by product type, equity-type funds have also been growing in recent years due to the global rise in stock prices. In addition, due to growing interest in alternative investments, such as private assets (unlisted stocks and real estate), funds in the Other category have also increased. By currency of denomination, U.S. dollar-denominated assets account for the majority of net assets of foreign investment trusts, and their share is on the rise. In terms of the breakdown by country of domicile, Luxembourg was historically the most popular location, but since around 2005, the number of investment trusts registered in the Cayman Islands has increased. As of the end of March 2025, investment trusts established in the Cayman Islands accounted for 51.3% of total net assets, while Luxembourg-registered entities accounted for 34.9%, maintaining a pattern whereby these two jurisdictions together account for more than 85% of the total.

CHAPTER VIII

The Derivatives Market

1. Futures Trading

"Futures trading" refers to an agreement to buy or sell a specific amount of a commodity or financial instrument at a particular price on a stipulated future date. The history of futures trading is said to be as old as that of commodities trading. It is generally believed that the prototype of today's fully developed futures market in Japan was the account-balancing trading in rice (the rice market) conducted in Osaka in the Edo period (1603–1868). This was a method that made it possible for parties to consummate a transaction by organizing one-on-one negotiated transactions in such a way as to enable them to settle the difference without delivery of the underlying commodity or financial instrument and is considered the beginning of Japan's futures trading. Carrying on this tradition, transactions similar to futures were carried out by settling the difference in the form of forward transactions on the stock exchange in Japan in prewar years. After the war, forward transactions were prohibited by the General Headquarters (GHQ) of the Supreme Commander for the Allied Powers (SCAP) in Japan in order to curb speculative transactions. However, they partially reappeared in the stock market in the form of margin trading for individual investors. In 1972, the Chicago Mercantile Exchange (CME) started trading in currency futures. The Chicago Board of Trade started trading in futures on fictitious bonds called benchmark issues in 1975 (listing approval was granted in 1974); and the Kansas City Board of Trade and the CME started trading in stock index futures in 1982. These types of futures trading spread around the world, leading to the introduction of securities futures trading in Japan as well. The trading of long-term government bond futures that started on the Tokyo Stock Exchange in 1985 was the first financial futures trading conducted in Japan. More products emerged in quick succession: the OSE's "Osaka Stock Futures 50 (OSF50)" in 1987; the OSE's Nikkei 225 futures contracts trading and the Tokyo Stock Exchange's TOPIX futures trading in 1988; and the Tokyo Financial Exchange Inc. (TFX)'s Japanese yen short-term interest rate futures, U.S. dollar short-term interest rate futures, and yen-dollar currency futures in 1989.

Table VIII-1. Years in Which Major Financial Futures of the World Were Listed

Year	Other countries	Japan
1972	Currency futures (mark-dollar and yen-dollar) (CME)	
1976	TB futures (CME)	
1977	Treasury bond futures (CBOT)	
1981	Eurodollar interest rate futures (CME)	
1982	S&P 500 futures (CME); T-note futures (CBOT); U.K. government bond futures and pound interest rate futures (LIFFE)	
1984	FTSE 100 futures (LIFFE)	
1985		Long-term government bond futures (TSE)
1986	French government bond futures (MATIF), Nikkei average futures (SIMEX)	
1987	Japanese government bond futures (LIFFE)	
1988	CAC40 futures; PIBOR (Paris interbank offered rate) futures (MATIF); BUND futures (LIFFE)	Nikkei 225 futures (OSE); TOPIX futures (TSE)
1989	Euroyen interest rate futures (SIMEX)	Euroyen short-term interest rate futures (TIFFE)
1990	Euromark interest rate futures (LIFFE); Nikkei average futures (CME); DAX futures and BUND futures (DTB)	
1991	Interbank interest rate futures (BM&F)	
1992	USD/RUB currency futures (MICEX)	
1996	Euroyen interest rate futures (LIFFE); NASDAQ 100 futures (CME); KOSPI 200 futures (KSE)	
1997	E-mini S&P 500 futures (CME)	
1998	EURIBOR futures (LIFFE), Euro STOXX 50 futures (EUREX)	
1999	E-mini NASDAQ 100 futures (CME)	
2000	CNX Nifty Index futures (NSE)	
2001	Single stock futures (LIFFE), FTSE China A50 (SGX)	
2004	VIX index futures (CFE)	
2005	RTS stock price index futures (RTS)	
2006		Exchange FOREX margin contracts (TFX)
2008	Russell 2000 futures (ICE)	Nikkei 225 mini futures (OSE)
2010	CSI 300 futures (CFFEX)	
2019	Micro E-mini S&P 500 futures (CME), Micro E-mini Nasdaq 100 futures (CME)	
2024		JPX Prime 150 Index Futures (Osaka Exchange)

Note: BM&F: Brazilian Mercantile and Futures Exchange (presently BM&F BOVESPA), CBOT: Chicago Board of Trade, CFE: CBOE Futures Exchange, CFFEX: China Financial Futures Exchange, CME: Chicago Mercantile Exchange, DTB: Deutsche Terminbörse (presently Eurex), ICE: ICE Futures U.S., KSE: Korea Stock Exchange (presently KRX), LIFFE: London International Futures and Options Exchange (presently ICE Futures Europe), MATIF: Marché à Terme International de France (presently Euronext Paris), MICEX: Moscow Interbank Currency Exchange (presently Moscow Exchange), NSE: National Stock Exchange of India, RTS: Russian Trading System (presently Moscow Exchange), SIMEX: Singapore International Monetary Exchange (presently SGX), TSE: Tokyo Stock Exchange; OSE: Osaka Securities Exchange (presently Osaka Exchange), TFX: Tokyo Financial Futures Exchange (presently Tokyo Financial Exchange).

In English, a "futures contract" is a contract that is traded on an exchange. While a futures contract can be transferred to a third party, margin must be deposited to protect against default; a "forward contract", on the other hand, is a contract between parties that cannot be transferred to a third party, but typically does not require margin. Futures contracts on currencies (FXA) and short-term interest rates (FRA) are often forward contracts executed as over-the-counter agreements with banks. As currency and interest rate swaps became widespread in the late 1980s, the market size for instruments such as FXAs and FRAs expanded dramatically in the 1990s.

2. Bond Futures Trading

Trading in securities futures began in 1975 on the Chicago Board of Trade with Government National Mortgage Association (GNMA) bonds. In Japan, following the massive issuance of government bonds, trading in long-term government bond (10-year government bond) futures began on the Tokyo Stock Exchange in 1985, marking the first financial futures trading in Japan. Subsequently, in 1988, super-long-term government bond (20-year government bond) futures were listed on the Tokyo Stock Exchange (trading in these futures was suspended in 2002 but resumed in 2014). With the launch of medium-term (5-year) government bond futures trading on the Tokyo Stock Exchange in 1996, Japan finally developed a product lineup comparable to those of other countries. Incidentally, T-bond (U.S. long-term government bond) futures, which had the world's highest trading volume on the Chicago Board of Trade, were also introduced on the Tokyo Stock Exchange in 1989.

Bond futures are generally traded on the basis of a hypothetical issue called a benchmark issue whose price is assumed to indicate the level of yield curve prevailing at the time. Therefore, the price of bond futures is formed on the assumption that individual bonds lie on this yield curve or on a yield curve parallel to it. Because the seller can choose which issue to deliver, the cheapest-to-deliver issue is normally selected, and the price of the deliverable issue is calculated from the benchmark issue price using a conversion factor prescribed by the exchange.

One of the characteristics of bond futures trading in Japan is that the contract size is based on a par value of ¥100 million, about ten times larger than in other countries (US$100,000 for T-bond futures on the Chicago Board of Trade and €100,000 for BUND futures on Eurex). This reflects the fact that, in the cash bond market, transactions of less than ¥100 million are treated as odd-lot transactions. Since international comparisons are usually based on the number of contracts, the scale of bond futures trading in Japan tends to be

Table VIII-2. Trading Mechanism of Bond Futures

	Medium-term government bond futures	Long-term government bond futures	Mini super long-term government bond futures
Trading object	Standardized Medium-term Government Bond (3%, 5-year residual)	Standardized Long-term Government Bond (6%, 10-year residual)	Standardized Super Long-term Government Bond (3%, 20-year residual)
Delivery object	Interest-bearing 5-year government bonds with residual maturity of 4 years to 5 years and 3 months	Interest-bearing 10-year government bonds with a residual maturity of 7 years to 11 years	Interest-bearing 20-year government bonds with a residual maturity of 19 years and 3 months to 20 years
Contract month	3 contract months from March, June, September, and December	3 contract months from March, June, September, and December	3 contract months from March, June, September, and December
Delivery date	20th of March, June, September, and December	20th of March, June, September, and December	20th of March, June, September, and December
Final trading day	5 business days prior to the delivery date	5 business days prior to the delivery date	5 business days prior to the delivery date
Trading hours	8:45–11:02, 12:30–15:02 15:30–6:00 the following day	8:45–11:02, 12:30–15:02 15:30–6:00 the following day	8:45–11:02, 12:30–15:02 15:30–6:00 the following day
Trading unit	¥100 million in par value	¥100 million in par value	¥10 million in par value
Tick size	¥0.01 per par value of ¥100	¥0.01 per par value of ¥100	¥0.01 per par value of ¥100
Price limit	Standard: Base price ±¥2.00 Maximum: Base price ±¥3.00	Standard: Base price ±¥2.00 Maximum: Base price ±¥3.00	Standard: Base price ±¥4.00 Maximum: Base price ±¥6.00
Circuit breaker mechanism	In trading for the central contract month, if a trade is executed or a bid (offer) is quoted at the upper (or lower) price limit, trading in all contract months is suspended for at least 10 minutes.		

Source: Compiled from the JPX website and other sourcesc.

Table VIII-3. Bond futures trading activity

	Long-term government bond futures		Mini long-term government bond futures	
	Number of trades	Number of open positions	Number of trades	Number of open positions
2020	7,148,071	68,770	1,648	28
2021	8,187,993	102,754	1,055	40
2022	8,084,592	129,574	3,327	136
2023	9,562,331	191,850	3,848	81
2024	11,528,252	159,895	3,839	52
2025	8,020,518	161,614	6,372	107

Note: Data as of the end of September 2025.
Source: Compiled from the JPX website and other sources.

underestimated.

It is said that another characteristic of the bond futures market of Japan is that it is concentrated in trading in long-term government bond futures. This is likely to be related to the fact that the maturities of government bonds, though to a lesser extent than before, tend to be primarily in 10-year issues. Yet this stands in contrast with the U.S. and Germany where medium-term bond futures trading maintains liquidity. Since the mid-1990s, however, the concentration of cash government bond trading on the benchmark issue, which was a phenomenon peculiar to Japan, has eased. Since the end of March 1999, the practice of designating a government bond as a benchmark issue has been discontinued, with 10-year government bond futures assuming the role played by benchmark issues. It should be noted that mini-long-term government bond futures, which were introduced on the Tokyo Stock Exchange in 2009, were delisted after the September 2021 contract.

3. Stock Index Futures Trading

In Japan, the Osaka Securities Exchange (OSE, now the Osaka Exchange) started trading Osaka Stock Futures 50, a futures contract on a basket of 50 individual stocks, in 1987. This was followed in 1988 by the listing of Nikkei 225 futures on the Osaka Securities Exchange and TOPIX futures on the Tokyo Stock Exchange (TSE). Nikkei 300 futures were listed on the Osaka Securities Exchange in 1994. In 1998, High-Tech 40, Financial 25, and Consumer 40 sector index futures (later discontinued) were listed on the Osaka Securities Exchange, while sector index futures for the electric appliances, transportation equipment, and banking industries were listed on the Tokyo Stock Exchange. The Tokyo Stock Exchange launched S&P/TOPIX 150 stock index futures in 2001, while futures on the MSCI Japan Index, FTSE Japan Index, and Dow Jones Industrial Average were listed on the Osaka Securities Exchange in 2002. RN (Russell Nomura) Prime Index futures were introduced on the OSE in 2005 (currently suspended), followed by Nikkei 225 mini futures in 2006; TOPIX mini, TOPIX Core30, and TSE REIT Index futures in 2008; Nikkei 225 Dividend Index futures (OSE), TOPIX Dividend Index futures, TOPIX Core30 Dividend Index futures, and margin contracts on the Nikkei 225 (Tokyo Financial Exchange) in 2010; Nikkei 225 Volatility Index futures and NY Dow futures in 2012; CNX Nifty (Nifty 50 Index) futures (later discontinued) and JPX Nikkei Index 400 futures on the Osaka Exchange in 2014; TSE Mothers Index futures (later discontinued) and Taiwan Capitalization Weighted Stock Index futures in 2016; and FTSE China 50 Index futures in 2017. Most recently, in March 2024, JPX Prime 150 Index futures were listed on the Osaka Exchange. Prior to their introduction in

Table VIII-4. Trading Mechanism of Stock Index Futures

	Nikkei 225 Mini Futures	Nikkei 225 futures	TOPIX futures
Trading object	Nikkei Stock Average	Nikkei Stock Average	Tokyo Stock Price Index (TOPIX)
Contract month	June & December: Nearest 10 contract months March & September: Nearest 3 contract months Other months: Nearest 3 contract months	June & December: Nearest 16 contract months March & September: Nearest 3 contract months	June & December: Nearest 10 contract months March & December: Nearest 3 contract months
Trading unit	Nikkei Stock Average × 100	Nikkei Stock Average × 1,000	TOPIX × ¥10,000
Tick size	¥5 in the Nikkei Stock Average	¥10 in the Nikkei Stock Average	0.5 points in TOPIX
Maturity date	The second Friday of March, June, September, and December	The second Friday of March, June, September, and December	The second Friday of March, June, September, and December
Final trading day	1 business day prior to the maturity date	1 business day prior to the maturity date	1 business day prior to the maturity date
Trading hours	8:45–15:15, 17:00–6:00 the following day	8:45–15:15, 17:00–6:00 the following day	8:45–15:45, 17:00–6:00 the following day
Price limit	Standard: Base price ± 8% First expansion: Base price ± 12% Second expansion: Base price ± 16%	Standard: Base price ± 8% First expansion: Base price ± 12% Second expansion: Base price ± 16%	Standard: Base price ± 8% First expansion: Base price ± 12% Second expansion: Base price ± 16%
Circuit breaker mechanism	In trading for the central contract month, if a trade is executed or a bid (offer) is quoted at the upper (or lower) price limit, trading in all contract months is suspended for at least 10 minutes.		

Source: Compiled from the JPX website and other sources.

Table VIII-5. Transition in Stock Index Futures Trading

	Nikkei 225 Futures		Nikkei 225 mini futures		TOPIX futures	
	Number of trades	Number of open positions	No. of trades	Number of open positions	No. of trades	Number of open positions
2020	27,171,013	304,922	321,718,519	365,751	27,702,276	514,650
2021	18,073,552	247,648	224,009,276	331,413	23,309,732	423,004
2022	22,043,528	267,254	275,463,005	423,184	25,785,856	425,037
2023	21,096,055	249,190	250,485,863	389,315	26,627,156	518,358
2024	18,825,258	189,933	230,289,254	295,807	23,486,839	452,252
2025	11,278,399	193,426	136,055,171	289,547	15,502,230	485,659

Note: Data as of the end of September 2025.
Source: Compiled from the JPX website and other sources.

Japan, Nikkei 225 futures began trading on the Singapore International Monetary Exchange (SIMEX, now SGX-DT) in 1986. Since 1992, dollar- and yen-denominated Nikkei 225 futures have also been traded on the Chicago Mercantile Exchange (CME).

Nikkei 225 futures have been the most actively traded stock index futures in Japan, while TOPIX futures, Nikkei 225 mini futures, and Nikkei Average futures also have considerable liquidity. Thus, Japan's stock index futures market is characterized by the existence of multiple liquid stock index futures contracts. Since June 1989, the last trading day falls, as is the case with the United States, one business day prior to maturity, and the final settlement price is decided on the basis of a special quotation (SQ) that is computed on the basis of the opening prices of component issues on the date of maturity. In addition to a three-stage daily price limit, domestic stock index futures trading in Japan is subject to a temporary trading halt known as the circuit breaker system, which is separate from the daily price limit and does not exist in the cash market. These measures are intended to curb excessive price fluctuations.

4. Financial Futures Trading

Currency futures trading started in the United States in 1972, and futures trading on interbank interest rates began with the listing of Eurodollar short-term interest rate futures in the United States in 1982. In Japan, Japanese yen short-term interest rate futures, U.S. dollar short-term interest rate futures (trading suspended in 1998), and yen/U.S. dollar currency futures (delisted in 1992) were listed simultaneously on the Tokyo International Financial Futures Exchange in 1989. These contracts were followed by the listing on TIFFE/TFX of dollar/yen currency futures in 1991; one-year Japanese yen interest rate futures in 1992 (trading suspended in 1998); Japanese yen LIBOR interest rate futures in 1999; five-year and ten-year yen interest rate swap futures in 2003 (trading suspended in 2007); and exchange foreign exchange margin contracts (Click 365) on the U.S. dollar, euro, pound sterling, and Australian dollar in 2005. In 2009, TFX listed uncollateralized overnight call rate futures and GC repo spot-next rate futures, and in 2010 it listed margin contracts on the Nikkei 225, FTSE 100, and DAX (Click Kabu 365). TIFFE was renamed the Tokyo Financial Exchange (TFX) in 2007.

On the TFX, trading has been concentrated from the outset in Japanese yen short-term interest rate futures, with little trading in other products. To increase liquidity in these financial futures, a market-maker system was introduced for U.S. dollar short-term interest rate futures and yen/U.S. dollar currency futures in 1990, for dollar/yen currency futures in 1991, and for options

Table VIII-6. Trading Mechanism of Financial Futures

	3-month Euroyen interest rate futures	USD-JPY exchange FOREX margin contracts	Nikkei 225 margin contracts
Trading unit	Principal ¥100 million	US$10,000	Nikkei stock average × 100
Indicating method	100 minus rate of interest (%, Act/360 day basis)	Yen equivalent per U.S. dollar	Yen equivalent per stock price index
Price asked	0.005 (¥1,250)	0.005 (¥50)	¥1 (¥100)
Contract month	Mar, Jun, Sep, Dec, cycle (20 contract months traded at any one time)	No	No
Final trading day	Two business days prior to the third Wednesday of the contract month	No	No
Final settlement day	Business day following the final trading day	No	No
Settlement method	Settlement of differences (the final settlement price is equal to ¥100 less TIBOR rounded off at the fourth decimal places)	Making up differences	Making up differences
Daily price limit	No	No	No
Trading hours	8:45–11:30 12:30–15:30 15:30–20:00	Monday 7:10 a.m. to 6:55 a.m. the following day Tuesday to Thursday 7:55 a.m. to 6:55 a.m. the following day Friday 7:55 a.m. to 6:00 a.m. the following day (1 hour each during U.S. Daylight Sav- ings Time)	8:30 a.m.–6:00 a.m. the following day (5:00 a.m. during U.S. Daylight Savings Time)

Source: Tokyo Financial Exchange website.

on Japanese yen short-term interest rate futures in 1992. However, liquidity did not improve significantly. Meanwhile, in 1996, TIFFE introduced TIFFE-SPAN (Standard Portfolio Analysis of Risk), a system for calculating margin commensurate with risk. It also linked its Japanese yen short-term interest rate futures with those of the London International Financial Futures and Options Exchange (LIFFE) and extended trading hours. In 1997, it introduced night trading for dollar/yen currency futures, making efforts to promote trading. However, amid the ultra-low interest rate environment that had prevailed since 1995, trading that had expanded in the first half of the 1990s stagnated. In 2022, the Bank of Japan announced measures including greater flexibility in yield curve control as part of its monetary policy, leading to increased at-

Table VIII-7. TONA Futures and Options

	3-Month TONA interest rate futures	T3-Month TONA interest rate futures options
Trading unit	Value of 1 basis point = ¥2,500	3-month TONA interest rate futures, 1 contract
Indicating method	100 minus rate of interest	Minimum price fluctuation for 3-month TONA interest rate futures Values in increments of (0.001)
Price asked	0.001 (¥250)	0.001 (¥250)
Contract month	From March, June, September, and December through the following 20 contract months	From March, June, September, and December through the following 50 contract months
Final trading day	The third Wednesday three months after the contract month	The third Wednesday three months after the contract month
Final settlement day	Business day following the final trading day	Business day following the final trading day
Settlement method	Net Settlement (calculated to the third decimal place)	—
Trading hours	8:45–11:30 12:30–15:30 15:30–20:00	8:45–11:30 12:30–15:30 15:30–20:00

Source: Tokyo Financial Exchange website.

tention on short-term interest rate futures. In addition, following the discontinuation of LIBOR, three-month Euroyen interest rate futures were discontinued in June 2023. As an alternative, three-month TONA futures, which reference TONA, the uncollateralized overnight call rate, were listed in May 2023. Click Kabu 365 (stock index margin trading), which was listed in 2010 following the 2005 launch of Click 365 (foreign exchange margin trading), has gradually expanded the range of underlying indices to include developed-country stock indices such as the NY Dow, FTSE 100, and DAX, as well as commodity ETFs, including gold and crude oil.

5. Options Trading

Options trading refers to a contract to trade the right to buy or sell a specified quantity of a commodity or financial instrument at a predetermined price (the strike price) at a future date. The right to buy is called a call option, and the right to sell is called a put option.

The Chicago Board Options Exchange (CBOE) established in 1973 is the

Table VIII-8. Years in Which Major Financial Options of the World Were Listed

Year	Other countries	Japan
1973	U.S. options on individual stocks (CBOE)	
1974	U.S. options on individual stocks (AMEX, PHLX, PCX)	
1978	U.K. options on individual stocks (LTOM)	
1982	Currency options (PHLX), T-bond futures options (CBOT)	
1983	S&P 100 options; S&P 500 options (CBOE); S&P 500 futures options (CME)	
1984	Currency futures options (CME), FTSE 100 options (LIFFE)	
1987	Pound interest rate futures options (LIFFE), options on French individual stocks (MONEP)	
1988	French government bond futures options (MATIF); CAC40 options (MONEP); BUND futures options (LIFFE)	
1989		Bond OTC options (OTC); Nikkei 225 options (OSE); Nikkei 225 options (OSE); TOPIX options (TSE)
1990	Options on individual German stocks (DTB); Euroyen interest rate futures options (SIMEX); Euromark interest rate futures options (LIFFE); DAX options and BUND futures options (DTB)	Long-term government bond futures options (TSE)
1991		Euroyen short-term rate futures options (TFX)
1992	Nikkei average futures options (SIMEX)	
1994	JGB futures options (SIMEX)	
1997	KOSPI 200 options (KSE)	Options on individual stocks (TSE, OSE)
1998	EURIBOR futures options (LIFFE), Euro STOXX 50 options (EUREX), TAIEX options (TAIFEX)	
2000	U.S. options on individual stocks (ISE)	
2001	Nifty options (NSE), SENSEX options (BSE)	
2006	VIX index options (CBOE)	
2013	Nifty Bank option (NSE)	
2023		Nikkei 225 mini options (Osaka Exchange)

Note: AMEX: American Stock Exchange (presently NYSE MKT), BSE: Bombay Stock Exchange, CBOE: Chicago Board Options Exchange, CBOT: Chicago Board of Trade, CME: Chicago Mercantile Exchange, DTB: Deutsche Terminbörse (presently EUREX), ISE: International Securities Exchange, KSE: Korea Stock Exchange (presently KRX), LIFFE: London International Futures and Options Exchange (presently ICE Futures Europe), LTOM: London Traded Options Market (presently ICE Futures Europe), MATIF: Marché à Terme International de France (presently Euronext Paris), MONEP: Marché des Options Négociable de Paris (presently Euronext Paris), NSE: National Stock Exchange of India, PHLX: Philadelphia Stock Exchange (presently Nasdaq OMX PHLX), PCX: Pacific Exchange (presently NYSE Arca), SIMEX: Singapore International Monetary Exchange (presently SGX), TAIFEX: Taiwan Futures Exchange,TSE: Tokyo Stock Exchange, OSE: Osaka Securities Exchange (presently Osaka Exchange), TFX: Tokyo International Financial Futures Exchange (presently Tokyo Financial Exchange).

first fully developed options trading market. This provided a method that made it possible for parties to consummate a transaction by organizing one-on-one negotiated transactions in such a way as to enable them to settle the difference without delivery of the underlying commodity or financial instrument, similar to futures trading. This is considered to have been a groundbreaking event in the history of options trading.

The options trading started by the CBOE in 1973 spread to other financial instruments, such as currency options trading, bond options trading, and bond futures options trading, in 1982; stock index options trading, and stock index futures options trading in 1983; and to currency futures options trading in 1984. And it has since spread to major financial markets worldwide. In Japan, OTC bond options (bond trading with embedded options) were introduced in April 1989. The Osaka Securities Exchange (now the Osaka Exchange, OSE) introduced Nikkei 225 options in June; the Tokyo Stock Exchange (TSE) introduced TOPIX options, and the Nagoya Stock Exchange introduced Options 25 (discontinued in 1998), in October. The TSE introduced long-term government bond futures options in 1990, followed by Japanese yen short-term interest rate futures options on the Tokyo International Financial Futures Exchange (TIFFE) in 1991. In addition, the OSE introduced Nikkei 300 options in 1994, and both the TSE and the OSE introduced options on individual stocks in 1997. In 1998, the OSE introduced three sector stock index options (High-Tech 40, Financial 25, and Consumer 40), followed by Nikkei 225 Weekly options in 2015 and Nikkei 225 Mini Options in 2023.

Listed options are traded on exchanges. While they can be transferred to a third party, the seller is required to deposit a margin with the exchange to provide against defaults on the contract. OTC options trading is a one-on-one transaction, and it cannot be transferred to a third party, but the seller is not required to deposit a margin. Unlike stock options and stock index options, many currency or interest rate options are traded with banks or securities companies on the OTC market. However, uncleared OTC option transactions between major financial institutions are subject to margin requirements.

6. Bond Options Trading

Treasury bond (T-bond) options on the Chicago Board Options Exchange and Treasury note (T-note) options on the American Stock Exchange, both launched in 1982, were the first listed bond options. T-bond futures options, introduced on the Chicago Board of Trade in 1982, were the first listed options on bond futures. In Japan, OTC bond options trading was introduced in April 1989 under the name "bond trading with embedded options." Trading

Table VIII-9. Trading Mechanism of Bond Options Trading

	OTC bond options	Long-term government bond futures options	Medium-term government bond futures options (Trading suspended in 2002)
Trading object	All debt securities other than convertible bonds and warrant bonds	Call options or put options on long-term government bond futures	Call options or put options on medium-sterm government bond futures
Contract months	Free	March, June, September, December cycle (nearest two contract months traded at any one time), other months (up to nearest two contract months)	March, June, September, December cycle (nearest two contract months traded at any one time), other months (up to nearest two contract months)
Final trading day	—	The last trading day of the month immediately preceding Mar, Jun, Sep, and Dec.	The last trading day of the month immediately preceding Mar, Jun, Sep, and Dec.
Delivery date	Within one year and 3 months from the date of contract	Business day following the trading day	Business day following the trading day
Trading unit	¥100 million in par value	¥100 million par value of long-term government bond futures per contract	One contract on medium-term JGB futures
Price asked	—	¥0.01 per par value of ¥100	¥0.01 per par value of ¥100
Option exercise price	Free	±10 prices at ¥0.5 intervals, additional prices set according to price movement in underlying futures	±10 prices at ¥0.5 intervals, additional prices set according to price movement in underlying futures
Daily price limit	—	Standard: Base price ±¥2.10 Maximum: Base price ±¥3.00	Standard: Base price ±¥2.10 Maximum: Base price ±¥3.00
Circuit breaker mechanism	—	When circuit breaker mechanisms are in place for the underlying futures contracts	When circuit breaker mechanisms are in place for the underlying futures contracts
Method of exercising the right	Free	American option	American option

Source: Compiled from the JPX website and Japan Securities Dealers Association Website.

in long-term government bond futures options began on the Tokyo Stock Exchange (now listed on the Osaka Exchange) in 1990, and medium-term government bond futures options (trading suspended in 2002) were introduced on the Tokyo Stock Exchange in 2000.

Unlike bond futures trading, which is based on a benchmark issue, OTC bond options are traded on individual bonds, such as government bonds, corporate bonds, and foreign bonds. Because they are traded over the counter

Table VIII-10. Transition in Bond Option Trading

	Trading Volume of Bonds with Options (New Transactions, in 100 million yen)	Long-Term Government Bond Futures Options	
		Number of trades	Number of open positions
2020	961,554	323,210	3,710
2021	780,384	193,708	1,159
2022	953,370	85,960	300
2023	3,682,113	81,350	1,624
2024	3,333,280	61,871	288
2025	2,185,012	32,273	916

Note: For 2025, the data for bonds with warrants is from the end of August and the data for long-term government bond futures options is from the end of September.
Source: Compiled from the JPX website and Japan Securities Dealers Association Website.

rather than on an exchange, the contracts cannot be transferred to a third party (most transactions involve government bonds). As with government bond futures trading, bond options are traded in units of ¥100 million in par value. Because their life (from the date of contract to the date of delivery) is restricted to a maximum period of one year and three months, and as they cannot be resold to a third party, contracts usually run a relatively long period—six months or one year.

By contrast, long-term government bond futures options are listed American-style options on long-term government bond futures, meaning that they may be exercised on any trading day before expiration. Their trading rules are similar to those for long-term government bond futures. Whereas long-term government bond futures have only three contract months with a maximum period of nine months, long-term government bond futures options offer up to four contract months with a maximum period of six months. In addition, compared with OTC bond options, transactions in long-term government bond futures and long-term government bond futures options are concentrated in those with a short remaining life.

While options trading has long been active in Europe and the United States, the use of options remains limited in Japan. In particular, trading in long-term government bond futures options remains very limited compared with trading in long-term government bond futures. A likely contributing factor is that investors' interest is concentrated in outright transactions that deal only in options, and covered transactions are not made in conjunction with underlying assets (namely, long-term government bond futures). Today, interest rate risk management is centered on swaptions and OTC derivatives.

7. Stock Index Options Trading

Trading in listed options on individual stocks began with the opening of the Chicago Board Options Exchange (CBOE) in 1973. In 1983, the CBOE introduced S&P 100 options, the first stock index options. Also in 1983, the Chicago Mercantile Exchange (CME) listed S&P 500 futures options, and the New York Futures Exchange (NYFE) listed NYSE Composite Index futures options, the first stock index futures options. In Japan, a series of stock index options have been listed—the Nikkei 225 stock index options on the Osaka Securities Exchange in June 1989, Options 25 on the Nagoya Stock Exchange in September of the same year (discontinued in 1998), and the TOPIX options on the Tokyo Stock Exchange in 1989. In 1994, the Osaka Securities Exchange introduced Nikkei 300 options (trading suspended in 2010). In 1998, it introduced three sector stock index options (High-Tech 40, Financial 25, and Consumer 40; trading suspended in 2002), followed by S&P/TOPIX 150 options on the Tokyo Stock Exchange in 2001 (trading suspended in 2002). In 2015, the Osaka Exchange also introduced weekly Nikkei 225 options. Furthermore, options on Nikkei 225 futures have been traded on SIMEX (now SGX-DT) since 1992.

In Japan, listed stock index options (the Nikkei 225 options) are most actively traded on the Osaka Exchange. Unlike stock index futures, other stock index options are scarcely traded in Japan.

Comparing the trading rules for the Nikkei 225 options, the TOPIX options, and SGX Nikkei 225 futures options, domestic stock index options are options on the cash indexes, whereas SGX Nikkei 225 futures options are options on SGX Nikkei 225 futures. Another difference is that long-term options are available for both Nikkei 225 options and SGX Nikkei 225 futures options. Meanwhile, in computing the amount of margin, all exchanges have adopted the method of netting margin in accordance with risks called Standard Portfolio Analysis of Risk (SPAN) developed by the Chicago Mercantile Exchange, so there are no significant differences. In addition, when a circuit breaker is triggered in stock index futures trading, trading in stock index options is also temporarily halted.

8. Securities Options Trading

Options on individual stocks were first listed on the Chicago Board Options Exchange in 1973, with call options. In 1977, put options were also listed on the same exchange. In other countries while options on individual stocks were listed first followed by stock index options, in Japan stock index op-

Table VIII-11. Trading Mechanism of Stock Index Options

	Nikkei 225 Options	TOPIX Options
Trading object	Call options or put options on Nikkei Stock Average	Call options or put options on TOPIX
Contract month	June and December contracts are nearest 16 contract months, March and September contracts are nearest 3 contract months (Quarterly contracts extend up to 8 years), while other contracts are nearest 8 contract months (up to 12 months).	June and December contracts are nearest 10 contract months, March and September contracts are nearest 3 contract months (Quarterly contracts extend up to 5 years), while other contracts are nearest 6 contract months (up to 9 months).
Trading unit	Nikkei Stock Average × 1,000	TOPIX × ¥10,000
Tick size	¥1 for prices of ¥100 or less ¥5 for prices over ¥100	0.1 points for prices up to 20 points, 0.5 points for prices over 20 points
Maturity date	The second Friday of the contract month	The second Friday of the contract month
Final trading day	1 business day prior to the maturity date	1 business day prior to the maturity date
Trading hours	8:45–15:45, 17:00–6:00 the following day	8:45–15:45, 17:00–6:00 the following day
Exercise price	Initially, ± 16 strike prices at ¥250 intervals; for the closest three contract months, starting from the business day preceding the SQ day of the month when less than 3 months remain, ± 16 strike prices at revised ¥125 intervals.	Initially, ± 6 strike prices at 50-point intervals; for the closest three contract months, starting from the business day preceding the SQ day of the month when less than 3 months remain, ± 9 strike prices at 25-point intervals.
Method of exercising rights	European option	European option
Price limit	Normal conditions: 4, 6, 8 or 11% according to the base price First expansion: Normal conditions +3% Second expansion: First expansion +3%	Normal conditions: 4, 6, 8 or 11% according to the base price First expansion: Normal conditions +3% Second expansion: First expansion +3%
Circuit breaker mechanism	Possible interruption in connection with the actuation of the circuit breaker mechanism for Nikkei 225 futures trading	Possible interruption in connection with the actuation of the circuit breaker mechanism for TOPIX futures trading

Source: Compiled from the JPX website.

tions were introduced in 1989 first and equity options on 20 individual stocks were listed subsequently on the Tokyo Stock Exchange and the Osaka Securities Exchange in 1997 (seven of them were listed on both exchanges). Since then, the scope of trading has been expanded to cover all listed securities, and the product was renamed "securities options." On March 24, 2014, the derivatives market of the Tokyo Stock Exchange was integrated into that of the Osaka Exchange, and individual securities options trading on the Osaka Exchange was integrated with securities options trading on the Tokyo Stock Ex-

Table VIII-12. Stock Index Options Trading Activity

	Nikkei 225 options		Nikkei 225 mini options		TOPIX options	
	Number of trades	Number of open positions	Number of trades	Number of open positions	Number of trades	Number of open positions
2020	28,666,550	1,253,114	—	—	306,978	78,589
2021	24,187,070	1,107,069	—	—	431,916	83,711
2022	24,034,266	1,407,507	—	—	572,592	98,128
2023	22,294,102	1,117,401	6,614,162	37,889	635,019	130,646
2024	16,493,631	647,959	11,600,044	28,838	751,136	140,020
2025	10,705,095	780,763	9,527,317	66,236	344,878	167,932

Note: Data as of the end of September 2025.
Source: Compiled from the JPX website and other sources.

change on the same date.

Soon after the Chicago Board Options Exchange was established, the introduction of securities options to Japan was considered. However, their introduction was postponed for more than 20 years due to fears that they might compete with margin trading, a major source of income for small- to medium-sized securities companies.

The trading rules for securities options are basically the same as those for stock index options. The main differences are that the underlying securities are physically delivered and that the final settlement price is determined by the closing price of the underlying securities.

Although it was thought that securities options might compete with margin trading, they were not as actively traded. Possible reasons include the lack of a tradition of options trading in Japan, investors' limited familiarity with options, and, in particular, the relatively low level of securities options trading by individual investors compared with other countries. Options are traded in combination with their underlying assets. In Japan, capital gains earned from trading underlying equities and from securities options are subject to separate taxation. However, investors are not allowed to offset gains and losses between these two categories. This is believed to have discouraged individual investors from participating in securities options trading. Furthermore, in other countries, illiquid securities options markets are supported by market makers who provide quotations in exchange for preferential trading terms. However, although the Osaka Exchange has introduced a market-maker system, it has not led to a significant increase in trading volume.

Table VIII-13. Trading Mechanism of Securities Options

	Securities Options (Osaka Exchange)
Trading object	Call options or put options on domestically listed marketable securities
Contract month	Nearest two contract months + nearest two contract months from March, June, September and December
Delivery date	Fifth day from the exercise date
Maturity date	The second Friday of the contract month
Final trading day	1 business day prior to the maturity date
Trading unit	Trading unit of the underlying stock
Tick size	Between ¥0.1 and ¥5,000 depending on the trading unit of the underlying asset and the option price
Exercise price	±2 prices at 16 stages from ¥25 to ¥5 million depending on the price of the underlying stock, with additional prices available afterwards based on market conditions.
Price limit	The value derived by taking the base price of the security for the option trade on the designated market as of the trade date and multiplying it by 25%
Position limit	Set for each eligible security
Trading hours	9:00–11:35, 12:30–15:45
Method of exercising rights	European option

Source: Compiled from the JPX website and other sources.

Table VIII-14. Securities Options Trading Activity

	Securities Options	
	Number of trades	Number of open positions
2020	1,347,612	59,023
2021	2,032,945	28,011
2022	2,059,828	46,022
2023	2,700,442	138,908
2024	1,493,033	61,015
2025	2,142,690	224,531

Note: Data as of the end of September 2025.
Source: Compiled from the JPX website and other sources.

9. OTC Derivatives Trading

The market on which derivatives trading achieved remarkable growth around the world in the 1990s was not the exchanges but the OTC market. In particular, interest rate swap trading, which is generally considered to have begun in 1982, spread not only among financial institutions but also among business corporations amid financial liberalization, becoming the dominant product in the derivatives market. As statistics on derivatives trading conducted on the exchanges are widely available, it is easy to follow what is happening in the market. However, because there was no organization that kept track of the derivatives trading conducted on the OTC market, it was extremely difficult to assess the situation. To address this, the Bank for International Settlements (BIS) has published an OTC derivatives market survey together with its Triennial Central Bank Survey of Foreign Exchange Markets, which has been conducted every three years since 1986. The OTC derivatives survey has been included since 1995. In Japan, the Bank of Japan has conducted the Central Bank Survey of Foreign Exchange and Derivatives Market Activity every three years since 1998 and has published the results.

In April 2025, the average daily notional amount of OTC interest rate derivatives traded in Japan (excluding currency swaps) was US$169.8 billion (compared with US$7.9 trillion worldwide), up 234.7% from the previous survey in April 2022 (compared with a 59% increase worldwide). By product, interest rate swaps accounted for US$161.8 billion (overnight index swaps: US$147.4 billion; other swaps: US$14.4 billion), up 233.6% (overnight index swaps: up 448%; other swaps: down 33.5%); interest rate options totaled US$2.6 billion, up 26.8%; and forward rate agreements (FRAs) totaled US$5.4 billion, up 2,834.3%. In addition, the outstanding notional amount of OTC interest rate derivatives held by Japanese financial institutions stood at US$73.8 trillion at the end of June 2025, up 8% from the end of June 2024. Incidentally, the outstanding notional amount of exchange-traded interest rate derivatives stood at US$3.4 trillion at the end of June 2025.

At the G20 Pittsburgh Summit in 2009, it was agreed that all standardized OTC derivatives contracts should be cleared through central counterparties (CCPs) by the end of 2012. In Japan, the Japan Securities Clearing Corporation (JSCC), a subsidiary of Japan Exchange Group (JPX), began clearing CDS transactions in July 2011 and interest rate swaps in October 2012. According to JSCC, following the Bank of Japan's review of its monetary policy, the monthly clearing volume of interest rate swaps reached ¥1,060 trillion (sale and purchase included) in December 2024, while the annual clearing volume for 2024 reached ¥8,272 trillion, more than double the previous year's ¥4,025 trillion.

Table VIII-15. OTC CFD transaction balance

	Number of accounts	Margin etc. Balance	Open balance (by underlying asset)			
			Individual stock-related	Stock index-related	Bond-related	Other Securities-related
End of March 2018	185,131	243	40	285	24	17
End of September 2018	214,272	277	59	366	14	22
End of March 2019	248,497	309	31	390	14	22
End of September 2019	277,426	381	29	487	26	28
End of March 2020	314,097	545	18	440	7	30
End of September 2020	361,471	605	78	690	20	28
End of March 2021	409,729	678	140	805	26	28
End of September 2021	456,123	891	183	1,370	65	29
End of March 2022	551,825	1,067	161	1,341	130	34
End of September 2022	671,089	1,179	113	1,668	119	37
End of March 2023	836,038	1,305	119	1,671	220	33
End of September 2023	815,553	1,091	135	1636	225	38
End of March 2024	649,381	1,041	203	1670	234	49
End of September 2024	699,880	1,050	153	1,290	642	38
End of March 2025	739,505	1,098	151	1,638	88	38

Note: Transaction amounts are based on the notional principal (contract price × trading unit × quantity). and the outstanding balance is the gross balance of long and short positions. Amounts are in units of ¥100 million.
Source: JSDA website.

Table VIII-16. Status of OTC CFD trading

	Individual stock-related		Stock index-related		Bond-related		Other Securities-related	
	No. of deals	Trading value	No. of deals	Trading value	No. of deals	Trading value	No. of deals	Trading value
2018	249,173	1,826	9,165,358	217,005	8,217	981	798,917	1,913
2019	237,945	1,122	10,550,957	190,759	11,086	1,339	1,401,035	2,160
2020	884,925	4,581	30,194,537	507,076	14,796	1,572	2,612,288	2,646
2021	1,221,006	8,374	28,449,829	597,074	42,979	3,563	1,580,413	1,363
2022	2,882,767	9,954	44,499,641	1,137,510	198,652	17,578	1,236,829	1,723
2023	1,326,325	6,634	38,085,352	1,037,170	239,011	27,182	915,422	1,998
2024	1,233,605	12,258	47,806,109	1,090,092	163,946	20,148	764,666	2,621
2025	361,027	972	5,140,176	116,515	5,668	438	88,132	224

Note: Data through March 2025. Amounts are in units of ¥100 million.
Source: JSDA website.

10. Credit Derivatives Trading

Credit derivatives trading is a generic term for transactions that trade the credit risk associated with loans and corporate bonds through instruments such as swaps and options. Unlike conventional derivatives, which transfer market risk, credit derivatives trade credit risk. Credit risk trading may be characterized as trading in guarantees in that it not only deals in guarantees against default but also provides a variety of products that cover the risk of declining creditworthiness caused by a deterioration of business performance.

Credit derivatives are traded largely in three typical types: credit default swaps (CDS), total return swaps (TRS), and credit-linked notes (CLN). A CDS is a type of options trading that provides protection against the credit risk associated with a loan, and when the borrower defaults on the loan underlying the CDS, the loss arising from such default is covered. CDS derives its name from the fact that the premium is paid in the form of a swap. Next, a TRS is a deal that swaps the total profit or loss (coupon payments and valuation gains or losses) for the market interest rate, and it is used when the bondholder cannot sell the bond. A CLN is a bond that links credit risk to a bond issued by a different issuer. It may be regarded as a bond that incorporates the structure of a CDS. A CLN is redeemed in full on maturity unless the company designated in the contract defaults on its obligations, but when the company defaults the CLN is redeemed at a reduced value prior to maturity. While a CDS is concluded on the assumption that the protection seller has sufficient creditworthiness, a CLN is backed by the purchase of a bond. Therefore, a CLN has the advantage that it can be concluded regardless of the investor's credit standing.

According to data published by the Bank of Japan, the outstanding notional amount of credit derivatives in Japan accelerated its growth after 2003, reaching approximately US$1.1 trillion at the end of June 2010. However, it subsequently began to decline, falling to less than US$400 billion by the end of December 2018, less than half its peak level. Since then, the outstanding notional amount has gradually increased, reaching approximately US$880 billion at the end of June 2025. This somewhat pronounced trend appears to mirror that of the United States. In the United States as well, the outstanding notional amount of credit derivatives peaked in 2008 and, following the global financial crisis, had fallen to about one-third of its peak level by 2020.

11. Central Counterparty (CCP)

Netting is a method of offsetting receivables and payables to improve settle-

Table VIII-17. Credit Derivatives Trading in Japan

(Outstanding balance of notional principal; US $ million)

	OTC trading	Credit default swap			Total return swap			Credit-linked notes			Other products		
	Total	Total	Sell	Buy	Total	Sell	Buy	Total	Issue	Purchase	Total	Sell	Buy
June 2016	510,693	505,278	255,136	250,141	5,414	2,054	3,360	−9,209	−4,784	−4,425	−384	−384	−59
Dec. 2016	441,444	437,525	219,801	217,721	3,918	1,522	2,396	−9,071	−5,340	−3,731	−353	−353	−50
June 2017	411,471	406,931	203,595	203,335	4,537	1,804	2,733	−8,862	−6,291	−2,571	−138	−138	−49
Dec. 2017	381,682	375,022	187,255	187,769	6,656	2,802	3,854	−9,410	−6,548	−2,862	−159	−159	−50
June 2018	382,030	377,141	189,032	188,108	4,812	2,091	2,721	−10,438	−7,465	−2,973	−262	−262	0
Dec. 2018	384,498	380,788	189,823	190,965	3,707	1,647	2,060	−10,156	−7,265	−2,891	−342	−342	0
June 2019	391,418	387,741	194,000	193,741	3,683	2,174	1,509	−10,133	−7,098	−3,035	−445	−445	0
Dec. 2019	416,496	411,549	207,163	204,390	4,947	2,390	2,557	−9,785	−6,691	−3,094	−562	−562	0
June 2020	481,306	473,848	241,711	232,137	7,459	2,547	4,912	−9,062	−5,986	−3,076	−620	−620	0
Dec. 2020	510,502	506,011	259,276	246,734	4,495	1,950	2,545	−8,469	−5,134	−3,335	−925	−797	0
June 2021	534,398	525,860	270,351	255,509	8,546	4,627	3,919	−7,824	−4,710	−3,114	−645	−645	0
Dec. 2021	483,199	475,828	239,865	235,962	7,376	5,212	2,164	7,450	4,281	3,169	344	344	0
June 2022	512,324	504,532	255,902	248,631	7,794	3,366	4,428	6,585	453	6,132	307	307	0
Dec. 2022	575,677	569,641	286,388	283,254	6,037	2,842	3,195	5,928	2,599	3,329	1,104	828	276
June 2023	426,437	419,061	208,655	210,408	7,371	4,520	2,851	4,836	1,946	2,890	649	400	249
Dec. 2023	457,014	452,761	225,852	226,910	4,249	1,685	2,564	4,720	2,003	2,717	549	300	249
June 2024	487,249	482,128	240,638	241,492	5,121	2,154	2,967	3,867	1,718	2,149	488	264	224
Dec. 2024	515,350	511,336	252,158	259,178	4,012	2,389	1,623	3,699	1,687	2,012	527	269	258
June 2025	876,730	870,174	432,767	437,406	6,563	2,653	3,910	3,976	1,838	2,138	579	290	289

Note: "Credit-linked bonds" and "other products," which were previously included under credit derivatives, have been shown only for reference purposes since 2016.

Source: Compiled based on the time-series data in Bank of Japan, "Regular Market Report on Derivatives Trading" (http://www.boj.or.jp/en/statistics/bis/yoshi/index.htm/)

ment efficiency. 2. The offsetting of claims and obligations between two parties is called bilateral netting, while the system for centrally offsetting the claims and obligations of multiple parties is called multilateral netting. A Central Counterparty (CCP) is an institution (X) that interposes itself between trading parties (A–B, B–C, C–A) and becomes the counterparty to every transaction, resulting in A–X, X–B, B–X, X–C, C–X, and X–A, thereby centralizing all clearing. As a result, participants no longer need to manage individual credit risks, as counterparty risk is centralized and standardized through the CCP. A risk management framework has been established, including various types of margins (initial, variation, and additional) as well as a clearing fund. In the wake of the global financial crisis, the mandatory use of CCPs for OTC derivatives has expanded. Following the 2009 G20 Pittsburgh Summit, where countries agreed to require central clearing for standardized OTC derivatives such as interest rate swaps and CDSs, Japan also amended the Financial Instruments and Exchange Act to mandate CCP clearing for certain OTC derivatives.

The Japan Securities Clearing Corporation (JSCC), a subsidiary of the Japan Exchange Group, is the CCP for derivatives trading in Japan, and conducts a wide range of clearing services for exchange-traded transactions, OTC derivatives transactions (CDS transactions and interest rate swaps) and OTC government bond transactions. In addition, following its merger with the Japan Commodity Clearing House (JCCH) in 2020, JSCC expanded its clearing services to include commodity derivatives such as precious metals, rubber, agricultural products, and energy, and now functions as a comprehensive clearing house covering both the financial and commodities sectors.

In 2014, JSCC introduced a compression service designed to improve the efficiency of outstanding cleared positions. Under this system, offsetting long and short positions held by the same participant are terminated simultaneously, thereby reducing gross outstanding positions (notional amount and number of contracts) without changing the underlying economic risk. Since 2018, ad hoc compression has also been available on a daily basis. This enables clearing participants to reduce the administrative burden of managing outstanding positions and lower their leverage ratios.

In recent years, post-trade operations have become increasingly digitalized and efficient through developments such as cross-CCP compression, portfolio compression covering both cleared and non-cleared transactions, and the automation and real-time optimization of collateral management (settlement optimization) in collaboration with Baton Systems.

Table VIII-18. Number of interest rate swap trades cleared and cleared notional amount

(Unit: Yen, millions)

		2023	2024	2025
Total	Number of trades cleared	317,304	375,586	384,472
	Cleared notional	4,025,902,703	8,272,125,131	7,977,382,065
0-2 years	Number of trades cleared	21,302	60,994	60,088
	Cleared notional	1,075,112,122	5,167,476,939	4,894,338,108
2-5 years	Number of trades cleared	46,446	69,944	67,102
	Cleared notional	881,099,923	1,357,019,160	1,197,477,606
5-10 years	Number of trades cleared	97,314	102,756	101,570
	Cleared notional	1,177,949,421	1,077,349,304	1,138,876,708
10-30 years	Number of trades cleared	144,104	132,074	141,838
	Cleared notional	874,125,094	649,052,436	715,613,023
Over 30 years	Number of trades cleared	8,138	9,818	13,874
	Cleared notional	17,616,143	21,227,291	31,076,620

Note: As of the end of September 2025. Amounts are in units of ¥1 million.
Source: Compiled from JSCC website.

Table VIII-19. Number of CDS trades cleared and cleared notional amount

(Unit: Yen, millions)

		2021	2022	2023	2024	2025
Total	Number of trades cleared	1,950	2,852	2,752	2,496	2,116
	Cleared notional	4,199,972	4,547,545	4,099,890	3,588,213	2,886,412
	Outstanding cleared notional	1,022,161	12,029,598	13,686,154	12,847,648	13,540,672
Index total	Number of trades cleared	658	1,246	1,220	828	678
	Cleared notional	3,412,000	2,689,650	3,197,340	2,770,360	1,987,720
	Outstanding cleared notional	7,411,980	9,149,680	10,759,860	10,014,040	10,147,360
Single name total	Number of trades cleared	1,292	1,606	1,532	1,668	1,438
	Cleared notional	787,972	857,895	902,550	817,853	898,692
	Outstanding cleared notional	2,810,181	2,879,918	2,926,294	2,833,608	3,393,312

Note: As of the end of September 2025. Amounts are in units of ¥1 million.
Source: Compiled from JSCC website.

CHAPTER IX

The Securitized Products Market

1. What Is a Securitized Product?

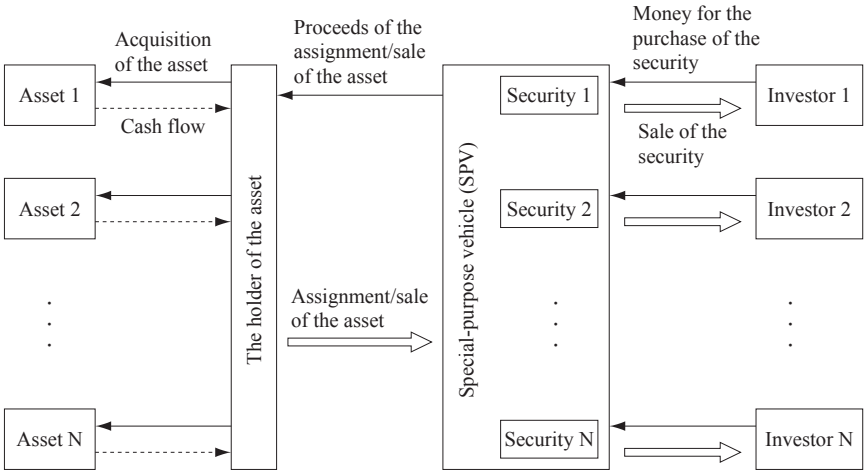
Income-generating assets held by companies and other entities are pooled, and those assets are assigned from the balance sheets of the companies and other entities that own them to a special purpose vehicle (SPV). The SPV then issues securities backed by the cash flows generated by those assets and sells them to investors. This method is called "securitization." The security issued through such a process is generally called a "securitized product." Business enterprises use their assets — such as auto loans, mortgage loans, leases receivable, business loans and such claims as loans to corporations, and commercial real estate — as collateral to back up their securitized products. As defined by the Act on Securitization of Assets, intellectual property (such as copyrights and patents) also can be securitized.

When viewed from the standpoint of asset holders, securitization of assets has the advantage of enabling them to use the proceeds of the assignment or sale of such assets that they obtain at the time of issue in exchange for cash flows that may be generated by the assets over a future period of years. In other words, asset holders can monetize uncertain future cash flows into current income. In addition, in case any holder of a piece of less-liquid commercial real estate wants to issue a security by putting up such real estate as collateral, the asset holder can easily sell the security by issuing it in small denominations to attract a larger number of small investors, thereby increasing liquidity.

When viewed from the standpoint of investors, securitized products offer an additional choice of investments with new characteristics. More specifically, a security backed by a piece of real estate gives investors an opportunity to invest in real estate that otherwise they cannot afford to buy outright with a small sum of money. Second, as asset holders can issue different classes, or tranches, of securities (for example, "senior/subordinated structure") at one and the same time with varying levels of credit risk, they offer investors the opportunity to purchase a security that meets their specific needs. The issuers of asset-backed securities — Security 1 to Security N in

Chart IX-1. Conceptual Chart of Securitized Products

At the time a securitized product is issued



After the securitized product has been issued

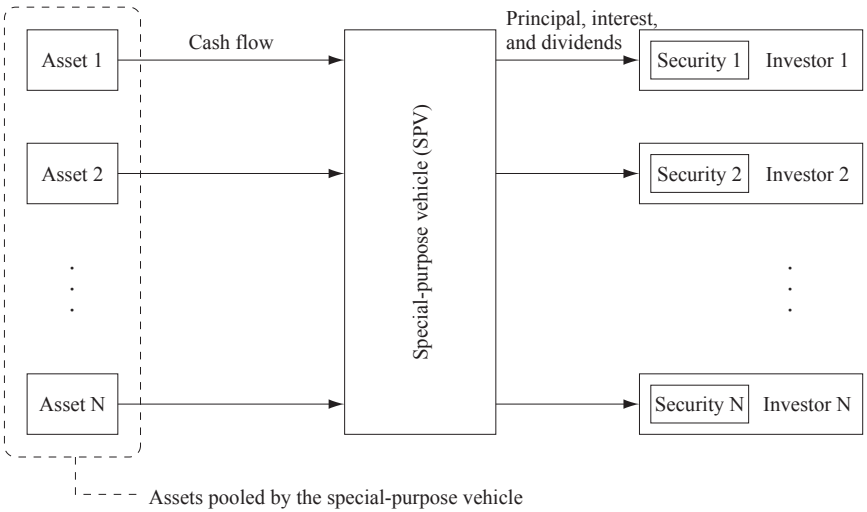


Chart IX-1 — simply tailor their terms of issue to best suit the needs of Investor 1 to Investor N, instead of making them uniform. For instance, by issuing securities with different characteristics — differentiation of the order of priority for the payment of interest and redemption of principal or addition of conditions to improve creditworthiness (such as credit enhancement) — the scope of choice for investors can be expanded. With these additions investors can restructure their portfolios to make them more efficient.

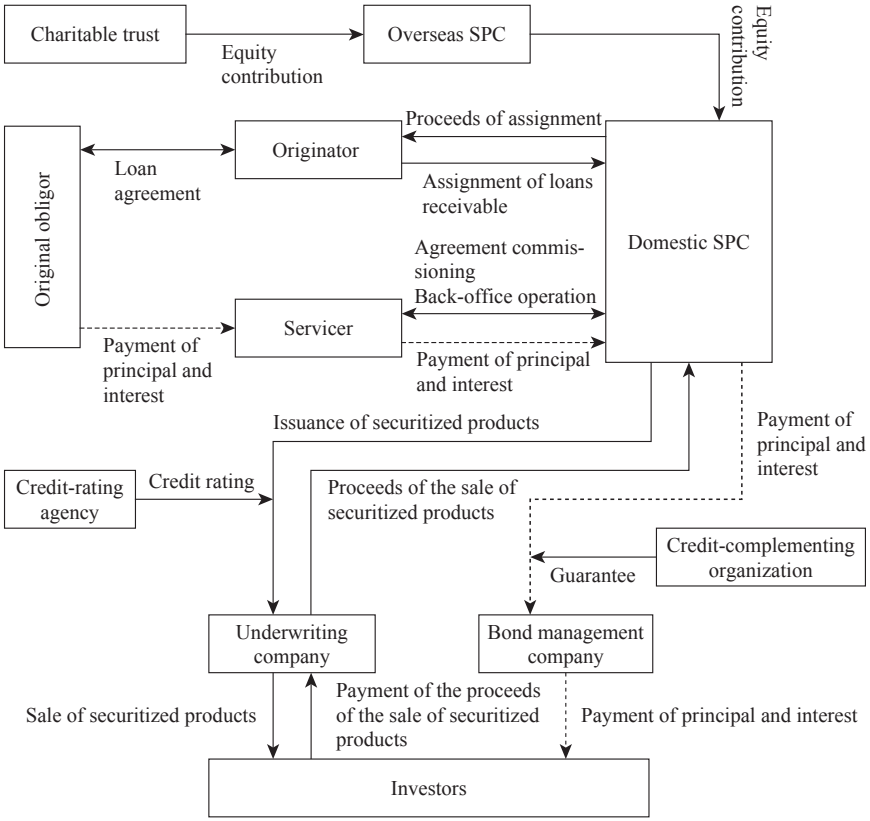
2. Basic Mechanism of Issuing Securitized Products

Generally, many of the securitized products are issued through the mechanism described below. First, the holder (“originator”) of assets such as mortgage loans and accounts receivable that are to be securitized assigns them to a SPV. By doing so, such assets are separated from the balance sheet of the originator and become assets of the SPV, which becomes the holder of the assets. An SPV may take the form of a partnership, a trust, or a special-purpose company (SPC). An SPC established under the Act on Securitization of Assets is called *tokutei mokuteki kaisha* (TMK, or a specific-purpose company). To ensure bankruptcy remoteness (no impact even if the company, etc., held by the SPC goes bankrupt), an overseas SPC is generally set up as a subsidiary through what are called charitable trusts under U.S. and U.K. laws using what is termed a “declaration of trust,” and the domestic SPC established as a subsidiary of the overseas SPC. In terms of originators, the entity responsible for the debt is called the original obligor.

The next step is to formulate the terms of issue of the securitized product to be issued by the SPV. If the originator opts for the trust method, it issues beneficiary interests like those of a trust company. If it chooses the SPC method, it issues the kinds of securities decided upon by the SPC to provide securitized products to investors. However, it does not have to issue all of these on identical terms. In short, it can design each type (tranche) of security with a different character by differentiating the order of priority with respect to the payment of interest and redemption of principal, by varying maturities, or by offering the guarantee of a property and casualty insurance company. By adding such variation, the originator can issue securities that meet the diverse needs of investors. In the order of priority for payment, such securities are called “senior securities,” “mezzanine securities,” or “subordinated securities.”

When the originator plans to sell its securitized products to an unspecified large number of investors, it should make them readily acceptable to investors by offering them objective and simple indicators (credit ratings) for independently measuring the risks involved. In addition, there are other players

Chart IX-2. Example of General Working Mechanism for Issuing Securitized Products



involved in different processes of securitized products, such as servicers, who manage assets that have been assigned to an SPV and securitized and also recover funds under commission from the SPV, and bond management companies, which administer the securitized products (corporate bonds) purchased by investors. Firms that propose such a mechanism for securitizing assets and that coordinate the issue and the sale of such products are called "arrangers," and securities companies and banks often act as arrangers.

3. Description of Major Securitized Products

Securitized products are divided into several groups according to the types of assets offered as collateral and the characters of the securities issued. Those

Table IX-1. Classification of SPVs

Types	SPVs established under basic laws	SPVs established under special laws
Corporation type	Special-purpose company (SPC) Domestic: －Corporation (Companies Act) Overseas: －SPC (foreign governing law)	Specific-purpose company–TMK (Act on Securitization of Assets) Investment corporation (Act on Investment Trusts and Investment Corporations)
Trust type	General trust (Trust Act and Trust Business Act)	Specific-purpose trust (SPT) (Act on Securitization of Assets) Investment trust (Act on Investment Trusts and Investment Corporations)
Partnership type	Silent partnership (Commercial Code), general partnership (Civil Code)	Silent partnership, general partnership (Act on Specified Joint Real Estate Ventures)

Source: Prepared by the author from various materials.

belonging to the group of products that are backed by real estate and the claims collateralized by it are residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and real estate investment trusts (REIT). RMBSs are issued in retail denominations against a portfolio that pools home mortgage loans. The first securitized product based on residential mortgage loans was the residential mortgage loan trust launched in 1973. However, this product failed to gain traction with both issuers and investors due to various limitations. Nevertheless, as schemes based on SPCs became available thereafter, thanks to the enforcement of the SPC Law, volumes of this type of issue have increased since 1999. Although bonds backed by housing loans that have been issued by the Japan Housing Finance Agency since 2001 are not issued through an SPC, they may be included among the RMBSs. CMBSs are backed by loans against the collateral of commercial real estate (office buildings, etc.). The mechanism of issuing them is almost the same as that for RMBSs. REITs, which became available under the Act on Investment Trusts and Investment Corporations in May 2000, are investment trusts whose investment portfolio is limited to assets primarily consisting of real estate.

Another group consists of asset-backed securities (ABS, narrowly defined), such as accounts receivable, leases receivable, credits, auto loans, and consumer loans, etc. Sales of these products began to increase in the latter half of 1990s following the enforcement of the Specified Claims Law in June 1993. As these collateralized assets are a collection of relatively small assets and can be dispersed, they are highly suitable for securitization. What is more, as the laws governing the products have since been developed, they are

Table IX-2. Description of Major Securitized Products

Underlying claims	Securities issued	Originator	Governing laws	Basic scheme
Housing loans receivable	Residential mortgage-backed securities	Banks Other banking institutions	Act on Securitization of Assets, Trust Act, Trust Business Act, Financial Instruments and Exchange Act	A banking institution that holds mortgage credits assigns them to an SPC; the SPC, in turn, issues a bond backed by such credits or entrusts them to a trust bank, which, in turn, issues beneficiary certificates backed by them.
	Japan Housing Finance Agency bonds backed by housing loans receivable (RMBS)	Japan Housing Finance Agency	Act on the Japan Housing Finance Agency, Independent Administrative Agency Financial Instruments and Exchange Act	Housing loans receivable held by the Japan Housing Finance Agency are given in trust to a trust bank, and a specified corporate bond backed by the beneficiary certificates of a trust is issued at that time through an SPC.
Commercial mortgage credits and rental revenues	Commercial mortgage-backed securities (CMBS)	Business corporations, Banks Other banking institutions	Act on Securitization of Assets, Trust Act, Trust Business Act, Financial Instruments and Exchange Act	The originator assigns the commercial mortgage credits and rental revenues, etc., to an SPC, the SPC, in turn, issues a bond backed by such credits or entrusts them to a trust bank, which, in turn, issues beneficiary certificates backed by them.
Real estate	Real estate-specific joint venture products	Authorized or registered firms	Act on Specified Joint Real Estate Ventures	An equity contribution is invited from a large number of retail investors, and the funds thus pooled are jointly invested in real estate by taking advantage of the scheme of a voluntary association, an anonymous association, or a real estate investment trust.
	Real estate investment trusts (REIT)	Owners of property purchased by an investment trust	Act on Investment Trusts and Investment Corporations Financial Instruments and Exchange Act	An investment corporation issues units of investment and purchases a piece of real estate and real estate loan claims with the proceeds of such units in accordance with instructions given by a management company.
Mortgage loans receivable created on land, buildings, and superficies	Mortgage securities	Mortgage securities companies	Mortgage Securities Act Financial Instruments and Exchange Act	Mortgage securities are issued by registering mortgage loan receivables of the mortgage securities company, and jointly held equity in mortgage securities is sold to investors.
Fiscal Loan Fund loan receivables	Fiscal Loan Fund loan-backed securities	Government	Act on Securitization of Assets, Financial Instruments and Exchange Act	The government entrusts the loan receivables from its Fiscal Loan Fund to a trust company. Beneficiary certificates issued on the loans are then sold to an SPC, which issues securities with the loans as the underlying assets.
Leases receivable, credit card receivables, and installment credit accounts and notes receivable	Asset-backed securities (ABS, ABCP)	Business corporations	Act on Securitization of Assets, Trust Act, Trust Business Act, Financial Instruments and Exchange Act	A business corporation that holds lease credits assigns them to an SPC; the SPC, in turn, issues a bond backed by such credits or entrusts them to a trust bank, which, in turn, issues beneficiary certificates backed by them.
General loans	Collateralized loan obligations (CLO)	Banks	Act on Securitization of Assets, Trust Act, Trust Business Act, Financial Instruments and Exchange Act	A banking institution that holds general loans assigns them to an SPC; the SPC, in turn, issues a bond backed by such loans or entrusts them to a trust bank, which, in turn, issues beneficiary certificates backed by them.
Bonds	Collateralized bond obligations (CBO)	Banks and other bondholders	Act on Securitization of Assets, Trust Act, Trust Business Act, Financial Instruments and Exchange Act	The banks and other bondholders that hold a number of bonds assign them to an SPC; the SPC, in turn, issues a bond backed by such credits or entrusts them to a trust bank, which, in turn, issues beneficiary certificates backed by them.

securitized more extensively than the real-estate-backed group.

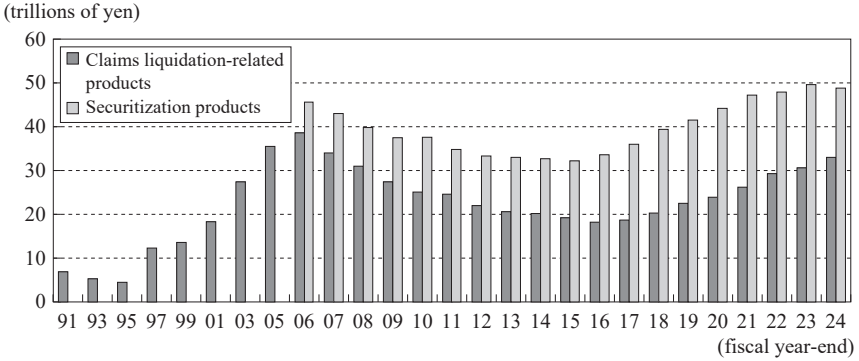
Other securitized products are called collateralized debt obligations (CDO), which are securities issued against the collateral of general loans, corporate bonds, and credit risks of loans that are held by banking institutions. For instance, loans to small and medium-sized business enterprises that are securitized may be considered as CDOs. CDOs are themselves subdivided into collateralized loan obligations (CLO) and collateralized bond obligations (CBO). Moreover, since the eligibility requirements for issuing commercial paper (CP) were abolished in 1996, an increasing number of business corporations have come to use asset-backed commercial paper (ABCP) as a form of securitized product.

4. The Size of the Market

In 2011, the Bank of Japan started to publish the outstanding balance of securitized products, going back to the end of fiscal 2006. Until then, a part of the outstanding balance of securitized products had been disclosed as "credit liquidation-related products." According to these statistics, the balance of securitized products outstanding as of the end of fiscal 2024, stood at around ¥49 trillion. When compared with the balance of stocks and beneficiary certificates of investment trusts (¥2,027 trillion), loans by private financial institutions to corporations and government entities (¥1,108 trillion) and industrial bonds (¥100 trillion), their share of private sector financing as a whole is still not very large. In contrast, a similar balance (of asset-backed securities and mortgage-related combined) in the United States, which is considered the most advanced nation in securitizing claims, stood at about ¥280 trillion at the end of fiscal 2024, reflecting the extraordinary size of the market compared to the Japanese one.

The scale of the securitized products market that stood at a mere ¥400 billion at the end of fiscal 1989 increased sharply thanks to the enforcement of the Specified Claims Law in 1993 (repealed in 2004), the Special Purpose Companies Law in 1998 and the Act on Securitization of Assets, which is a revised version of the Special Purpose Companies Law, in 2000. This also suggests that assets that can be used as collateral have diversified and that asset securitization has found a growing number of applications. Looking back, the issuance of securities backed by installment credits, which was made possible by the enactment of the Specified Claims Law, was the engine of growth of the market. As these assets have short maturities and can be readily pooled for diversification, they carry relatively low risks and can be easily securitized, and such attributes have been a factor in expanding the scale of the market for them. Since 2000, the securitization of mortgage loans, as well

Chart IX-3. The Balance of Securitized and Claims Liquidation-Related Products



FY	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07
Asset-liquidation products	6.9	5.9	5.3	5	4.5	5.3	12.3	14.2	13.6	14.8	18.3	24.2	27.4	30.1	35.5	38.6	34
Securitized Products	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	45.6	43
FY	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
Asset-liquidation products	31	27.4	25.1	24.6	22	20.6	20.2	19.2	18.2	18.7	20.3	22.5	23.9	26.2	29.3	30.6	33
Securitized Products	39.8	37.5	37.6	34.8	33.3	33	32.7	32.2	33.6	36	39.4	41.5	44.2	47.2	47.9	49.6	48.8

Source: Complied on the basis of the data drawn from *Nichigin shikin junkan-tokei* (Flow-of-Funds Statement of the Bank of Japan).

Table IX-3. Changes in Composition of Collateralized Assets, etc.

(trillions of yen)

	2008	2010	2012	2014	2016	2018	2020	2022	2024	Ratio to net operating income
Asset backed bonds (ABB)	13.8	13.9	14.1	14.1	14.9	16.5	18.8	19.2	18.3	37.5
MBS issued by JHFA	7.6	9	10.6	11	12.1	13.6	15.1	14.5	13.6	27.9
ABB backed by real estate properties	4.4	3.4	2.2	1.7	1.8	2.2	2.5	2.9	2.7	5.5
Other ABB	1.8	1.4	1.3	1.3	1	0.8	1.2	1.9	1.9	3.9
ABCP	3.9	2.4	2.3	1.8	1.7	1.5	1.8	2.3	2.4	4.9
Trust beneficiary rights	25.4	21.2	18.4	16.9	15.4	17.9	20.8	26.4	28.2	57.8
Of which backed by housing loans	9.7	8.6	7.7	7.7	7.6	9.5	11.3	13.7	13.8	28.3
Of which backed by loans to companies and governments	3.7	2.7	1.9	1.7	1.7	1.5	2.2	4	4.3	8.8
Of which backed by accounts receivable	5.2	5.4	5.1	3.6	1.7	1.2	0.7	0.8	0.7	1.4
Of which backed by lease and consumer credits	5.6	3.8	2.8	2.9	3.6	4.5	5.1	6.3	7.5	15.4
Total	43	37.5	34.8	32.8	32	35.9	41.4	47.9	48.8	100.0

Source: Complied based on the data from *Nichigin shikin junkan-tokei* (Flow-of-Funds Statement of the Bank of Japan).

as of loans to business corporations and the government, has expanded dramatically. This may be explained by the fact that, pressed by the need to raise the capital adequacy ratio in compliance with the Basel Accords, banks have sought to unload loan assets from their balance sheets. After reaching a peak in fiscal 2006, the volume of securitized products fell back as the economy weakened in the wake of the global financial crisis. Volumes have recovered subsequently and exceeded pre-crisis levels in fiscal 2021, but have remained flat since then.

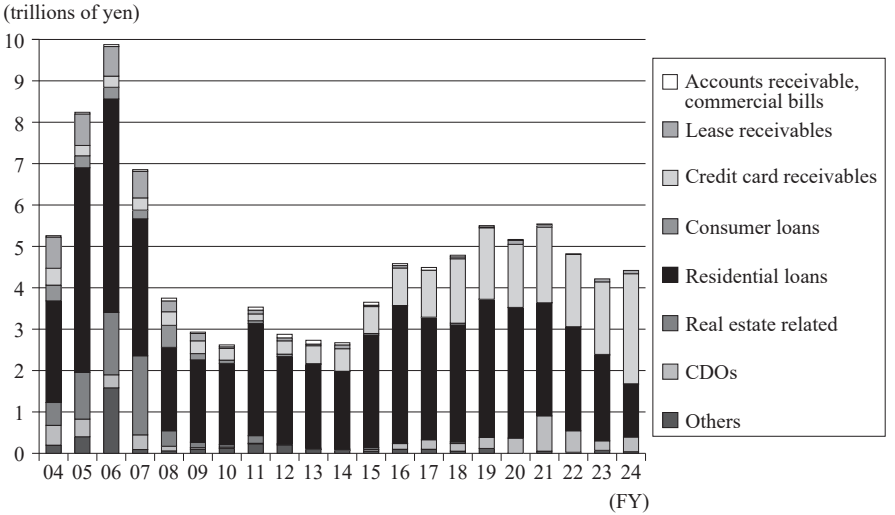
"Securitized products" are defined as the total of asset-backed securities, asset-backed commercial paper (ABCP) and trust beneficiary interests. Residential mortgage-backed securities (RMBS) issued by the Japan Housing Finance Agency (JHF; formerly, Housing Loan Corporation) account for 75% of asset-backed securities. Looking at the underlying assets of trust beneficiary interests that account for nearly 60% of the total outstanding balance, just under 50% are mortgage loans while around 27% are leases and credit receivables.

5. Primary Market for Securitized Products

As the bulk of securitized products are issued in private placement transactions between the parties concerned, it is difficult to accurately grasp the size of the primary market of securitized products. However, the Japan Securities Dealers Association (JSDA) currently compiles and publishes the "Securitization Market Trends Survey" conducted jointly with the Japanese Bankers Association based on information on issuance trends of securitized products received voluntarily from arrangers of securitized products and others. According to the Securitization Market Trends Survey, securitized products issued in Japan in fiscal 2024 were around ¥4.4 trillion. Although securitized product issuance reached a peak of ¥9.8 trillion in fiscal 2006, after a period of decline reflecting the impact of the weakening economy precipitated by the global financial crisis, it began to recover before contracting slightly from fiscal 2022.

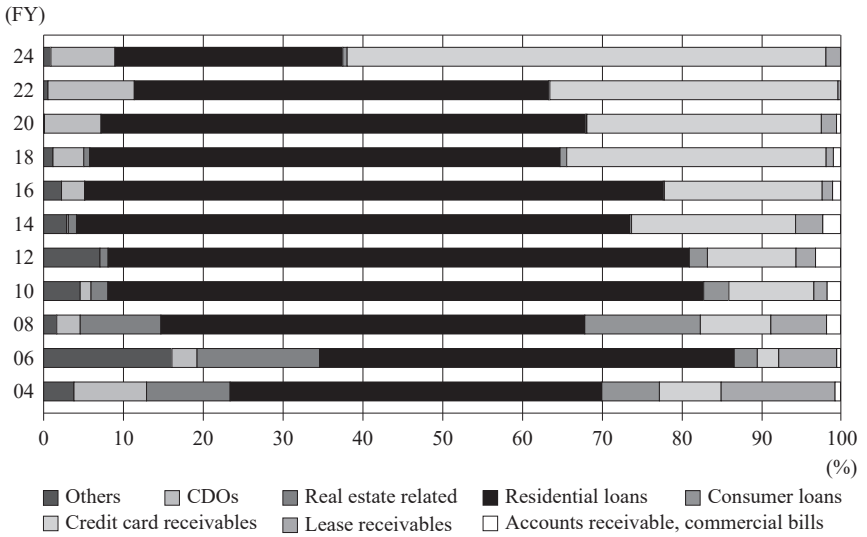
When looking at each type of asset pledged as collateral, assets other than residential mortgage loans and shopping credit remain sluggish, with results varying depending on the type of underlying receivables. Furthermore, when looking at the share of assets used as collateral, the issuance value of mortgage loans has declined sharply since 2019, falling to just under 40% of the 2019 level. As a result, shopping credit, which has rapidly gained prominence, is now the primary collateral asset. Shopping credit saw a steep rise from fiscal 2012 to 2024 to jump almost 12-fold, now accounting for around 60% of the total issuance of underlying assets.

Chart IX-4. Securitized Products Issuance



Source: Compiled from "Securitization Market Trends Survey Report" by the Japan Securities Dealers Association.

Chart IX-5. Breakdown of Collateralized Assets



Source: Compiled from "Securitization Market Trends Survey Report" by the Japan Securities Dealers Association.

The JSDA also compiles data on the issuance of publicly offered asset-backed corporate bonds. According to these data, issuance increased steadily after statistics began in 1997, but turned downward after reaching a peak of ¥0.52 trillion in fiscal 2002. No issuance has been recorded since fiscal 2019. The popularity of privately placed asset-backed corporate bonds is thought to be the result of considerations with regard to the investor protection framework, taxes, and disclosure costs.

We now look at some of the other characteristics of issued securitized products. With respect to redemption methods, approximately 85% of securitized products employ pass-through redemption, while the remainder consists of amortizing redemption and bullet redemption, in that order.

In terms of ratings, just under 90% are rated AAA. The remaining portion consists of long- or short-term AA-, A-, and a few BBB-rated instruments. No issuance rated BB or lower has been seen since 2017.

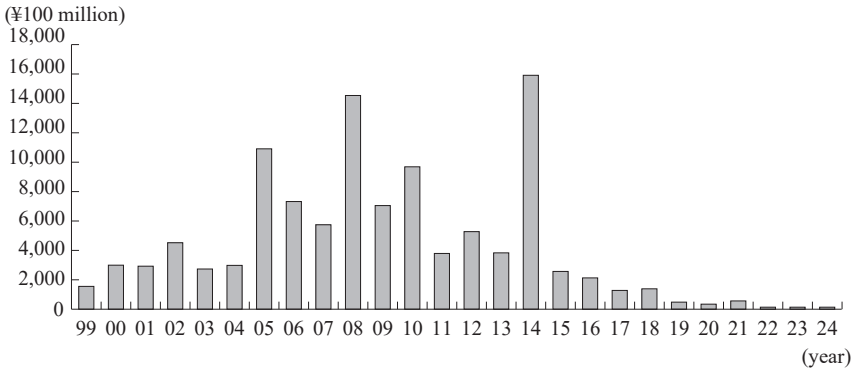
6. Secondary Market for Securitized Products

With the exception of beneficiary certificates of real estate investment trusts (REITs) and infrastructure funds to be discussed later, trading in securitized products is not concentrated in stock exchanges. As is the case with the secondary market for bonds, securitized products and their transactions are too complex and varied to lend themselves to exchange trading. Hence this has led to the dependence on an over-the-counter interdealer market as the secondary market for their trading. In this section, we look at the current state of the interdealer market of securitized products using data such as that published by the JSDA, which provides access to trading volume data for interdealer transactions on specified corporate bonds data on *tokutei shasai* bonds or "TMK bonds" (publicly offered corporate bonds issued by a corporation established based on the Act on Securitization of Assets; asset-backed bonds, a category in statistics for the primary market, include issuers established for fund raising purposes based on the Companies Act).

Data on the trading amounts of TMK bonds compiled by the JSDA on the basis of reports from member securities companies for the years prior to 1998 is not available. According to these reports, the trading volume of TMK bonds peaked in 2014, but is on an overall declining trend albeit with frequent fluctuations.

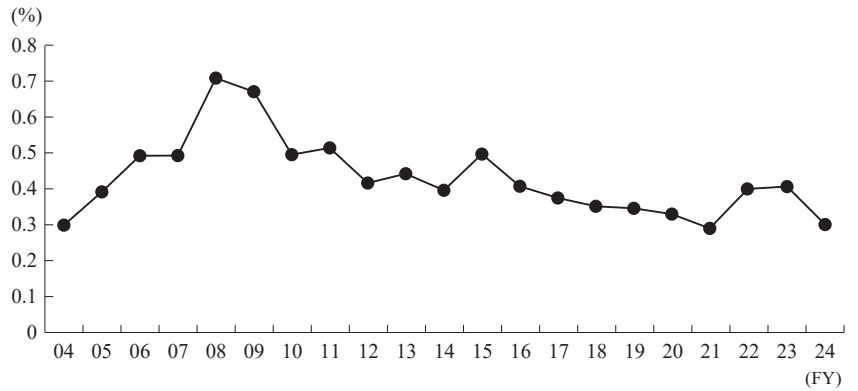
A comparison of TMK trading values with those of other bonds in 2024 shows that TMK bond trading amounted to nearly ¥14 billion, and those of corporate straight bonds and utility bonds stood at ¥15 trillion and ¥2 trillion, respectively. Although these issues constitute only a part of the whole universe of securitized products, it is evident that the trading amounts remain

Chart IX-6. The Amount of TMK Bonds Traded



Source: Compiled from "Trading Volume of Over-the-Counter (OTC) Bonds" by the Japan Securities Dealers Association.

Chart IX-7. Changes in launch spread (Average) of Japan Housing Finance Agency MBS (Monthly Bonds)

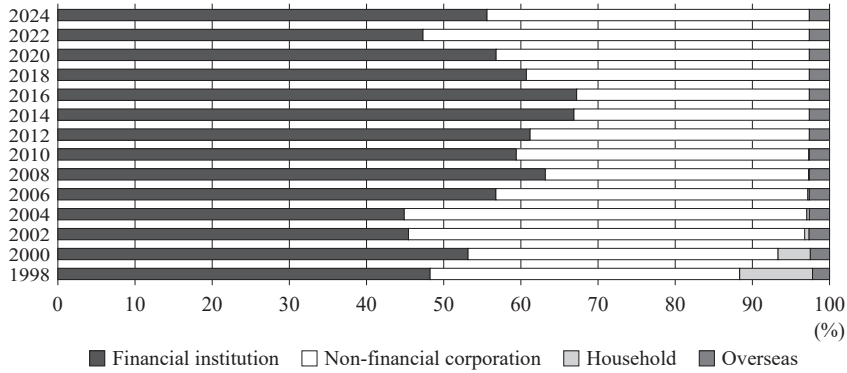


Source: Compiled by the author from data of the JSDA Securitization Market Trends Survey Report.

quite limited. The number of securities companies that offer them is quite limited, and their liquidity is considerably low. On the other hand, a large number of securities companies make a market in RMBS issued by the Japan Housing Finance Agency. The bonds are classified as FILP agency bonds for statistical purposes, and their market seems to have a certain degree of liquidity.

As the trading market for these bonds is yet to attain maturity, it is difficult to precisely measure their secondary market yields, and they have to be sub-

Chart IX-8. Claims Liquidation-Related Product Holding Ratio



Source: Complied on the basis of the data drawn from *Nichigin shikin junkan-tokei* (Flow-of-Funds Statement of the Bank of Japan).

stituted with yields at issue. Measured in terms of yields at issue, the most highly liquid JHF bonds are traded at a higher yield than government-guaranteed bonds. Reinvestment risk occasioned by early mortgage loan repayment in addition to the expected redemption period and the availability of a government guarantee may be a factor behind this. While the spread of these two bonds can slightly widen at times, it has generally stabilized at around 0.3 to 0.4% in recent years.

According to the balance of financial assets and liabilities of the Flow-of-Funds Accounts of the Bank of Japan, the current holders of credit liquidation-related products (securitized products) are mainly non-financial corporations and financial institutions (in broadly equal proportions). In 1990, households were the primary holders. Since then, however, holdings by households have declined consistently, and currently stand at zero. During this time, financial institutions increased their holdings of securitization-related products and have become the primary holders.

7. Risks and Credit Enhancement of Securitized Products

As the structure of securitized products is complex, credit ratings are widely used as the criterion for making an investment decision. And in order to package assets into a securitized product that merits a high credit rating, a device for controlling various risks has to be built into the product. The substance of risks varies depending on the kind of underlying assets and the participants in the scheme. One common factor among them is the default risk,

Table IX-4. Main Credit Enhancing Measures

Credit enhancement (external)	Recourse of the originator	The originator owes recourse to a certain part of the assets sold to the SPC. Off-balance sheet accounting may not be authorized depending on the extent to which the originator owes such recourse.
	Credit default swaps	The purchaser of a swap pays a certain amount of money in premium in exchange for a guarantee of credit risk of a specified claim.
	Guarantee, insurance by financial institutions	A property and casualty insurance company provides insurance covering the entire default risk is issued securities.
Credit enhancement (internal)	Spread account	The balance of funds remaining after deducting the amounts paid to the investors and fees from the cash flow of the underlying assets is deposited in a spread account to be used as compensation money in case of default.
	Over collateral	The credit standing of securities is enhanced by selling such part of the underlying assets whose value is in excess of the amount of the securities issued to the special purpose vehicle (SPV).
	Senior/subordinated structure	By designating part of the securities issued as subordinated debt, the credit standing of the rest of the issue is enhanced.

or the probability that the issuer may fail to pay its interest or principal promptly when due. The default risk of a securitized product is largely divided into two types: the risk of changes occurring in the cash flow generated by the underlying assets (bad debt or arrears) and the risk of bankruptcy of the parties involved in the securitization of assets (the debtor, the SPC, or the originator).

The risks involved in the cash flow may be reduced by taking various credit-enhancing measures. Unlike general corporate bonds, whose credit rating is determined by the credit risk of their issuers, the credit rating of a securitized product must be based on the results of examinations of assets underlying each product. The arranger who underwrites and markets the securitized product and the originator negotiate with a credit-rating agency to obtain a high rating. There are various credit-enhancing measures to choose from for different schemes utilized for issuing a securitized product, but these can be broadly divided between an external credit-enhancing measure that utilizes external credit (such as banking institutions) and an internal credit-enhancing measure that gives the structure of the security the function of enhancing its credit. There are two methods of external credit enhancement: indirect and direct. The former supplements cash flows from underlying loan assets, and the latter supplements cash flows of the securitized product. The indirect method has a drawback in that it cannot eliminate risks associated

Table IX-5. Typical Risks of ABS

Overall risks of ABS	Outline	Measures necessary to avoid risks
Credit risk	There is a risk of a failure to generate an expected cash flow due to a default of the originator.	A review of credit-enhancing measures is needed. In the case of an underlying asset that consists of many credits, steps must be taken to diversify such underlying assets.
Prepayment risk	If the issuer redeems the security ahead of its maturity, the investors will be exposed to prepayment risks.	It is necessary to develop techniques such as a collateralized mortgage obligation (CMO) and a security with a period of deferment that adjusts the relationship between the underlying assets and the cash flow generated by the security issued thereby.
Liquidity risk	When the funds flow out rapidly from the market, the holder cannot sell the security in a timely manner because the liquidity of the securitized product is not adequate, and the holder is thus exposed to a liquidity crunch.	The development of a secondary market for trading ABSs is a must. Also, the subordinated security shoud be traded widely among the investors.
Risks of the parties concerned	**Outline**	**Measures necessary to avoid risks**
Originator's risk	Once the claims of the originator sold to the SPC are recognized as part of the bankruptcy estate, the investors have the risk of forfeiting their right to receive the payment of the principal and interest of the security.	It is necessary to ensure that the transfer of the claims is not for securing a loan but is their true sale. The assets must be separated from the balance sheet. Transaction must have the conditions necessary for counteracting against a third party.
Servicer risk	The commingling risk: A servicer of receivables that went bankrupt may mingle the funds it had received before it went bankrupt with its own funds without remitting them to the SPV.	The designation of a backup servicer capable of putting up excess collateral is needed. Payment of remittances received from debtors must be made directly into the account of the SPV. Management of a lock-box account must be conducted.
SPC risk	Bankruptcy remoteness must be established so that the SPC of an asset securitization scheme itself will not go bankrupt or will not be affected by the bankruptcy of other companies.	The substance of business must be clearly defined, and an SPC in which the originator has no equity interest must be founded by establishing a charitable trust. The commencement of bankruptcy proceedings must be averted by making the charitable trust its beneficial shareholder.

with a servicer or any other party involved in securitization. As a means of enhancing internal credit, a senior subordinated structure is commonly used. In Japan, however, subordinated securities are often held by the originator because, among other reasons, there are few investors who are willing to pur-

chase them.

A large part of the risk of changes in cash flows from underlying assets can be covered by credit enhancing measures. However, the risk of bankruptcy of the parties involved in securitization is a serious problem. As assigned claims and receivables of a bankrupt originator are typically subject to bankruptcy proceedings, investors carry the risk of nonpayment of their principal and interest. Therefore, it is important to check whether there is any risk in the business of any party concerned or whether the party is shielded from the risk of other parties concerned. Risks are intricately intertwined, and these are summarized in the figure on the right.

8. The Enactment of Securitization-Related Laws

Japan's existing legal system is built around business-specific laws, and the regulatory system of financial instruments is vertically divided along the lines of business-specific laws. As these laws contain many provisions regulating or banning business activities outright, it was pointed out that to spur the development of new business, such as the securitization of assets, the existing laws had to be amended, and new laws must be enacted.

As regards the securitization of assets, pioneered by the Mortgage Securities Act introduced in 1931, the Specified Claims Law was enacted as an independent law in 1993. Since the enforcement of this law, the legal infrastructure has been developed steadily. Under and thanks to the Specified Claims Law, the liquidation and securitization of assets classified as specified claims, such as leases receivable and credit card receivables, started. Thereafter, various laws were enacted to help the banking institutions meet the capital adequacy standards imposed by the Basel Committee on Banking Supervision and to encourage the securitization of their assets to deal with the bad loan problem that had become more severe since the turn of the decade in the 1990s.

Under the Special-Purpose Company (SPC) Law and the Act on Securitization of Assets enacted as the revised SPC Law, structures incorporating SPVs, including specific-purpose companies (TMK) and specific-purpose trusts (SPT), may be used for securitizing specified assets designated in the provisions of the said laws (real estate, designated money claims, and beneficiary certificates issued against such assets in trust) in the form of asset-backed securities (such as senior subscription certificates, specified corporate bonds, and specified promissory notes, etc.). Under the SPC Law, the system of disclosing an asset liquidation plan and individual liquidation projects was introduced, in addition to the disclosure requirements on the disclosure of information on securities under the Securities and Exchange Act (currently the

Table IX-6. Chronology Relating to the Securitization of Assets

Month & Year	Changes implemented
Aug. 1931	The Mortgage Securities Act is enacted.
June 1973	Housing loan companies raise funds by offering beneficiary certificates of housing loan claim trusts.
Sept. 1974	Housing loan companies raise funds by offering mortgage-backed securities.
Jan. 1988	The Law Concerning the Regulation of Mortgage-Backed Securities Business is enforced.
Apr. 1992	The Law Concerning the Regulation of Business Relating to Commodity Investment (the Commodity Fund Law) is enforced.
Apr. 1993	The Securities and Exchange Act designates beneficiary certificates of housing loan claim trusts as securities.
June 1993	The Law Concerning the Regulation of Business Relating to Specified Claims, etc. (the Specified Claims Law) is enforced.
July 1993	The ban on the issuance of CPs by nonbanks is lifted.
Apr. 1995	The Act on Specified Joint Real Estate Ventures is enforced.
Apr. 1996	As a method of liquidizing assets under the Securities and Exchange Act, the issuance of asset-backed securities (ABS and ABCP) is authorized, making it possible to issue them other than under the Securities and Exchange Act.
June 1997	Beneficiary certificates of general loan claim trusts (including loans secured by real estate) are designated as securities under the Securities and Exchange Act.
Feb. 1998	The Securities Investment Trust Act is amended (and the ban on corporation type investment trusts and privately placed investment trusts is lifted).
Apr. 1998	A total plan for the liquidation of land and claims is announced.
Sept. 1998	The Act on Securitization of Specified Assets by Specified Purpose Companies (the SPC Law) is enforced.
Oct. 1998	The Law Concerning Exceptions to Requirements under the Civil Code for the Perfection of Assignment of Receivables and Other Properties (the Perfection Law) is enforced.
Jan. 1999	A statement of opinion on establishing accounting standards for financial instruments is published. (The financial component approach to conditional transfer of financial assets is adopted.)
Feb. 1999	The Act on Special Measures Concerning Claim Management and Collection Business (the Servicer Law) is enforced.
May 1999	Act on Issuance, etc. of Bonds for Financial Corporations' Loan Business (the so-called Nonbank Bond Law) is enforced.
May. 2000	The SPC Law is amended to the Act on Securitization of Assets (Revised SPC Law), the assets subject to liquidation is expanded.
Nov. 2000	The Act on Investment Trusts and Investment Corporations (the revised Securities Investment Trust Act) is enforced, expanding the assets that can be securitized to real estate, etc.
Sept. 2001	The revised Act on Special Measures Concerning Claim Management and Collection Business is enforced.
Dec. 2004	The Trust Business Act is amended, and the system requiring trust companies of the management type to register is launched.
Dec. 2004	The Specified Claims Law is repealed.
Oct. 2005	The Special Provisions of Assignment of Obligations was amended to the Act on Special Provisions, etc. of the Civil Code Concerning the Perfection Requirements for the Assignment of Movables and Claims.
May 2006	The Companies Act is enforced.
Dec. 2006	The Trust Act is amended and provided for business, personal, and purpose trusts.
Oct. 2007	The Financial Instruments and Exchange Act is enforced.
Nov. 2011	Revised Act on Securitization of Assets is enforced.
Apr. 2018	Revised Financial Instruments and Exchange Law is enforced.
May 2020	Revised Financial Instruments and Exchange Act is enforced. Sets out provisions for "Electronically Recorded Transferable Rights to Be Indicated on Securities, etc." (security tokens/digital securities)
Nov. 2023	Amendments to the Financial Instruments and Exchange Act (including strengthened disclosure requirements in response to inappropriate sales of structured bonds, regulations regarding Security Tokens under the Act on Specified Joint Real Estate Ventures, etc.)

Financial Instruments and Exchange Act).

In 1998 the Act on Special Provisions, etc. of the Civil Code Concerning the Perfection Requirements for the Assignment of Movables and Claims was enacted as a law prescribing exceptions to requirements under the Civil Code for the perfection of the assignment of receivables and other properties, and it was amended in 2005. The Civil Code provides the legal requirements for the assertion of the assignment of nominative claims (claims with named creditors) against obligors or third parties. Designated claims were assignable, but the provisions of the Civil Code had been a major hurdle standing in the way of securitizing them. The Perfection Law set forth simple procedures for the perfection of such interests.

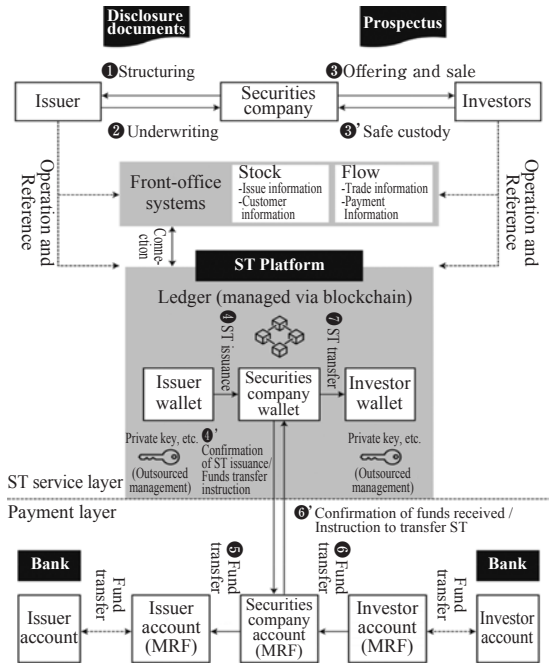
The Act on Special Measures Concerning Claim Management and Collection Business, enacted to account for exceptions to the provisions of the Attorney Law, allows accredited corporations to provide the services of administering and collecting debts. Under the Act on Special Measures Concerning Claim Management and Collection Business, a debt collection company may be established to provide a bad debt collection service without conflicts with the Attorney Law. The Act on Issuance, etc. of Bonds for Financial Corporations' Loan Business conditionally lifted the ban imposed on nonbanks on the issuance of corporate bonds and CPs for the purpose of raising capital for lending operations and on ABSs.

As a result of the revision of the Securities and Exchange Act based on the Act on Revision, etc. of Related Acts for the Financial System Reform and the enforcement of the Financial Instruments and Exchange Act, beneficiary interests of and trust beneficiary interests in assets that are deemed eligible for securitization by the provisions of the Act on Securitization of Assets and mortgage certificates under the Mortgage Securities Act are now legally considered securities. In addition, the amended Investment Trust Act came into effect, and real estate was included as an asset class eligible for investment. Furthermore, pursuant to the enactment of the Act on Investment Trusts and Investment Corporations as revised, real estate was included in eligible assets, which paved the way for the issuance of REIT securities. Since then, the scope of eligible assets has been expanded, and infrastructure funds emerged.

9. Security Tokens and Securitization

Against the backdrop of advances in IT, various new technologies are being utilized for finance. One such innovation which forms part of the drive towards financial DX is distributed ledger technology (DLT): blockchain is a well-known example of this. The technology has started to be used not only for transactions involving crypto-assets (virtual currencies), but also for

Chart IX-9. Security Token Issuance Process



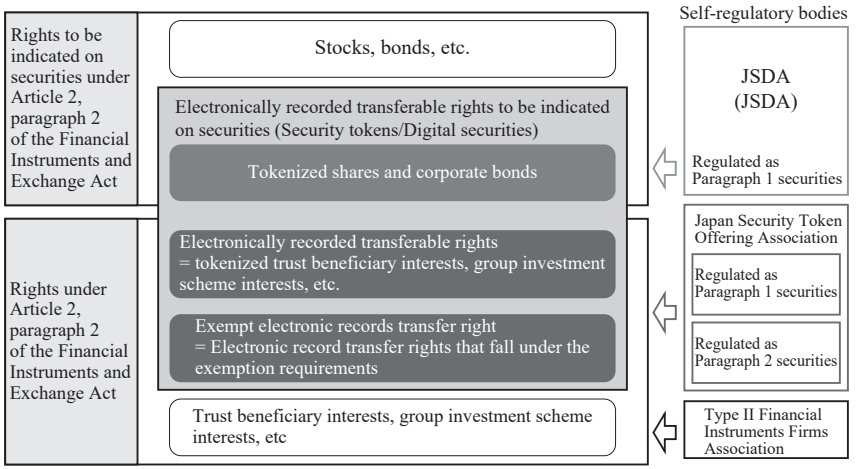
Source: Compiled from Japan Security Token Offering Association's "Introduction to STOs".

transactions in securities and commodities, and its range of applications continues to expand.

DLT is a technology for the decentralized management of records of transfer and ownership of assets and rights based on ledgers shared over the internet between transaction participants. In the securities market, DLT is expected to be applied as a decentralized infrastructure in areas such as issuance, distribution and settlement of securities. A typical example is fundraising through the issuance of digital tokens. For instance in the US, substantial funds were raised through initial coin offerings (ICOs) between 2017 and 2018.

With regard to digital tokens that have the characteristics of securities, the revised Financial Instruments and Exchange Act came into effect in Japan in May 2020, and the Financial Services Agency (FSA) legally defined electronically recorded transferable rights and paragraph 1 securities with no face value as "Electronically Recorded Transferable Rights to Be Indicated on Securities, etc." by Cabinet Office Ordinance. This allowed a wider range of

Chart IX-10. Digital securities classification and self-regulatory organizations



Source: Japan Security Token Offering Association, **"**Recommendations for Revitalizing the Secondary Market in Digital Securities**"**.

items to be treated as security tokens (STs, digital tokens as securities).

Securitization through STs using DLT can help reduce the cost of securitization, for example through reducing the cost of fractionalization and automating interest payments and redemptions. In July 2020, Kenedix issued Japan's first real estate security token (ST). Since then, STs have been issued primarily for real estate assets. Previously, individual investors' access to real estate securitized products was largely limited to J-REITs. However, real estate STOs have made it possible to invest in securitized products backed by a single property, giving investors access to products that better match their investment needs. According to the Japan Security Token Offering Association, among tokenized securities, issuance of beneficiary certificates issued through trusts totaled approximately ¥44 billion across 11 issues in fiscal 2024 and approximately ¥94 billion across eight issues by the end of October in fiscal 2025.

In addition, in December 2023, the Osaka Digital Exchange (ODX) launched "START," a secondary market for STs. However, as of October 2025, monthly trading volume remained at ¥100 million or less, suggesting that the market is still at an experimental stage and that further development is expected.

In Europe and the United States, tokens backed by unlisted shares (mirror tokens) have already been issued. Developments in this area also warrant close attention.

CHAPTER X

Financial Instruments Exchanges, etc.

1. The Function of the Financial Instruments Exchanges

The basic function of a financial instruments exchange is to establish a market and concentrate supply and demand of marketable securities in a single market to enhance the liquidity of securities, to help form fair prices that reflect supply and demand, and to promptly publish the prices thus formed. The purpose of a financial instruments exchange is to establish a market for trading securities and executing exchange derivatives trading and to run the market in such a way as to facilitate fair and efficient trading in the public interest and for the protection of investors. The basic mission of the financial instruments exchange is to provide a fair and transparent market. The market established by a financial instruments exchange has the function of providing a marketplace that enhances the liquidity of financial instruments and helps form fair prices so as to provide investors with an environment in which investors can conduct investment activities free from anxiety, raise funds smoothly by issuing securities, and hedge risks by executing exchange derivatives trading among other activities. Furthermore, prices formed on an exchange can serve as a base for assessing the asset value of securities and price indexes serve as an important indicator of economic and business trends. Because financial instruments markets operated by exchanges perform an important role in supporting the economy of the nation, a license must be obtained from the Prime Minister to open an exchange, and the operation of that exchange is placed under supervision according to the Financial Instruments and Exchange Act.

Stock exchanges were conventionally required to be membership organizations under the Securities and Exchange Act. An amendment of this law that came into effect in 2000, however, allowed stock exchanges to change their legal status to that of a corporation. Starting with Osaka in 2001, the Tokyo, Nagoya, and JASDAQ exchanges became corporations. The enforcement of the Financial Instruments and Exchange Act in 2007 provided for the establishment of an exchange holding company, self-regulatory organization, etc. Given this law, in the same year, the Tokyo Stock Exchange Group, Inc.

Chart X-1. The Function of the JPX-operated Financial Instruments Exchanges

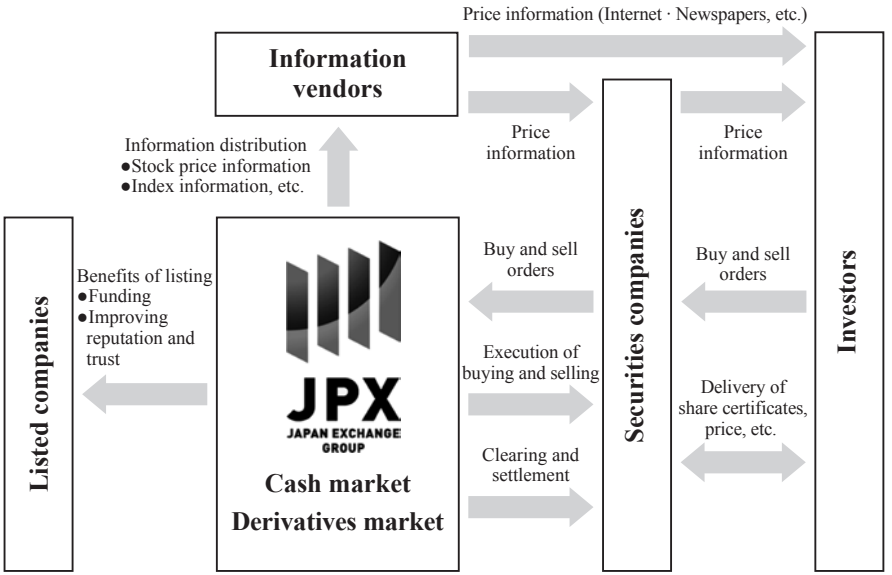
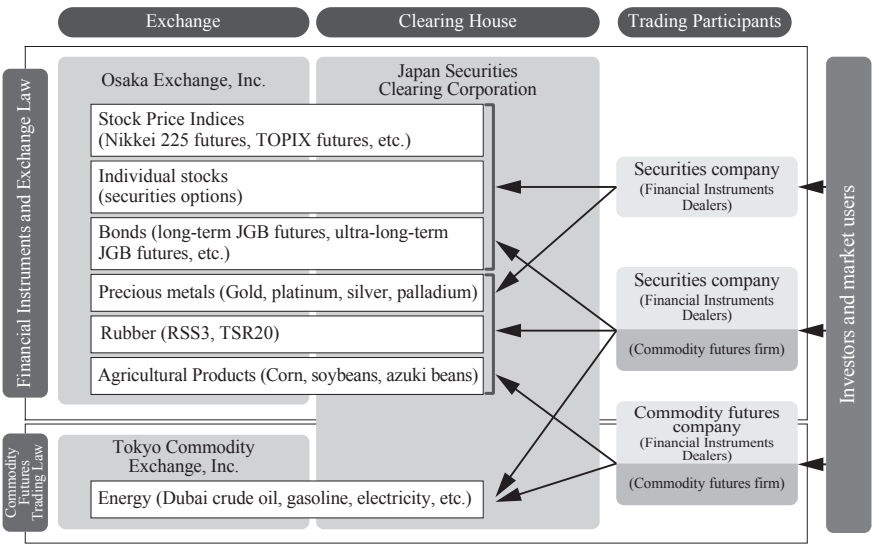


Chart X-2. Overview of Comprehensive Exchange



As of August 31, 2021

was established as a holding company of the Tokyo Stock Exchange and a self-regulatory organization. The establishment of a holding company was prompted by potential conflicts of interest between the public role of an exchange as an operator of self-regulating operations and the for-profit orientation of an exchange as a corporation, where exchanges sought to reinforce the independence of their highly public function to ensure self-regulation of the market. Furthermore, against the backdrop of intensifying competition among markets across borders resulting from the advancement of financial transaction systems, in 2013, the Tokyo Stock Exchange Group and the Osaka Securities Exchange combined their operations to increase the appeal and convenience of their markets and to enhance their global competitiveness, forming the Japan Exchange Group (JPX). In 2019, JPX acquired Tokyo Commodity Exchange (TOCOM), and in 2020 it transferred trading in precious metal futures and other commodities from TOCOM to Osaka Exchange (OSE), which specializes in derivatives, and integrated clearing organizations under its umbrella to create a comprehensive exchange for trading a wide range of products from financial instruments to commodities.

2. Footsteps of Markets

When the stock exchange resumed trading after WW2, the exchange market was a single market. With the Japanese economy entering a period of high growth and the demand for capital from small and medium-sized enterprises increasing, the OTC transactions executed outside the stock exchange rapidly evolved into a marketplace for so-called "collective transactions". It became necessary to institutionalize the marketplace to encourage the development of SMEs and to protect investors. In 1961, the Tokyo, Osaka and Nagoya Stock Exchanges set up Second Sections that have more relaxed listing standards than the conventional market, thereby absorbing many of the shares which had previously been traded OTC. This marked the establishment of the First Section and Second Section of the Tokyo Stock Exchange's Main Market.

Against the backdrop of Japan's high economic growth, the Japan Securities Dealers Association (JSDA) introduced the OTC Registration System in 1963 to provide a marketplace to secure funding for those companies that lack listing opportunities on the exchange markets. The OTC Registration System was reorganized into the new OTC Stock Market in 1983 and served to complement the conventional stock exchanges as a capital market for growth and start-up companies. After the revision of the Securities and Exchange Act in 1998, the OTC Stock Market was redefined so that it exists in parallel with other exchange markets in its own right. In 2004, it became the

Table X-1. History of the TSE's First and Second Sections

Apr. 1949	Stock Exchange reopened
Oct. 1961	The Second Section of the market opened in Tokyo, Osaka and Nagoya Establishment of listing criteria for shares designated to be listed on the First Section and those re-designated to be listed on the Second Section
Nov. 1986	Revision of regulations concerning the listing of NTT shares • Certain companies with a large number of listing shares and the likelihood for exceptionally favorable shareholder base could be directly designated as First Section stocks.
Nov. 1996	Standards for listing directly on the First Section formalized for clarification purposes • Number of listing shares, shareholder base (conformable to the First Section designation standards), etc.

Table X-2. History of the JASDAQ

Nov. 1983	New over-the-counter (OTC) market launched.
Dec. 1998	The JASDAQ market defined as an OTC securities market (in parallel with other exchange markets).
Dec. 2004	Stock exchange license acquired by JASDAQ and by the Securities and Exchange Act its name changed to the JASDAQ Securities Exchange.
Aug. 2007	The NEO market established.
Oct. 2007	JASDAQ, NEO, and Hercules markets merged, forming the new JASDAQ market.
July 2013	The businesses of TSE and OSE combined, with the TSE continuing to operate JASDAQ.

Table X-3. History of the Mothers

Nov. 1999	Mothers launched.
May 2002	Listing criteria reviewed: • Newly establish delisting criteria regarding sales. • Newly establish listing screening standards and delisting criteria regarding market capitalization, etc.
Dec. 2006	The first phase of a comprehensive listing system improvement program undertaken. • Require new applicants to obtain a letter of recommendation from the managing underwriter.
Nov. 2007	The second phase of a comprehensive listing system improvement program undertaken. • Abolish provisions for moving from main exchange to Mothers market (clarify Mothers' position as a start-up market), etc.
Nov. 2009	Steps taken to improve confidence in market taken. • Newly establish "appropriateness of business plan" as a listing criteria. • Newly establish stock price related delisting criteria, etc.
Mar. 2011	Further steps to improve confidence in and stimulate market taken. • Require listed companies to be audited by an audit firm registered with exchange. • Newly establish requirement to choose whether to stay on Mothers after 10 years. • Introduce listing screening policy in line with market concept (confirm appropriateness of business plan). *History prior to the restructuring of TSE market segments (April 2022)

JASDAQ Securities Exchange, which was subsequently merged with the OSE-operated Hercules in 2010, and began operating as the new JASDAQ Market.

In 1999, TSE established the Mothers market to provide listing opportunities for emerging companies in their start-up growth phase. This new market offered improved protection for investors through enhanced disclosure requirements, while allowing companies with high growth prospects to gain a listing even if they had negative net worth or suffered pretax losses. Subsequently, after a set of scandals among some of the listed companies, the screening criteria for listing were tightened to improve investor protection.

Subsequently, in 2013, following the merger of business operations of the Tokyo Stock Exchange and the Osaka Securities Exchange, the stock markets of the two exchanges were also consolidated. To avoid imposing burdens on listed companies and causing confusion among investors during the integration, the existing market structure was largely maintained. As a result, four markets for general investors continued to coexist: the First Section, the Second Section, MOTHERS, and JASDAQ (Standard and Growth).

Furthermore, in April 2022, the Tokyo Stock Exchange reviewed its market segmentation, taking into account the issues that had emerged following the integration. These included (1) the unclear concepts of the respective market segments, which reduced their usefulness for many investors; (2) the failure of the market segments to fully perform their expected role in encouraging listed companies to enhance their corporate value on a sustainable basis; and (3) the absence of an index that combined investability with broad market representativeness. This represented the first major reform in approximately 60 years since the establishment of the Second Section (see the next section for details).

3. Review of the Tokyo Stock Exchange's Market Segments and Subsequent Initiatives

On April 4, 2022, the Tokyo Stock Exchange reorganized its stock market into three new market segments—Prime, Standard, and Growth—to support the sustainable growth of listed companies and enhance their medium- to long-term corporate value, while providing an attractive market that is supported by a wide range of domestic and international investors. Listing requirements for each new market segment set quantitative and qualitative criteria for liquidity, corporate governance and others in accordance with each market concept.

Furthermore, to enhance the effectiveness of the market segment review, the Council of Experts Concerning the Follow-up of Market Restructuring

Chart X-3. Restructuring the Market Segments and New Market Concepts

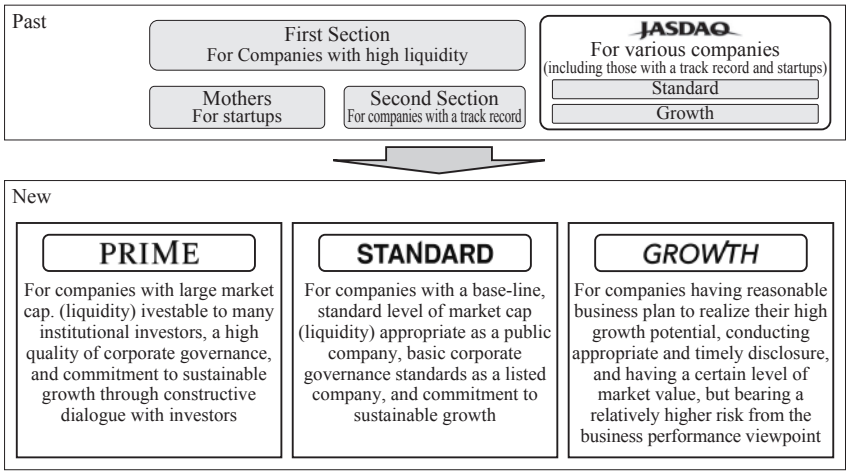
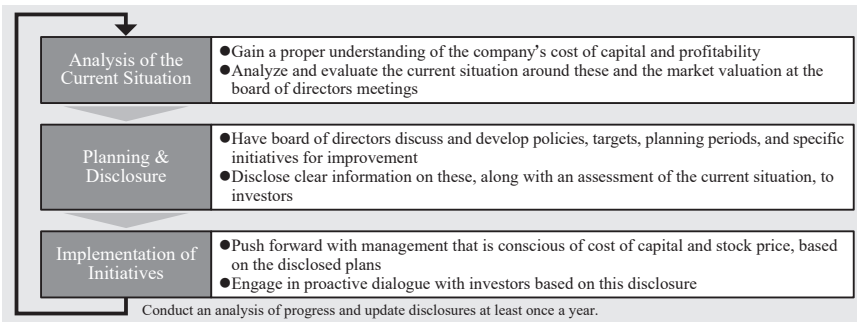


Chart X-4. Details of the Request for Action to Implement Management that is Conscious of Cost of Capital and Stock Price



was established in July 2022. This council has held continual discussions on additional measures to enhance the corporate value of listed companies.

In March 2023, given that approximately half of the listed companies on the Prime Market and about 60% on the Standard Market had an ROE of less than 8% and a PBR of less than 1, which indicated lower capital profitability and growth potential compared to Europe and the United States, TSE requested all listed companies in the Prime and Standard markets to take "Action to Implement Management That Is Conscious of Cost of Capital and Stock Price." As of December 2025, 90% of listed companies on the Prime

Chart X-5. Next-Generation TOPIX Rules

<table>
<tr><th></th><th>Current TOPIX</th><th>Next-Generation TOPIX</th></tr>
<tr><td>Target Market</td><td>Prime Market
*(Companies that were constituents at the time of the market restructuring and chose the Standard Market or Growth Market are included.)</td><td>Prime Market, Standard Market, Growth Market</td></tr>
<tr><td>Periodic review</td><td>None</td><td>Annually, on the last business day of October (base date: last business day of August)</td></tr>
<tr><td>Selection Criteria</td><td>None
*(Phased weighting reductions of constituents which had a tradable share market capitalization of under ¥10 billion at the time of the market restructuring or similar events are in progress.)</td><td>• Periodic review of constituents based on the following liquidity criteria
<table>
<tr><th>Indicator</th><th>Inclusion Criteria</th><th>Continuation Criteria*</th></tr>
<tr><td>Annual traded value ratio</td><td>0.2 or more</td><td>0.14 or more</td></tr>
<tr><td>Percentage of Cumulative Free-Float Adjusted Market Capitalization</td><td>In the top 96%</td><td>In the top 97%</td></tr>
</table>
• The inclusion criteria will be applied to issues that are not TOPIX constituents. The continuation criteria will be applied to issues that are TOPIX constituents.
*Continuation criteria (buffer rules) will be adopted in order to ensure index stability and investment efficiency</td></tr>
<tr><td>Non-periodic inclusion</td><td>New listings on or segment transfers to the Prime Market</td><td>New listings on the Prime, Standard, and Growth Markets whose free-float adjusted market capitalization exceeds the minimum free-float adjusted market capitalization of issues in the top 95% by cumulative free-float adjusted market capitalization</td></tr>
</table>

Market and 50% of those on the Standard Market disclosed measures taken in response to the request. The focus is now shifting to the implementation of those measures and to achieving actual improvements in capital profitability and other performance indicators.

With regard to the Growth Market, in light of the sluggish performance of the TSE Growth Market Index and the fact that only a limited number of companies achieve high growth after listing, the Tokyo Stock Exchange is promoting initiatives to further strengthen the Growth Market's concept as a market for companies with high growth potential. These initiatives include revising the continuous listing criteria for market capitalization (from at least ¥4 billion after 10 years of listing to at least ¥10 billion after five years of listing), encouraging management focused on achieving high growth, and providing support to listed companies.

In addition to the initiatives described above, the Tokyo Stock Exchange is also reviewing TOPIX with the aim of further enhancing its market representativeness and investability. Previously, TOPIX covered only the Prime Market. However, from October 2026, its coverage will be expanded to all market segments to include Standard and Growth Markets stocks that satisfy certain selection criteria.

4. Initial Listing System

The TSE imposes initial listing requirements on each market segment from the viewpoint of investor protection and examines listing applications to see whether they satisfy the listing requirements. TSE's initial listing criteria for each market segment comprise quantitative (formal) and qualitative (eligibility) requirements and the TSE examines applications from companies wishing to be listed based on consultation and their submitted documents.

Prime Market: In terms of the formal requirements, tradable share market capitalization of at least ¥10 billion which ensures the basis for ample liquidity so that a variety of institutional investors can invest in a company with confidence; tradable share ratio of at least 35% which is the basis for ensuring an effective foundation for constructive dialogue with institutional investors; either ¥2.5 billion profit (total of previous two years) or sales of at least ¥10 billion and notional market capitalization of at least ¥100 billion which are the basis for a stable and excellent revenue/financial base. In terms of the qualitative requirements, criteria are set from the viewpoint of corporate continuity, profitability, corporate governance, and effectiveness of internal control systems.

Standard Market: The formal requirements include a tradable share market capitalization of at least ¥1 billion as the basis for appropriate liquidity for smooth trading by general investors; a tradable share ratio of at least 25% to ensure a minimum level of transparency as a listed company; and profit of at least ¥100 million in the most recent year as the criterion for a stable revenue base. In terms of the qualitative requirements, similar to the Prime Market, there is the perspective of corporate continuity and profitability. However, while the Prime Market requires a strong and stable revenue base, the Standard Market only requires a stable revenue base.

Growth Market: In terms of formal requirements, the minimum liquidity requirement for a company to be investable for general investors is a tradable shares market capitalization of at least ¥500 million; a tradable share ratio of 25% or more for ensuring a minimum publicness as a listed company; and public offering of at least 500 units at initial listing as a necessary fundraising to achieve growth. To make it easier for start-up companies to access the capital markets, there are no criteria related to past business performance or financial position (profit and net assets). In terms of qualitative requirements, companies are required to demonstrate a reasonable business plan to realize high growth and to have ability to conduct appropriate disclosure.

Table X-4. Initial Listing Criteria (Quantitative Requirements)

Items		Prime Market	Standard Market	Growth Market
Liquidity	Number of Shareholders	800 or more	400 or more	150 or more
	Tradable Shares	20,000 units or more	2,000 units or more	1,000 units or more
	Market capitalization of the tradable share	JPY 10 billion or more	JPY 1 billion or more	JPY 0.5 billion or mor
	Market Capitalization	JPY 25 billion or more	—	—
Governance	The number of tradable shares	35% or higher of the listed stocks	25% or higher of the listed stocks	25% or higher of the listed stocks
Operating results	Revenue base	The applicant company satisfies either of the following a. or b.:Aggregated profits over the last two years are JPY 2.5 billion or more Net sales over the last year are JPY 10 billion or more and market capitalization is estimated to be JPY 100 billion or more at time of listing	Total profits over the last year are JPY 0.1 billion or more	—
Financial conditions		The amount of consolidated net assets is JPY 5 billion or more and amount of unconsolidated net assets is a positive figure	The amount of consolidated net assets is a positive figure	—
Public Offering		—	—	500 trading units or more
Others		Years of Business Operation, False Statements or Adverse Opinions, etc., Audit by a Listed Company Audit Firm, Establishment of a Shareholder Services Agent, Share Unit, Classes of Stock, Restriction on Transfer of Shares, Handling by the Designated Book-Entry Transfer Institution, etc.		

Notes: 1. No. of shareholders means the number of shareholders who own one or more units of shares.
2. The number of "tradable shares" is the number of shares after deducting from the number of listed shares the shares owned by shareholders, directors, etc., who own 10% or more of the listed shares, treasury (if they own their own shares), domestic common banks, insurance companies, and business corporations, and other shares deemed fixed by the Exchange.
3. The amount of profits is the amount derived by adding or subtracting net income attributable to minority interests in subsidiaries to/from the amount of current profit (loss).
4. Not required where the market capitalization on the listing date is expected to be JPY 25 billion or more.
5. Refers to registered auditors of listed companies, etc. as defined in Article 34-34-8, paragraph 1 of the Certified Public Accountants Act (limited to those who have undergone quality control reviews by the Japanese Institute of Certified Public Accountants).

Table X-5. Initial Listing Criteria (Qualitative Requirements)

Prime Market	Standard Market	Growth Market
【Corporate Continuity and Profitability】 The applicant company is operated continuously and has a stable and excellent revenue base.	【Corporate Continuity and Profitability】 The applicant company is operated continuously and has a stable revenue base.	【Appropriateness of Disclosure of Corporate Information, Risk Information, etc.】 The applicant company is in a position to appropriately disclose its business details and risk information, etc.
【Soundness of Corporate Management】 The applicant company carries out its business fairly and faithfully.	【Soundness of Corporate Management】 The applicant company carries out its business fairly and faithfully.	【Soundness of Corporate Management】 The applicant company carries out its business fairly and faithfully.
【Effectiveness of Corporate Governance and Internal Management System】 Corporate governance and internal management systems are appropriately established and functioning.	【Effectiveness of Corporate Governance and Internal Management System】 Corporate governance and internal management systems are appropriately established and functioning.	【Effectiveness of Corporate Governance and Internal Management System】 Corporate governance and internal management systems that are commensurate with the size and maturity of the company are appropriately established and functioning.
【Appropriateness of Disclosure of Corporate Information, etc.】 The applicant company is in a position where it is able to disclose its corporate information appropriately.	【Appropriateness of Disclosure of Corporate Information, etc.】 The applicant company is in a position where it is able to disclose its corporate information appropriately.	【Reasonableness of the business plan】 The applicant company has established a rational business plan and built a business foundation necessary to execute the business plan or has a rational plan to do so.
Other matters deemed necessary by the Exchange from the viewpoint of public interest or investor protection		

5. Listing Administration Systems

With a view to carrying out the proper administration of listed securities and to protecting investors, stock exchanges have instituted various rules relating to the administration of listings and have sought to ensure the effectiveness of these rules by requiring issuers to commit to observe these in the listing agreement they sign at the time of listing. TSE's listing requirements include rules for timely disclosure of important corporate information, a code of corporate conduct requiring companies to adhere to appropriate behavior, and the delisting of securities.

Rules Requiring Timely Disclosure of Corporate Information: To ensure the formation of fair market prices and to foster the sound development

Table X-6. Outline of Code of Corporate Conduct of the Tokyo Stock Exchange

Matters to be observed (if a listed company violates a provision regarding these matters, it may be subject to measures enforced by the TSE)	Matters desired to be observed (listed companies are expected to make efforts to observe them)
• Matters to be observed regarding third-party allotment • Prohibition of stock split, etc., that could cause turmoil in the secondary market • Matters to be observed pertaining to issuance of MSCB, etc. • Duty to exercise of voting rights in writing, etc. • Duty to carry out framework improvement to facilitate exercise of voting rights for listed foreign companies • Duty to secure an independent director/auditor • Duty to explain the reasons for implementing or not implementing the Corporate Governance Code • Duty to appoint a board of directors, an audit board or committee, and an accounting auditor • Duty to select a certified public accountant or public audit firm to provide the audit certificate of the accounting auditor • Duty to carry out necessary structural development of a system for ensuring the appropriateness of business • Matters to be observed pertaining to introduction of takeover defense measures • Matters to be observed pertaining to disclosure of MBOs, etc. • Matters to be observed pertaining to significant transactions, etc., with controlling shareholders • Prohibition of insider trading • Exclusion of anti-social forces • Prohibition of behavior destructive to the functioning of the secondary market or the rights of shareholders	• Efforts toward the shift to and maintenance of the desired investment unit level • Respect for the principles of the Corporate Governance Code • Securing management structure that includes independent directors • Framework improvement to enable proper functioning of independent directors/auditors • Provide information on independent directors/auditors, etc. • Framework improvement to facilitate exercise of voting rights • Delivery of documents to shareholders owning stock without voting rights • System improvement for prevention of occurrence of insider trading • Development of system, etc. for excluding anti-social forces • Development of systems and structures to properly respond to changes in accounting standards, etc. • Fair provision of supplementary explanatory materials on details of account settlement

of a financial instruments market, it is extremely important for listed companies to make proper disclosure in a timely manner of information concerning important corporate matters that may influence the investment decision-making of investors, the very basis on which stock prices are formed. TSE requires listed companies to disclose important corporate information, such as corporate decisions, events, and financial results, in a timely manner. The timely disclosure requirements are fundamentally the same across all the market segments, but only the Growth Market requires companies to disclose business plans and matters relating to growth potential on a continuous basis. In addition, listed companies on the Prime Market have been required to provide simultaneous disclosure in English since April 2025.

Code of Corporate Conduct: The purpose of requiring proper conduct by listed companies is to raise their awareness of their role as members of the financial instruments market, to ensure greater transparency by enhancing the

Table X-7. Continued Listing Criteria

Item		Prime Market	Standard Market	Growth Market
Liquidity	Number of Shareholders	800 or more	400 or more	150 or more
	Number of tradable shares	20,000 units or more	2,000 units or more	1,000 units or more
	Market capitalization of the tradable share	JPY 10 billion or more	JPY 1 billion or more	JPY 0.5 billion or more
	Trading Value	Daily average trading value: JPY 20 million or more	Monthly average trading volume: 10 units or more	Monthly average trading volume: 10 units or more
Governance	Tradable share ratio	35% or higher	25% or higher	25% or higher
Financial conditions	Amount of Net Assets	The amount of net assets is a positive figure.	The amount of net assets is a positive figure.	The amount of net assets is a positive figure.
Market Capitalization		—	—	JPY 4 billion or more (applicable after 10 years from initial listing)

※Improvement period is generally one year. (Standard Market and Growth Market trading criteria is 6 months.)

※With the aim of encouraging companies listed on the Growth Market to quickly grow large enough to become targets for investment from institutional investors and also to facilitate M&A among companies and the creation of subsequent businesses by entrepreneurs, starting in 2030 the Growth Market's continued listing criteria will be revised so that a company's market capitalization must be ¥10 billion or more when the company has been listed for five or more years.

disclosure of corporate information, and to achieve the proper operation of investor protection measures and market functions. The Tokyo Stock Exchange has established these principles as its Code of Corporate Conduct, which consists of "Matters to Be Observed," which are mandatory under the Exchange's rules, and "Matters to Be Respected," which are recommendations rather than mandatory requirements.

Continued listing criteria/delisting criteria: Under the new market segments each market has its own continued listing criteria based on the respective concept and listed companies are required to comply with these criteria on a continuous basis. If a company is in breach of the criteria and fails to remedy this within the required period, the company will be delisted. In addition to these criteria, there are other criteria common to all the markets.

Regarding the continued listing criteria, less rigorous standards are applied on a transitional basis to companies that were listed prior to the market seg-

Table X-8. Delisting Criteria

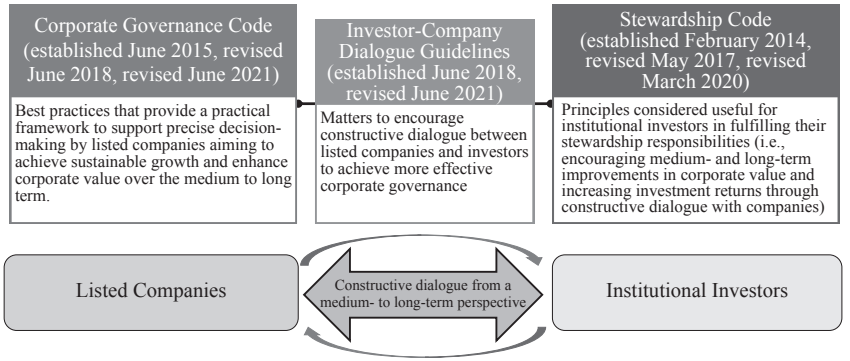
Item	
Failure to Meet Continued Listing Criteria	lack of entrustment to a shareholder services agent
Suspension of bank transactions	restrictions on transfer of shares
bankruptcy/rehabilitation/reorganization proceedings	conversion to a wholly-owned subsidiary
suspension of business activities	ceasing to be subject to the book-entry transfer operation of a designated book-entry transfer institution
inappropriate merger, etc.	inappropriate restrictions on shareholders' rights
impairment of sound transactions with a controlling shareholder	acquisition of all shares
Delay in Submission of Securities Report or Quarterly Securities Report	acquisition by request for sale of shares, etc.
False Statement or Adverse Opinion, etc.	share consolidation
Securities on Alert, etc.	involvement of anti-social forces
Violation of Listing Agreement, etc.	others (cases where delisting is deemed appropriate for public benefits or investor protection)

mentation review. Since March 2025, however, the original continued listing criteria have been applied. If a listed company is deemed likely to meet the delisting criteria, the Tokyo Stock Exchange designates its stock as a Security on Alert and notifies investors accordingly. If a listed company meets the delisting criteria, its stock is designated as a Security to Be Delisted, and the designation is publicly announced. Trading continues for a specified period, after which the stock is delisted.

6. The Corporate Governance Code

Outline of the Corporate Governance Code: The TSE formulated the Corporate Governance Code (the "Code"), a set of key principles that contribute to the realization of effective corporate governance of listed companies. This has been applied to listed companies since June 2015. The Code adopts the "comply-or-explain" approach. Although implementation of each principle is not a uniform requirement, if there is a principle that is not implemented due to the individual circumstances of the company, the company is required to provide an appropriate explanation of the reasons for this and the status of implementation of alternative measures. The Code has been formulated on a principles-based approach. Although there are no clear definitions of terms, it

Chart X-6. Two codes and dialogue guidelines



is expected that those involved will interpret the Code and respond to it appropriately in accordance with the intention and spirit of the Code. All listed companies are requested to document their status of adoption of the Code in a Corporate Governance Report. The reports are to be made available for public inspection on the websites of the relevant stock exchanges, etc.

Apart from the Corporate Governance Code, which is a code of conduct for listed companies, the Stewardship Code has been formulated for institutional investors, and it is expected that the two will work together to promote the sustainable growth of listed companies based on constructive dialogue with institutional investors. In addition, in 2018, as an annex to both codes, the "Guidelines for Dialogue between Investors and Companies" was formulated, which summarizes matters that are expected to be discussed intensively in the dialogue between companies and investors.

Revision of Corporate Governance Code: The Corporate Governance Code was revised in 2018 and 2021. The three main points of the 2021 revision are the enhancement of the function of the board of directors, ensuring diversity in the core human resources of the company, and addressing issues related to sustainability. Furthermore, considering that the Prime Market is a segment focused on constructive dialogue with global investors, principles requiring a higher standard of corporate governance were introduced. Currently, a third revision is under consideration with the aim of further advancing substantive corporate governance reform based on voluntary changes in the mindset of both companies and investors. In addition to issues such as the reallocation of management resources toward growth investments and the publication of securities reports prior to the general meeting, plans are also in place to streamline the Code as a whole with a shift toward a principles-based approach.

Chart X-7. Overview of the Corporate Governance Code

【1. Securing the Rights and Equal Treatment of Shareholders】
Companies should take measures to fully secure rights and equal treatment of shareholders.

- Securing the substantial Rights and Equal Treatment of Shareholders
  ⇒Measures for giving shareholders sufficient time to consider the agenda of general shareholder meetings (early delivery of convening notices, electronic exercise of voting rights, english translation of notice of convocation, etc.)
- Description of capital policies
  ⇒Basic policy, takeover defense measures and changes in controlling rights, necessity and rationale for large-scale dilution, and cross-shareholdings* etc.
  *Cross-shareholdings: disclosure of policy for reducing cross- shareholdings, explanation of the objective and rationale for shareholding based on an examination of economic rationale, establishment and disclosure of standards for the exercise of voting rights

【2. Appropriate Collaboration with Stakeholders Other Than Shareholders】
Companies should recognize that their sustainable growth is brought about as a result of contributions made by a variety of stakeholders, including employees, customers, business partners, and local communities, and should endeavor to appropriately cooperate with these stakeholders.

- Appropriate response to issues surrounding sustainability, including social and environmental problems
- Ensure diversity in the company's core human resources (women, foreigners, mid-career hires)

【3. Ensure Appropriate Information Disclosure and Transparency】
Listed companies are required to appropriately disclose financial and non-financial information in compliance with the relevant laws and regulations, and should also proactively engage in providing other information, thereby providing information that is easy for users to understand and highly useful.

- Enhancement of Information Disclosure
  ⇒Business strategies, Plan, basic principle on corporate governance, policy and procedure of nomination and remuneration of directors, English disclosure, and activities for sustainability

【4. Responsibilities of the Board】
In order to promote sustainable corporate growth and enhance earnings power and capital efficiency, the board should appropriately fulfill the following roles and responsibilities:
(1) Setting the broad direction of corporate strategy;
(2) Establishing an environment where appropriate risk-taking by the senior management is supported; and
(3) Carrying out effective oversight from an independent and objective standpoint

- Use of independent/external directors
  ⇒At least one-third of the directors (prime Market listed companies) or two of the directors (other market isted companies) to be those who are qualitied to contribute to sustainable growth, exclusive meetings for independent directors, lead independent directors, proper involvement in nomination and compensation, etc.
- Ensuring the effectiveness of the board of directors and the audit & supervisory board
  ⇒Evaluation of effectiveness of the board of directors, management of directors' meetings (distribution of materials, matters to be discussed, etc.), access to information (streamlining of the company's support system, provision of opportunities for training, etc.)

【5. Dialogue with Shareholders】
In order to contribute to sustainable growth, companies should engage in constructive dialogue with shareholders.

Source: Materials released by the Financial Services Agency.

7. The Stock Trading System (1)

Most of the transactions on the stock exchanges are conducted during the trading sessions. In the case of the Tokyo Stock Exchange, trading hours are divided into two sessions: the morning session, from 9:00 a.m. to 11:30 a.m., and the afternoon session, from 12:30 p.m. to 3:30 p.m.

There are two main types of orders: limit orders, in which a price is specified, and market orders, which are executed at the prevailing market price. For limit orders, the permissible price increments, such as ¥1 or ¥10, are determined according to the price range of the security. For some issues with particularly high liquidity, finer price increments have been established to improve execution prices and reduce the wait time for orders to be executed. In addition, limit orders are subject to daily price limits based on the previous day's closing price and other reference prices. These limits define the maximum range within which the price of each security may fluctuate during a trading day. In addition, to prevent sharp fluctuations in stock prices over short periods during the trading day, the market has systems in place known as special quotes and sequential trade quotes, which, together with daily price limits, help curb excessive price volatility.

Trades in auction trading are executed through one of two methods—the Call Auction Method (Itayose) and the Continuous Auction Method (Zaraba)—in accordance with the principles of price priority (under which the highest-priced buy order and the lowest-priced sell order take precedence over other orders) and time priority (under which, among orders at the same price, the order entered first takes precedence).

Call auction method: The Call Auction Method (Itayose) is used to determine the opening price at the start of the trading session and in certain other situations. Orders entered before execution are matched according to the principle of price priority at a single execution price that satisfies specified matching conditions, including the execution of all market orders.

Continuous Auction Method: Following the determination of the opening price by the Call Auction Method, the Continuous Auction Method (Zaraba) is used until 11:30 a.m. in the morning session and until 3:25 p.m. in the afternoon session. Newly entered orders are matched in accordance with the principles of price priority and time priority.

In November 2024, the Tokyo Stock Exchange extended the trading session by 30 minutes, from 3:00 p.m. to 3:30 p.m., and introduced a closing auction to enhance the transparency of closing price formation. Following the end of continuous auction trading, a five-minute pre-closing order acceptance period is held before the closing auction.

Table X-9. Methods of Concluding Transactions

Itayose method A memo (on a board) about an order received at the time an opening price is decided		
(Asked price)	(Price)	(Bid price)
H(2) I(4)	Market Quotation	K(1) M(3)
○○○	¥503	
○○○	¥502	T(1)
○○	¥501	P(5) N(2)
G(1) F(1) E(1)	¥500	A(4) B(3) C(2) D(1)
S(2)	¥499	○○○
R(4)	¥498	○○○
	¥497	

Zaraba method A memo (on a board) about a *Zaraba* order for a given issue received		
(Asked price)	(Price)	(Bid price)
	Market Quotation	
○○○	¥503	
○○○	¥502	
○D(2) C(4)	¥501	
B(3) A(3)	¥500	
	¥499	F(3) G(2)○
	¥498	○○○
	¥497	○○○

Notes: 1. Alphabetical letters represent securities companies.
2. Figures given in parentheses represent the number of trading units, each consisting of 100 shares.
3. ○○○ are blanks to be filled with securities companies bidding or asking prices and the number of trading units.
4. In the case of the *Itayose* method, all bid and asked prices are considered to have been proposed simultaneously (simultaneous outcry).

The *Itayose* Method

a. First, a sell order for 600 shares at a market-asked price without limit (200 shares by securities company H and 400 shares by securities company I) is matched against buy orders for 400 shares at a market-bid price without limit (100 shares by securities company K and 300 shares by securities company M). At this point, 200 shares at a market-asked price without limit are left unmatched.

b. Then, assuming that the opening price will be ¥500, the remaining unfilled sell orders for 200 shares at a market-asked price without limit and those for 600 shares at an asked price of ¥499 or less (200 shares by securities company S and 400 shares by securities company R) are matched against buy orders for 800 shares at a bid price of ¥501 or more (500 shares by securities company P and 200 shares by securities company N and 100 shares by securities company T). As a result, sell orders for 1,200 shares at an asked price and buy orders for 1,200 shares at the bid price are matched.

c. Lastly, a sell order for 300 shares at an asked price of ¥500 (100 shares by securities company E, 100 shares by securities company F, and 100 shares by securities company G) are matched against buy orders for 1,000 shares at a bid price of ¥500 (400 shares by securities company A, 300 shares by securities company B, 200 shares by securities company C, and 100 shares by securities company D). However, there are only 300 shares offered for sale at an asked price of ¥500, while there are buy orders for 1,000 shares at a bid price of ¥500. In such cases, all the sell orders for 300 shares at an asked price of ¥500 are matched against the buy orders for 100 shares each from securities company A, B, and C (for a total of 300 shares) at an asked price of ¥500. As a result, the opening price is decided at ¥500, and orders for a total of 1,500 shares are consummated at such price.

The *Zaraba* Method

a. When the contents of an *Ita* (board) are as shown in the chart, a buy order of securities company M for 200 shares at a bid price of ¥500 can be consummated by matching the sell order of securities company A for 200 shares out of its original sell order for 300 shares.

b. When securities company N places a buy order for 1,000 shares at a bid price without limit, it can be consummated by matching it against the remaining 100 shares offered for sale by securities company A at an asked price of ¥500 and a sell order of securities company B for 300 shares at an asked price of ¥500 and then a sell order of securities company C for 400 shares at an asked price of ¥501 and a sell order of securities company D for 200 shares at an asked price of ¥501.

c. If securities company K places a sell order for 500 shares at an asked price of ¥499, a contract can be concluded by matching it against a buy order of securities company F for 300 shares at a bid price of ¥499 and a buy order of securities company G for 200 shares at a bid price of ¥499.

d. As a result, the following trading agreements can be concluded

Selling securities company	Buying securities company	Contracted price	No. of shares
Securities company A	Securities company M	¥500	200 shares
Securities company A	Securities company N	¥500	100 〃
Securities company B	Securities company N	¥500	300 〃
Securities company C	Securities company N	¥501	400 〃
Securities company D	Securities company N	¥501	200 〃
Securities company K	Securities company F	¥499	300 〃
Securities company K	Securities company G	¥499	200 〃

e. In such a manner, asked and bid prices are offered without interruption during the session hours, and when buy orders (sell orders) are matched against sell orders (buy orders), trading agreements are concluded.

8. The Stock Trading System (2)

While most of the transactions are executed during the trading sessions, stock exchanges introduced complementary off-auction trading systems in the second half of the 1990s to accommodate the need for executing block trades or basket trades.

During the initial period that followed the introduction of these systems, the systems were used solely for executing cross transactions (buy and sell orders by the same trading participant) due in part to the restriction that required orders to be placed via fax. However, the Tokyo Stock Exchange automated its off-auction trading system to improve efficiency and convenience with the introduction of ToSTNeT in June 1998 and expanded its trading system by adding new classes of transactions.

After that, in January 2008, further classes of transactions were added and trading hours were extended, making the market independent from trading sessions. Regarding single stock trading and basket trading, in August 2020 and May 2021, various measures were put in place to improve the system in line with the diversification of the trading needs of investors, for instance through the expansion of the range of settlement dates that can be specified.

ToSTNeT, the off-auction trading system of the Tokyo Stock Exchange, accommodates the following four types of transactions: single-stock trading, basket trading, closing-price trading, and off-auction corporate share repurchases.

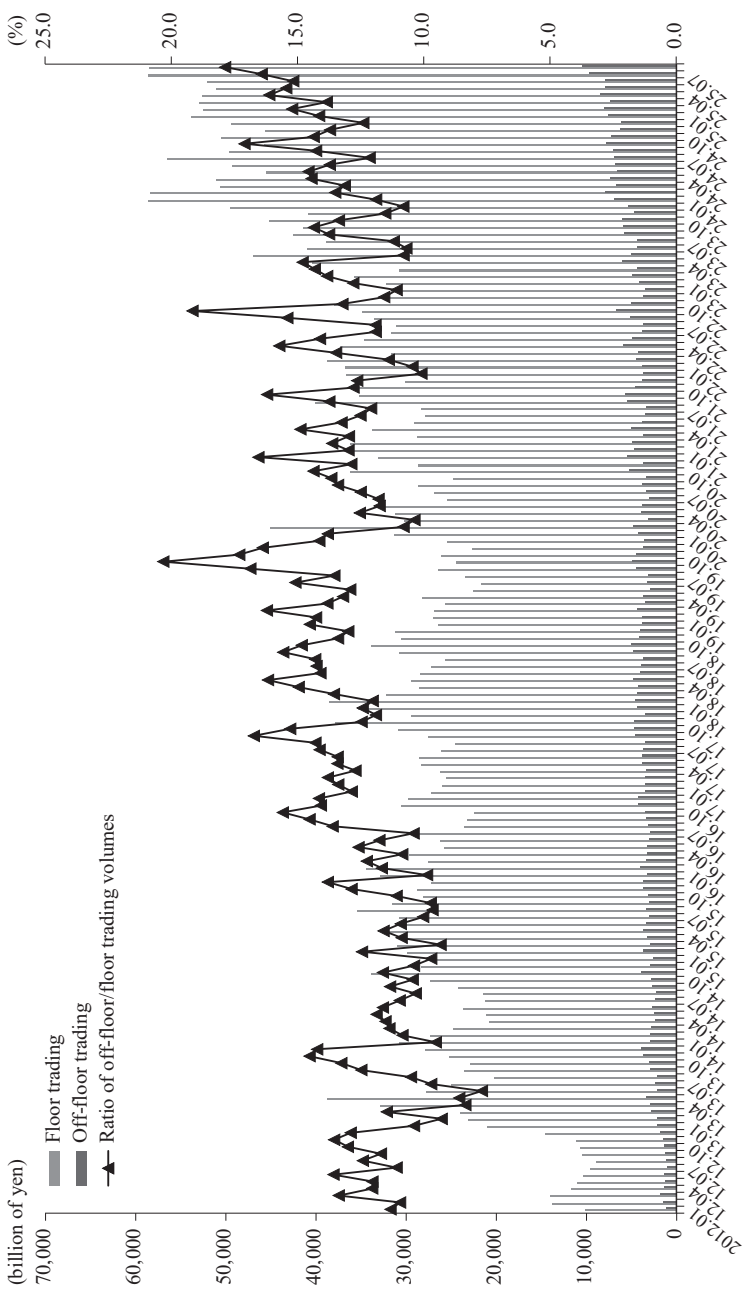
Single-stock trading: Under the single-stock trading system, investors trade individual stock issues at a price within plus-minus 7% (¥5 when 7% of the price is less than ¥5) of the last price of the issue on the floor or some other reference price as specified.

Basket trading: The basket-trading system enables investors to trade baskets of a minimum of 15 stocks worth at least ¥100 million in aggregate value within plus-minus 5% of the value of the basket based on the last prices of the component issues on the floor or some other reference prices as specified.

Closing-price trading: Under the closing-price trading system, off-auction orders of investors are matched, in principle, based on time priority before the morning and afternoon sessions and after the afternoon sessions at the closing prices of the preceding session or some other reference prices as specified.

Off-auction corporate share repurchases: Orders for share buyback are executed before the morning session at the previous day's closing prices or some other reference price as specified. Buyers eligible for the facility are limited to listed companies that intend to repurchase their own shares.

Chart X-8. A Comparison of the Trading Value of Floor Trading and Off-Floor Trading of the Tokyo Stock Exchange



9. Computerized Trading and Clearing Systems of the Financial Instruments Exchange (Stock Exchange) (1)

The following is a summary of the electronic stock trading system and the settlement and clearing system that maintain the stock market.

The Stock Trading System is used in the cash market of the Tokyo Stock Exchange to match orders, generate trade execution reports, and provide market information, including order book inquiries. It processes transactions in stocks, CBs (convertible bonds with stock acquisition rights), and other securities executed both in auction trading and through ToSTNeT (off-auction trading). Orders from a trading participant are mainly entered through the trading participant's in-house system or through a direct connection to the TSE's trading system.

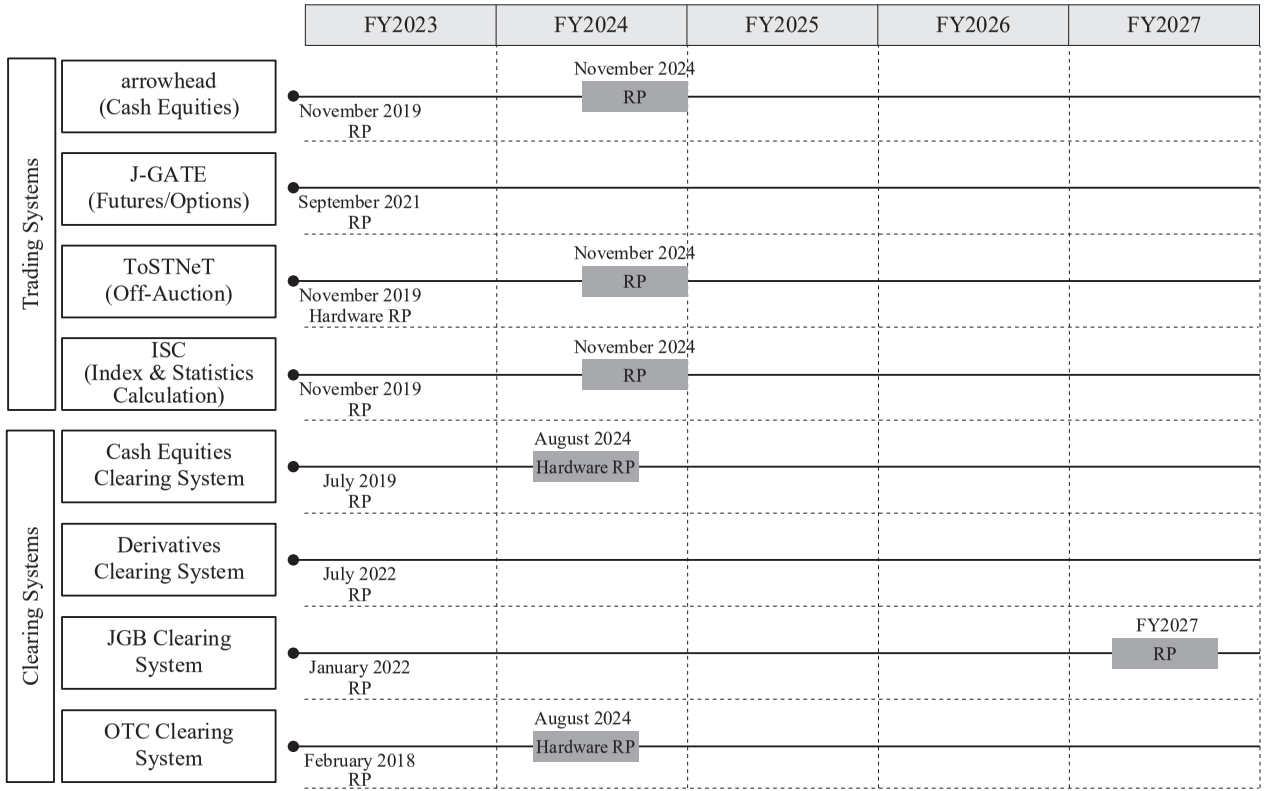
The computerization of securities trading at the TSE started with CORES (Computer assisted Order Routing and Execution System) (the old stock trading system) that was introduced to the Second Section in January 1982. The stock trading systems currently in operation are arrowhead and ToSTNeT. arrowhead was designed to achieve both high speed and high reliability in order to address changes in the market environment, including the further development of electronic trading and the continuing increase in the number of orders, as well as the associated risks. It has been in operation since 2010.

Following the establishment of the JPX in January 2013 and the integration of the cash market into the TSE in July 2013, trading in stocks and CBs on the OSE was also consolidated into the arrowhead and ToSTNeT systems. Since then, the systems have undergone three upgrades based on three guiding principles: enhanced reliability, improved usability, and greater processing capacity. The most recent upgrade (implemented in November 2024) included measures to extend trading hours, introduce a closing auction, and further strengthen system resilience.

The settlement and clearing system for stocks and CBs is designed to support delivery and other operations for the settlement and clearing of transactions executed on the TSE and other markets. Since January 2003, the JSCC has acted as the cross-market clearing organization for all domestic exchanges.

The data for this process from trading participants, etc., is passed through the TSE's dedicated network arrownet.

Chart X-9. System Integration Schedule of Japan Exchange Group, Inc.



Source: IT Master Plan, Japan Exchange Group, March 2025

10. Computerized Trading and Clearing Systems of the Financial Instruments Exchange (Stock Exchange) (2)

The following is a summary of the trading system and the settlement and clearing system that support the derivatives market.

The Derivatives Trading System is used in the derivatives market of the Osaka Exchange to match orders, generate trade execution reports, and provide market information, including order book inquiries. It processes on-auction and off-auction transactions in futures, options, and other derivatives. Orders from trading participants are mainly entered through trading participants' in-house systems, which are directly connected to the exchange's trading system.

The OSE's trading system for derivatives, J-GATE, has the same functions and transaction formats as the systems used by major overseas markets. In introducing the system which began operation in February 2011, the OSE reviewed the complex transaction system peculiar to Japan to address the shift among investors to algorithmic and other advanced and diversified trading methods.

Following the launch of JPX in January 2013, the derivatives markets of the TSE and the OSE were amalgamated on the OSE market in March 2014, and derivatives products listed on the TSE were integrated into J-GATE. The J-GATE network was also consolidated into arrownet in September 2014.

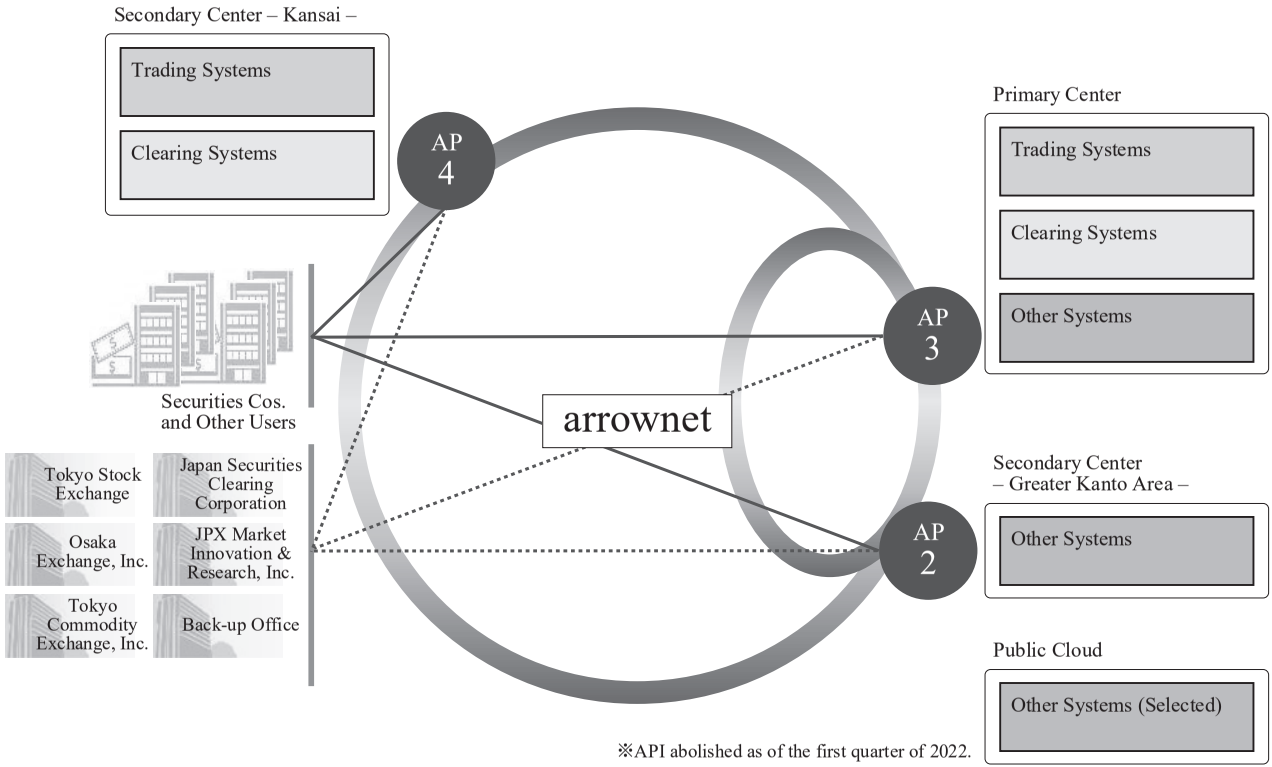
In July 2016, the system was updated and based on NASDAQ's Genium INET trading platform with a view to further increasing stability and reliability as well as promoting liquidity.

In September 2021, the system was updated to enable the addition of flexible products and functions, and to further improve system reliability and convenience.

Although the OSE had been using the OSE clearing system while the TSE used the JSCC clearing system, the clearing organizations were integrated into the JSCC in July 2013 and all margin operations relating to derivatives trading have since been processed on the JSCC clearing system. Subsequently, in November 2014, clearing and settlement operations were also integrated into the JSCC clearing system. In February 2018, partial replacements were made for the settlement and clearing function for futures options transactions.

In July 2020, following the merger of the Tokyo Commodity Exchange (TOCOM) and its clearing organization, the Japan Commodity Clearing House (JCCH), clearing and settlement operations for commodity derivatives were integrated into the JSCC clearing system.

Chart X-10. Image Diagram of Japan Exchange Group's System (as of April 2026)



Source: IT Master Plan, Japan Exchange Group, March 2025.

11. TOKYO PRO Market

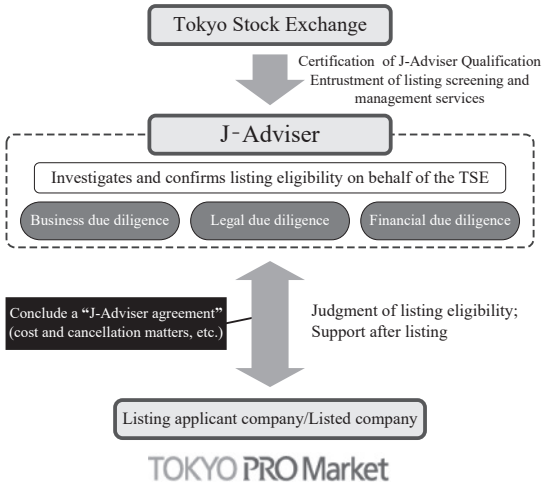
The TOKYO PRO Market is a market for professional investors now operated by the Tokyo Stock Exchange (TSE). Its origin is the TOKYO AIM, which was jointly established by the TSE and the London Stock Exchange (LSE) in June 2009. TOKYO AIM, Inc., was originally operated as a partnership (ownership: TSE 51%; LSE, 49%). In March 2012, however, the TSE acquired LSE's stake and merged Tokyo AIM with the TSE in July 2012. TOKYO AIM is operated under the professional investor market system provided for by the enactment of the December 2008 revision of the Financial Instruments and Exchange Act (FIEA).

Placing orders on traditional exchanges is not limited to any special category of investor. The professional investor market system, conversely, restricts trading to professional investors and nonresidents. Where fund procurement is limited to professional investors, securities registration statements are not required, and issuers need only make public financial information, etc. (called specified securities information), using the format and method stipulated by the TSE. Companies already listed on the exchange,

Table X-10. Overview of TOKYO PRO Market Listing System

<table>
<tr><td>Disclosure language</td><td>• Japanese or English</td></tr>
<tr><td>Listing criteria</td><td>• No quantitative criteria</td></tr>
<tr><td>Subject of evaluation</td><td>• J-Adviser (Conducts review and check on listing eligibility on behalf of the exchange)</td></tr>
<tr><td>Period from listing application to listing approval</td><td>• As a general rule, ten (10) business days
• (provided, however, that there is a check procedure by the exchange to J-Adviser 30 business days prior to application)</td></tr>
<tr><td>Audit certification</td><td>Latest one (1) year</td></tr>
<tr><td>Internal control report</td><td>Optional</td></tr>
<tr><td>Quarterly disclosure</td><td>Optional</td></tr>
<tr><td>Investors</td><td>• Professional investors (Note) and non-residents
Note: Professional investor refers to:
<table>
<tr><td>Specified investors (Tokutei Toushika)</td><td>Qualified Institutional Investors (e.g., financial institutions); National government; Bank of Japan</td></tr>
<tr><td>Specified investors (Tokutei Toushika) (may shift to general investors)</td><td>Listed companies and corporations with paid-in-capital of no less than ¥500 million</td></tr>
<tr><td>"Deemed" specified investors</td><td>Corporation other than the above specified investors
Individuals who meet certain requirements</td></tr>
</table></td></tr>
</table>

Chart X-11. Role of J-Adviser



J-Adviser System

■ Roles

- The J-Adviser investigates and confirms listing eligibility for new listings (so-called listing examination)
- Provides continuous give advice and guidance to ensure that listing eligibility can be maintained even after listing
- Listing companies are obligated to maintain one (1) responsible J-Adviser at all times

■ Requirements

- The applicant company must have experience in corporate finance advisory operations (IPOs/M&A) and stock offering support services, etc., have human resources well-versed in such areas of business and must be authorized by the exchange.

◇List of approved J-Advisers today
(21 companies; in alphabetical order)

- IR Japan, Inc.
- AIZAWA SECURITIES Co., Ltd.
- SMBC Nikko Securities Inc.
- SBI SECURITIES Co.,Ltd.
- Kyushu FG Securities, Inc.
- The Saga Bank, Ltd.
- G-FAS Corporation
- J Trust Global Securities Co., Ltd.
- Japan Investment Adviser Co., Ltd.
- Daiwa Securities Co., Ltd.
- TAKARA PRINTING Co., Ltd.
- TANABE CONSULTING GROUP CO.,LTD.
- Nihon M&A Center Inc.
- Nomura Securities Co., Ltd.
- Phillip Securities Japan, Ltd.
- Funai Consulting Incorporated
- Bridge Consulting Group, Inc.
- Mizuho Securities Co., Ltd.
- Mita Securities Co., Ltd.
- Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.
- MEINAN M&A CO., LTD.

*As of End of December 2025

moreover, need not submit annual securities reports and need only make public financial information, etc. (issuer information), using the TSE-stipulated format and method. The submission of internal control system reports and quarterly disclosure is voluntary. By premising requirements on the fact that only professional investors—those capable of analysis and making investment decisions—will invest in the market, the cost burden of issuing has been reduced in comparison with traditional stock exchanges.

Even in the professional investor market, statutory penalties apply to false statements in financial reports and other disclosure documents, as well as to insider trading. In addition, the Large Shareholding Reporting System and the Tender Offer (TOB) System apply in the same manner as in other markets. The page on the right shows details of how the TOKYO PRO Market aims to provide a flexible but disciplined market system for issuers and investors through the J-Adviser system (approved adviser system) within the previously mentioned legal framework. This operational method, which has the J-Adviser system at its core, has been drawn substantially from the Nomad (Nominated Adviser) system of the LSE's Alternative Investment Mar-

ket (AIM). Under the system, specialists in corporate finance, etc., who have been approved as J-Advisers are required to guide a company through the admission process and to fulfill a duty to provide advice and instruction on timely disclosure and other regulatory matters following listing.

As of December 31, 2025, the TOKYO PRO Market had 21 J-Advisers and 163 listed companies.

12. Market Making Scheme in the ETF Market

The TSE introduced a market-making scheme (hereinafter referred to as the "scheme") in the ETF (Exchange Traded Funds) market on July 2, 2018 to improve the liquidity of ETFs. Under the scheme, market makers who are designated by the exchange place constant orders on the basis of continuous

Table X-11. Overview of ETF Market Making Incentive Scheme

Category	Item	Description
Target	ETFs excluding Leveraged/Inverse ETFs	• ETNs and Leveraged/Inverse ETFs are not included in this scheme.
Qualifications	Prop Desk of TSE Trading Participant Or Registered Low Latency Trader	• Prop Deskof TSE Member Firm (Type 1 Financial Instruments/Foreign Securities Broker) • Agency (Registered as Low Latency Trader) Either can sign up as an ETF Market Maker. The firm must apply through a TSE trading participant to sign up as an agency market maker. • Dedicated Virtual Server is needed.
Obligation (Quote display obligation)	(1) Number of ETFs for Continuous Quoting	• Must show quotes for at least the number of ETFs designated
	(2) QuotingTime	• At least 80% of the time during continuous auction. Exempt from obligation during trading halts or Special Quote periods.
	(3) Spread & Minimum Quantity	• Depends on type of ETF
Incentives	1. Proportional to TradingValue	• Price rate differs by liquidity (Average Trading Value).
	2. Waiver of Access Fee	• Access fee is partially waived for eligible issues.
	3. Waiver of Virtual Server Fee	• Server fee is partially waived when continuously quoting at least the number of ETFs designated.

Source: Tokyo Stock Exchange, Inc.

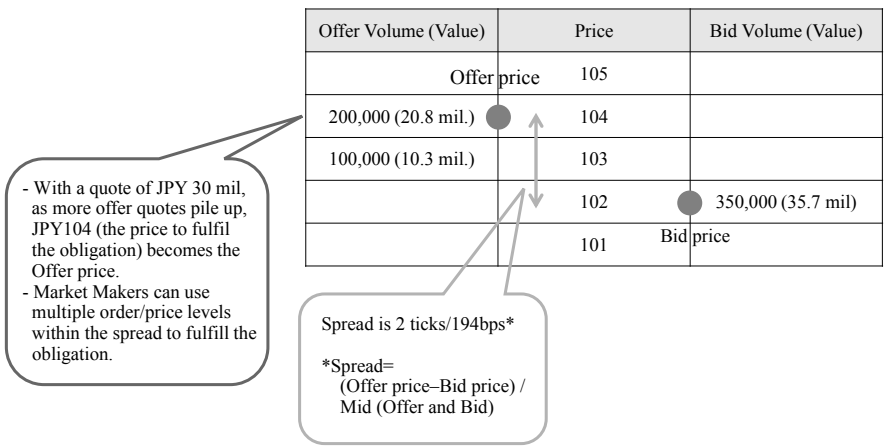
Table X-12. Continuos Quoting Obligation and Delivers a of number of Incentives

As of July 1, 2025

Type	Issue	Maximum Bid-Ask Spread (whichever is larger)	Minimum Quantity
A	ETFs tracking Nikkei 225, TOPIX, JPX Nikkei 400, JPX Prime 150 (excl. leveraged/inverse type)	20 bps OR 2 ticks	JPY 30 mil.
B	ETFs tracking other domestic stocks, REITs, bonds, Leveraged inverse ETFs tracking domestic stocks, REITs and bonds, Actively managed ETFs mainly comprised of domestic stocks, REITs and bonds.	50 bps OR 3 ticks	JPY 10 mil.
C	Foreign index and commodity ETFs, Leveraged/inverse ETFs that do not fall under type B, Actively managed ETFs mainly comprised of foreign assets and commodities.	50 bps OR 3 ticks	JPY 5 mil.
D	Individually designated ETFs	80 bps OR 4 ticks	JPY 5 mil.

Source: Tokyo Stock Exchange, Inc.

Chart X-12. Quote Display Sample



Source: Tokyo Stock Exchange, Inc.

quote obligations as prescribed, thereby enabling investors to trade on a timely basis at appropriate prices. The scheme covers all ETFs. Market makers select at least five ETFs, excluding leveraged and inverse ETFs, and provide quotations for them.

Continuous quote obligations and incentives

Market makers can earn incentives in exchange for placing constant orders on the basis of continuous quote obligations as prescribed. There are three types of quote obligations: 1) the number of issues for continuous quoting, 2) quoting time period, and 3) spread and minimum quantity. By fulfilling all of these obligations, a market maker can obtain incentives proportional to trading value and partial exemptions on transaction costs. In addition, incentives based on trading value are set at higher levels for ETFs with lower historical daily trading value, while no such incentives are paid for leveraged or inverse products or for issues with a daily trading value exceeding ¥5 billion. This is designed to encourage market makers to participate in less liquid issues.

The constant orders placed by the market makers on the basis of continuous quote obligations lead to a narrowing of spreads and an increase in volumes for a number of issues on an ongoing basis in the auction market, thereby providing an environment that is conducive to trading for investors.

Sponsored ETF Market Making Scheme

While the TSE scheme offers one-size-fits-all obligations and incentives across the board to ensure equal treatment of each ETF in the same category, a sponsored ETF market making scheme is also being implemented which enables asset managers to set their own additional quote obligations and incentives for market makers. It is expected to encourage more market makers to sign up for issues that are harder to trade in and to introduce a higher level of quote obligations, leading to greater liquidity in such ETFs.

CHAPTER XI

The Clearing and Settlement System

1. Key Features of JSCC

Securities trading executed on the exchanges is cleared and settled through the Japan Securities Clearing Corporation (JSCC). Since the establishment of JSCC in January 2003, all clearing and settlement for securities trading carried out on the exchanges have been unified under the JSCC.

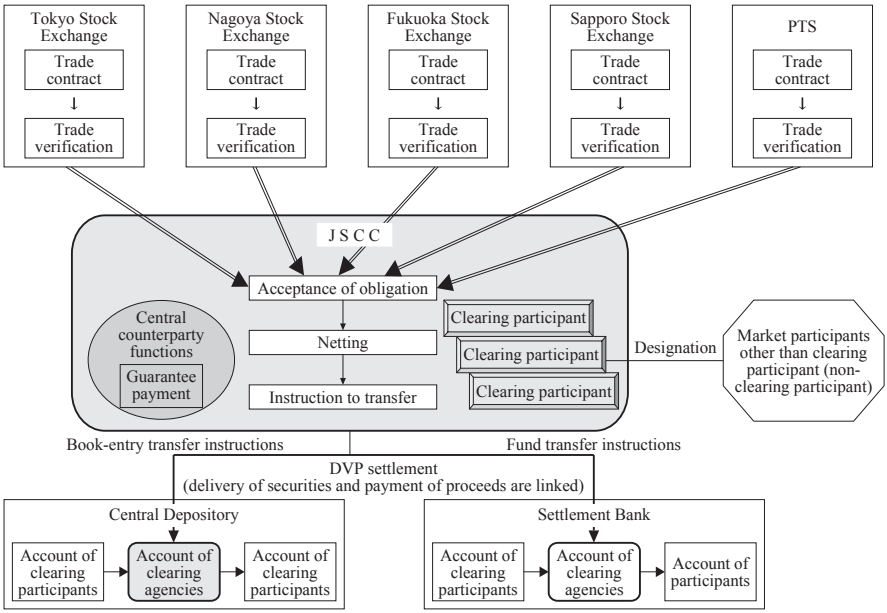
The main functions performed by the JSCC are (1) to assume obligations, (2) to net shares and funds to transfer, (3) to instruct book-entry transfer, and (4) to guarantee settlement.

(1) Assuming obligations
Upon the execution of a transaction on a stock exchange, the JSCC assumes the obligations of both the buyer and the seller against the other party (for the seller to deliver the securities sold and for the buyer to make payment for them) and, at the same time, acquires claims corresponding to both obligations. Thus, the JSCC takes up the role as the counterparty for claims and obligations. It helps enhance the efficiency of settlement operations on the part of clearing participants (those who are qualified for handling clearing and settling securities transactions through the JSCC) because the JSCC is the single settlement counterparty.

(2) Netting
The JSCC mutually offsets (nets) volumes bought and sold, and proceeds and payments, and settles the net balance. This streamlines fund payments and securities transfers required in the settlement procedures.

(3) Book-entry transfer instructions
The JSCC, after determining the settlement quantities through netting, instructs the Japan Securities Depository Center, the settlement organization, to make transfers of securities, and the Bank of Japan or a fund settlement bank designated by the JSCC to make transfers of funds.

Chart XI-1. Delivery and Settlement Using JSCC (Exchange Transactions)

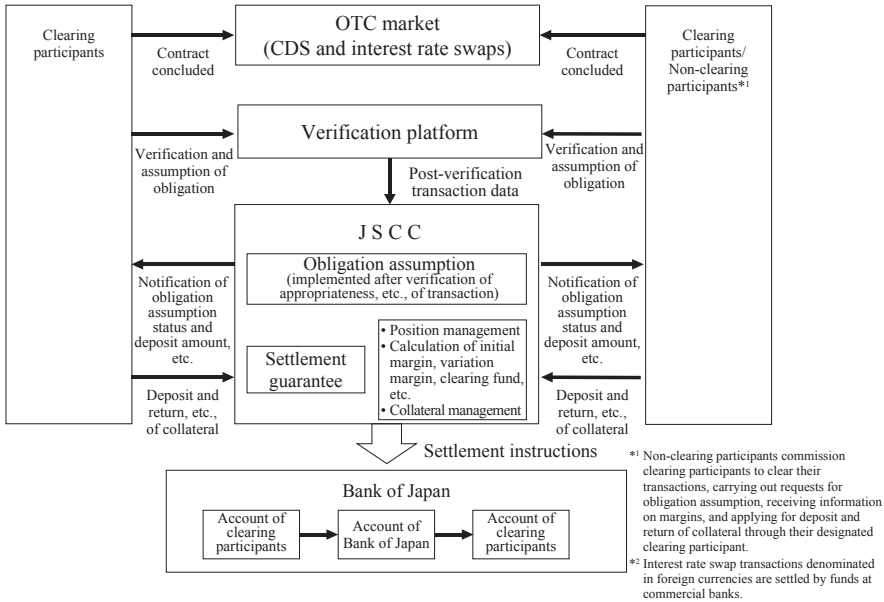


* The Clearing Agency is referred to as the Central Counter Party (CCP). It stands between the buyer and seller and acts as the settlement counterparty for both parties.
* Transactions by non-clearing participants (market participants other than clearing participants) are settled by clearing participants designated in advance by the non-clearing participants.

(4) Making settlement guarantees

Even in the case of a clearing participant failing to settle a trade, the JSCC performs and guarantees the settlement as the settlement counterparty against any other clearing participant. Based on this settlement guarantee, parties can trade securities without being concerned about settlement default risk on the part of the original trade counterparties. Since its inception, the JSCC has expanded the scope of its clearing services, adding securities traded on proprietary trading systems (PTSs) to its clearing services in July 2010. Moreover, after the global financial crisis, regulatory reforms of OTC derivatives trading have advanced around the world, with countries requiring standardized OTC derivatives transactions to be cleared through a central clearing house (central counterparty clearing). The JSCC commenced clearing and settlement services for credit default swap (CDS) transactions in July 2011 and for interest rate swap transactions in October 2012. In October 2013, the JSCC merged with the Japan Government Bond Clearing Corporation and thereby

Chart XI-2. Delivery and Settlement Using JSCC (OTC Derivatives Transactions)



added OTC JGB transaction clearing and settlement services. Then, alongside the transformation of Japan Exchange Group into a comprehensive exchange, the merger of JSCC and the Japan Commodity Clearing House in July 2020 enabled the start of clearing services for commodity derivatives transactions, including precious metals.

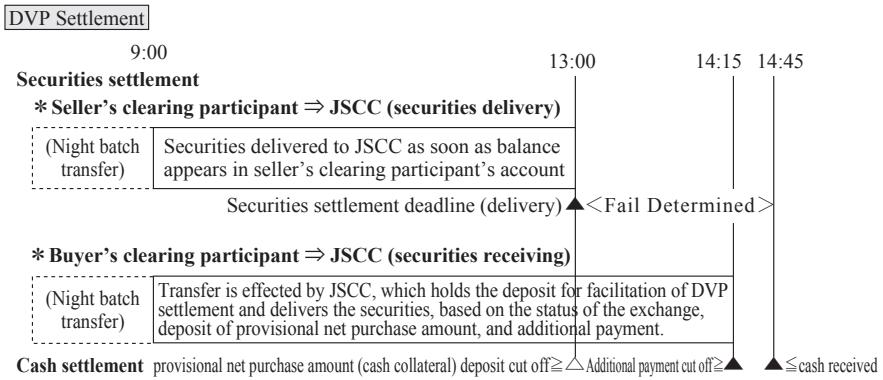
2. DVP Settlement

With a view to eliminating principal risk, one of the major settlement risks (the risk of failing to receive securities or funds after delivering the corresponding securities or funds), the JSCC has adopted a delivery-versus-payment (DVP) settlement system for the settlement of shares and other securities.

DVP settlement links the exchange of securities and funds, whereby securities are delivered on the condition that payment is made and vice versa. This ensures that no principal loss occurs even if a settlement default occurs.

DVP settlement by the JSCC takes place on the third business day after the trade date (T+2) for transactions in shares and convertible bonds with new

Chart XI-3. DVP Settlement Timetable



Note: The receiving of securities by the buyer's clearing participant is carried out in a way that eliminates the risk of principal default versus the cash payer JSCC through nonperformance of obligations or of delivery of collateral.

share acquisition rights (CBs) handled by the Japan Securities Depository Center on exchanges and PTSs for which the JSCC assumes obligations.

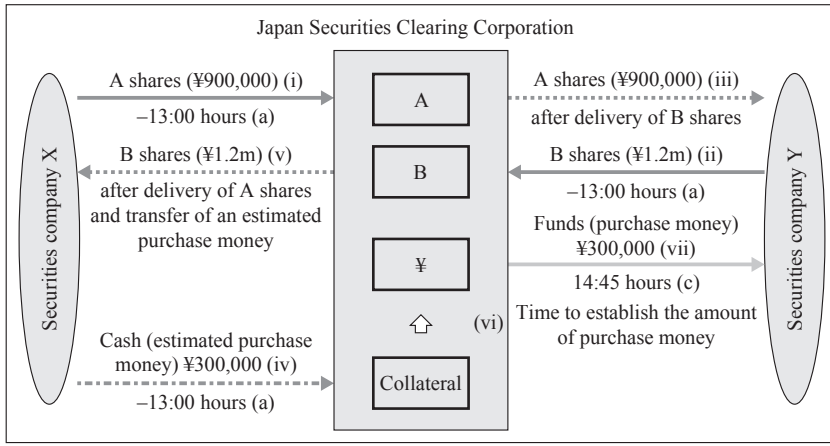
Under the DVP settlement system, a buyer basically cannot take delivery of shares until such time as payment from them (via fund transfer) has been verified. This, however, could undermine the overall efficiency of settlement, including payment and delivery between clearing participants and customers.

Therefore, JSCC has established a mechanism for early receipt of securities. It allows the buy-side clearing participant to receive securities prior to the completion of funds settlement on deposit of cash or securities equivalent to the value of the securities to be received as collateral.

Also, in the event that a sell-side clearing participant should fail to deliver a security by the settlement deadline on the settlement date (known as a "fail"), the JSCC will carry over the delivery of and payment for the securities to the following day, with delivery and payment settlement netted off against delivery and payment of securities scheduled for that day.

However, since settlement is in principle due on the settlement date, there are mechanisms in place to prevent repeated fails, such as late payment penalties against clearing participants if a fail occurs or a buy-in (right of a participant who has suffered a fail to request compulsory purchase and delivery of the securities concerned).

Chart XI-4. The DVP Scheme (normal setllement)



Deadline for settlement:
a. Deadline for the delivery of securities and the deposit of the estimated purchase money (cash collateral): 13:00
b. Deadline for the payment of purchase money: 14:15
c. Time for the receipt of purchase money: 14:45

(i) Securities company X delivers A shares while (ii) securities company Y delivers B shares to JSCC by 13:00.
(iii) Securities company Y can receive A shares after delivering B shares to JSCC.
(iv) Securities company X deposits the estimated purchase money to JSCC by 13:00.
(v) Securities company X can receive B shares after (i) and (iv) have been executed.
(vi) JSCC appropriates the estimated purchase money for the payment relating to funds settlement at the time the amount of the purchase money is finalized.
(vii) Securities company Y receives the funds (purchase money) at 14:45.

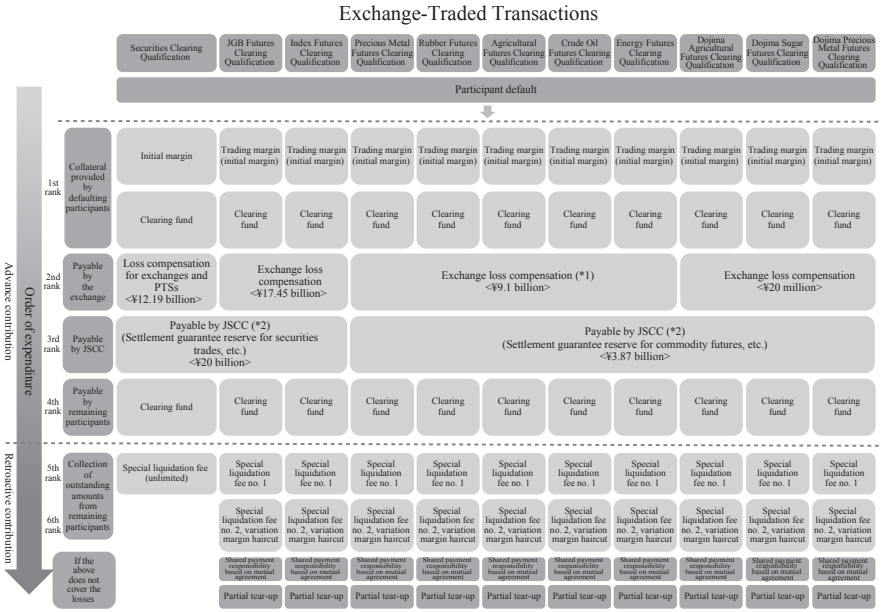
3. Risk Management System

Here are some examples of the risk management systems adopted by JSCC.

(1) Management of Clearing participants

As a clearing organization, JSCC assumes and bears the debt obligations and is therefore exposed to the credit risk of individual counterparties. Therefore, it requires clearing participants to have high creditworthiness. Accordingly, the JSCC has established eligibility requirements (eligibility and maintenance criteria) for becoming a clearing participant, and any entity seeking to become a clearing participant must apply to the JSCC for clearing qualification and approval. Furthermore, JSCC continuously monitors the financial health, and soundness of management and operational structures of the clearing participants, ensuring that they comply with the requirements for maintaining

Chart XI-5-1. Composition and order of use of financial resources for loss compensation for clearing operations



their clearing qualification for all clearing operations.

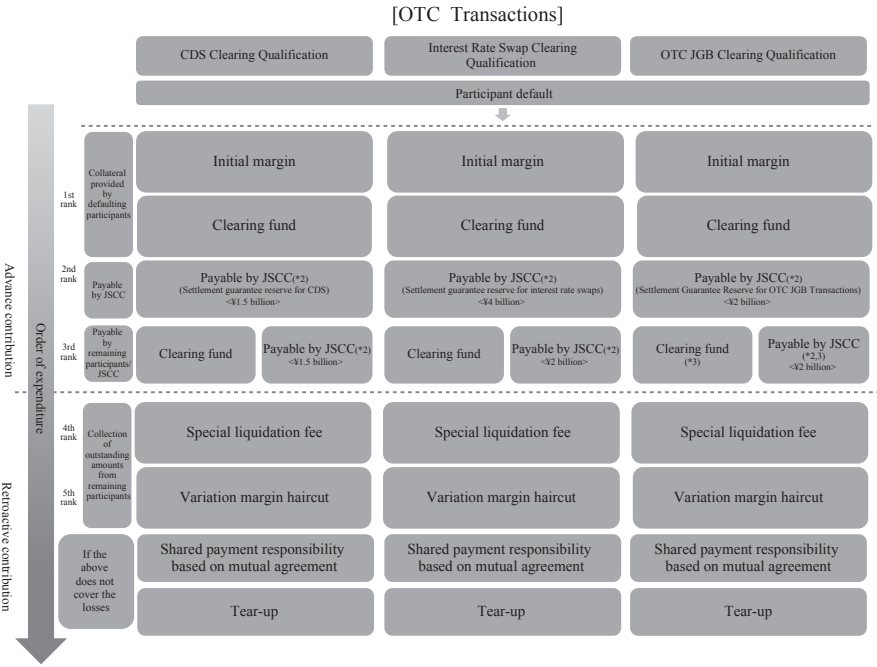
(2) Margin

JSCC requires clearing participants to deposit margin in accordance with the characteristics of each clearing operation. There are two types of margin: variable margin and initial margin. These serve as collateral provided at the client's own risk to cover current exposure (market value of the underlying transaction adjusted to its current value) and potential future exposure (estimated losses that may arise from future price fluctuations in the underlying transaction) under normal market conditions. The positions in each clearing transaction and market fluctuations are the primary determinants of the required amount of margin. It should be noted that for some products, variable margin is settled with participants and investors in the form of mark-to-market adjustments.

(3) Clearing fund

As an additional financial resource, JSCC requires each clearing participant to deposit a clearing fund for each clearing operation, covering potential fu-

Chart XI-5-2. Composition and order of use of financial resources for loss compensation for clearing operations



(*1) Out of ¥9.1 billion, ¥7 billion represents the amount for which OSE compensates losses arising from transactions other than those covered by the Energy Futures Clearing Qualification. (For a set period starting in June 2023).

(*2) The amount of the settlement guarantee reserve payable by JSCC and the method for replenishing it when depleted are specified in the rules governing each clearing operation.

(*3) Losses arising from clearing of OTC JGB transactions (covered by the clearing fund and special clearing fees of non-defaulting clearing participants) are allocated by distinguishing between the portion of the loss payable by clearing participants that are trust banks based on transactions related to trust activities and the remaining portion. Losses are allocated to the trust's share of the liability based on the proportion of the trust's transactions, on an original transaction basis, relative to the total positions of the defaulting participants.

ture exposures in the event that multiple clearing participants fail under extreme but realistic market conditions.

(4) Loss compensation system

While the JSCC manages the credit risk of clearing participants to prevent their default, it has established a loss compensation system for each clearing operation to compensate for potential losses that may occur in the unlikely event that a clearing participant defaults. The basic approach for designing the loss compensation system is to first provide compensation through the "defaulter pays" principle, funded by the defaulting clearing participant's resources (such as margin), and then through the "survivor pays" principle, funded by the resources of the non-defaulting clearing participants (such as the clearing fund).

4. The Book-Entry Transfer System for Shares, Etc. (1)

Administration of shareholder ownership rights or similar rights of listed companies are managed through the securities book-entry transfer system operated by the Japan Securities Depository Center, Inc. (JASDEC), the book-entry transfer institution, in the book-entry account register (electronic ledgers) maintained by JASDEC and account management institutions (such as securities firms and banks).

Rights relating to shares and other securities of listed companies are managed through the book-entry transfer system operated by the Japan Securities Depository Center, Inc. (JASDEC), the book-entry transfer institution, in the book-entry account register (electronic ledgers) maintained by JASDEC and account management institutions (such as securities firms and banks).

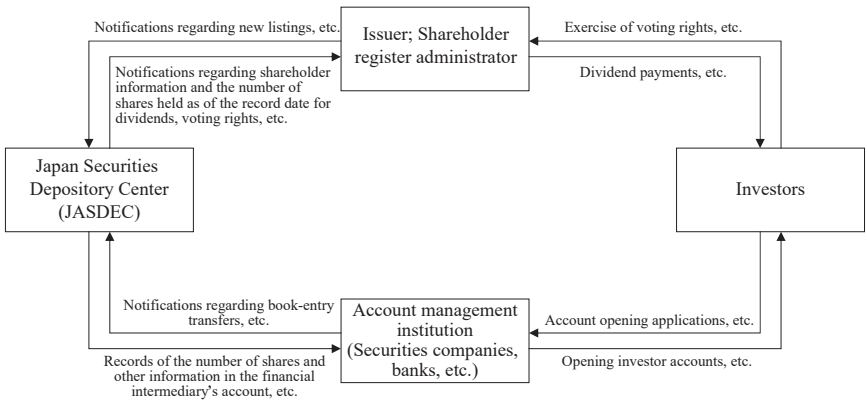
In October 1991, pursuant to the Act on the Retainment and Transfer of Share Certificates, JASDEC (which was a foundation at the time) launched the "Book-Entry Transfer System for Shares and Other Securities." This system was based on the existence of physical stock certificates and operated through their deposit with JASDEC, but a significant number of stock certificates were held outside the system, which posed challenges regarding the issuance and management of these certificates. Subsequently, in January 2009, the book-entry transfer system, which does not rely on the issue of physical certificates, was launched, marking a transition from physical to electronic management (hereinafter referred to as "securities dematerialization").

Securities eligible for the book-entry transfer system include shares, share acquisition rights, convertible bonds with share acquisition rights (CBs), investment units (REITs, etc.), preferred equity contributions, beneficiary interests in investment trusts (ETFs), and beneficiary interests in trust certificates

Table XI-1. Major Changes in the System Before & After Implementation of Electronic Share Certificate System

	Securities Custody and Transfer System (before dematerialization)	The Book-Entry Transfer System for Shares, Etc. (Current)
Share certificates	• Paper share certificates (physical certificates) exist • Share certificates deposited with JASDEC are centrally stored at JASDEC and issued to shareholders upon request • Shareholders who did not use the Book-Entry System kept their share certificates themselves	• The system is fully digital, with no physical certificates • All listed shares are handled through the Book-Entry System
Attribution of rights	• Under the Book-Entry System, a person recorded in the book-entry account register is deemed to be the holder of the share certificates. • Outside the Book-Entry System, the person who physically holds the share certificates (possessor) is deemed to be the shareholder.	• A person recorded in the book-entry account registeris presumed to be the shareholder
Form of shareholder management	• Dual management using both the shareholder register and a register of beneficial owners to identify persons holding shareholder rights within the Book-Entry System • The shareholder register administrator consolidates records for duplicate shareholders (name matching)	• Centralized management based on the shareholder register • The Japan Securities Depository Center performs name-based aggregation and notifies the shareholder register administrator
Transfer of stocks	• Under Book-Entry System, transfers are made by bookentry transfer • Outside the Book-Entry System, transfers are made by the delivery of the certificate.	• All transfers are made by book-entry transfer

Chart XI-6. Relationship with Users in the Book-Entry Transfer System for Shares, etc.



(JDRs), among others.

The main benefits expected from transition to the electronic book-entry transfer system include:

(1) Shareholders can eliminate the risks of loss, theft, or forgery of stock certificates associated with keeping physical certificates, and there is no need to submit stock certificates to the issuing company or other parties in the event of a merger or a change in the company's name.

(2) Issuers can save costs associated with issuance, such as printing costs and stamp duties, as well as the costs of collecting and issuing share certificates in connection with corporate reorganizations (such as corporate mergers, exchanges and share transfers).

(3) Securities companies can reduce the risks and costs associated with the storage and transport of certificates.

5. The Book-Entry Transfer System for Shares, Etc. (2)

Shares for book-entry transfer are managed within a hierarchical structure consisting of JASDEC and account management institutions (securities companies, banks, etc.). JASDEC opens accounts (in the name of the account managing institution) on behalf of the account managing institutions (see diagram on the right). Account management institutions open accounts for investors (accounts in the name of general customers (investors)) and accounts for other account management institutions (accounts in the name of the account management institution). In the book-entry transfer system, any account management institution that is positioned directly below JASDEC is referred to as a "direct account management institution," while any account management institution below a direct account management institution is referred to as an "indirect account management institution."

Accounts held in the name of the account management institution are classified as "proprietary accounts" and "customer accounts." A proprietary account held in the name of an account management institution in which rights to shares owned by the institution are recorded. Customer accounts are accounts that record the rights held by the customers (investors) of the account management institution, its subordinate institutions, and the customers of those subordinate institutions.

The number of shares recorded in customer accounts under the name of the account management institution matches the total number of shares recorded in customer accounts (including those under the names of subordinate account management institutions) in the book-entry account register of that account management institution.

The main procedures related to account entries include: (1) new record

Chart XI-7. Sample book-entry account register

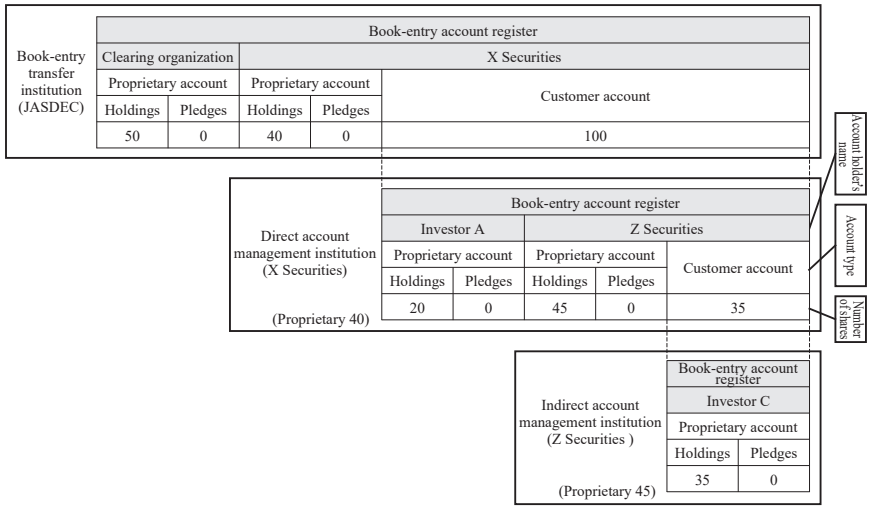
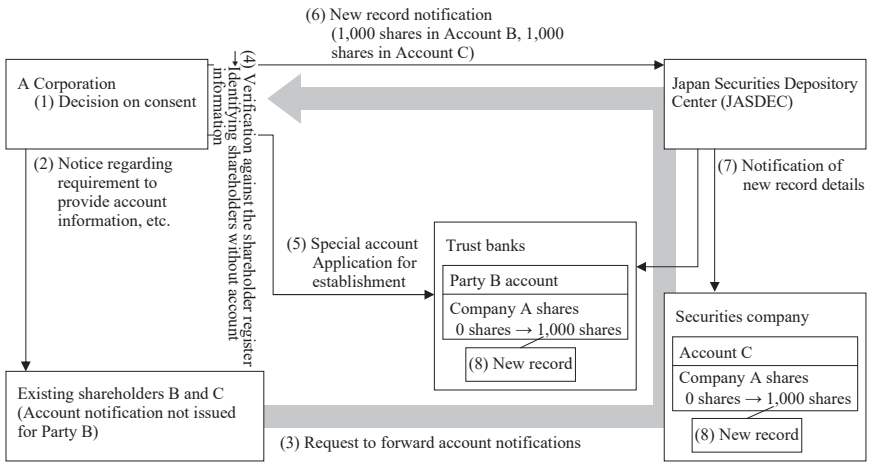


Chart XI-8. Overview of the new record procedure



procedures and (2) transfer procedures.

(1) New record procedure

This procedure is carried out when an issuing company lists its shares on a stock exchange for the first time, for example. As shown in the figure on the

right, existing shareholders of newly listed shares submit an account notification request to the issuing company to notify it of the accounts they have opened in advance with securities firms and other institutions for the purpose of receiving records of their shares. The issuing company submits a new record notification based on this notification. For shareholders who did not submit an account notification request, their shares are recorded in a special account opened by a trust bank or similar institution (administrator of the shareholder register) designated by the issuing company.

(2) Transfer procedure
The transfer of the shares is not valid unless the book-entry transfer application results in an increase in the number of shares recorded in the holding column of the account of the book-entry share receiver (transferee). This application is submitted by the investor (transferor), whose holding is reduced as a result of the transfer, to the account management institution positioned directly above (the account management institution where the investor's account is held).

6. The Book-Entry Transfer System for Shares, Etc. (3)

Key events concerning shareholders under the book-entry transfer system for shares, etc. include: (1) general shareholder notifications, (2) individual shareholder notifications, (3) requests by the issuing company for information from the book-entry account register.

(1) General shareholder notification
The issuing company's shareholder register is updated in accordance with general shareholder notifications. A general shareholder notification is a notice sent by JASDEC to the issuing company, containing the details recorded in the book-entry account register of investors who are shareholders or similar parties as of the record date (such as name, address, and the number of shares recorded in the account).

In preparation for sending general shareholder notifications, JASDEC is notified in advance by account management institutions regarding investors' names and other necessary details, and manages them through name matching and other processes.

There are two types of general shareholder notification: those issued on a date specified by law (such as a record date set by the company) and those issued upon the request of the issuing company (a valid reason is required for such requests).

Chart XI-9. Sample general shareholder notification

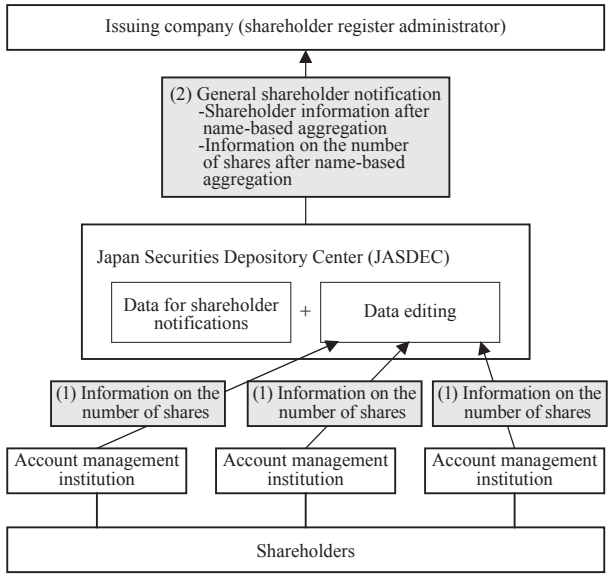
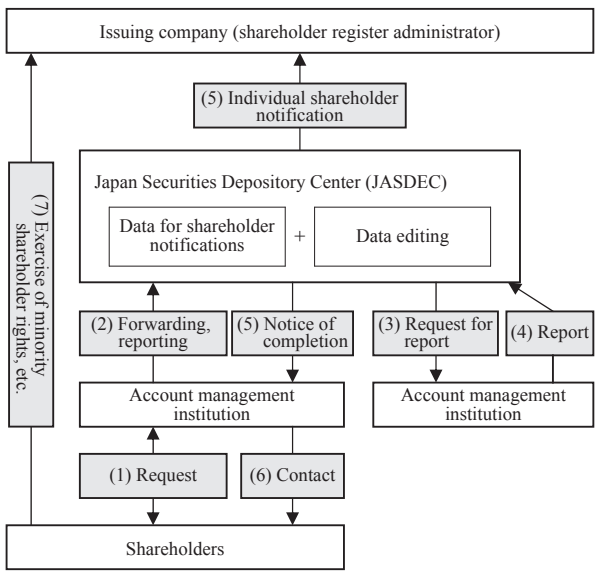


Chart XI-10. Sample individual shareholder notice



(2) Individual shareholder notification

If any shareholder intends to exercise minority shareholder rights, an individual shareholder notification must be provided to the issuing company in advance (these rights must be exercised within four weeks of the notice). An individual shareholder notification is a notice issued by JASDEC to the issuing company, based on a request (through the institution directly above) from an investor, as a shareholder intending to exercise minority shareholder rights or similar rights, regarding the details recorded in the book-entry account register pertaining to that shareholder (such as name or corporate name, address, number of shares recorded in the account, and history of increases and decreases in the number of shares).

(3) Request by the issuing company for information from the book-entry account register

Any issuing company may request the account management institution where a shareholder's account is held to provide information regarding the details recorded in the book-entry account register (such as name, address, number of shares, and history of increases and decreases in the number of shares). There must be a justifiable reason for such a request.

This request can be made through JASDEC, and depending on the need for timely information, the issuing company can choose to receive either "full information" (information on all account management institutions that have opened accounts for the investor in question) or "partial information" (information on the book-entry account register of the direct account management institution among any account management institutions that have opened accounts for the investor).

CHAPTER XII

Trading System for Unlisted Stocks

1. An Outline of the OTC Stock Market

(1) What is OTC trading?

In addition to shares traded on stock exchanges (market transactions), shares are also traded over the counter. As only those listed issues that meet certain listing standards may be traded on exchanges, shares that are not eligible for exchange trading need to be traded elsewhere, outside exchanges. Such shares are traded between securities companies serving as brokers/dealers or between customers and brokers/dealers over the counter in negotiated transactions known as "over-the-counter (OTC) transactions." OTC transactions include transactions in unlisted shares (including unlisted class shares issued by listed companies); transactions effected in the OTC securities market; and off-exchange transactions in exchange-listed shares.

(2) An outline of the OTC stock market

As OTC trading becomes active, information about quotes and prices is exchanged among securities companies and distributed to investors, and the market becomes more organized. After the war, OTC trading remained active even after the reopening of stock exchanges. In 1961, actively traded OTC issues were moved to the Second Section of the stock exchange, but stocks continued to be actively traded over the counter to such an extent, in fact, that an OTC stock market, an organized market where OTC securities that met the registration requirements of the JSDA could be traded, was launched in February 1963.

As solicitation for investments was restricted in the early years, the OTC stock market was generally characterized as a market for the liquidation of stock holdings. To remedy the situation, the legal framework was enhanced by the 1971 amendment to the Securities and Exchange Act, and, in 1983, the OTC stock market was defined as a market that complements exchange markets and was drastically reorganized into the JASDAQ market for trading shares of mid-tier small-to-medium sized enterprises with reasonable track records. The JASDAQ market has since grown larger as a market for emerg-

Table XII-1. A Brief History of the OTC Market

1945	Group trading in shares emerges spontaneously after the war.
1949	A system of trading in OTC-authorized issues is launched in June under the rules of the JSDA.
1961	The stock exchanges create the Second Section, into which OTC-authorized issues are absorbed, and the OTC authorizing system is terminated.
1963	The OTC registration system is launched in February.
1976	The OTC market broker, Japan OTC Securities, Inc., is established.
1983	A new OTC Stock Market (the JASDAQ market) is launched in November.
1991	The JASDAQ system comes into operation.
1992	The Prohibited Acts Rule is applied to the JASDAQ market.
1997	The green sheet system is launched.
1998	The JASDAQ market becomes the OTC securities market for the purpose of the Securities and Exchange Act (currently, the Financial Instruments and Exchange Act).
2001	Japan OTC Securities changes its name to JASDAQ, Inc., and takes charge of the market.
2004	The JASDAQ market becomes a securities exchange in December and the OTC securities market is closed.
2005	Green sheet issues become "to-be-handled securities" for the purpose of the Securities and Exchange Act in April, and the regulations of insider trading are applied to green sheet issues.
2008	The Phoenix issue system is spun off from the green sheet system into an independent system.
2015	Equity Crowdfunding Scheme and Shareholders Community System are established in May.
2018	The Green Sheet system is abolished in March.
2022	Launch of J-Ships stock system for professional investors in July.
2023	July: Launch of the Unlisted PTS System, enabling the trading of a variety of securities, including unlisted stocks, on a PTS.
2024	November: Launch of the Registered PTS System. Certain requirements for establishing and operating a PTS are relaxed.

ing companies, and it was redefined as an "OTC securities market" under the Securities and Exchange Act in 1998. But the designation of "OTC securities market" exists only in law following the upgrading of the JASDAQ market into the JASDAQ Securities Exchange in December 2004.

Because the need also arose for trading unlisted stocks outside the JASDAQ market, the JSDA established the "Green Sheet" system in July 1997. Following the abolition of the Green Sheet at the end of March 2018, the JSDA created the crowdfunding system for equities along with the shareholder community system in May 2015. In July 2022, the JSDA Shares and Investment Trusts for Professionals (J-Ships) trading system was launched. Furthermore, in July 2023, the Unlisted PTS System was launched, and in November 2024, the Registered PTS System was launched.

2. OTC Securities, Etc.

(1) Unlisted/unregistered issues

Issuers of unlisted or unregistered stocks are not required by law to disclose their corporate information, and, in principle, JSDA rules prohibit securities companies from soliciting investment in such issues. This is because soliciting the investing public, including individual investors, for an order to buy or sell a security for which no pertinent corporate information is available would subject the public to significant risks and cause various problems from the standpoint of the protection of investors, and such self-regulatory rules have been in place for a long time.

However, brokers/dealers may accept unsolicited orders for such issues and trade them with customers as OTC securities in negotiated transactions. The rules pertaining to such transactions (including those prohibiting the acceptance of market orders and when-issued or margin trading) are contained in the Rules Concerning Over-the-Counter Securities of the JSDA.

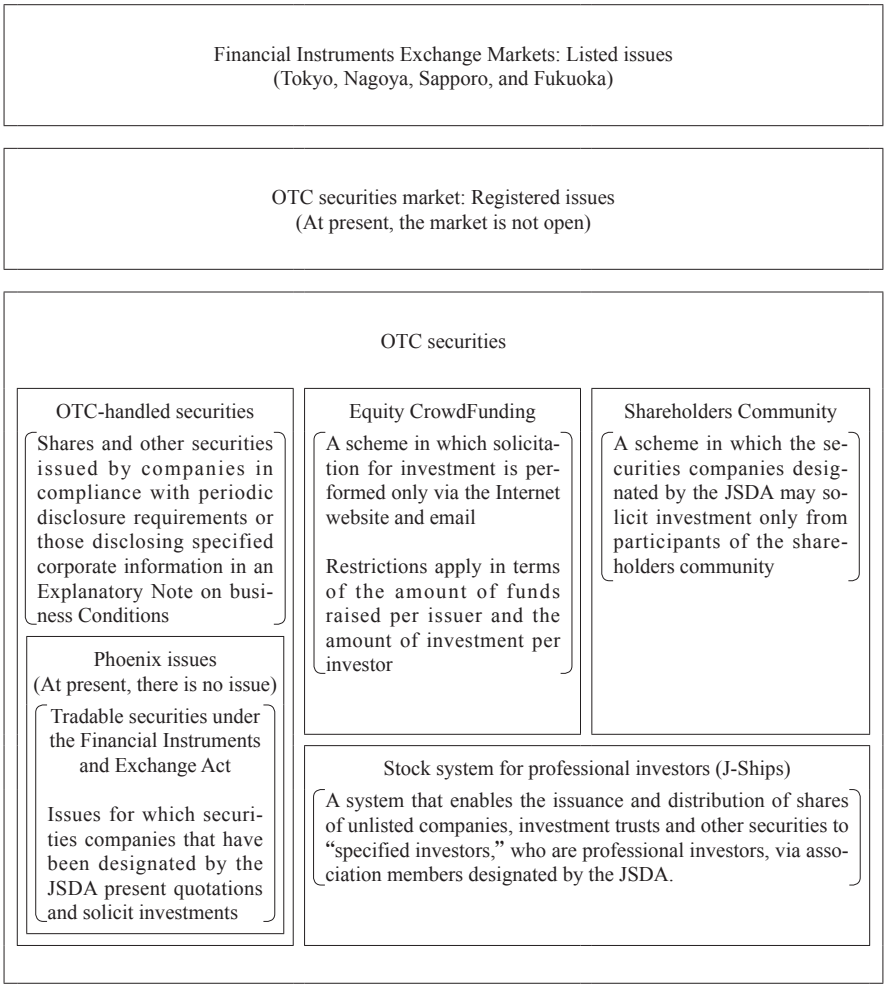
The April 2004 amendment to the Securities and Exchange Act authorized a company to issue an equity product in private placements limited to qualified institutional investors. Under this amendment, the ban on solicitation was lifted for so-called "qualified institutional investor private placements" and "private offerings" on the condition that they did not resell their holdings to anyone other than Qualified Institutional Investors.

(2) OTC-handled securities

Securities whose issuers regularly disclose specified corporate information in the form of an Explanatory Note on Business Conditions are classified as "OTC-handled" under the JSDA regulations because they carry lower risk than other unregistered issues. Investment solicitations may be made for these securities provided certain conditions, such as the preparation of disclosure documents, are met.

An Explanatory Note on Business Conditions is a type of disclosure material required by the JSDA and prepared in accordance with the format for the "corporate information" section of a securities report pursuant to the Financial Instruments and Exchange Act. It should be accompanied by annual financial statements with an audit report that includes the opinion of certified public accountants or persons with equivalent qualifications that the company's financial statements are unqualified or qualified in light of the provisions of the Financial Instruments and Exchange Act or in conformity with those of the Companies Act. The Explanatory Note should also contain forward-looking statements concerning a summary of the company's business plan, its feasibility, and other aspects. In the case of a company in compliance with

Chart XII-1. Relationships Between OTC Securities and Listed/Registered Issues



periodic disclosure requirements, a securities report or a securities registration statement accompanied by an audit report containing an unqualified or qualified opinion can be substituted for the Explanatory Note on Business Conditions.

At present, solicitation for the purchase of OTC-handled securities is partially permitted for primary or secondary offerings of securities provided that the issuer publishes an Explanatory Note on Business Conditions. Solicita-

tion is fully permitted for unlisted securities of listed companies based on the condition that the issuer publishes an Explanatory Document on Securities Information, etc.

3. OTC Securities Transactions for the Purpose of Transferring Management Control, etc.

(1) Transactions in OTC securities for the purpose of transferring management control, etc.

As described previously, securities companies are prohibited in principle from soliciting investment for OTC securities under JSDA rules. On the other hand, business succession has recently become a social challenge for non-listed companies. Based on these circumstances, the ban on solicitation of investment for trading OTC securities for the purpose of transferring management control, etc., including business succession, was lifted in August 2019.

Transactions in OTC securities for the purpose of transferring management rights, etc. refer to transactions in OTC securities, or intermediary services relating thereto, conducted for customers who are prospective purchasers of such securities, with the aim, among other objectives, of acquiring a majority of the voting rights of all shareholders or a majority of the total number of issued shares of the issuing company.

The principal requirements for such transactions are that securities companies and other entities (such as securities firms and financial instruments business operators that conduct special brokerage services for unlisted securities) must obtain consent from the issuing company concerning the attributes of prospective buyers and inform prospective buyers that they may conduct a pre-trade review of the issuer.

(2) Solicitation for investment in OTC securities for professional investors who can assess corporate value

The ban on solicitation of investment in OTC securities was lifted in November 2020 for professional investors who could assess corporate value, etc. in order to facilitate the supply of risk funding to new and growing companies.

"Solicitation for investment in OTC securities for professional investors who can assess corporate value" refers to allowing securities companies handling private placements (small private placements) and soliciting investment from large-scale investors (primarily large investors such as corporate venture capital firms and overseas funds) who are capable of assessing corporate value on their own under certain conditions.

The main requirements for such solicitation of investment are that securities companies obtain written representations and affirmations from their

Table XII-2. Article 3-2 of the Rules Concerning Over-the-Counter Securities of the JSDA's Self-Regulatory Rules

Main contents of the investment solicitation for transaction of Over-the-Counter Securities for the purpose of transferring management control, etc.

1 . Can investment solicitation for transaction of Over-the-Counter Securities for the purpose of transferring management control, etc.
2 . To obtains the consent for the attributes, etc. of the customer who is subject to investment solicitation related to purchase from the issuer
3 . Due diligence
- The issuer cooperates with the Due diligence
- To explains for the candidate for purchase that Due diligence is possible
- To provides a summary of the Due diligence results to the another customer who is subject to investment solicitation through the securities companies, etc. when the candidate for purchase investigates

4 . Confirmation before transaction/Prior explanation
- To confirms before transaction that there is the prospect that the purpose of transferring management control, etc. set forth, etc. before transaction
- To explain in advance that transaction is not executed when there is no prospect that the purpose of transferring management control, etc. set forth, etc.

5 . Reports to the JSDA before and after

Table XII-3. Article 4-2 of the Rules Concerning Over-the-Counter Securities of the JSDA's Self-Regulatory Rules

Main contents of the investment solicitation for Acquisition of Over-the-Counter Securities which is made to professional investors who can evaluate the corporate value

Association members
1 . Can conduct investment solicitation for Over-the-Counter securities to professional investors who are able to evaluate the corporate value on their own responsibility
2 . Must obtain written representations and warranties from customers that they will evaluate the corporate value of the issuing company on their own responsibility and will make an investment based on such evaluation.
3 . Must provide following information of the company
- The company profile
- Business description
- Financial information
- In the case of private placemnts, future perspective

4 . Reports to the JSDA before and after

customers that they are solely responsible for their own assessment of corporate value and that securities companies provide the customers with information about the issuers.

4. Stock System for Professional Investors (J-Ships) (1)

(1) Explanation of the stock system for professional investors (J-Ships)

The stock system for professional investors (J-Ships) was launched in July 2022 to allow securities companies (members of JSDA) to issue and distribute unlisted corporate stocks, investment trusts and other securities to experienced investors, or "professional investors." The establishment of this system enabled private placements and private offerings for professional investors, as well as the handling thereof, in relation to unlisted stocks, investment trusts and other securities. In addition, from July 2023, professional investor securities have also been eligible for trading on a PTS.

The issues that can be traded via J-Ships are OTC securities (stock certificates, stock acquisition rights certificates and corporate bonds with stock acquisition rights), investment trusts and similar securities (investment trust beneficiary certificates, investment securities and certificates of investment equity subscription rights), and trust beneficiary certificates. The same provisions apply mutatis mutandis to foreign stock certificates, foreign investment trusts and other securities as for domestic securities.

(2) Designation of transacting association members

In order for securities companies, etc. to solicit investment from professional investors based on this system, they must submit a notification to the Japan Securities Dealers Association and be designated as a transacting association member. The Japan Securities Dealers Association may decline to designate a securities firm or other entity if it deems this necessary due to reasons such as a violation of laws and regulations, or self-regulatory rules.

When soliciting investment by professional investors exclusively for trading on a PTS, the above process for designation as a transacting association member is not required.

(3) Establishment of a business management system

Transacting association members and securities companies seeking to become transacting association members must prepare an internal set of rules and establish a business management system to ensure that business based on this system is executed in an appropriate manner. In addition, transacting association members must prepare and publish handling guidelines that describe their company's business methods.

(4) Examination and verification

The transacting association member reviews OTC securities, investment trusts, etc., and trust beneficiary certificates for which new investment is so-

Chart XII-2. Stock system for professional investors (J-Ships)

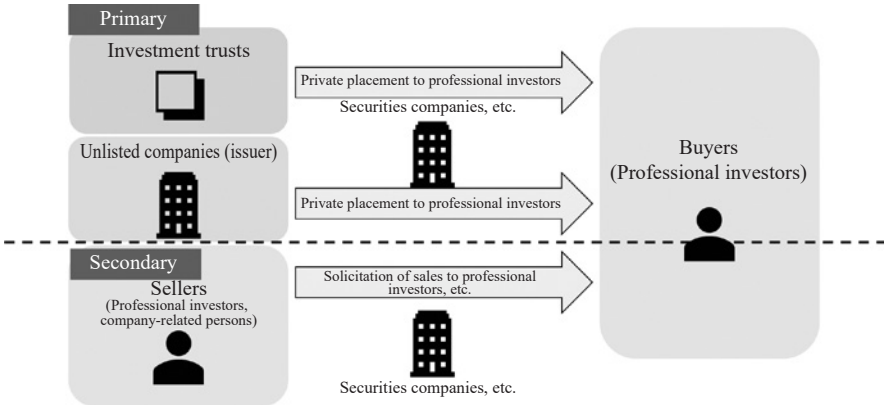
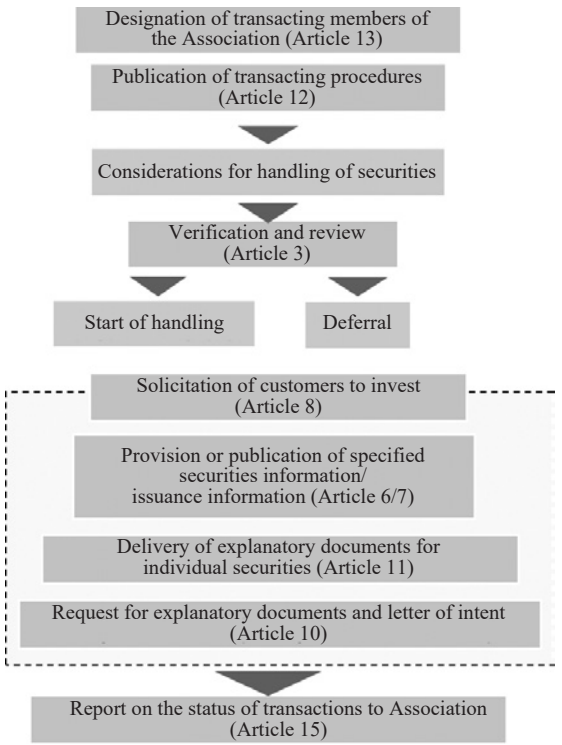


Chart XII-3 Flow of J-Ships transactions (excluding PTS transactions)



licited concerning private placement or private sale to professional investors (no review is required for Japanese investment trust beneficiary certificates). Based on this, it must understand their characteristics and risks, and verify whether it is appropriate to solicit investment and determine the scope of customers to whom the solicitation may be directed. In addition, after examining whether the issuer is associated with anti-social forces (organized crime), it must conclude an agreement with the issuer for their exclusion.

5. Stock System for Professional Investors (J-Ships) (2)

(5) Specified securities information and issuer information

When private placement or private offering to professional investors is carried out based on the J-Ships system, specified securities information must be provided or made available to customers. In addition, issuer information must be provided or made available at least once every business year to customers who hold securities as a result of such solicitation.

The JSDA specifies the format of these documents for each securities category. Specified securities information consists of Section I (Securities Information), Section II (Corporate Information (Fund Information in the case of investment trusts; Trust Asset Information in the case of trust beneficiary certificates)), and Section III (Overview of the Investment Trust Management Company, etc. (only for investment trust beneficiary certificates)). Issuer information consists of corporate information (fund information in the case of investment trusts; trust asset information in the case of trust beneficiary certificates) and an overview of the investment trust management company (only for investment trust beneficiary certificates), which corresponds to Sections II and III of the specified securities information.

(6) Delivery of an explanatory document and request for confirmation at the start of the transaction

The transacting association member shall provide a document describing the risks according to the classification of securities for any customer (limited to individuals who have been reclassified as professional investors) intending to purchase OTC securities, investment trusts, or trust beneficiary certificates for the first time under this system. It must explain the risks and obtain written confirmation that the customer understands the details and is carrying out the transaction at the customer's own discretion and responsibility.

For example, in the case of OTC securities, the following items may be considered as items to be included in the explanatory document: (1) extremely low liquidity, (2) the difficulty of calculating stock prices due to the lack of market prices, and (3) the relatively high risk of bankruptcy compared to

Table XII-4. Items described in the specified securities information

Classification	Item
OTC Securities	【Section 1: Securities Information】 New issue securities (number and type of issue), method and conditions of solicitation for acquisition (total issue value, subscription period, stated capital, details of brokerage agreements for acquisition, etc.), use of proceeds, securities to be sold (type of securities, total offer value, etc.), conditions of sale (offer price, subscription period, details of brokerage agreements for sale, etc.), business risks, etc. 【Section 2: Corporate Information】 Corporate overview (history, business description, etc.), status of the issuer (status of shares, etc., status of directors, status of corporate governance), status of accounting (balance sheet, etc.), status of shareholders, etc.
Investment Trust Beneficiary Certificates	【Section 1: Securities information】 Fund name, form of beneficiary certificate, maximum amount of trust money, issue price, subscription fee, subscription unit, subscription period, subscription and payment handling location, payment date, matters concerning book-entry transfer institution, etc. 【Section 2: Fund information】 Characteristics of the fund (features, structure), investment policy (investment targets, distribution policy, etc.), investment risks, fees and taxes, investment status (assets under management, investment performance), subscription and cancellation procedures, asset management overview, beneficiary rights, etc. 【Section 3: Overview of investment trust companies, etc.】
Investment securities, etc.	【Section 1: Securities Information】 Fund name, form of beneficiary certificate, maximum amount of trust money, issue price, subscription fee, subscription unit, subscription period, subscription and payment handling location, payment date, matters concerning book-entry transfer institution, etc. 【Section 2: Fund information】 Overview of investment company (features, structure, organization, investors' capital contribution, status of major investors), investment policy (investment targets, distribution policy, etc.), investment risks, fees and taxes, status of investments status (investment assets, investment results), outline of procedures, etc., overview of asset management and operation
Trust beneficiary certificates	【Section 1: Securities information】 Format of trust beneficiary securities, number of securities issued, issue price, subscription fee, subscription unit, subscription period, subscription handling location, subscription deposit, payment due date, underwriting, matters concerning book-entry transfer institution, etc. 【Section 2: Trust asset information】 Legal framework governing trust assets, fundamental nature of trust assets, management structure for trust assets, overview and status of assets comprising a trust, structure of trust (overview of trust, beneficiary rights), investment risks, overview of securities administration

※Issuer information is the same as Section II and Section III above.

Table XII-5. J-Ships Operating Status

As of the end of December 2025

	Number of registered dealers (Unit: Companies)	Number of deals handled (Unit: Deals)	Amount of financing (Unit: ¥ million)
2022	1	—	—
2023	5	1	82
2024	6	24	124,409
2025	12	45	179,934

listed stocks. In the case of investment trusts, for example, opportunities for redemption may be limited depending on the product, and the range of assets included in the trust may be broader than for publicly offered investment trusts. In the case of trust beneficiary certificates, it is important to note that, similar to investment trusts, some products have limited redemption opportunities, and depending on the product, the settlor or trustee may be an entity other than a financial instruments business operator or a trust company.

(7) Delivery of explanatory documents for individual securities

When soliciting investments based on this system, the association member must deliver an explanatory document for individual issues and explain the content of the document. The items to be included in the explanatory document include the range of expected customers, the details of the risk of loss, and the conditions for redemption and cancellation, as stipulated by the self-regulatory rules.

6. Equity Crowdfunding (1)

(1) What is equity crowdfunding?

The term "crowdfunding" is a coined word composed of "crowd" and "funding." In May 2015, with a view to promoting the supply of risk capital to new and growing companies, a system for equity crowdfunding was established to enable such companies to raise funds through the issuance of OTC securities. This system connected new and growing companies with funders via the internet, allowing for low-cost and widespread fundraising of small amounts from a large number of contributors.

The equity crowdfunding system may be used by securities companies, intermediaries specializing in small-amount equity crowdfunding (Type I Small-Amount Electronic Public Offering Service Operators) and financial

Chart XII-4. Concept Diagram of Equity Crowdfunding

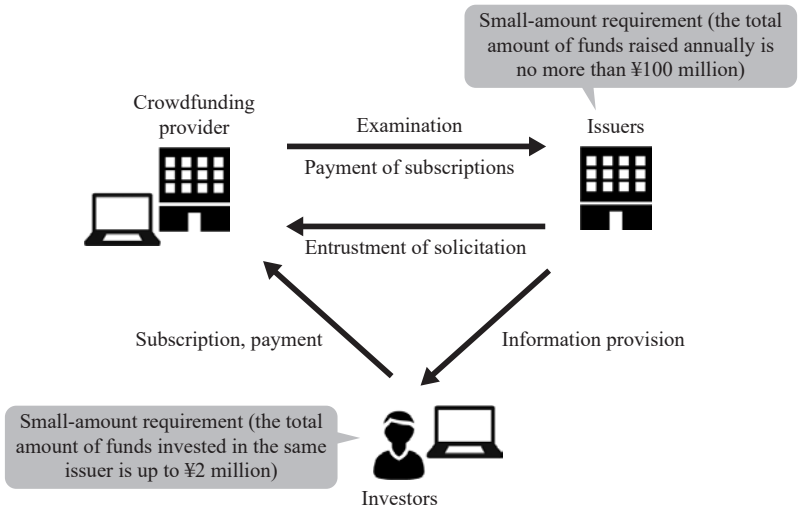


Table XII-6. JSDA's Self-Regulatory Rules
Key components of the Rules Concerning Equity Crowdfunding Operations

1 . Solicitation for investments conducted by members of the JSDA (Securities companies, Type I Small Amount Electronic Subscription Handling Agents, and financial instruments business operators engaged in brokerage and other services related to unlisted securities under special provisions) under the equity crowdfunding scheme is permitted as an exception to the prohibition of investment solicitation relating to unlisted stocks.
2 . Examination of issuers and measures to eliminate antisocial forces
3 . Indication of equity crowdfunding deals on the website
4 . Provision of pre-contractual information
5 . Request for letter of intent from investors purchasing unlisted stocks for the first time under the equity crowdfunding scheme
6 . Small-amount requirements (total amount of funds raised per issuer: less than ¥500 million a year; investment per investor for one issuer: no more than ¥2million a year)
7 . As a general rule, Prohibition of simultaneous use of solicitation method other than the Internet (e.g., telephone and face-to-face contact)
8 . Conclusion of an agreement to the effect that the issuer provides proper information on a periodical basis to investors after the completion of handling of investment under the equity crowdfunding, and confirmation of information provision
9 . Establishment of an operation management system
10. Reporting and publication of monthly results

instruments business operators engaged in special brokerage services for unlisted securities. All of these must be registered as Type I Financial Instruments Business Operators.

(2) Small amount requirements and prohibition of the concurrent use of solicitation methods

In terms of the nature of equity crowdfunding of raising a small amount of funds from each of a large number of investors, certain restrictions apply in the equity crowdfunding system. The amount of funds raised per issuer must be less than ¥500 million per year and the amount of funds contributed per investor (excluding professional investors) to an issuer must not exceed ¥2 million per year depending on the investor's circumstances. In addition, the method of solicitation for investment is limited to using (i) a website and (ii) email assuming the use of the aforesaid website, and solicitation by telephone and visits by securities companies, etc. are prohibited. However, this does not apply to investment solicitations made by Type I Financial Instruments Business Operators (excluding operators specializing in small-scale equity crowdfunding and financial instruments business operators that conduct special brokerage services for unlisted securities) to professional investors (excluding individuals).

(3) Examination of issues and issuers

In handling OTC securities using the equity crowdfunding system, securities companies, etc. may handle such issues as deemed proper after careful examinations of issuers, the nature of their business, financial standing, appropriateness of business plan, intended use of funds, etc. in accordance with their internal rules. Securities companies, etc. also enter into a contract with each issuer to the effect that the issuer is not associated with anti-social forces and must not use an equity crowdfunding system if the issuer is found to be associated with anti-social forces.

7. Equity Crowdfunding (2)

(4) Provision of information via website and receipt/delivery of documents

While using the equity crowdfunding system, securities companies, etc. must provide information on issuers and fundraising as well as on risks, etc. specific to the acquisition of OTC securities issued by the issuers (such as no obligation to provide disclosure comparable to that prescribed by the Financial Instruments and Exchange Act or to the timely disclosure required by stock exchanges) via the website for perusal by investors.

Chart XII-5. Provision of information/receipt of written document on equity-based crowdfunding



1 . To investors: Obligation to disclose information on website
1) Information on issues and issuers
2) Information on financing
3) Risk information
4) Other



2-1. To subscribing investors: Obligation to provide pre-contractual information
1) Information on financing
2) Risk information
3) Other

2-2. To investors subscribing for the first time: Obligation to receive a confirmation note
- document containing the contents of provision of pre-contractual information must be delivered to the investors, and a confirmation note must be secured stating that investors understand the risks and details of the transaction and that they carry out the transaction at their own discretion and re-sponsibility.

Offer period



3 . To investors who become shareholders: Obligation to provide information
- The issuer regularly provides appropriate information on the business to investors who have become shareholders
- The handing agent signs an information provision contract with the issuer in advance to confirm that the information is actually being provided.

After the offer period is closed

Table XII-7. Handling of Equity Crowdfunding

As of end of December 2025

	Number of registered firms (companies)	Number of deals handled (deals)	Amount of financing (¥1,000)
2016	—	—	—
2017	3	18	514,740
2018	3	59	1,470,395
2019	3	54	951,590
2020	6	100	2,179,624
2021	5	159	3,736,570
2022	5	164	2,506,901
2023	5	84	1,896,110
2024	5	91	2,370,995
2025	5	104	2,421,896

Furthermore, in order to receive confirmation from investors (excluding professional investors) purchasing OTC securities for the first time under the equity crowdfunding system of their understanding of risks, commissions, etc. involved and of making the investment based on their judgment and responsibility, securities companies, etc. must provide advance explanations of these matters, obtain a written confirmation from each investor, and provide pre-contractual information concerning individual issues, including at minimum the matters to be disclosed via the website, for each such acquisition.

(5) Periodical subsequent information offering by issuer
Securities companies, etc. must have an agreement with each respective issuer that it shall regularly provide appropriate information on its business after the completion of equity crowdfunding.

(6) Reporting and announcement of investment status
Securities companies, etc. must report the status of investments made under the equity crowdfunding system on a monthly basis to the JSDA, and the JSDA publishes the information reported.

(7) Business management system of securities companies
Securities companies, etc. must formulate internal rules and establish a business management system necessary for properly carrying out equity crowdfunding in compliance with laws and regulations and self-regulatory rules. In addition, securities companies, etc. are required to prepare handling guidelines describing their equity crowdfunding procedures and publish them on their website to enable investors to view them.

In the event that a securities company, etc. violates laws and regulations or self-regulatory rules and is ordered to improve its business management system, the securities company cannot engage in equity crowdfunding until the required improvements have been completed.

8. Shareholders Community (1)

(1) What is the Shareholders Community?
The JSDA established the Shareholders Community System in May 2015 as a system for unlisted stock trading and fundraising in place of the Green Sheet system that was abolished at the end of March 2018.

The Shareholders Community was established as a mechanism in which securities companies and other entities (including securities firms and financial instruments business operators that conduct special brokerage services for unlisted securities) create a shareholders community for each OTC issue

Chart XII-6. Basic Mechanism of Shareholders Community

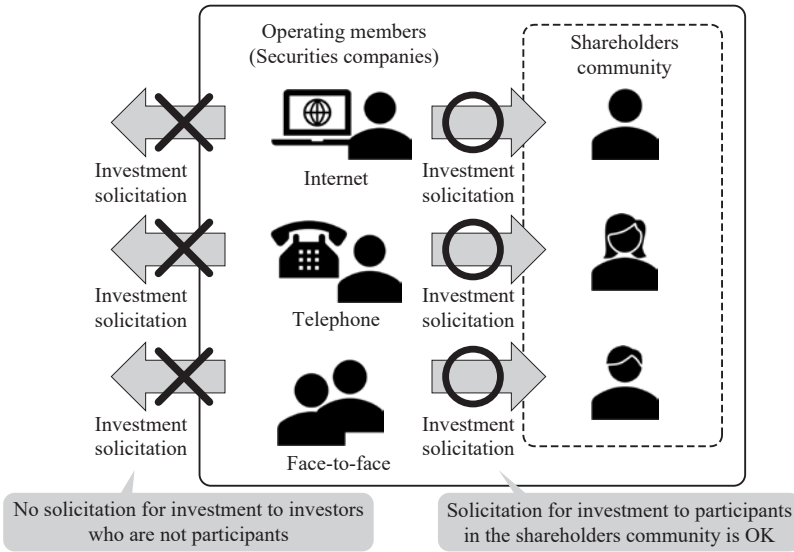


Table XII-8. Major Components of the JSDA's Self-Regulatory Rules regarding Shareholders Community

1 . Securities companies, etc. establish a shareholders community for unlisted stocks, etc. Investors who intend to invest in such unlisted stocks, etc. participate in the shareholders community.
  • Assumed principal participants include officers and employees and their families of the issuer; shareholders and business partners of the issuer; and users and customers of the issuer's business.
2 . Securities companies, etc. that establish and operate shareholders' communities are designated by the JSDA as Operating Members.
3 . Solicitation for investment is allowed only toward investors who participate in a shareholders community.
  • Solicitation for participation in a shareholders community is allowed only toward the executives and employees of the issuer and the issuer's shareholders and other company-related persons.
  • Only limited information is available to investors who are not participants in the shareholders community.
4 . Examination of issuers and measures to eliminate antisocial forces
5 . Investors participating in a shareholders community are provided with financial statements, business reports and other information based on the Companies Act in regard to the issuer.
6 . Provision of pre-contractual information
7 . Investors who participate in a shareholders community for the first time are requested to submit a letter of intent.
8 . Establishment of an operation management system
9 . Weekly reporting and public disclosure of trades

and solicit investments only from investors who voluntarily register to participate in the community.

(2) Designation of operating members

In order for a securities company to create and operate a shareholders community, it must submit a notification to the JSDA and receive designation as an operating member. The JSDA may decide not to grant designation if the securities company is found to be in violation of laws and regulations or self-regulatory rules.

(3) Establishment of a business management system

Operating members and securities companies intending to become operating members must formulate internal rules and put in place a business management system necessary for properly operating shareholders communities. In addition, operating members are required to prepare handling guidelines describing the operation of their shareholders community and publish them.

(4) Exceptions to prohibition of solicitation for participation in a shareholders community

Operating members may not solicit investors who are not shareholders community participants to participate in a shareholders community. However, if an investor falls under any of the following categories: (1) a shareholder of the issuer, (2) an officer or employee of the issuer, (3) an officer or employee of a group company of the issuer, (4) an officer or employee of a business partner of the issuer, (5) any person who was previously in any of the categories listed in (1) through (4), (6) a relative of a current or former officer or employee, or (7) a professional investor, the operating members may solicit participation in the shareholders community.

(5) Examination of issues and issuers

In handling OTC securities for which a shareholders community is to be created, operating members strictly examine each issuer and verify the nature of their business, etc. in accordance with their internal rules and handle only such issuers as they find proper. Operating members shall enter into a contract with each issuer to the effect that the issuer is not associated with antisocial forces.

9. Shareholders Community (2)

(6) Provision of information regarding shareholders community issues and receipt/delivery of documents

Operating members should provide investors with the necessary information on shareholders community issues in accordance with their level of involvement in the shareholders community (participation/declaration of participation in the shareholders community or otherwise; request for information or otherwise).

Furthermore, in order to receive confirmation from investors (excluding professional investors) executing OTC transactions of shareholders community issues for the first time on their understanding of risks, commissions, etc. involved and of making the investment based on their judgment and responsibility, operating members must provide advance explanations of these matters, obtain a written confirmation from each investor, and provide the investor with pre-contractual information regarding the specific security, including, at a minimum, the risks specific to that OTC transaction, and explain the content of this information.

(7) Exceptions to the prohibition on private placements and other investment solicitations for shareholders community issues

In principle, operating members are prohibited from soliciting investors who are not members of the shareholders community to invest in issues of the shareholders community, except in the following cases.

- When handling small private placements for investors who may be solicited as set out in (4) above, on the condition that they participate in the shareholders community and acquire the relevant shareholders community issues.
- When soliciting investment from company-related parties, etc. on the condition that they participate in the shareholders community and acquire the relevant shareholders community issues.
- When soliciting investments related to sales to existing shareholders

(8) Withdrawal from and dissolution of shareholders community

Operating members shall perform the withdrawal procedure when notified by a participant of the shareholders community of the participant's intention to withdraw or when there are other reasons as prescribed in the handling guidelines. If an operating member's designation is cancelled by the JSDA, the operating member must immediately dissolve all shareholders communities that it operates.

Chart XII-7. Provision of information and delivery/receipt of documents related to shareholders community issues (by operating members)



1 . For all investors: Disclosure obligation/provision of information
1) Name of issue
2) URL of issuer's website (or telephone number, if the issuer does not have a particular website)
3) Benefits for shareholders (shareholder incentives)
4) If handling an offering, private placement or secondary distribution, the fact thereof and the application period
5) When soliciting participation in OTC securities, the details of the clients from whom participation is being solicited
6) Location of the issuer's head office
7) Outline of the issuer's business office
8) Outline of the issuer's business
9) Whether or not the issuer is obliged to submit a securities report



2 . For investors who request information: Provision of information
1) Public information on the issuer
2) Unpublished information on the issuer where the issuer has consented to provide
3) Information on previous contracts



3-1. For investors who have applied to participate in a shareholders community: Obligation to provide information
1) Basic information on the issuer (business year, timing of annual general meeting of shareholders, and record date of voting rights of annual general meeting of shareholders)
2) Method of receiving information on issuers or inspecting such information

3-2. For investors participating in a shareholders community for the first time: Obligation to secure a confirmation
- note a document containing the contents of provision of pre-contractual information must be delivered and explained to the investors, and a confirmation note must be secured stating that investors understand the risks and details of the transaction and that they carry out the transaction at their own discretion and responsibility.



4 . For investors who execute transaction in shareholders community issues: Obligation to provide pre-contractual information
1) Provision of pre-contractual information
2) Convey to participants that they may request explanations on the contents of the specified documents and materials (see 5)



5 . For investors participating in a shareholders community: Obligation to provide information and make it readily accessible
1) Securities Registration Statement, Annual Securities Report, Quarterly Securities Report, Amendment Report
2) Without the above, Financial statements and business report* provided foe in the Companies Act Information conforming to "Business risks, etc." and "Overview of stock administration of the submitting company" of the Annual Securities Report and (if handling an offering, etc.) information conforming to "Securities information" of the Securities Registration Statement
3) Other information recognized as necessary by the operating member

*Non-public companies are requested to comply with the requirements that public companies are obligated under the Companies Act in preparing these documents

Table XII-9. Handling of Shareholders Community

As of December 31, 2025

	Number of operating members (companies)	Number of portfolio issues (issues)	Trading amount (¥1,000)
2015	2	11	71,149
2016	3	13	441,599
2017	3	16	551,013
2018	5	20	499,065
2019	6	19	500,798
2020	6	21	2,497,624
2021	7	29	1,182,991
2022	8	39	1,554,241
2023	9	41	1,441,147
2024	9	38	1,250,460
2025	9	40	1,327,051

(9) Special provisions related to intermediary services for delisted issues

With respect to issues that become shareholders community issues after delisting from a stock exchange, securities companies other than the operating member of the shareholders community may solicit sales to customers on the condition that they act as intermediaries, etc., for the operating member.

10. Initiatives to Revitalize the Secondary Market for Unlisted Stocks

From 2024 through 2025, amendments to the Financial Instruments and Exchange Act and revisions to self-regulatory rules concerning the "Registered PTS System" and "Special Brokerage Services for Unlisted Securities" were implemented. These initiatives were launched in response to the fact that there is no market for trading unlisted shares in Japan, and shareholders have virtually no opportunity to sell or liquidate their holdings. This has been identified as a hindrance to the growth of startups and other companies. The goal is to lower barriers to entry for brokerage services and vitalize the secondary market for unlisted shares.

Registered PTS System: The "Registered PTS System" is a system that allows operators of a private trading system (PTS) to operate by registering as a Type I Financial Instruments Business without requiring PTS authorization, provided that they only handle low-liquidity, unlisted securities and that the

Chart XII-8. Brokerage-type registered PTS

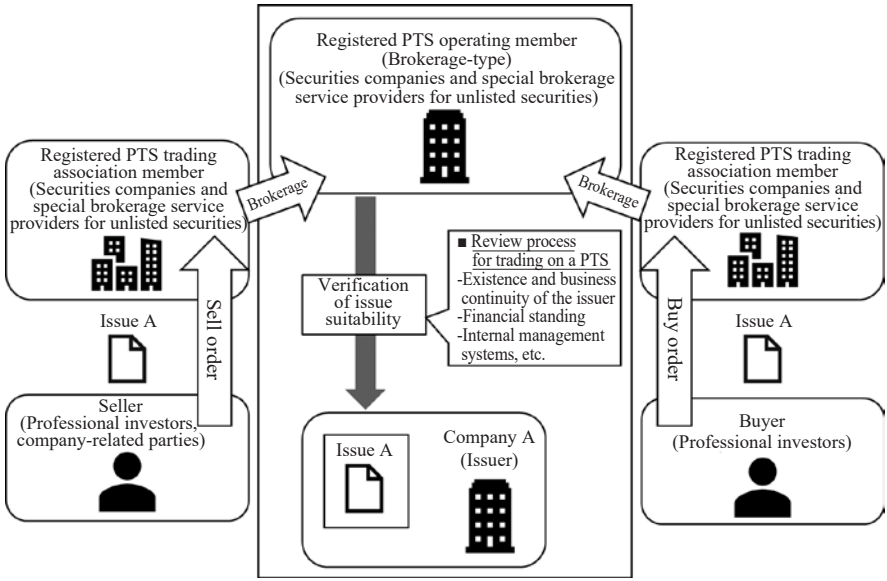
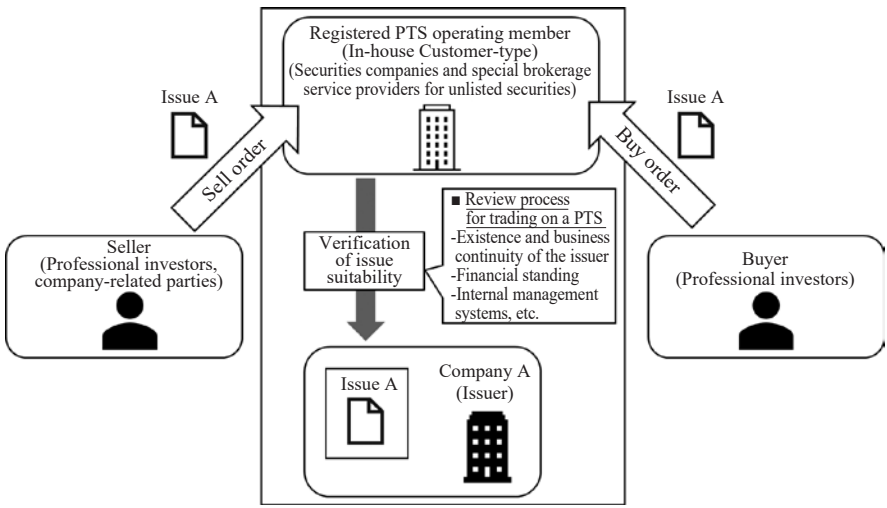


Chart XII-9. In-house Customer-type Registered PTS



trading volume is limited.

For trading unlisted shares on a registered PTS, the regulations stated above concerning trading systems for unlisted securities, such as J-Ships and shareholders communities, will apply; in addition, the "Rules Concerning Trading of Unlisted Securities on Private Trading Systems" will also apply. Two types of trading system are envisaged under the "Registered PTS System": the "intermediary model," in which orders from clients of other securities firms and similar entities are accepted, and the "proprietary client model," in which transactions are conducted solely between the firm and its own clients or among the firm's clients. Given the differences in liquidity and client base, different measures are in place regarding certain regulations, such as the disclosure of price information.

Special brokerage services for unlisted securities: "Special brokerage services for unlisted securities" are services that facilitate the trading of unlisted shares exclusively for professional investors and other eligible persons, including officers and employees of issuers, who have the ability to make investment decisions and have access to information regarding the issuer. For brokers engaged exclusively in this business (brokers specialized in unlisted securities), the registration requirements for Type I Financial Instruments Business Operators, such as minimum capital, capital adequacy ratios, restrictions on concurrent business activities, and financial instruments transaction liability reserves, are relaxed on the premise that they specialize in this business and, as a general rule, do not accept deposits of securities or cash.

These new initiatives are expected to encourage new entrants into the brokerage business, thereby vitalizing the secondary market for unlisted stocks and, ultimately stimulating the primary market through the diversification of exit strategies for unlisted shares.

CHAPTER XIII

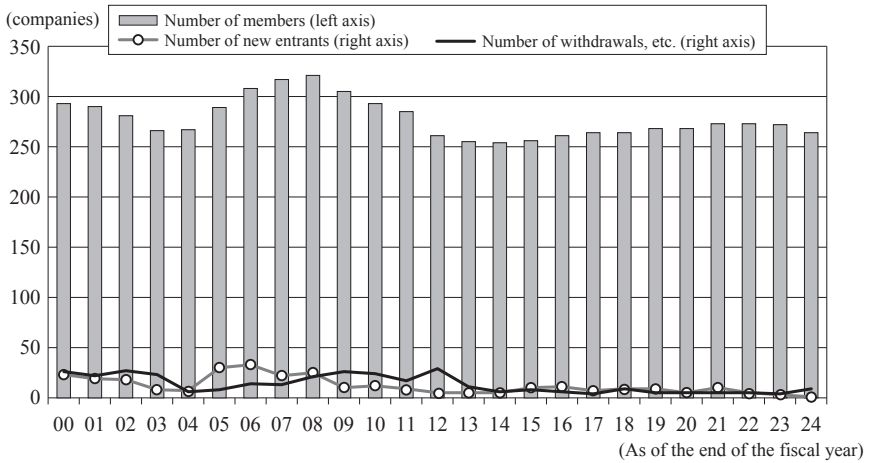
Financial Instruments Business (Securities Business)

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".

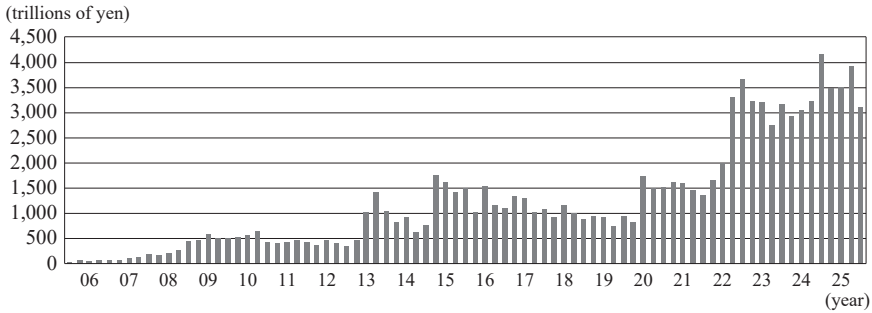
etary Trading Systems—electronic trading platforms established by financial instruments business operators authorized by the Prime Minister; see table on the right), equity crowdfunding, and shareholders' communities.

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

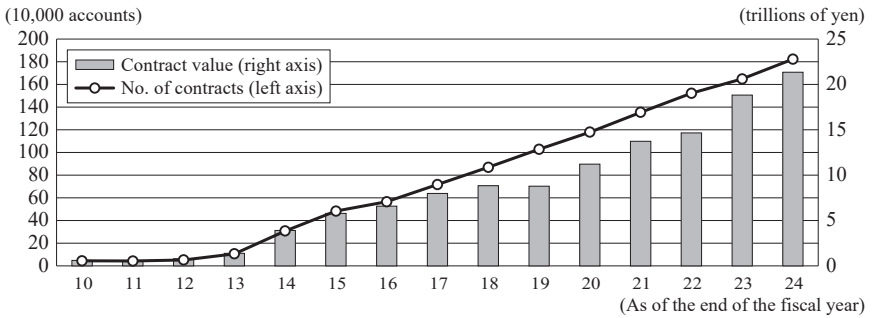
Trading status (cumulative for FY2024)

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%

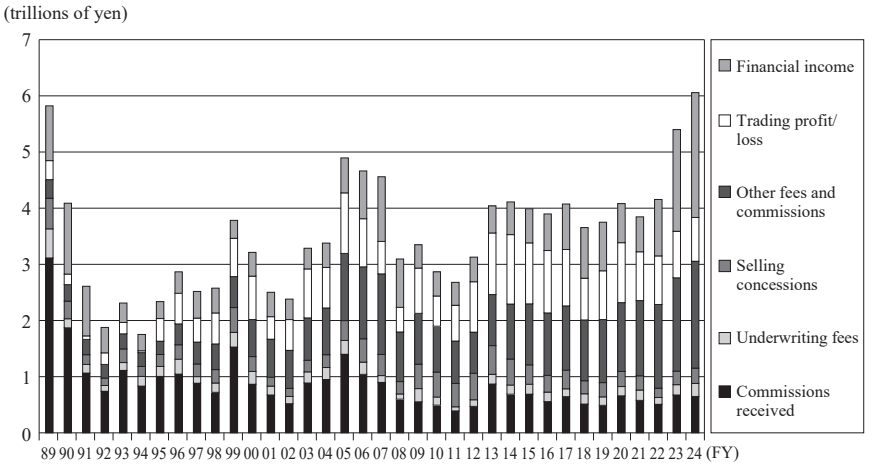
(Breakdown of other fees received)	Amount (¥ million)	Percentage of operating revenue
Equities	165,854	2.7%
Bonds	137,076	2.2%
Beneficiary securities	395,385	6.5%
Others	1,205,080	19.8%
Profit distribution to Japanese corporations, etc. related to international transactions, etc.	310,240	5.1%
Mutual 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

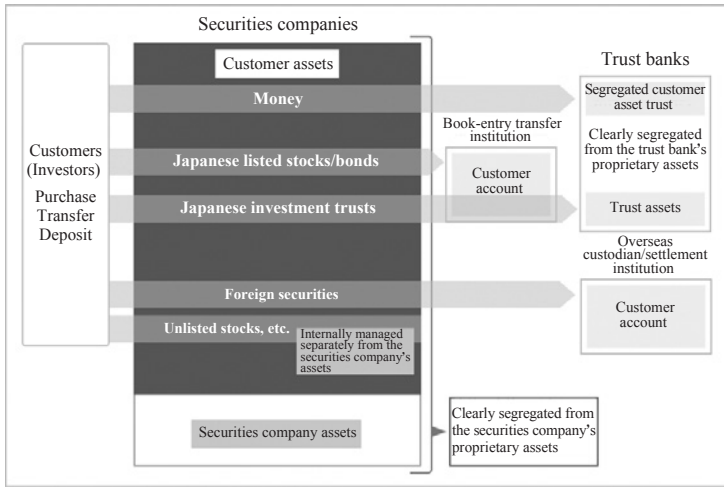
organizational structure consists of (1) the central headquarter and (2) regional offices. (1) The central headquarter has the General Assembly, which serves as the highest decision-making body; the Board of Governors, which resolves matters requiring final approval regarding the overall operation of 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.).

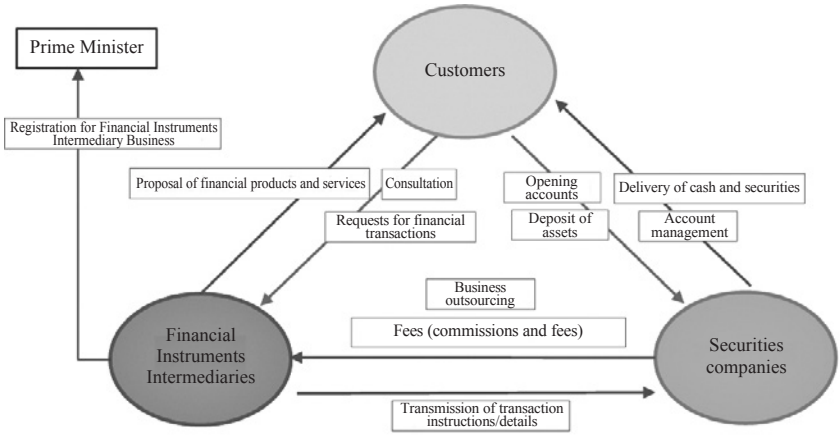
On the other hand, mutual market entry by companies within the financial institution groups is also permitted. Under the 1993 amendment to the Securities and Exchange Act, and as part of reforms to the separation of banking and securities activities, mutual market entry between banks and securities companies 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



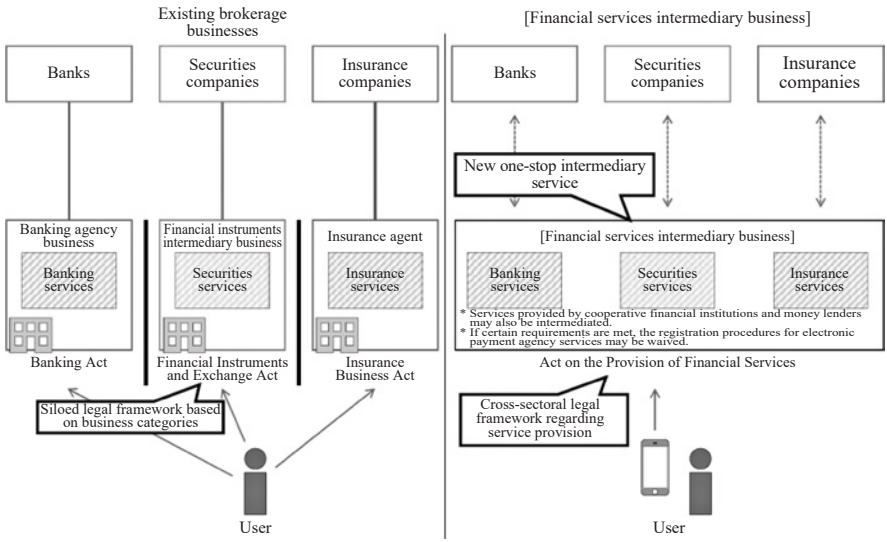
Source: Financial Services Agency, "Secretariat Briefing Materials (Survey on Financial Instruments Intermediaries)" (April 2019), p.2.

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").

CHAPTER XIV

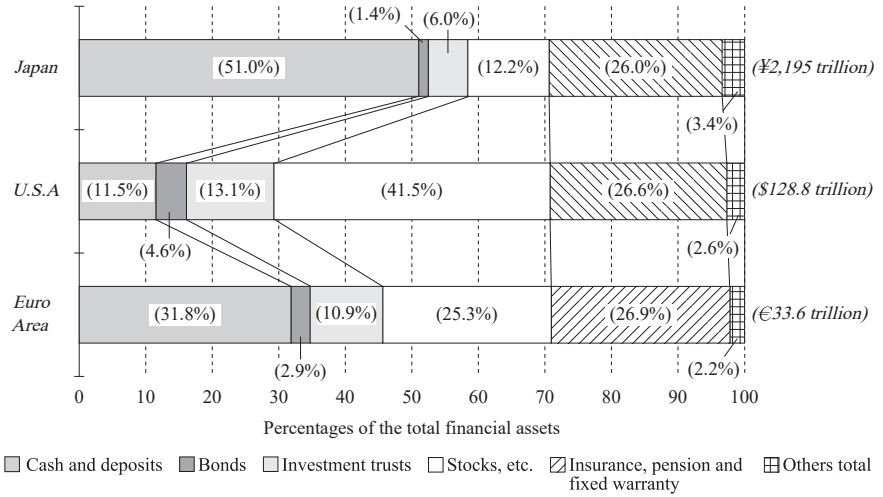
Asset Management Services

1. Management of Individual Financial Assets

According to a survey by the Bank of Japan, "Comparison of the Flow of Funds between Japan, the United States, and Europe," at the end of March 2025 individuals in Japan had ¥2,195 trillion worth of financial assets. Of this amount, 51.0% was invested in cash and deposits and 19.6% in securities (debt securities, investment trusts, stocks, etc.). Compared with the United States and Europe, Japanese individuals' financial assets are heavily skewed toward cash and deposits, more so than both the U.S. and the Euro area, and thinly invested in higher-yielding securities. Since 2022, while inflation has remained above 2%, interest rates on deposits have continued to stay below 1%, resulting in a persistent decline in the real value of savings and deposits. In a survey by the Japan Financial Literacy and Education Corporation (J-FLEC) "Public Opinion Survey on Household Financial Assets and Liabilities 2024" (survey of households with two or more members), 40.9% of respondents highlighted "profitability" as their reason for selecting financial instruments, ahead of "safety" (25.0%) and "liquidity" (19.9%). From 2021 onward, prioritizing profitability has been the main driver, and it can be concluded that the erosion of the real value of savings and deposits due to rising inflation and artificial low-interest-rate policies has influenced households' choices regarding financial assets.

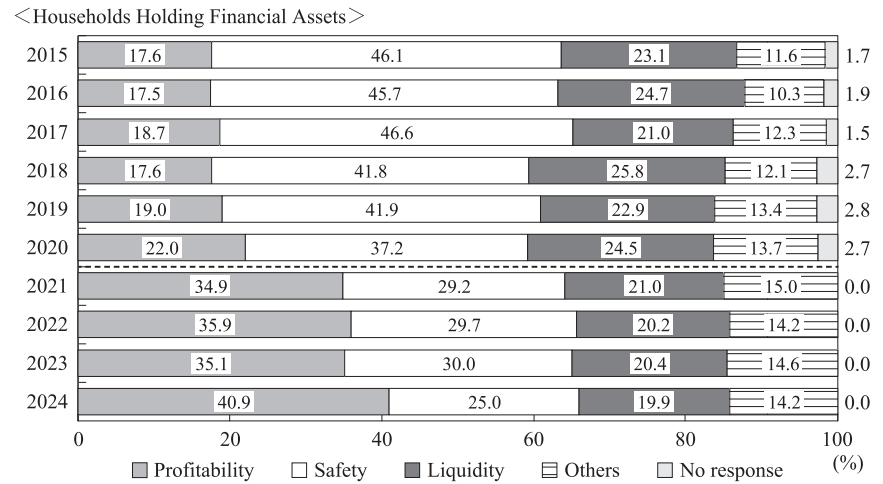
Against this backdrop, certain restrictions on the NISA preferential tax treatment investment system (Nippon Individual Saving Account, a small-amount investment tax exemption scheme), which was introduced in 2014 to promote the "shift from savings to investment," are being relaxed. The tax-exempt holding limit rose from ¥5 million to ¥18 million in 2024, and the tax-exempt holding period increased from the original limit of five years to an indefinite period. In addition, the age limit for making contributions to iDeCo (Individual-Type Defined Contribution Pension Plan) has been raised from under 60 to under 70, and an increase in the contribution limit is also under review. Investment income for both NISA and iDeCo is tax-free, and with iDeCo, all contributions made at the time of saving are fully tax deduct-

Chart XIV-1. Composition of Household Assets (at March 31, 2025)



Note: Others total is the remains after deducting "Cash and deposits", "Bonds", "Investment trusts", "Stocks, etc.", and "Insurance, pension and fixed warranty" from total financial assets.
Source: Bank of Japan.

Chart XIV-2. Points of Focus When Selecting Financial Products



Source: Japan Financial Literacy and Education Corporation.

ible.

Asset management companies include trust banks, life insurance companies, and discretionary asset management companies that manage the pension and insurance reserves of individuals, providing people with security for the future. Investment trust management companies are also asset management companies, handling investment trusts for individual financial assets. Either indirectly or directly, asset management companies play an important role in stable financial asset formation by households in a society with a declining birthrate and an aging population. These asset management companies also contribute to growth in corporate performance and to the sound development of the economy—and therefore society—through the following two functions. To begin with, they fulfill a role in achieving the efficient allocation of capital by supplying growth companies with capital through the market. Furthermore, they engage in stewardship activities to increase investment returns for customers and beneficiaries on a medium- to long-term basis, thereby contributing to enhancing corporate value and promoting sustainable growth of investee companies.

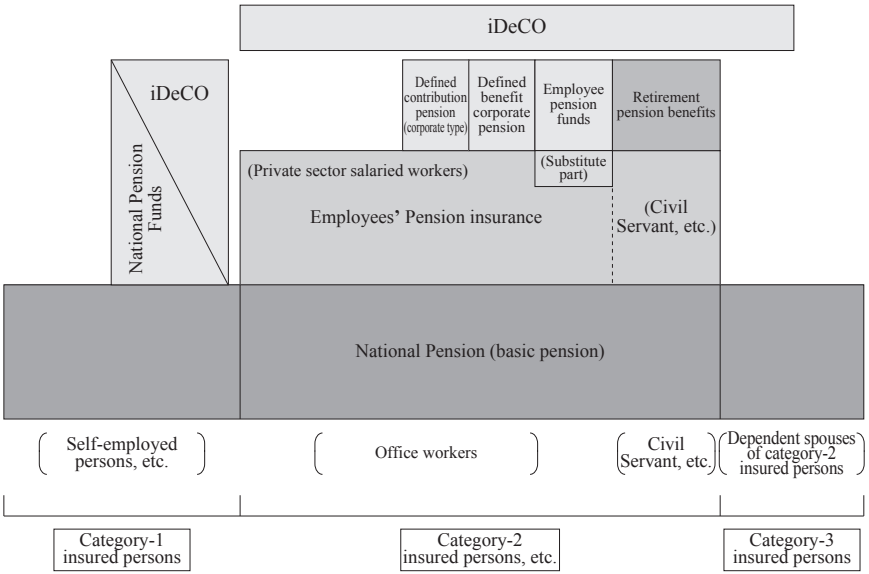
2. Pension Fund Management

Japan's pension system is a three-tier system consisting of (1) a national pension (basic pension) common to all citizens, supplemented by (2) employee pension plans for employees of private companies and government employees, and (3) private pensions (corporate pension plans, etc.) that provide additional benefits on top of employee pension plans. Of these plans, the national pension and employee pension plans utilize a modified pay-as-you-go system which provides support shared among generations in the form of public pensions, while private pension plans use a funding system.

Private pensions can be broadly divided into (1) defined benefit and (2) defined contribution types. For (1) defined benefit pensions, the benefits are determined based on the duration of membership of the scheme or the contributions made. For (2) defined contribution pensions, the contributions of each individual are clearly segregated, with pension benefits being determined based on the total of contributions and investment income. (1) Defined benefit pensions include defined benefit corporate pensions (scheme- or fund-type) or the national pension fund; (2) Defined contribution pensions include corporate defined contribution pensions and individual-type defined contribution pensions (iDeCo).

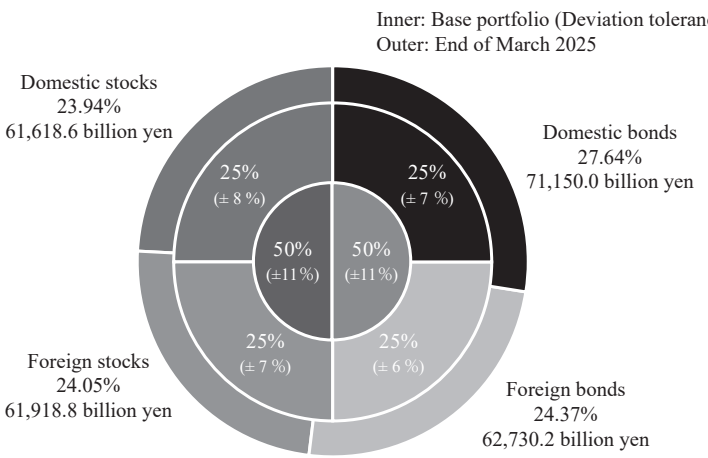
The management of pension reserves should be safe and efficient from the perspective of protecting entitlement to pension benefits (Article 67 of the Defined Benefit Corporate Pension Act, etc.). With the exception, therefore,

Chart XIV-3. Structure of Pension System



Source: Ministry of Health, Labor and Welfare.

Chart XIV-4. GPIF's asset/composition ratio (total pension fund)



Source: The Government Pension Investment Fund (GPIF).

of a few large-scale pension funds that manage investments in-house, asset management of pension funds is commissioned to outside investment companies. According to the Corporate Pensions Survey (fiscal year 2023) by the Pension Fund Association, the allocation of defined-benefit corporate pension plans to asset managers was trust banks, 48%; discretionary asset management companies, 27.1%; and life insurance companies, 24.9%. By composition of fund assets, domestic bonds accounted for 17.5%, domestic stocks for 10.3%, foreign bonds for 17.2%, foreign stocks for 15.1%, the general account of life insurance companies for 16.5%, short-term assets for 4.3%, hedge funds for 5.3% and others for 13.9%.

The cumulative reserves of the national pension and employee pension plans, which are public pensions, are administered and managed by the Government Pension Investment Fund (GPIF). By composition of fund assets of GPIF (as of the end of March 2025), domestic bonds accounted for 27.64%, foreign bonds for 24.37%, domestic stocks for 23.94%, and foreign stocks for 24.05%. Prior to 2014, the portfolio was focused primarily on domestic bonds, but it has since been diversified to include equities and foreign-currency-denominated assets that offer potential for returns.

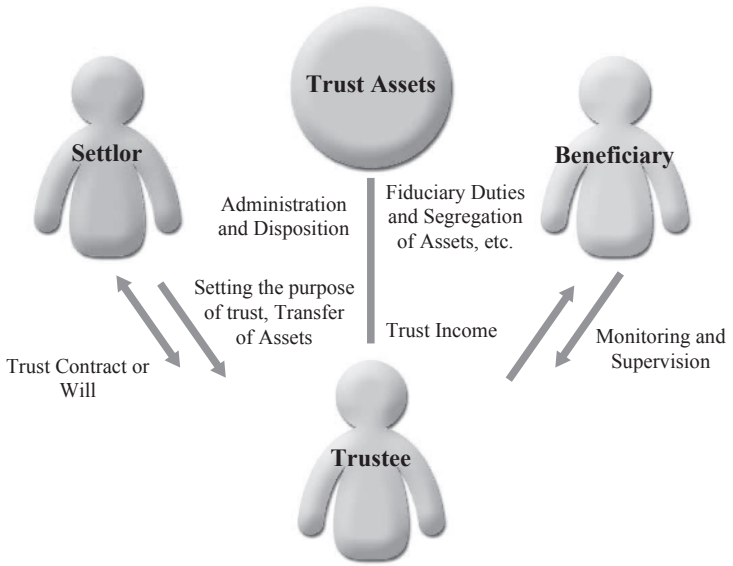
In August 2024, the Asset Owner Principles were formulated as part of the "Policy Plan for Promoting Japan as a Leading Asset Management Center" (formulated in December 2023). These principles establish common guidelines considered useful for asset owners, including pension funds, insurance companies, and university endowments, in fulfilling their fiduciary duty to manage assets in the best interests of beneficiaries and others.

3. Asset Management of Trust Banks

A trust is a legal arrangement in which (1) an entity (trustor) transfers their rights to property to an entity that can be depended on (trustee) based on a trust or some other legal agreement and (2) the trustee legally manages and disposes of the entrusted property on behalf of the trustor or a third party (beneficiary) in accordance with a specified purpose of the trust. In the case of a fund-based corporate pension trust, for example, the corporate pension fund is the trustor and beneficiary, while the trust bank is the trustee. Because the system is premised on trust in the trustee, trust banks have a duty of due care of a prudent manager, duty of loyalty, and duty of segregated asset management.

Trust banks can service pension funds in three different ways: (1) Manage the funds at their own discretion (designated asset management-type trust); (2) Administer the assets without any asset management responsibilities (specified asset management-type trust); (3) When a pension fund commis-

Chart XIV-5. Trust Scheme



Source: Trust Companies Association of Japan.

sions asset management to multiple investment institutions, trust banks act as the general manager overseeing multiple investment institutions. One of the characteristics of trust bank operations is their higher proportion of passive investment in comparison with discretionary asset management companies. Passive management is an investment method that aims to achieve a return in line with movement in a specified benchmark (index). In comparison with active management, where a manager makes trading decisions based on the investment value of individual securities with the aim of outperforming a benchmark, passive management has the advantage of keeping trading turnover costs low as well as curtailing management fees because detailed research and analysis is not required for individual securities.

Unlike general commercial banks, trust banks also engage in trust business and securities transfer agency business, in addition to their regular banking business. For example, in terms of business with companies, trust banks can arrange corporate loans as part of banking business, manage an entrusted corporate pension as part of trust business, or administer the shareholders' register, etc. as part of securities transfer agency business. This suggests there are business synergies to be leveraged in terms of trust bank transactions with companies. However, acting simultaneously as a lender, a shareholder, and a

provider of securities transfer agency services for a company can give rise to numerous conflicts of interest. In addition, business overlaps in areas such as corporate lending and pension management with commercial banking and asset management operations in the same financial group can lead to inefficiencies (or diseconomies) such as intra-group competition. To this end, Mitsubishi UFJ Trust and Banking Corporation consolidated corporate loans with MUFG Bank, Ltd. and Mizuho Trust & Banking Co., Ltd., Sumitomo Mitsui Trust Bank, Limited, and Resona Bank, Ltd. (financial institution and trust business) integrated and consolidated their asset management functions with the asset management companies in their respective groups.

4. Asset Management of Life Insurance Companies

Life insurance is insurance under which insurance benefits are paid upon a person's death or survival. There are generally two types of life insurance: death insurance that provides death benefits and annuities that provide for livelihood in old age. Life insurance companies (insurers) accumulate the insurance premiums received from policyholders into a liability reserve to provide for future insurance benefit payments and invest them. There are two types of accounts used to manage the investment of insurance premiums: (1) the general account in which individual insurance and corporate pension assets, etc. are jointly managed and operated under one account, and the principal and a specified interest rate are guaranteed (guaranteed rate), with the life insurance company bearing the operational risk, and (2) special accounts that are separate from the general account, with the customer bearing the operational risk and benefits varying according to asset management performance.

Under a general account life insurance policy, the insurer promises to pay a certain amount of benefits, and the policyholder agrees to pay a premium that is commensurate with the promised benefit. The premium is computed on the premise of an assumed basic rate comprising such factors as assumed mortality rate, assumed ratio of expenses, and assumed rate of return. Since the assumed basic rate is set conservatively, a positive difference can occur between the assumed and actual rate. When this happens, a portion of the profit is returned to policyholders as a dividend.

For group pension plans, special account insurance offers several options. In a policy with a Class 1 rider, the assets of multiple customers are managed as a pool based on the investment policies of the life insurance company. In a Class 2 rider policy, the assets of each customer in the group are managed separately using investment policies that reflect the wishes of the individual customer. Within a Class 1 rider policy, there also are balanced-type consolidated accounts for which the life insurer determines the allocation among as-

Table XIV-1. Asset Composition

(%)

	Cash and deposits	Call loans	Money trusts	Securities	Loans	Tangible fixed assets	Others	Total assets
FY2019	2.7	0.5	1.8	81.9	7.7	1.6	3.8	100.0
2020	2.6	0.4	2.1	83.2	7.2	1.5	3.0	100.0
2021	2.4	0.4	2.2	83.3	6.9	1.5	3.3	100.0
2022	2.8	0.7	2.3	82.3	7.1	1.5	3.3	100.0
2023	2.3	0.6	2.6	83.0	6.9	1.5	3.1	100.0

Source: The Life Insurance Association of Japan.

Table XIV-2. Composition of Securities under Management

(100 millions of yen, %)

	Government securities		Municipal bonds		Corporate bonds		Stocks		Foreign securities		Other securities		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
FY2019	1,512,024	47.0	101,342	3.1	283,830	8.8	187,661	5.8	981,283	30.5	152,239	4.7	3,218,383
2020	1,576,192	45.9	90,168	2.6	285,328	8.3	250,424	7.3	1,062,979	31.0	166,037	4.8	3,431,132
2021	1,624,246	46.5	78,043	2.2	273,538	7.8	243,158	7.0	1,115,312	31.9	160,761	4.6	3,495,060
2022	1,650,335	49.3	66,669	2.0	253,804	7.6	241,744	7.2	969,795	29.0	164,331	4.9	3,346,682
2023	1,654,088	46.5	57,753	1.6	253,357	7.1	331,913	9.3	1,070,535	30.1	191,008	5.4	3,558,656

Source: The Life Insurance Association of Japan.

set classes and separate designed investment accounts that reflect individual customer preferences in asset allocation.

According to the 2024 issue of Trends in the Life Insurance Business, published by the Life Insurance Association of Japan, of the total assets under management by life insurance companies at the end of fiscal 2023, securities accounted for 83.0%. Looking at the breakdown of securities, Japanese government bonds made up the greatest portion (46.5%), followed by foreign securities (30.1%, of which bonds accounted for 28.6% and equities 1.5%), Japanese domestic stocks (9.3%), Japanese corporate bonds (7.1%), and domestic municipal bonds (1.6%).

In the "Policy Plan for Promoting Japan as a Leading Asset Management Center" (formulated in December 2023), major financial groups, including large life insurers, were requested to formulate and publish plans addressing:

(1) the strategic positioning of their asset management businesses within their group; (2) the enhancement of investment capabilities; and (3) the improvement of governance and the strengthening of organizational structures. In response to this, there is a growing trend among major life insurers to transfer their asset management functions to asset management companies within their respective groups.

5. Asset Management of Discretionary Asset Management Companies

Discretionary asset management companies manage the assets of customers based on a discretionary investment contract that gives those companies the necessary authority to make investment decisions and execute investments on behalf of their customers. Among the major customers of these companies are institutional investors (asset owners), such as pensions funds. Discretionary asset management is one of the most deregulated and internationalized businesses in the financial services industry, with low barriers to entry for other types of financial businesses and foreign companies. As a category for investment specialists, the asset management company category includes investment trust management companies and fund managers that manage group investment schemes, such as venture capital funds, as well as discretionary management companies.

The Investment Management Association of Japan is a self-regulatory body for the discretionary asset management industry. It is designed to protect investors and also contributes to the sound development of the investment management business and related matters. In light of the importance of the investment management industry to the capital markets, the association also compiles and publishes information on initiatives taken by its members regarding the Stewardship Code and has formed the stewardship study group to discuss the code in order to contribute to the sustainable enhancement of corporate value. In addition, it holds the Asset Management Industry Forum, as a way of reaffirming the social mission of asset management companies and the role that they play, and to promote initiatives aimed at reforming and advancing the asset management industry. The Investment Trusts Association, Japan and Japan Investment Advisers Association merged to form the Investment Management Association of Japan in April 2026 to work effectively to advance the asset management industry and to develop Japan as a leading nation in asset management.

A special feature of discretionary asset management companies in comparison with trust banks is the high proportion of active investment and customized asset management services that closely reflect the wishes of customers. When commissioned to handle the management of assets, they leave the ad-

Chart XIV-6. Investment of Pension Assets by Discretionary Asset Management Company

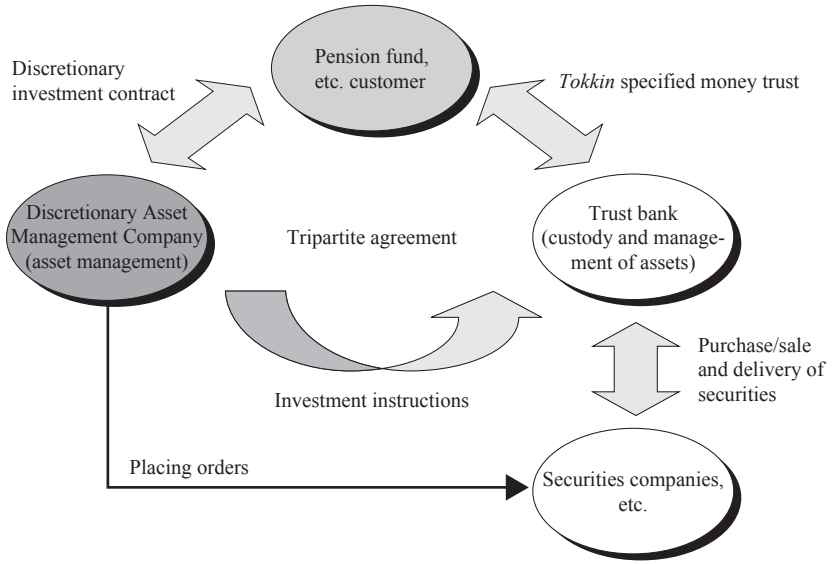


Table XIV-3. Scheme comparison

	Traditional discretionary investment contract	Real estate private placement fund	Wrap Account
Customer	Institutional investors	Fund	Individual investors
Investment target	Traditional securities	Real estate trust beneficiary rights	(Through investment trusts) Traditional securities
Managing entity	Specialized management company	Specialized management company	Company concurrently engaged in securities business

(In the case of wrap accounts, there are also structures in which investment management is handled by a specialized asset management company, while asset administration and other functions are handled by securities companies or similar entities.)

ministration side of the business to trust banks and other financial institutions. Allocation of the assets of customers is carried out according to investment guidelines and other agreements determined through discussions with pension funds and other relevant parties. In recent years there has been a growing trend, driven by the diversification of the investment needs of customers, towards alternative investments, including real estate-related securi-

ties and hedge fund-style strategies aimed at generating absolute returns, in addition to investments in high-growth emerging markets, beyond traditional investment products such as stocks and bonds.

In addition to traditional discretionary investment services as described above, schemes targeting real estate private placement funds as well as wrap accounts provided by securities companies and trust banks for individual investors have also been attracting attention. With wrap accounts, there are an increasing number of schemes in which investment management is handled by discretionary asset management companies, while asset administration and other functions are handled by securities companies or registered financial institutions.

6. Asset Management of Investment Trust Management Companies

Investment trusts are a type of collective investment scheme with the following characteristics (1) diversified investment with small amounts of funds, (2) management by experts, and (3) transparency. (1) Using investment trusts allows individual investors to lower their risk through diversification just like institutional investors even with small amounts of capital. For example, investment in an investment trust fund that has diversified its investments into no less than 2,000 stocks and in 40 or more countries starts from about ¥100. (2) Building the optimum investment portfolio based on macroeconomic analysis as well as financial trends and corporate value analysis requires advanced knowledge, analytic capabilities, and investment technology. Through investment trusts, even individual investors can benefit from the skills of professional fund managers. (3) The mark-to-market net asset value of investment trust funds is published on a daily basis, and Japanese laws have beefed up disclosure requirements.

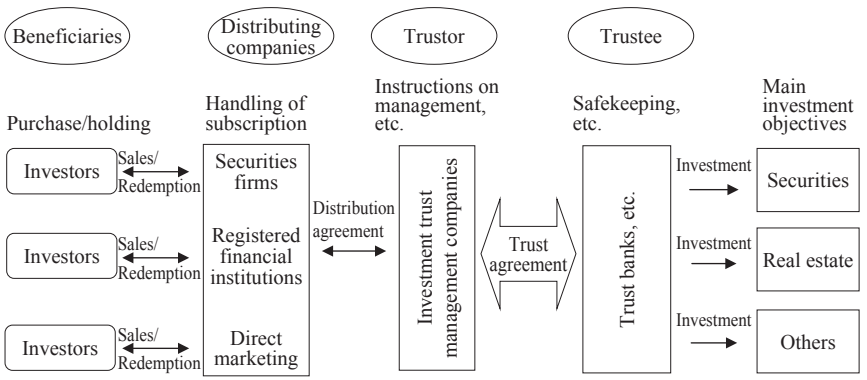
An investment trust with instructions from trustors is the typical type of scheme in Japan. Funds raised from investors (beneficiaries) by distributing companies, such as securities companies and registered financial institutions, are managed by a trustor (investment trust management companies) and held in safekeeping and administered by a trustee (trust banks).

When the investment trust system was first set up, government regulators only approved investments in Japanese stocks. However, the investment regulations have gradually been liberalized, so that it is now possible to create a diverse range of investment products depending on the underlying assets included. For example, by including short-term financial instruments, it is possible to create products such as money reserve funds (MRFs) that mimic bank deposits. Furthermore, with investment in real estate and commodities now permitted, individual investors can take stakes in office buildings, gold,

Table XIV-4. Trends in the Liberalization of Investment Trust Regulations in Japan

1951	Securities companies begin investment trust management business
1959	Investment trust management companies made independent of securities companies
1961	Ban on inclusion of public bonds lifted (Bond investment trusts established)
1970	Ban on inclusion of foreign securities lifted
1978	Ban on use of forward exchange contracts lifted
1986	Ban on inclusion of OTC-registered stocks lifted
1987	Ban on use of derivatives for hedging purposes lifted
1990	Foreign-affiliated investment management companies enter market
1993	Bank-affiliated investment management companies enter market
1995	Ban on use of derivatives for other than hedging purposes lifted (Bull/Bear funds established) Exchange traded funds (ETFs) introduced Ban on conducting both discretionary asset management and commissioned investment trust management businesses lifted
1998	Financial System Reform Law passed (Japanese Big Bank) Deregulation converts investment trust management companies from licensing to approval system Ban on outsourcing asset management lifted Ban on investment trusts being sold through banks on an agency basis lifted
1999	Ban on fund of funds (FoFs) lifted
2001	Real estate investment trusts (REITs) introduced
2007	Further deregulation converts investment trust management companies from approval system to registration system
2008	Ban on inclusion of commodities lifted
2016	Infrastructure Fund introduced
2023	Launch of actively managed exchange traded funds (ETFs)
2024	Ban on inclusion of unlisted stocks lifted

Chart XIV-7. The Structure of Investment Trusts with Instructions from Trustors



Source: The Investment Trusts Association, Japan.

oil, and other investments such as infrastructure or solar power generation facilities through investment trusts. In addition, there are investment trusts utilizing AI (artificial intelligence). Also, restrictions on the inclusion of unlisted stocks in portfolios have been lifted.

Entry into the investment trust market has been liberalized from a limitation to only approved companies associated with major securities companies to a registration system that requires only that companies meet certain conditions. As a result, the number of investment trust management companies has grown from around 10 to over 100, and as competition intensifies, passive funds with low management fees that are comparable to institutional investor funds are also gaining in popularity. Moreover, with the lifting of the bans on outsourcing asset management and on investing in "funds of funds", investment trusts can also indirectly offer their customers access to the investment services of foreign asset management companies.

7. Stewardship Code (1)

The UK Stewardship Code, on which the Japanese version of the Stewardship Code is based, was established in 2010 with the aim of making shareholders responsible for monitoring and curbing excessive risk-taking by corporate management, in response to criticism that shareholders, who have limited liability, were protected even though public funds were used to bail out financial institutions following the Lehman crisis. Following the Cabinet's approval of the Japan Revitalization Strategy in June 2013, the Principles for Responsible Institutional Investors (Japan's Stewardship Code), formulated by the Council of Experts Concerning the Japanese Version of the Stewardship Code (with its secretariat established within the Financial Services Agency (FSA)), were formulated and published in February 2014 as part of a growth strategy, and revised versions were released in May 2017, March 2020 and then again in June 2025.

The Stewardship Code defines the principles deemed to be helpful for institutional investors in fulfilling their stewardship responsibilities of enhancing medium- to long-term investment returns for their clients and beneficiaries by increasing the investee companies' corporate value and promoting their sustainable growth through conducting "constructive dialogue" based on in-depth knowledge of the companies and their business environment, alongside consideration of sustainability issues in accordance with their investment strategies.

The Stewardship Code and the Corporate Governance Code serve as the "two wheels of the cart." Over 300 institutional investors have adopted the Stewardship Code in the expectation that the widespread adoption and imple-

Table XIV-5. The Principles of the Stewardship Code

So as to promote sustainable growth of the investee company and enhance the medium- and long-term investment return of clients and beneficiaries,

1. Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.

2. Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

3. Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.

4. Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.

5. Institutional investors should have a clear policy on voting rights and disclosure of voting activity. The policy on voting rights should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.

6. Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.

7. To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.

8. Service providers for institutional investors should endeavor to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfill their stewardship responsibilities.

Source: Financial Services Agency.

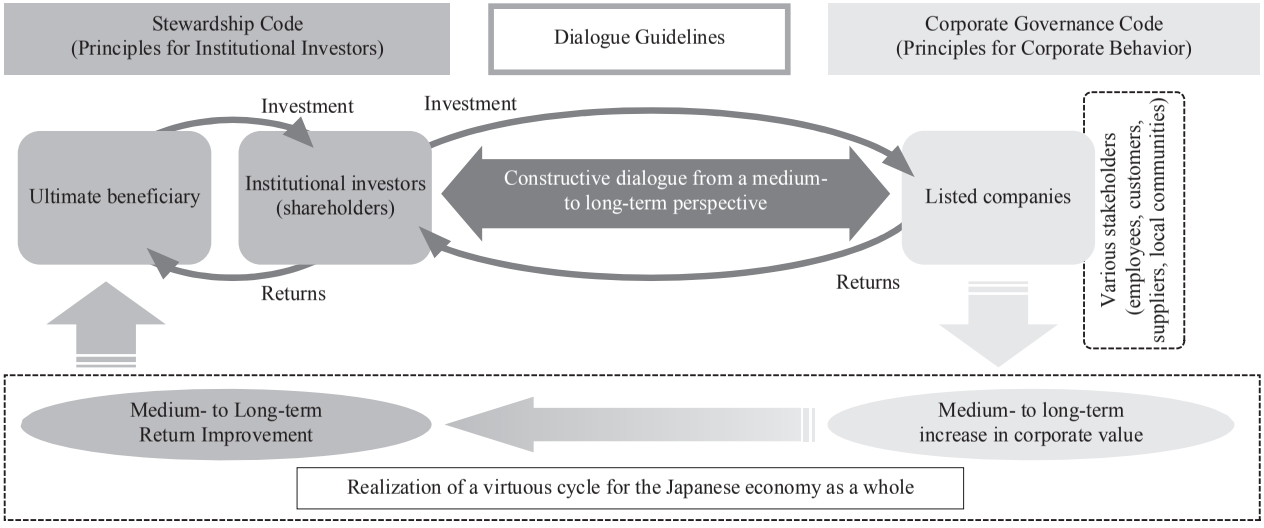
mentation of these two Codes will contribute to realizing effective corporate governance in Japan. The Stewardship Code is not a law or a legally binding regulation. Rather than adopting a rule-based approach, it adopts a principles-based approach. The Code adopts a "comply or explain" approach, according to which an institutional investor either implements the principles or, if not, explains the reasons for not doing so. In addition, the Guidelines for Dialogue between Investors and Companies, which provide an overview of agenda items on which institutional investors and companies are expected to focus for sustainable growth and medium- to long-term enhancement of corporate value, as required by the Stewardship Code (code of conduct for institutional investors) and the Corporate Governance Code (code of conduct for companies), were formulated and published in June 2018 as a supplemental document to both codes. The revised version was published in June 2021.

8. Stewardship Code (2)

The Stewardship Code calls for the following three key actions to be taken by institutional investors toward investee companies: (1) monitoring (Principle 3); (2) engagement (Principle 4); and (3) exercise of voting rights (Principle 5). (1) Institutional investors should monitor investee companies so that they can fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies. Monitoring should be performed continuously and effectively. This includes non-financial matters such as information regarding ESG (environmental, social and corporate governance). (2) Engagement refers to having "purposeful dialogue" with investee companies in order to foster a shared understanding and to work to solve problems. In addition, in order to engage in constructive dialogue, institutional investors are required to disclose to investee companies upon request the extent of their shareholdings in those companies. (3) Institutional investors should exercise voting rights on shares they hold. In exercising their voting rights, they are expected to decide on the vote in light of the results of the monitoring of investee companies and the contents of dialogue with them. In addition, the Code calls for the formulation and publication of a clear policy on the exercise of voting rights, the publication of the results of the exercise of voting rights for individual proposals, and clear public disclosure of the reasons for approval or disapproval. Principle 1 requires asset owners such as pension funds to encourage asset managers to engage in effective stewardship activities, and Principle 8 defines the roles of service providers for institutional investors such as proxy advisors and pension management consultants.

Historically, there was a time when the Wall Street Rule was the mainstream approach, whereby institutional investors would sell their holdings in a company if they were dissatisfied with the management of the investee company. However, for passive management and large public pension funds (universal owners) with widely diversified investments, selling shares is often difficult in practice, and the concept of holding shares and exercising voting rights as a part of fiduciary responsibility has become increasingly widespread. Furthermore, the Stewardship Code now requires engagement from institutional investors with the management of investee companies rather than just the exercise of voting rights. Similarly, with ESG investment, rather than divesting holdings, institutional investors are now more open to the notion of holding shares and setting out their opinions to companies through their exercise of voting rights and engagement with management.

Chart XIV-8. Relationship between the two codes and dialogue guidelines



Source: Financial Services Agency.

CHAPTER XV

Securities Taxation

1. Transitions in Securities Taxation (1)

The income tax system of Japan is fundamentally based on comprehensive taxation (taxation on the total income). It traces its origin to the Shoup Recommendation on Japanese Taxation made soon after the war. Under the Shoup taxation system implemented in 1950, capital gains from the sales of securities, as well as interest and dividends, were subject to comprehensive taxation in full (capital losses were fully deductible). After the end of the Allied military occupation, however, the Japanese government authorized separate taxation on interest and, in principle, exempted from tax capital gains from the sale of securities primarily from a policy standpoint to encourage accumulation of capital, with the result that the ideal of comprehensive taxation on income rapidly collapsed. It was a sweeping reform of the taxation system carried out in 1987–1989 that helped the basic framework of the current income tax system to take shape. At that time, the structure of income taxation which consisted of 15 brackets (10.5%–70%) was changed to a flat system consisting of five brackets (10%–50%). In addition, the financial income taxation system was comprehensively overhauled, including the introduction of uniform separate withholding taxation on interest income; the abolition of the tax-exempt savings system, in principle; and separate taxation, in principle, on capital gains from the sale of securities. The structure of income tax rates was amended to four brackets (10%–37%) in the fiscal 1999 tax reform and to six brackets (5%–40%) in the fiscal 2006 tax reform. Under the fiscal 2013 tax reform, a 45% tax rate was established for taxable income exceeding ¥40 million. Furthermore, as part of the fiscal 2023 tax reform, measures were introduced to adjust the tax burden on extremely high levels of income. Based on the fiscal 2016 tax reform, the basic corporate income tax rate was reduced to 23.4% from 23.9% in FY2016, and was further reduced to 23.2% in FY2018. As a result, the tax rate for national and local income combined (the effective corporate tax rate) became 29.74% in FY2018.

Looking at major trends in Japan's securities taxation system during the late 1990s and early 2000s, the government established taxation systems for

Table XV-1. Securities Taxation Evolution Timeline (1949−2002)

Year	Major amendments	Income tax brackets
1949	Shoup recommendation	
1950	A comprehensive taxation of interest, dividends, and capital gains from the sale of securities is enforced.	8 brackets (20%−55%)
1951	The optional separate withholding tax (50%) on interest is revived.	
1952	The withholding tax on dividends (20%) is revived.	
1953	Securities capital gains are exempted from income tax, in principle. The securities transaction tax is instituted (0.15% of the value of stock transaction). A uniform separate withholding tax on interest (10%) is instituted.	11 brackets (15%−65%)
1954	The withholding tax on dividends is reduced (from 20% to 15%).	
1955	Interest is exempted from income tax. The withholding tax on dividends is lowered (from 15% to 10%).	
1957	The separate withholding tax only on interest on short-term savings is revived (10%).	13 brackets (10%−70%)
1959	The separate withholding tax on interest on long-term savings is revived (10%).	
1961	Securities capital gains tax is levied on certain large-lot transactions.	
1962		15 brackets (8%−75%)
1963	The withholding tax rate on interest and dividends is lowered (from 10% to 5%).	
1965	The withholding tax rate on interest and dividends is raised (from 5% to 10%). The system of not requiring declaration and the optional separate withholding tax on dividends (15%) are introduced.	
1967	The withholding tax on interest and dividends is raised (from 10% to 15%). The optional withholding tax on dividends is raised (from 15% to 20%).	
1969		16 brackets (10%−75%)
1970		19 brackets (10%−75%)
1971	The optional separate withholding tax on interest (20%) is revived.	
1973	The optional withholding tax on interest and dividends is raised (from 20% to 25%). The securities transaction tax is raised (from 0.15% to 0.3%).	(The taxable income applicable to tax rate brackets is raised in 1971 and again in 1974.)
1976	The optional withholding tax on interest and dividends is raised (from 25% to 30%).	
1978	The withholding tax rate on interest and dividends is raised (from 15% to 20%). The optional withholding tax rate on interest and dividends is raised (from 30% to 35%). The securities transaction tax is raised (from 0.3% to 0.45% for stocks, etc.).	
1981	The securities transaction tax is raised (from 0.45% to 0.55%).	
1984		15 brackets (10.5%−70%)
1987	A sweeping tax reform	12 brackets (10.5%−60%)
1988	- The *maruyu* system is abolished, in principle.	
1989	- Uniform separate withholding tax on interest (20%) (products similar to financial instruments are also subject to the uniform separate withholding tax). - Securities capital gains are taxed, in principle (introduction of a separate withholding tax of 1% of the stock transaction value). - The securities transaction tax is lowered (from 0.55% to 0.3%).	5 brackets (10%−50%)
1995		(In 1995, the taxable income applicable to tax rate brackets is raised.)
1996	Securities capital gains tax is normalized (from 5% of deemed capital gains to 5.25%). The securities transaction tax is lowered (from 0.3% to 0.21%).	
1998	The securities transaction tax is lowered (from 0.21% to 0.1%).	
1999	The securities transaction tax and exchange tax is abolished.	4 brackets (10%−37%)
2001	A tax exemption system is launched for small-amount capital gains from the sale of stocks held long term (abolished after the 2003 tax system reform). An emergency investment tax break is established.	
2002	The special account system is established (implemented January 2003).	

stock options, specific-purpose companies, and corporation-type investment trusts in 1998. Effective April 1999, it abolished the securities transaction tax and the exchange tax (imposed on futures and options trading), which had long been issues of concern. Further measures followed with the enhancement of the Angel Tax System in 2000 and the introduction of the tax-exemption system for profits on small sales amounts of stocks being held for the long term (a ¥1 million special tax exemption on stocks, etc., held for more than one year) and an emergency investment tax break (a tax exemption on up to ¥10 million of principal) in 2001. The introduction of the Specified Account System was included in the tax revisions for fiscal 2002, and the system was launched on January 1, 2003. During the same period, the government reorganized its tax-exempt small-amount savings system for the elderly, etc. (*Maruyu* savings system for the elderly, etc.), converting it into a tax-exempt small-amount savings system for persons with disabilities, etc. (*Maruyu* savings system for persons with disabilities, etc.).

2. Transitions in Securities Taxation (2)

Since 2003, the reforms in the securities taxation system have focused mainly

Table XV-2. Securities Taxation Evolution Timeline (Since 2003)

Year	Major amendments	Income tax brackets
2003	Consolidation of taxation of gains on transfer of securities into a single separate tax on tax declaration The tax exemption system for small-amount capital gains from the sale of stocks held long term is abolished	
2004	Preferential tax rate on dividends and capital gains from publicly offered stock investment trusts is introduced Tax rate on capital gains is reduced from the sale of unlisted stock (from 26% to 20%).	
2007	The expiration date of application for a preferential tax rate is extended for a year for dividends and capital gains of listed stocks, etc.	6 brackets (5%−40%)
2009	Mechanism is introduced enabling netting of dividends and capital gains and losses from listed stocks, etc. Preferential tax rate on dividends and capital gains of listed stocks, etc. is extended for three more years	
2011	Preferential tax rate on dividends and capital gains of listed stocks, etc. is extended for two more years	
2014	Nippon Individual Savings Account (NISA) is introduced	
2015		7 brackets (5%−45%)
2016	Tax system for bonds, etc. is changed and scope of profit and loss netting expanded Junior NISA is introduced	
2018	Introduction of installment-type NISA	
2020	Measures to adjust double taxation on investment trusts (foreign tax amount reduction) introduced.	
2024	Introduction of the Tsumitate NISA Introduction of measures to address double taxation (foreign tax credit) on publicly offered investment trusts and similar products Fundamental expansion and permanent implementation of NISA	

Table XV-3. Direction of the Doubling Asset-based Income Plan

3. Direction of the Plan
According to a survey by the Financial Services Agency, the most common reason inexperienced people have for not investing is "I don't have spare funds" (56.7%). The second is: "I don't have knowledge about asset management" (40.4%), while the third is: "Because I feel uneasy about purchasing/holding investments" (26.3%)

This survey shows the importance of simple, easy-to-understand and easy-to-use systems and the significance of allowing small-scale investments (100 yen to 1,000 yen), and that the effectiveness of long-term accumulation and diversification is not widely understood. In addition, in order to support households with financial asset formation so as to eliminate the lack of knowledge and dispel concerns, it is necessary to establish a neutral and trustworthy advisory system for consumers. Based on this, the following seven pillars will be promoted as part of an integrated effort toward doubling asset-based income.

(1) Radical expansion of and making permanent NISA to shift household financial assets from savings to investment
(2) Reform of the iDeCo system, such as raising the eligibility age
(3) Creation of a system to encourage the provision of neutral and reliable advice to consumers
(4) Enhancing asset formation for employees
(5) Enhancing financial and economic education to spread the importance of stable asset formation
(6) Realization of an international financial center open to the world
(7) Ensuring customer-oriented business conduct

Tax measures will be considered as part of future tax reforms.

Source: Extract from "Doubling Asset-based Income Plan" by the Council of New Form of Capitalism Realization.

on revisions in the preferential tax system for dividends and capital gains on listed stocks, etc., expanding the scope of offsetting losses against gains, and revisions concerning the tax exemption system.

In terms of the revisions relating to the preferential tax rate, in the fiscal 2003 tax reform, the government introduced a non-declaration requirement system that imposed only a fixed withholding tax of 20% (15% in income tax and 5% in local inhabitant tax) on dividends and capital gains from listed stocks, etc., and distributions of gains from publicly offered stock investment trusts. At the same time, the government introduced a preferential tax rate of 10% on a limited-time basis. In the fiscal 2004 tax reform, the government extended this preferential tax rate to cover taxable gains from publicly offered stock investment trusts. Then, in the fiscal 2007 tax reform, the government extended the preferential tax rate applicable to dividends and capital gains from the sale of listed stocks, etc. for another year. Furthermore, the fiscal 2009 tax reform extended the application period for the preferential tax rate by three years. The preferential tax rate was extended for another two years as part of the fiscal 2011 tax reform and ultimately remained in effect

until the end of 2013. To help fund the restoration of the areas stricken by the Great East Japan Earthquake, a special income tax for reconstruction is being levied from 2013 to 2037.

Looking at revisions to the scope of netting of losses against gains, the fiscal 2003 tax reform made it possible for investors to offset losses on redemptions (termination of agreement) of publicly offered stock investment trusts against capital gains on stocks, etc. The fiscal 2004 tax reform added a tax deduction carryforward system (three years) for capital losses on publicly offered stock investment trusts. To reduce the risk of investing in equities for individual investors, the fiscal 2008 tax reform also added a mechanism allowing investors to offset capital losses on listed stocks, etc., against dividends beginning in 2009. Although the application of this mechanism was limited in 2009 to investors who chose separate taxation on their dividend income from listed stocks, etc., it became possible to also do so using a withholding tax account from 2010. Furthermore, the fiscal 2013 tax reform enforced changes to the taxation method for bonds, etc., making it possible to offset income against losses for interest and capital gains on specified bonds, etc., and income from listed stocks starting in 2016.

With regard to the tax exemption system, NISA was introduced in 2014, followed by Junior NISA in 2016 and installment-type (Tsumitate) NISA in 2018. In response to the "Doubling Asset-based Income Plan" formulated by the Outline of the Grand Design and Action Plan for a New Form of Capitalism on November 28, 2022, the NISA program was fundamentally expanded and made permanent as part of the fiscal 2023 tax reform. Furthermore, as a result of the fiscal 2025 tax reform, the contribution limit for defined contribution pension plans has been raised, and the eligibility age for iDeCo was increased.

3. Taxation of Interest

Under the fiscal 2013 tax reform, changes were made to the taxation system regarding interest income to go into effect in 2016. The outline of the current system is as follows.

Interest on specified public and corporate bonds, as well as income distributions from publicly offered bond investment trusts and investment trusts managing publicly offered bonds, etc., are subject to withholding tax at a rate of 20% (20.315% including the special income tax for reconstruction) and separate taxation at the same rate (20% or 20.315% including the special income tax for reconstruction); however, taxpayers may also choose not to file a tax return for this income. Specified bonds are certain bonds, such as government bonds, local government bonds, foreign government bonds, publicly

Table XV-4. Interest Taxation System

Classification	Outline
Interest on specified bonds, as well as income distributions from publicly offered bond investment trusts and investment trusts managing publicly offered bonds, etc.	Separate taxation on the basis of self-assessment or no declaration necessary (20% withholding tax including 5% inhabitant tax)
Interest on deposits and savings, interest on bonds other than specified bonds, and income distributions from jointly managed investment trusts and privately placed bond investment trusts (Note 1)	Separate withholding tax (20% including 5% inhabitant tax)
Tax-exempt savings system	・Tax-exempt interest income earned from a small-amount deposit by persons with disabilities, etc. (on principal of up to ¥3.5 million) ・Tax-exempt interest income earned from a small-amount investment in public bonds by persons with disabilities, etc. (on principal of up to ¥3.5 million) ・Tax-exempt system for the workers' property accumulation savings for house construction plan and the workers' property accumulation savings plan (on principal of up to ¥5.5 million)

Notes: 1. Excluding interest on corporate bonds issued by a family company the payment of which is received by a corporate executive, etc. of the family company either directly or through a related company.
2. Special income tax for reconstruction is levied from 2013 to 2037.
Source: Compiled from materials made by National Tax Administration Agency.

offered bonds, and listed bonds.

Withholding tax at a flat rate of 20% (20.315% including the Special Income Tax for Reconstruction) applies to interest on savings and deposits and public corporate bonds other than specified public corporate bonds, as well as income distributions from jointly invested trust accounts and privately placed bond investment trusts. In addition, income from similar financial products (including benefits from fixed-term deposits, benefits based on agreements covered by Article 2, paragraph 4 of the Banking Act, interest on mortgage securities paid under specific contracts, profit on gold investment accounts, foreign exchange gains on foreign currency investment accounts, gains on policies such as single premium endowment or non-life insurance accounts that meet certain requirements) is uniformly subject to withholding tax at a rate of 20% (20.315% including the special income tax for reconstruction).

Tax-exempt systems of interest income include the tax-exempt small-amount savings system for persons with disabilities, etc. and the tax-exempt

Table XV-5. The Status of Taxation on Interest Income, Etc. (2023)

(millions of yen)

Classification	Amount paid		Withholding tax amount
		Taxable amount	
Public bonds	9,158,799	60,461	9,248
Corporate bonds	2,003,432	304,770	46,632
Deposits (banks)	815,337	675,651	102,103
Interest on deposits and savings at non-bank financial institutions	339,136	93,121	14,073
Interest on other deposits, including those held with the employer	65,014	64,790	9,598
Income distributions from jointly managed investment trusts	16,974	11,120	1,704
Income distributions from bond investment trusts, etc.	71,129	51,783	6,976
Interest on specified bonds, etc. (special withholding tax cases)	691,458	162,299	24,840
Benefits from fixed term deposits	63,332	60,964	9,244
Other	1,104,554	944,438	191,118
Total	14,329,163	2,429,396	415,537

Notes: 1. Taxable amount includes not only that paid to individuals but also that to corporations.
2. Interest on specified bonds, etc. (special withholding tax cases) refers to special cases whereby the payment processor withholds tax and pays it to the government on behalf of the income payer.
3. As fractions were rounded to the nearest whole number, the figures may not add up to the actual total amounts.

Source: Compiled based on the data available on the website of the National Tax Agency of Japan.

system of interest income for workers' asset accumulation savings plan (tax-exempt system for property accumulation).

The tax-exempt small-amount savings system for persons with disabilities includes a tax-exempt system for interest income on small-sum savings for persons with disabilities (commonly known as *Maruyu* savings for persons with disabilities, etc.) and one for interest income on small-amount public bonds for persons with disabilities (commonly known as special *Maruyu* for persons with disabilities, etc.). Both of these systems have a tax-exempt upper limit of ¥3.5 million of principal. Therefore, by utilizing all of these options, returns on a principal amount of up to ¥7 million per person become tax-exempt. The government abolished the previously available tax-exempt system for interest income on postal savings for persons with disabilities, etc., after the privatization of postal services. Qualified persons with disabili-

ties include persons with a physical disability certificate, persons who receive a disability pension, wives who receive survivors' basic pension benefits or a widow's pension.

The tax-exempt system for property accumulation includes the workers' property accumulation savings plan for house construction and the workers' property accumulation pension savings plan. These savings plans are designed to encourage workers below 55 years of age to buy houses and ensure stability in retirement, with interest not taxed on a combined principal of up to ¥5,500,000. However, workers' property accumulation savings plans investing in life insurance, property insurance, etc., have a nontaxable upper limit of ¥3,850,000.

4. Taxation of Dividends

In principle, not taking into consideration the special income tax for reconstruction, dividends, income distributions from publicly offered stock investment trusts, and other applicable income earned by stockholders or investors are subject to comprehensive taxation after the payment of 20% withholding tax. When comprehensive taxation is levied on dividend income, the Income Tax Act allows the deduction of a certain percentage of dividend income (tax credits for dividends) to avoid double taxation.

For income distributions from publicly offered stock investment trusts and for dividends paid on listed stocks other than those paid on large shareholdings (those paid to a shareholder who holds 3% or more of the outstanding shares of a corporation), the taxpayer has the option of comprehensive taxation, separate taxation on the basis of self-assessment, or non-declaration of dividend income (withholding tax only on their dividend income). For a limited period, stockholders and investors enjoyed a preferential tax rate of 10% (10.147% in 2013) on this income. However, from 2014 to 2037, the rate is 20.315%, after which a tax rate of 20% will be applied. For a limited period, stockholders and investors have enjoyed a preferential tax rate of 10% (10.147% in 2013) even for separate taxation on the basis of self-assessment. However, from 2014 to 2037, the rate is 20.315%, after which a tax rate of 20% will be applied. Choosing separate taxation on the basis of self-assessment became an option from 2009. Moreover, from 2010, investors have been able to combine dividends, etc., from listed stock, etc., in their withholding tax accounts. The term "listed stock, etc.," refers to shares that are listed on domestic and foreign stock exchanges, as well as ETFs (exchange-traded funds) and specified bonds.

Meanwhile, dividends on stocks other than listed stocks (unlisted stocks) and those received by large individual shareholders are subject to compre-

Table XV-6. An Outline of Dividend Income Taxation

<table>
<tr><th colspan="3">Classification</th><th>Outline</th></tr>
<tr><td colspan="3">Distributions from publicly offered stock investment trusts, etc.</td><td rowspan="2">・Comprehensive taxation
Dividend on listed stocks, etc. (5% to 45% income tax; 10% inhabitant tax)
(Dividend deduction applicable)
・Select either separate taxation on the basis of self-assessment
Dividend on listed stocks, etc. (15% income tax; 5% inhabitant tax)
(non-declaration is also possible)</td></tr>
<tr><td rowspan="3">Dividend of surplus, dividend of profits, distribution of surplus, etc.</td><td colspan="2">Dividend on listed stocks, etc. (excluding large shareholdings) (Note 1)</td></tr>
<tr><td colspan="2">Other than above</td><td>Comprehensive taxation (tax credits for dividends)
(5% to 45% income tax, 10% inhabitant tax)
(20% withholding)
(20% income tax)</td></tr>
<tr><td>Dividend paid at one time is no more than:
¥100,000 × $\frac{\text{Dividend computational period}}{12}$
Items below</td><td>No declaration necessary
(20% withholding)
(20% income tax)</td></tr>
</table>

Notes: 1. For dividends on listed stocks, etc., dividends paid to large shareholders (those whose who hold 3% or more of the total number or total amount of issued shares or capital) are subject to 20% withholding tax (income tax) as well as, in principle, comprehensive taxation. The same applies to any person who receives dividends of listed stocks, etc. on or after October 1, 2023, and who together with any company that is classified as a family company if that person is taken as the shareholder for the basis for the categorization, accounts for 3% or more of the total number of issued shares or capital.

2. In addition, from January 2013 to December 2037, a 2.1% special income tax for reconstruction is levied against the amount of income tax as a time-limited measure.

Source: Based on the web site of the Ministry of Finance.

hensive taxation after paying 20% withholding tax (20.42% from 2013 to 2037). In this case, shareholders may choose not to file a tax return if the amount of dividends paid at one time does not exceed the amount obtained by prorating ¥100,000 over the dividend computation period. However, local inhabitant tax is subject to comprehensive taxation.

With regard to income distributions from publicly offered equity mutual funds, a dividend deduction is allowed if the comprehensive taxation system is chosen; however, the dividend deduction rate varies depending on the proportion of foreign currency-denominated assets and non-equity assets held by the equity mutual fund. For example, a dividend deduction is not allowed if at least one of the following exceeds 75%: the proportion of foreign currency-denominated assets or the proportion of non-equity assets. Income distributions from privately placed stock investment trusts of the contractual type (see section 10 below) are, in principle, subject to comprehensive taxation after withholding tax (dividend deductions are allowed).

Table XV-7. Taxation of Dividend Income (withheld at source) (2023)

(millions of yen)

Classification	Amount paid			Withholding tax amount
		Taxable amount	Tax-exempt amount	
Dividends of surplus or profits, distributions of surplus, distributions of interest on funds, and dividends, etc. on investment units of specified investment corporations	42,887,762	27,176,986	15,710,777	4,922,260
Income distributions from investment trusts and specified beneficiary certificate-issuing trusts	3,195,164	1,394,982	1,800,181	275,939
Dividends, etc. received in withholding tax accounts	2,806,099	2,806,099	−	424,315
Total	48,889,025	31,378,067	17,510,958	5,622,514

Notes: 1. Bond investment trusts and investment trusts managing publicly offered bonds, etc., are not included in "investment trusts"
2. "Taxable amount" includes not only that paid to individuals but also that to corporations.
3. As fractions were rounded to the nearest whole number, the figures may not add up to the actual total amounts.

Source: Compiled from the National Tax Agency website.

For the purpose of computing the amount of dividend income, interest paid on a debt incurred to acquire stocks, etc., may be deducted from the taxable income. However, this is allowed only when the investor files a tax return.

5. Adjustment of Double Taxation Relating to Dividends

Profits generated by a business corporation through its business activities should, basically, be returned to the owners of that corporation. However, corporate income is usually taxed twice: corporate income tax and individual income tax (dividend tax and capital gains tax). Considering that, ultimately, it is the individuals who ultimately bear the tax burden, some adjustments have to be made to avoid double taxation. This is the question of consolidating corporate tax and an individual's income tax. Ideally, all forms of double taxation of corporate income—be it retained earnings or dividends—should be adjusted. However, adjustments are chiefly made to the dividend portion.

In Japan, in the case of individual shareholders, a dividend tax credit system is applied under which 10% of dividend income from sources such as distribution from surplus ("dividend income") (and 2.8% for inhabitant tax)

Table XV-8. Dividend Taxation and Double Taxation Adjustment in Major Countries

(As of January 2023)

	Taxation system	Reconciliation with income tax
Japan (Note 2)	Choice between separate taxation and comprehensive taxation [Separate taxation] 20.3% or [Comprehensive taxation] 10–55.9% *It is also possible to choose the "no filing required" option with withholding tax only (20.3%).	Dividend income tax credit method (If comprehensive taxation is selected)
United States (Note 3)	Separate taxation Tiered taxation (federal tax) 3 levels: 0%, 15%, and 20% (Note 4) + Comprehensive taxation (state and local taxes) (Note 5) (In New York City, 7.1–14.8%)	No adjustments
United Kingdom	Separate taxation Tiered taxation 3 levels 8.8, 33.8, and 39.4% (Note 6)	Partial deduction method for dividend income (Deduction of £2,000 from dividend income)
Germany	No need to file a tax return (withholding tax) *Comprehensive taxation is also possible (Note 7) 26.4%	No adjustments
France (Note 8)	Choice between separate taxation and comprehensive taxation [Separate taxation] 30% or [Comprehensive taxation] 17.2–62.2%	Partial deduction method for dividend income (60% of dividends received are included in the shareholder's taxable income) *If comprehensive taxation option is selected

Notes: 1. Tax rates are rounded to two decimal places.
2. This refers to dividends on listed stocks, etc. (other than those paid to large shareholders).
3. This applies to qualified dividends.
4. Income is accumulated in the order of employment income, dividend income, and long-term capital gains, and the applicable tax rate is determined for each type of income. In addition, if gross income exceeds the threshold amount, an additional 3.8% tax is levied on net investment income, up to the amount of the excess.
5. Tax rates and other provisions vary by state and local governments.
6. Income is accumulated in the order of employment income, interest income, and dividend income, and the applicable tax rate is determined for each type of income.
7. Comprehensive taxation can be applied by filing a tax return if this is more advantageous to the taxpayer than not filing a tax return. However, if the taxpayer is disadvantaged by choosing comprehensive taxation after filing a tax return, the tax authorities will treat the capital income as if it had not been declared, and only withholding tax at the rate of 26.375% will be imposed (the same treatment as if no tax return had been filed).
8. As a limited-time measure from January 2012 until the fiscal deficit is resolved, an additional 3–4% tax will be imposed on the amount by which taxable income, after adding back certain deductions and other adjustments, exceeds the threshold amount.

Source: Compiled from the Ministry of Finance website.

is deducted from the tax liability. However, in the case of those whose taxable income exceeds ¥10 million, 5% of such part of their dividend income that pushes their taxable income over and above ¥10 million (and 1.4% for inhabitant tax) is deductible. For instance, when individual shareholders have a total taxable income of ¥13 million (¥9 million in general income and ¥4 million in dividend income), they are entitled to a tax deduction of 5% of such part of their dividend income that pushes their taxable income over and above ¥10 million, which is ¥3 million (=¥13 million − ¥10 million), and 10% of other part of their income, which is ¥1 million. Therefore, they are entitled to a tax deduction of ¥250,000 (¥150,000 (=(¥13 million − ¥10 million) × 0.05) + (¥100,000 (=(¥10 million − ¥9 million) × 0.1).

In the US and Germany, no adjustment measures are used. In the UK and France, the partial dividend income deduction method is used. In foreign countries, the imputation method was broadly adopted as a method to adjust for double taxation. In this method, dividends including corporate income tax are included in taxable income for the purposes of calculating income tax, and then the amount equivalent to corporate income tax is deducted from the calculated tax amount. The dividend tax credit (dividend-received deduction) employed in Japan and the partial imputation method employed in the UK are both types of imputation methods. Other methods used to adjust for double taxation include the dividend paid deduction method (which authorizes deduction of dividends paid on the corporate level from corporate taxable income) and the comprehensive business income tax method (CBIT). Interest and dividends are not deductible from taxable income on the corporate level, and such interest and dividends received by individuals are not subject to income tax.

6. Capital Gains Taxation

In 2003, the system of opting for a separate withholding tax or for separate taxation on the basis of self-assessment for gains on the sale of listed stocks, etc., was abolished, and these taxes were unified into the latter system of separately filing an income tax return. In other words, not taking into account the special income tax for reconstruction, a 20% tax rate (a 15% income tax and a 5% inhabitant tax) is applied to an amount of income arrived at by deducting the cost of acquiring or selling the security and interest paid on the fund used for the purchase of such security from the proceeds of such security. The capital gains from the sale of listed stocks, etc. may be treated so as to deal with issues related to taxable income based on withholding tax only using a specified account which will be discussed later. Previous to 2003, capital losses from the sale of stocks, etc., were deductible only from capital

Table XV-9. Outline of the Capital Gains Taxation System for Stocks, Etc.

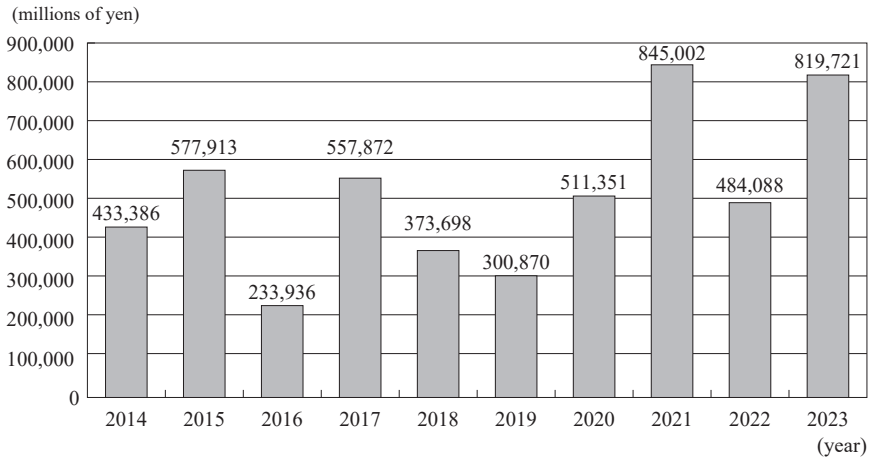
	Outline
Listed stocks, etc. ・Listed stocks ・ETF ・Publicly offered investment trusts ・Specified bonds, etc.	Separate taxation on the basis of self-assessment Capital gains on listed stocks, etc. × 20% (15% income tax: 5% inhabitant tax) *Special exception on no declaration necessary for withholding tax account For income maintained in a withholding account (specified account selected for tax withholding purpose) from the sale of listed stocks, etc. taxable-income-related issues may be completed based on withholding tax only. *Gain/loss offset and carrying-forward of unused deductible losses relating to listed stocks, etc. Losses from the sale of listed stocks, etc. may be deducted from the amount of dividend income, etc. on listed stocks, etc. for the same year. For unused deductible losses relating to unlisted stocks, etc., the investor may carry it forward for a three-year period starting from the following year as deduction from the amount of capital gains from listed stocks, etc. (Note 3) and the amount of dividend income, etc. from listed stocks, etc.
General stocks, etc. (Stocks, etc. other than listed stocks)	Separate taxation on the basis of self-assessment Capital gains on general stocks × 20% (15% income tax, 5% inhabitant tax)

Note: From January 2013 to December 2037, a 2.1% special income tax for reconstruction is separately levied against the amount of base income tax as a time-limited measure.
Source: Compiled based on information available on the website of the Ministry of Finance.

gains from the sale of other stocks, etc., if any, made during the same year, and it was not permissible to carry forward any unused losses. However, since 2003, investors have been able to carry forward capital losses from the sale of listed stocks, etc., for three years, starting with the year following their occurrence. Also, since 2009, investors have been able to deduct capital losses on listed stocks, etc., from dividends, etc., received from listed stocks, etc. Furthermore, starting in 2016, based on the change in the taxation method for bonds, etc., it became possible to offset income against losses for interest and capital gains from specified bonds, etc., and income from listed stocks, etc. Separate self-assessment taxation shall apply to general shares, etc.

Along with the abolition of the separate withholding tax system, the authorities have sought to lessen the reporting burden on investors by establish-

Chart XV-1. Withholding Taxes on Capital Gains on the Sale of Listed Stock, Etc., Managed in Special Brokerage Accounts



Source: Based on the website of the National Tax Agency of Japan.

ing a Specified Account System. Under this type of account, a securities company computes capital gains or losses, as the case may be, for its client from the sale of shares of a listed stock, etc., made through a special brokerage account. The account is divided into two categories: the withholding tax account (account with tax withholding) and the simplified reporting account (account without tax withholding). When an investor sells their shareholdings through the withholding tax account, the securities company withholds the tax, obviating the need for the investor to file an income tax return. Furthermore, from 2010, it became possible for the securities company to deposit dividends from listed stocks, etc. of clients that are subject to withholding tax into the withholding tax account set up for the clients. However, if an investor using such an account also files a final return, the investor is also allowed to include capital gains or to offset capital losses from the sale of such shares through another account. When an investor opts for the income tax withholding account and does not file a final return, the spousal deduction is not affected. If an investor opts for the simplified income tax return account, they will be able to make a simple declaration using the annual statement of stock trading under a special brokerage account received from their securities company (From April 1, 2019, it is not required to attach this statement). Currently, securities companies must send an annual statement of stock trading to the client and the tax office no matter what type of special brokerage account is selected by the client. Additionally, due to changes in the taxation

method for bonds, etc. starting in 2016, the scope of application of the special account has expanded.

7. The Angel Tax System

The Angel Tax System refers to tax incentives for individual investors designed to encourage investment in startups and was established as part of the fiscal 1997 tax reform. The term "angel" refers to individual investors who have invested in specified small and medium-sized companies (including specified small and medium-sized companies, specified joint stock companies, and specified new small and medium-sized companies). A "specified small or medium-sized company" refers to a corporation or other entity such as the following. (1) A joint stock company that falls under the category of specified new small to mid-sized company as defined in Article 6 of the Small and Medium-sized Enterprises Business Enhancement Act, etc.; (2) A Japanese corporation that is a joint stock company and is less than 10 years old since incorporation (limited to those that qualify as a small and medium-sized enterprise as listed in each item of Article 2, paragraph 1 of the Basic Act on Small and Medium-Sized Enterprises and meet certain other requirements); (3) A Japanese corporation that is a designated company as defined in Article 57-2, paragraph 1 of the Act on Special Measures for the Promotion and Development of Okinawa and is designated pursuant to the provisions of that paragraph between April 1, 2014, and March 31, 2027.

As shown on the right-hand page, the preferential measures under the current system consist of tax deferral or tax exemption at the time of investment, and the carryover deduction of capital losses at the time of the sale of the shares.

The fiscal 2023 tax reform created tax exemption measures for reinvestment in startups. This new measure meant that when an investor sells shares and reinvests in a self-funded startup or a startup at the pre-seed or seed stage, capital gains on the reinvested portion are not subject to tax, and this applies to reinvestments made on or after April 1, 2023. The upper limit of capital gains was ¥2 billion, with taxation on the amount over the limit able to be deferred. At the same time, the requirements for investment in self-funded startups and pre-seed/seed-stage startups were relaxed.

Under the fiscal 2024 tax reform, if certain requirements are met when acquiring shares through exercising stock options, the amount paid to acquire those stock options may now be included in the acquisition cost of the shares for tax purposes.

Under the fiscal 2025 tax reform, the reinvestment period for shares eligible for Preferential Treatment B and the special provisions for pre-seed and

Table XV-10. Summary of Angel Taxation System

<table>
<tr><td colspan="7">1) Time of investment</td></tr>
<tr><td>Type of measure</td><td>Deductible items</td><td>Recipient of deductions</td><td>Details</td><td>Maximum deduction</td><td>No. of years since establishment</td><td>External capital ratio</td></tr>
<tr><td>Special provisions for starting a business</td><td>Full amount invested with own funds at the time of company establishment</td><td>Deduction from stock transfer profits for the year</td><td>Tax exempt</td><td>No upper limit (tax exempt up to ¥2 billion investment, any amount exceeding that is deferred taxation)</td><td>Less than 1 year</td><td>1/100 or more</td></tr>
<tr><td>Preferential treatment A</td><td rowspan="2">(Full amount invested in target company −¥2,000)</td><td rowspan="2">Deducted from total income for that year</td><td rowspan="3">Deferred taxation</td><td rowspan="2">Gross income ×40% or ¥8 million, whichever is lower</td><td rowspan="2">Less than 5 years</td><td>1/6 or more</td></tr>
<tr><td>Preferential treatment A-2</td><td>1/20 or more</td></tr>
<tr><td>Preferential treatment B</td><td rowspan="2">Full amount invested in target company</td><td rowspan="2">Deduction from stock transfer profits for the year</td><td>No upper limit</td><td>Less than 10 years</td><td>1/6 or more</td></tr>
<tr><td>Pre-seed/seed stage special case</td><td>Tax exempt</td><td>No upper limit (tax exempt up to ¥2 billion investment, any amount exceeding that is deferred taxation)</td><td>Less than 5 years</td><td>1/20 or more</td></tr>
<tr><td colspan="7">▼</td></tr>
<tr><td colspan="7">2) At time of stock sale: Deduction for transfer loss carried forward</td></tr>
<tr><td colspan="7">Not only can losses incurred from the sale of unlisted venture company shares be aggregated (offset) with other gains from the transfer of shares in the same year, but any losses not aggregated (offset) in any given year can be aggregated (offset) with gains from the transfer of shares successively over the following three years.

* Losses can be carried forward over the following three years if the startup company loses value due to bankruptcy, dissolution, etc., without being listed.
* If the investor received preferential treatment in the year of investment in a startup company, the loss on sale is calculated by subtracting the tax-deferred portion of the tax-deductible amount from the acquisition price.</td></tr>
</table>

Source: Ministry of Economy, Trade and Industry website.

seed-stage investment has been extended to the end of the year following the year in which the capital gains from the sale of the shares were realized. In addition, a holding period until the end of the year following the year of acquisition has been established for shares eligible for tax exemption under the

special provisions for pre-seed and seed-stage investment. If the shares are transferred during this holding period, the tax exemption will not apply, and the treatment switches to tax deferral. These measures apply to shares acquired on or after January 1, 2026.

8. NISA

Based on the fiscal 2013 tax reform, NISA was introduced in January 2014. NISA is the nickname for a small amount investment tax-exemption scheme, the tax exemption measure on dividends and capital gains on small investments in listed stocks, etc., in tax-free accounts. NISA is modeled on the Individual Savings Account (ISA) — a preferential tax system for investments and savings introduced in the U.K. in 1999 — and it was initially referred to as the Japanese version of the ISA. The "N" in NISA stands for NIPPON (Japan). Following the introduction of the Junior NISA in April 2016 and Tsumitate NISA in January 2018, the original instrument is referred to as the General NISA.

As of 2023, there were three types of NISA: General NISA, Tsumitate NISA and Junior NISA. The tax-exempt holding period of the General NISA is five years, with an annual tax exemption limit of ¥1.2 million, and the investments that can be held are listed stocks and publicly offered stock investment trusts. In contrast, the tax-exempt holding period of the Tsumitate NISA is 20 years, with an annual tax exemption limit of ¥400,000, and the investments that can be held are certain investment trusts suitable for long-term accumulation and diversification. The two NISAs cannot be held in combination and only one of them can be selected. The tax-exempt holding period of Junior NISA is five years, with an annual tax exemption limit of ¥800,000, and the investments that can be held are the same as those for the General NISA. In principle, no withdrawals are allowed until the holder turns 18 years old. The Junior NISA was abolished at the end of 2023 under the 2020 tax reform, and new purchases will not be allowed after 2024.

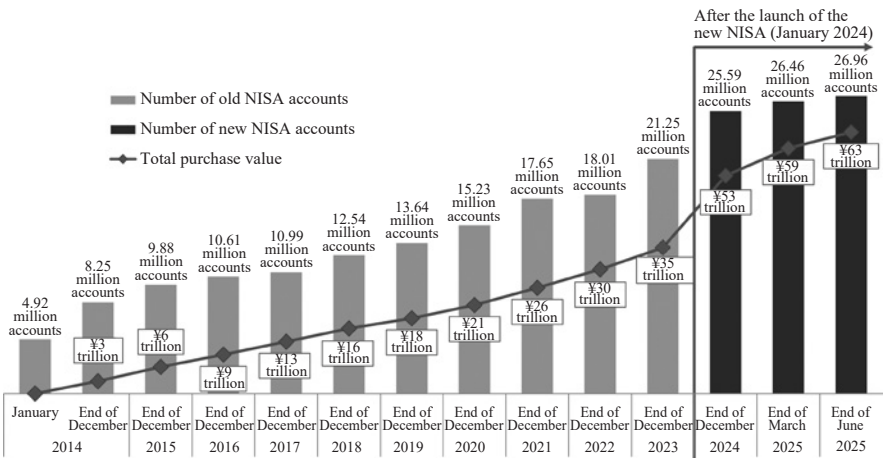
As a result of the fiscal 2023 tax reform, a new system came into effect in January 2024. From 2024, a Tsumitate investment quota and a Growth investment quota were implemented, and these can be used simultaneously. The annual investment limit is ¥1.2 million for the Tsumitate quota and ¥2.4 million for the Growth quota. Therefore, the effective annual contribution limit is ¥3.6 million. The combined upper tax-exempt holding limit for the two quotas is ¥18 million (including a ¥12 million limit for the Growth Investment quota), and unused capacity may be reused. The tax-exempt holding period is unlimited and the period during which an account can be opened is indefinite. The investments covered under the Tsumitate quota are the

Table XV-11. NISA from 2024 (New)

	Tsumitate quota	Growth quota
Utilization of systems	Can be used in combination	
Annual investment limit	¥1.2 million	¥2.4 million
Tax-exempt holding period	Indefinite	Indefinite
Limit of tax-exempt holding (Total limit)	¥18 million (Limit can be reused)	
		¥1.2 million (within Growth quota limit)
Account opening period	Permanent	Permanent
Investment products	Certain investment trusts suitable for long-term accumulation and diversification	Listed stocks/investment trusts, etc
Eligible age	18 years and upward	18 years and upward
Relationship to old system	Products invested in the General NISA and the Tsumitate NISA by the end of 2023 are tax-exempt under the old system and outside the new system (rollover from old system to new system not allowed).	

Source: Compiled from FSA website.

Chart XV-2. NISA Usage



Note: Figures up to the end of December 2023 (“Number of Old NISA Accounts” and “Total Purchase Value”) represent the combined totals for the General NISA and Tsumitate NISA.
Source: FSA “Trends in NISA usage (Graph)”.

same as for the Tsumitate NISA, namely specified investment trusts suitable for long-term accumulation and diversification. The Growth quota covers listed stocks and investment trusts. Rollover from the old system to the new system is not allowed.

The government has set a target of 34 million NISA accounts and ¥56 trillion in NISA purchases by the end of December 2027. As of the end of March 2025, the number of accounts stood at 26.46 million, and the total purchase amount was ¥59 trillion, indicating that the purchase target has been achieved ahead of schedule.

9. Taxation of Nonresidents

The Income Tax Act of Japan divides individuals into residents and nonresidents. Residents are individuals who have a domicile in Japan or a temporary residence at which they have been living for one year or more. All individuals other than residents are deemed nonresidents. Of the residents, individuals who do not have Japanese citizenship and who have or have had a domicile in Japan or a temporary residence at which they lived for a total of no more than five years in the past 10 years are referred to as non-permanent residents. The entire income (worldwide income) of residents other than non-permanent residents is subject to income tax. For non-permanent residents, income other than foreign-source income and foreign source income (limited to income earned in Japan or income remitted to Japan) is taxable. For nonresidents, tax is imposed on their domestic source income only. The method of imposition of income tax for nonresidents, i.e. whether the comprehensive taxation applies or the separate withholding tax applies, varies depending on the type of domestic source income, whether the nonresident has a permanent establishment (PE) in Japan or not, and whether the domestic source income is traced to the PE. A permanent establishment (PE) refers to: (1) a branch PE (a place in Japan where a non-resident, etc. manages a business, a branch, office, factory, or workshop, mine, oil or natural gas well, quarry or other place where natural resources are extracted); (2) a construction PE (a long-term construction site, etc. in Japan for nonresidents, etc.); (3) an agent PE (agents, etc. based in Japan on behalf of nonresidents, etc. who meet certain requirements).

For example, looking at the taxation system for interest and dividends, of the domestic source income of a nonresident, etc., income attributable to a permanent establishment of the nonresident, etc. (income attributable to PE) is subject to comprehensive taxation after withholding at the source, while income other than that corresponding to income attributable to PE is subject to a separate withholding tax. The withholding tax rate is 15.315% and

Table XV-12. Outline of Matters Related to Taxation of Nonresidents, Etc.

Nonresident category / Type of income	Nonresidents with a permanent establishment in Japan		Nonresidents without a permanent establishment in Japan	Withholding tax
	Income attributable to permanent establishment	Other income sourced in Japan		
(Business income)	[Comprehensive taxation]	[Tax-Exempt Income]		None
(1) Income arising from investment/holding of assets *Excluding those corresponding to (7) through (15) below		[Comprehensive taxation (partial)]		None
(2) Income arising from transfer of assets				None
(3) Distribution of business profit of partnership	[Separate withholding tax followed by comprehensive taxation]	[Tax-Exempt Income]		20.42%
(4) Proceeds from sales of land, etc.		[Separate withholding tax followed by comprehensive taxation]		10.21%
(5) Compensation for personal services				20.42%
(6) Rental income, etc., from real estate				20.42%
(7) Interest, etc.		[Separate withholding tax]		15.315%
(8) Dividends, etc.				20.42%
(9) Loan interest				20.42%
(10) Usage fees, etc.				20.42%
(11) Salary or other remuneration for personal services, public pension income, severance pay, etc.				20.42%
(12) Prize money from business advertising and promotion				20.42%
(13) Annuity income, etc., from life insurance contract				20.42%
(14) Interest payment from investment savings plan				15.315%
(15) Distribution of profit from anonymous partnership, etc.				20.42%
(16) Other income sourced in Japan	[Comprehensive taxation]	[Comprehensive taxation]		None

Notes: 1. Income attributable to permanent establishment may overlap with income sourced in Japan provided in (1) through (16) above.
2. Regarding income generated from by the transfer of assets in Table 2 above, apart from income corresponding to permanent facility-related income, only income listed under Article 281 Paragraph 1, Items 1 to 8 of the Enforcement Ordinance of the Income Tax Act is subject to tax.
3. Based on the provisions of the Act on Special Measures Concerning Taxation, certain income included in the income subject to comprehensive taxation in the above table may be applicable for separate taxation on the basis of self-assessment or separate withholding tax.
4. Based on the provisions of the Act on Special Measures Concerning Taxation, withholding tax rates relating to certain income among the withholding tax rates in the above table may be reduced or exempted in some cases.

Source: Compiled from page 277 of the National Tax Agency's "Withholding Tax Basics FY2026 edition".

20.42%, respectively. If a tax treaty has been concluded between Japan and the country of residence of the nonresident, etc. receiving the payment, the withholding tax rate may be reduced to the rate specified in the treaty.

Japanese government bonds owned by nonresidents are tax-exempt. In other words, interest on government bonds held by a nonresident without a permanent establishment in Japan in an account with a specified central custody and transfer agent or a qualified foreign intermediary is exempt from income tax if it meets certain conditions. In addition, even if interest on book-entry government bonds is not tax-exempt, the withholding tax rate on the interest may be reduced if a tax treaty has been concluded between Japan and the nonresident's country of residence or domicile.

10. Tax Treatment of New Products

(1) New types of investment trusts

Profits received from a privately placed stock investment trust of the contractual type are, in principle, subject to a withholding tax and then are taxed comprehensively together with other income of the recipient. A dividend tax credit is also available. However, when certain requirements are met, the recipient may also choose the non-declaration system. Capital gains from selling beneficiary certificates of such investment trusts are subject to separate taxation on the basis of self-assessment. Income received from an investment trust managing privately placed bonds is subject to a separate withholding tax, while capital gains are subject to separate taxation on the basis of self-assessment. The tax treatment of open-ended investment trusts and closed-end (listed) investment trusts is the same as that of listed stocks. In other words, income distributions are subject to withholding tax at a rate of 20.315%, followed by comprehensive taxation, separate taxation on the basis of self-assessment, or non-declaration. A credit for dividends is not applied when the comprehensive taxation is selected on dividends. Capital gains associated with open-ended corporation type investment trusts are subject to the separate taxation on the basis of self-assessment. On the other hand, dividends received from closed-end (unlisted) or privately placed investment trusts are subject to a withholding tax of 20.42% and then to comprehensive taxation. The non-declaration system may also be selected when certain requirements are satisfied. A credit for dividends is not applied when the comprehensive taxation is selected on dividends. Capital gains associated with open-ended corporation type investment trusts are subject to the separate taxation on the basis of self-assessment. Listed REITs (real estate investment trusts) are closed-end funds, so taxation on income distributions and capital gains is the same as that for listed stocks. However, a credit for dividends is

Table XV-13. Outline of Taxation Framework for New Investment Trusts

Classification				Profit distribution, etc.	Cancellation (redemption) gains		Capital gains
					Dividend (interest) Income portion	Deemed capital gains/losses portion	
Contractual type	Privately placed stock investment trusts			Comprehensive taxation (dividend income for general stocks, etc.)[1]		Separate taxation on the basis of self-assessment (capital gains on general stocks, etc., 20.315%)	
	Investment trusts managing privately placed asset-management trust bonds, etc.			Separate withholding tax (20.315%)		Separate taxation on the basis of self-assessment (capital gains on general stocks, etc., 20.315%)	
Corporation type	Publicly offered	Open-end type		Comprehensive taxation・Separate taxation on the basis of self・assessment (dividend income for general stocks, etc.)[2]		Separate taxation on the basis of self-assessment (capital gains on general stocks, etc., 20.315%)	
		Closed-end type	(Listed)				
			(Unlisted)	Comprehensive taxation (dividend income for general stocks, etc.)[1]		Separate taxation on the basis of self-assessment (capital gains on general stocks, etc., 20.315%)	
	Privately placed						

Notes: 1. Withholding tax at 20.42% at time of receipt. Final income tax return is required except for small dividends.
2. Withholding tax at 20.315% at time of receipt. Taxpayer may choose not to take any further action; neither comprehensive taxation, separate taxation on the basis of self-assessment nor final income tax return.

Source: Compiled based on the information available in "FY2025 Zeikin no Chishiki (knowledge on taxes)" by SMBC Nikko Securities Solution Advisory Division; CHUOKEIZAI-SHA, INC.; pp121 and 128.

Table XV-14. Taxation on Stock Options

	At grant of stock options	At exercise of stock options	At the sale of stocks
Qualified stock options	–	–	Separate taxation on the basis of self-assessment on (selling price - exercise price) (Note)
Non-qualified stock options	–	Comprehensive taxation on (market value of stocks at exercise-exercise price)	Separate taxation on the basis of self-assessment on (selling price - market value of stocks at exercise) (Note)

Note: Taxed as income on the sale of stocks.

not applied when comprehensive taxation is selected on dividends.

(2) Stock options

The stock option system is a system under which a company grants its officers and employees the right to purchase its stocks at a certain price (exercise price) for a certain period (exercise period). The company then pays its officers and employees remunerations linked to any increase in its stock price. Stock options are classified into qualified stock options and non-qualified stock options, depending on whether they satisfy the requirements stipulated in the Act on Special Measures Concerning Taxation or not. The former is not subject to tax on economic benefits gained from its exercise (the difference between the market price and the exercise price). When selling stocks acquired through the exercise of rights, separate taxation on the basis of self-assessment is applied on the difference between the selling price and the exercise price. For the latter non-qualified stock options, comprehensive taxation is imposed on economic benefits gained from their exercise. Separate taxation on the basis of self-assessment is imposed on the selling price of stocks issued on exercise, deducting the market price of the stocks at the time of exercise, when the stocks are sold.

11. Tax treatment of pension-type products

A defined contribution pension plan (the Japanese version of the 401(k) plan) was introduced in October 2001. The defined contribution pension plan is a private pension plan whereby an employee participating in the plan gives instructions about investing their contributions, with the understanding that pension benefits may vary depending on the results of such investment. It is divided into the individual type (iDeCo), in which the individual makes contributions, and the corporate type, in which the company in principle makes contributions on behalf of its employees. In order to encourage the spread of pension products based on such a system and to enhance the efficiency of the management of such plans, it is essential to provide certain tax incentives. And in devising such a taxation system, due care must be exercised in striking a suitable balance between the taxation system for such pension plans and that for other pension plans as well as in the transferability of pension assets when changing jobs. In addition, amendments are scheduled to take effect in December 2026, including an increase in the contribution limit for defined-contribution pension plans and an increase in the age eligibility for iDeCo.

Tax measures for defined contribution plans are as follows.

(1) At the contribution stage: The employer's contribution is treated as an

Table XV-15. Changes in the Contribution Limit for Defined Contribution Pension Plans

	Category I insured persons	Category II insured persons				National Pension Category III insured persons
		(1) Member of corporateDC plan only	(2) Member of corporate DC plan and another plan, such as DB	(3) Member of another plan such as DB only (including civil servants)	(4) Not a member of either a corporate DC plan or another plan, such as DB	
	iDeCo	Corporate-type DC	Corporate-type DC	iDeCo	iDeCo	iDeCo
At the time of establishment Corporate type: October 1, 2001 iDeCo: January 1, 2002	¥68,000 *Combined limit with National Pension Fund, etc.	¥36,000	¥18,000	−	¥15,000	−
On or after October 1, 2004		¥46,000 (+¥10,000)	¥23,000 (+¥5,000)	−	¥18,000 (+¥3,000)	−
On or after January 1, 2010		(¥51,000) (+¥5,000)	¥25,500 (+¥2,500)	−	¥23,000 (+¥5,000)	−
From October 1, 2014		¥55,000 (+¥4,000)	¥27,500 (+ ¥2,000)	−		−
From January 1, 2017		Of which iDeCo ¥20,000	Of which iDeCo ¥12,000	¥12,000		¥23,000
From December 1, 2024		¥55,000 − Amount equivalent to contributions to other plans, such as DB Of which iDeCo ¥55,000 − (monthly employer contributions to the corporate-type DC plan + the equivalent contribution amounts for other plans, such as DB) (However, up to ¥20,000)				

Source: Pension Bureau, Ministry of Health, Labour and Welfare (2024), "Basic Data on the Pension System: July 2024," p. 122.

expense for the company. On the other hand, the employee's contribution is eligible for an income deduction (small enterprise mutual relief deduction). In January 2012, so-called "matching contributions", allowing employees to make additional contributions in corporate pension plans, were introduced. In addition, the "iDeCo plus" payment system was introduced in May 2018 for iDeCo scheme members who work for small and medium-sized businesses.

(2) At the management stage: The balance of reserves for corporate pension plans is subject to a special corporate tax of 1.173% (1% in national tax and 0.173% in local tax). This provision was frozen until March 31, 2026.

(3) At the stage of benefit payment: (i) Old-age pension benefits: The ben-

Table XV-16. Tax Treatment of Defined Contribution Pension Plans

Division			Outline
Contribution stage:			Counted as a loss of the employer
	Portion borne by the employer		
	Premiums paid by employee		Premiums to small-scale company mutual aid association are deducted as a loss (Note)
Management stage:			Special corporate income tax is applied (frozen until the end of Fiscal 2025)
Benefits payment stage:			
	Old-age benefits	Pension	Miscellaneous income (deduction for public pensions is applied)
		Lump sum	Retirement income (deduction for retirement income is applied)
	Disability benefits	Pension	Income and inhabitants' taxes are deductible
		Lump sum	
	Lump-sum payment at the time of death		Taxed as an inheritance income
	Lump-sum payment at the time of withdrawal		Occasional income

eficiary can receive pension benefits from the reserve in five or more annual installments or in a lump sum. Benefit payments made in installments are classified as miscellaneous income and are eligible for the public pension deduction. It has been noted that income deductibility for benefits such as public pensions is overly generous for high-income pensioners. The system came under review in the fiscal 2018 tax reform. Lump-sum payments are treated as retirement income and are eligible for the retirement income deduction. (ii) Benefits for persons with disabilities: When a beneficiary has disabilities of a certain level, the beneficiary can receive the payment of benefits either as a pension or a lump-sum payment, and the benefits are exempted from income tax and inhabitant tax. (iii) Death benefits: Death benefits paid in a lump sum to the survivors when the subscriber died are deemed as inherited property, and up to ¥5 million for each legal heir is exempted from inheritance tax. (iv) Lump-sum withdrawal: Benefits can be paid in a lump sum upon withdrawal from a pension plan if certain criteria are fulfilled and they are subject to income tax and inhabitant tax.

CHAPTER XVI

Prohibited and Regulated Acts of Securities Trading

1. Outline

With a view to establishing a fair securities market and enhancing the market's credibility, the Financial Instruments and Exchange Act (FIEA) provides for various prohibited and regulated acts with respect to securities trading. In addition to prohibiting market manipulation (see Section 2) and regulating insider trading by persons associated with the companies concerned (see Section 3), it also imposes obligations on financial instruments business operators (securities companies) to maintain a trading surveillance system and a corporate information management system to prevent such unfair trading (see Section 4). In addition, the FIEA requires trade participants to disclose certain transaction-related information, such as the filing of Large Shareholding Reports, to ensure the fairness of securities transactions (see Section 5).

However, it is practically impossible to list in the Financial Instruments and Exchange Act all forms of unfair trading in connection with securities transactions. In addition, as securities transactions are complex and subject to rapid change, new methods that were unforeseen at the time of legislation may emerge at a later date. Accordingly, Article 157 of the FIEA bans unfair conduct in broad terms. More specifically, it prohibits the use of wrongful means, schemes, or techniques with regard to the sale, purchase, or other transaction of securities, etc. (item (i) of the Article); and the acquisition of money or other property by making a false statement concerning a material matter or by failing to state a material fact necessary to prevent statements from being misleading with regard to the sale, purchase, or other transaction of securities, etc. (item (ii)); and the use of false market quotations in order to induce the sale, purchase, or other transaction of securities, etc. (item (iii)). Article 157 is considered to be a general provision for comprehensively addressing new types of fraudulent transactions.

In addition to the above, Article 158 of the FIEA prohibits the spreading of rumors, the use of fraudulent means, assault, or intimidation for the purpose of carrying out the sale, purchase, or other transaction of securities, etc., or manipulating securities prices, etc. Article 168 prohibits the publication of

Table XVI-1. Main Provisions Relating to the Ban on Unfair Trading

	Contents	Article of the Financial Instruments and Exchange Act (FIEA)
General provisions	· Prohibition of wrongful acts	Art. 157
Market manipulation	· Prohibition of fake transactions or prearranged transactions	Art. 159, Para. 1
	· Prohibition of transactions aimed at manipulating securities prices	Art. 159, Para. 2, Item (i)
	· Prohibition of making an indication with the aim of manipulating securities prices	Art. 159, Para. 2, Items (ii) and (iii)
	· Prohibition, in principle, of stabilization transactions	Art. 159, Para. 3, and Arts. 20–26 of the Order for Enforcement of the Act
	· Prohibition of purchase for own account during the stabilization period	Art. 117, Para. 1, Item (xxii) of the Cabinet Office Order on Financial Instruments Business, etc.
	· Prohibition of spreading of rumors or use of fraudulent means, assault, or intimidation	Art. 158
	· Prohibition of securities companies from getting involved in an artificial formation of stock prices	Art. 117, Para. 1, Item (xx) of the Cabinet Office Order on Financial Instruments Business, etc.
	· Prevention of use of corporate share repurchase for manipulating stock prices	Art. 162, Para. 2
Insider trading	· Prohibition of insider trading	Arts. 166 and 167
	· Duty of officers to report securities transactions and the duty to restitute profits made in short-term trading	Arts. 163 and 164
	· Prohibition of short selling by officers	Art. 165
	· Prohibition of disclosure of information and inducement of insider trading	Art. 167–2
	· Prohibition of accepting orders that are suspected to be in violation of insider trading regulations	Art. 117, Para. 1, Item (xiii) of the Cabinet Office Order on Financial Instruments Business, etc.
False indication	· Prohibition of public notice, etc., of false quotations	Art. 168
	· Restriction on the expression of opinion in newspapers, etc., for consideration	Art. 169
	· Prohibition of indication of advantageous purchase, etc.	Art. 170
	· Prohibition of indication of a fixed amount of dividends, etc.	Art. 171
Tender offers	· Regulations on tender offers	Art. 27–2 through 27–22–4
	· Filing of Report of Possession of Large Volume	Art. 27–23 through 27–30
Others	· Prohibition of compensation of loss	Art. 39
	· Restriction on Transactions conducted for their own account and excessive transactions	Art. 161
	· Regulations on short selling	Art. 162
	· Prohibition of massive promotional campaign of particular securities	Art. 117, Para. 1, Item (xvii) of the Cabinet Office Order on Financial Instruments Business, etc.
	· Restriction on front-running	Art. 117, Para. 1, Item (x) of the Cabinet Office Order on Financial Instruments Business, etc.
	· Ban on deliberate market manipulation by means of trading securities for own account	Art. 117, Para. 1, Item (xix) of the Cabinet Office Order on Financial Instruments Business, etc.

false market quotations. Article 169 imposes restrictions on the expression of opinions in newspapers, etc. in exchange for consideration, while Articles 170 and 171 prohibit representations that a purchase is advantageous and representations of fixed amounts of dividends.

2. Regulation of Market Manipulation

Market manipulation is an act of artificially influencing securities prices that would otherwise be determined by the securities market through natural supply and demand. With a view, therefore, to ensuring fair price formation in securities markets and protection of investors, the FIEA prohibits market manipulation and imposes heavy penalties for the violation thereof.

Acts of market manipulation are largely divided into the following five types: (1) fake transactions, (2) prearranged transactions, (3) price manipulation, (4) indication made for the purpose of market manipulation, and (5) stabilization transactions (Article 159).

A fake transaction is a securities transaction in which the same person places purchase and sale orders during the same time frame with no actual change in ownership occurring. With prearranged trades, similar transactions are carried out in collusion with different persons. In each case, a further requirement is that the perpetrator intends to mislead other investors regarding the state of trading, for example by creating the false impression that there is active trading in the security. Price manipulation refers to engaging in transactions that may cause securities prices to fluctuate artificially, for the purpose of inducing investors to trade by misleading them into believing that the prices have been formed through natural supply and demand, even though they have in fact been artificially influenced (Supreme Court decision in the Kyodo Shiryo case, July 20, 1994).

Stabilization transactions are transactions done for the purpose of pegging, fixing, or stabilizing the prices of specific securities. However, when primary offerings and secondary distributions are made, there is a concern that flooding the market with the securities could result in a large fall in the price of a security, making it difficult to float the issue. For that reason, stabilization transactions are only permitted with a primary offering or secondary distribution of securities pursuant to the provisions of a cabinet order. The offense of market manipulation carries a punishment of imprisonment of up to 10 years or a fine of up to ¥10 million. In some cases, both penalties can be levied and any property gained through market manipulation confiscated; if it cannot be confiscated, the value thereof shall be recovered from the offender. If market manipulation is conducted by trading securities for the purpose of gaining property benefits (indirect financial benefits), the offense is subject to a pun-

Table XVI-2. Provisions of the Financial Instruments and Exchange Act Relating to Market Manipulation

Fake transactions	No person shall, for the purpose of misleading other persons about the state of securities transactions, conduct fake sale and purchase of securities without the purpose of transferring a right (Art. 159, Para. 1, Items (i) through (iii)).
Prearranged transactions	No person shall, for the purpose of misleading other persons about the state of securities transactions, conduct sale and purchase of securities at the same time and price, etc., based on collusion with another party (Art. 159, Para. 1, Items (iv) through (viii)).
Price manipulation	No person shall, for the purpose of inducing the sale and purchase of securities in securities markets, conduct sales and purchases of securities that would cause fluctuations in the prices of the securities (Art. 159, Para. 2, latter part of Item (i)).
Market manipulation by indication	No person shall, for the purpose of inducing the sale and purchase of securities in securities markets (1) spread a rumor to the effect that the prices of the securities would fluctuate by his/her own or other party's market manipulation (Art. 159, Para. 2, Item (ii)) or (2) intentionally make a false indication or an indication that would mislead other parties with regard to important matters when making a sale and purchase of securities (Art. 159, Para. 2, Item (iii)).
Stabilization transactions	No person shall conduct sales and purchases of securities in violation of a cabinet order for the purpose of pegging, fixing, or stabilizing the prices of the securities (Art. 159, Para. 3).

ishment of imprisonment of up to 10 years and a fine of up to ¥30 million. The offense is also subject to an Administrative Surcharge Payment Order. Moreover, there are provisions on the liability for damages of persons who have violated the market manipulation regulations (Article 160 of the FIEA).

In the Cabinet Office Order on Financial Instruments Business, etc., securities companies are prohibited from accepting the entrustment of orders from customers with the knowledge or expectation that acceptance of the entrustment may lead to artificial market manipulation and are required to have in place trading surveillance systems for the prevention of such violations.

3. Prohibited and Regulated Acts of Corporate Insiders

Regulations concerning the acts of corporate insiders are largely classified into two categories: those prohibiting insider trading per se and those designed for its prevention.

Table XVI-3. An Outline of the Targetted People of Regulations, Material Facts, Methods of Announcement Relating to the Regulation of Insider Trading

Item	Outline
1. Targetted People of regulation	(i) Directors of the listed company (directors, officers, agents, key employees) → information not announced to the public that came to their knowledge
(1) Persons associated with the company	(ii) Persons who have the right to inspect the books and accounting records of the company (for example, those who hold 3% or more of the outstanding shares of the company) → Information not announced to the public that came to their knowledge in the course of the exercise of the right to inspect the books and accounting records of such company (iii) Persons who have the power vested in them by laws and regulations to inspect the books and accounting records of listed companies (for example, officials of the regulatory agencies) → Information not announced to the public that came to their knowledge in the course of the exercise of such power (iv) Persons who have concluded a contract with the listed company (for example, banks, securities companies, certified public accountants, lawyers, etc.) → Information not announced to the public that came to their knowledge in the course of negotiating, signing, and performing a contract. (v) In case any person referred to in (ii) or (iv) above is a corporation or director, etc., of such corporation → Information not announced to the public that came to such person's knowledge in the course of performing his/her official duty
(2) Recipients of information	(i) Persons who have received information concerning a material fact from persons associated with the company (ii) Directors of a corporation to which the person who has received information concerning a material fact from a person associated with the company belongs and who have learned of information not announced to the public
2. Material facts	
(1) Matters decided	A decision made by a decision-making body of the listed company to carry out or not to carry out the matters set forth below: The issuance of new shares, a decrease in capital, the acquisition or disposal of its own shares, a stock split, a change in the amount of dividend, a merger with another company, transfer of business, dissolution of the company, commercial production of a newly developed product or commercial application of a new technology, an assignment or acquisition of fixed assets, etc.
(2) New facts	When any of the facts set forth below has occurred to the listed company: A loss caused by a disaster; a change in major shareholders; a development that could cause a delisting of its shares; lawsuits relating to a claim against the property right of the company; an administrative disciplinary action ordering the suspension of business, etc.; a change in the parent company; a petition for bankruptcy of the company; a failure by the company to honor its notes or bills falling due; suspension of business with its bank; or the discovery of natural resources, etc.
(3) Information on settlement of accounts	When newly announced results, projected or actual, are significantly at variance with those announced earlier: Sales (10% or more up or down); current profit (30% or more up or down, and its ratio to the total net assets is 5% or more up or down); net profit (30% or more up or down, and its ratio to the total net assets is 2.5% or more up or down)
(4) Others	Material facts, other than those listed in (1) − (3) above, relating to the management, business, or property of a listed company that have a profound influence on the investment decisions the investors make
(5) Material facts related to subsidiaries	(1) to (4) above apply
3. Methods of announcing information	When a company notifies the stock exchange on which its stock is listed of material facts and the material facts are placed on the website of the stock exchange that received the information for public inspection. When twelve hours must elapse after the company that has issued the stock in question has disclosed its material facts to two or more news media. When a company has notified the stock exchange on which its stock is listed, and the stock exchange has placed the securities report, etc. containing the information notified on its web site for public inspection.

Note: Any person who had been associated with any listed company and had learned of a material fact of such company as set forth above and who is no longer associated with such listed company is subject to these regulations for one year after that person dissolves association with the company.

Prohibition of Insider Trading

"Insider trading" refers to acts of effecting the sale, purchase, or other type of transaction of securities pertaining to any unpublished corporate information that may significantly influence the decision-making of investors by an insider of a listed company who has come to know the information through the performance of their duties or by virtue of their position before such information is publicized (Article 166).

Insider trading is grossly unfair to ordinary investors who do not have access to such information. If such transactions were to take place, confidence in the securities market would be seriously undermined. Insider trading regulations in Japan were introduced through a legislative amendment in May 1988, in conjunction with the modernization of the securities market and other developments, and took effect in April 1989. Since then, the legal framework has continued to be developed in response to various institutional reforms, such as the introduction of the corporate split system and the deregulation of treasury stock. The framework has since been revised through further legislative amendments. In 2013, amendments were made to extend criminal penalties and Administrative Surcharge Payment Orders to the communication of inside information and the recommendation of transactions by corporate insiders (Article 167-2). The amendments also brought REIT transactions within the scope of the regulations, and took effect in 2014. In 2015, the Cabinet Office Ordinance on Restrictions on Securities Transactions, etc. was amended and brought into effect, expanding the scope of exemptions from insider trading regulations relating to so-called prior knowledge contracts and plans.

Penalties for violations have progressively increased since the regulations were introduced; offenders may be sentenced to imprisonment of up to five years, fined up to ¥5 million, or both, while corporations may be fined up to ¥500 million. Any property gained through insider trading shall be confiscated and any deficient amount collected from the offender. In addition, where an Administrative Surcharge Payment Order is issued, the offender must pay to the National Treasury an amount equivalent to the profit gained (or, in the case of a person who communicated inside information or recommended a transaction, one-half of the profit gained by the person who engaged in the transaction).

Preventing Insider Trading

Along with the prohibition of insider trading, officers and principal shareholders of listed companies, etc. are required to report any transactions they make in the shares, etc. of the company concerned. They are required to reimburse the company for any profits earned from short-term trading within a six-month period, and they are prohibited from selling the company's shares,

etc. in excess of the amount of shares, etc. that they hold. Checking orders placed with securities firms and establishing internal systems at listed companies, including information management and procedures related to trading in a company's own stock, also play a crucial role in the prevention of insider trading.

4. Regulations on the Conduct of Financial Instruments Business Operators (Securities Companies)

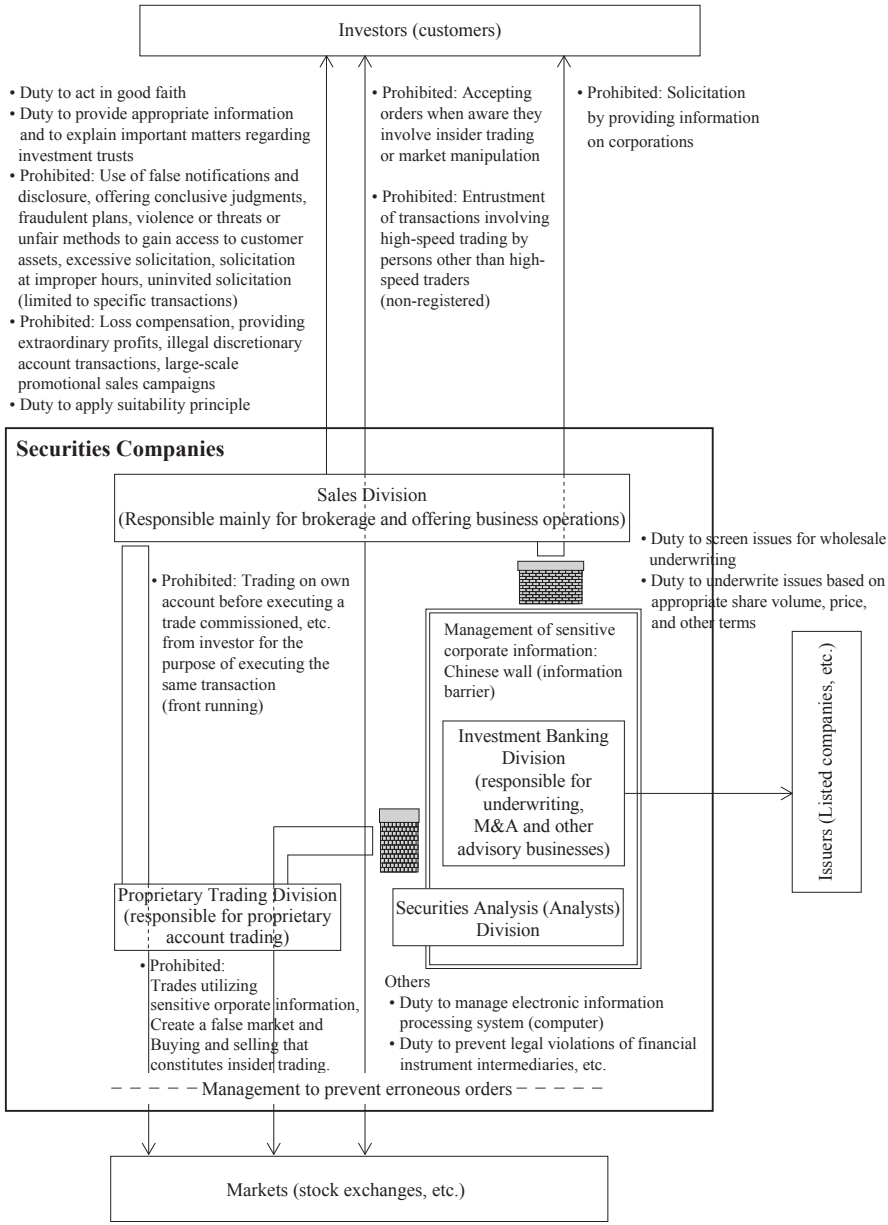
There are various regulations governing the conduct of securities companies (see the figure on the right). Here, attention is focused on regulations and other measures for the prevention of unfair trading.

Trading surveillance system
Securities companies are prohibited from buying or selling securities or accepting orders if they know there is a risk that such orders could create a false market that does not reflect actual market conditions or could be insider trading. Securities companies are required to carry out appropriate checks for investors to prevent this occurring. Specifically, they are required to monitor the motives behind investor transactions in a timely and accurate manner to identify and examine any possible unfair transactions (including proprietary trades) based on established standards. In the event that any issues are identified, securities companies must take appropriate measures (inquiries, alerts, suspension of transactions, etc.) and develop a system to ensure the effectiveness of these standards and measures.

Corporate information management system
Through their underwriting and M&A-related advisory and other businesses, securities companies have access to undisclosed information that could influence investors' investment decisions (sensitive corporate information). To prevent unfair trading based on such information, including proprietary trading, securities companies are required to establish appropriate systems. Specifically, securities companies should set up an information barrier between departments with access to such information and other operating divisions. In addition, securities companies are prohibited from soliciting investors to trade by providing sensitive corporate information or from trading on the basis of such information.

Management system to prevent erroneous orders
Securities companies are required to establish appropriate order management systems, such as a system for setting order limits, to prevent erroneous orders

Chart XVI-1. Major Prohibited and Regulated Acts of Securities Companies (Duties and Prohibited Acts)



(such as errors with the name of an issue, volume, price, etc.).

Management system for high-speed trading
Securities companies are prohibited from accepting orders for transactions related to high-speed trading from counterparties who are not registered with the Prime Minister. In addition, regulations are in place for high-speed traders, including systems to prevent abnormal orders as well as adequate monitoring systems.

Besides the previously mentioned areas, Article 117, Paragraph 1 and Article 123, Paragraph 1 of the Cabinet Office Order on Financial Instruments Business, etc. and the self-regulation rules of the Japan Securities Dealers Association and each Financial Instruments Exchange, etc., set out various management systems and prohibited acts applicable to securities companies.

5. Other Regulated Acts—Information Disclosure to Ensure Fairness of Transactions

A tender offer or takeover bid (TOB) is a type of corporate action in which an acquiring company publicly announces its offer to buy a certain number of share certificates, etc. of a target company at a certain price within a certain period of time with the primary aim of acquiring control of the target company. Since such an offer involves purchasing share certificates, etc. from an unspecified number of investors on or off the exchange (see note), the bidder is required to disclose information that enables investors to determine whether or not to tender their shares and to ensure that shareholders are treated fairly and equally. (Note: Under amendments to the FIEA and other laws, effective May 2026, trading on exchanges has been added to the scope of regulation under the takeover bid system.) Additionally, as it is likely that control over the target company may be transferred as a result of the takeover bid, disclosure of information on the buyer is also required. Given such factors, takeover bidders are required to: (1) publish the purpose of TOB, purchase price, number of shares to be purchased, purchase period, etc.; (2) submit a Tender Offer Notification; (3) issue a Tender Offer Statement, a document explaining the TOB, to applying shareholders; and (4) report the results of the TOB after the completion of the purchase period. In order to prevent the use of TOB for market manipulation or abuse, cancellation of TOB is prohibited as a general rule, and certain restrictions apply for making changes to the terms of purchase. Meanwhile, information on the views of the target company regarding the TOB is extremely important for shareholders in judging whether or not to accept the tender offer. For this reason, the target company of a TOB must immediately submit a position statement ad-

Table XVI-4. Flow of Tender Offer

(1) Begin offer
- Publicly announce the start of tender offer (TOB) (publish the purpose of TOB, purchase price, number of shares to be purchased, purchase period, etc. in a daily newspaper).
- On the date of the public notification, file the Tender Offer Notification addressed to the Prime Minister and send copies thereof to the target company of TOB, stock exchanges, and parties that have submitted the Tender Offer Notification regarding the company.

(2) Purchase period (as a general rule, a period of 20 days or more and up to 60 days)
- Issue the Tender Offer Statement to parties intending to sell or offer stock certificates, etc.
- Terms of TOB purchase price are consistent; decrease of purchase price and reduction of purchase period are not allowed as a general rule.
- Withdrawal of application for purchase and cancellation of contract are not allowed as a general rule. Obligation to purchase all shares if the allotment ratio of stock certificates, etc. after the TOB exceeds two-thirds
- The party intending to sell or offer may cancel the contract at any time
- The target company submits its Position Statement addressed to the Prime Minister and sends copies thereof to the takeover bidder and the stock exchange.
- The party intending to execute a TOB is prohibited, as a general rule, from purchasing the respective shares, etc. through a method other than TOB

(3) Completion of purchase
- Issue a public notice or disclosure regarding the number of stock certificates, etc. associated with the TOB and submit the Tender Offer Report to the Prime Minister.
- Send the notice containing the number of stock certificates, etc. for TOB to applying shareholders.
- Settle purchases without delay.

Table XVI-5. Flow of Disclosure of Possession of Large Volume of Shares

(1) Obligation to submit the Report of Possession of Large Volume arises
- A shareholder or joint shareholder submits, if its holding ratio of share certificates, etc. exceeds 5% of the total number of issued shares, the Report of Possession of Large Volume (containing shareholder or joint shareholder's name and address, business description, matters concerning the holding ratio of share certificates, purpose of holding, matters concerning purchase funds, etc.) to the Prime Minister within five business days from the occurrence of the obligation, and sends copies of the Report to the stock exchange and the issuing company.
- In the case of an institutional investor, etc., if its holding ratio of share certificates does not exceed 10% of the total number of issued shares, the Report of Possession of Large Volume may be submitted within five business days from the record date on which the obligation arises (twice or more a month) (Special Reporting System).

(2) Subsequent reporting obligation
- After a Large Volume Holder submits the Report of Possession of Large Volume, if its holding ratio of share certificates, etc. increases or decreases by 1% or more, it submits the Change Report addressed to the Prime Minister within five days, as a general rule, from the date of the aforesaid increase or decrease, and sends copies of the Change Report to the stock exchange and the issuing company.
- The party that has submitted the Report of Possession of Large Volume or the Change Report of Possession of Large Volume submits the Correction Report to the Prime Minister if any deficiency was found with the content of the report initially submitted.

(3) Public inspection of reports
- The Prime Minister and stock exchanges disclose the reports for public inspection for a period of five years.

Note: Effective from April 2007, the reports are required to be submitted via EDINET.

dressed to the Prime Minister.

While the act of purchasing a large amount of share certificates, etc. does not in itself immediately pose a problem, it can, in many cases, cause significant fluctuations in stock prices or affect the control of the company concerned, and may result in unexpected losses to ordinary investors. In consideration of such possibilities, any person or entity that beneficially holds more than 5% of the issued shares or other equity securities of a listed company, etc. is required to file a Large Shareholding Report with the Prime Minister concerning the status of such holdings. In addition, after becoming a Substantial Shareholder, such person or entity is required to file an Amendment Report to a Large Shareholding Report with the Prime Minister if its shareholding ratio increases or decreases by 1% or more, or if there is a material change to any other entry in the Report. These reports are made available for public inspection. This system was put in place with the aim of further protecting investors by ensuring the timely and accurate disclosure to investors of information on the large-scale acquisition, holding, and disposal of shares, etc., and maintaining a high level of fairness and transparency in the securities market.

CHAPTER XVII

The Information Disclosure System and Investor Protection

1. The Information Disclosure System in the Securities Market

When listing securities on a financial instruments market established by a stock exchange, the issuer of the securities is required by the Financial Instruments and Exchange Act and by the rules of the stock exchange to disclose information concerning certain aspects of its business. Such rules are called disclosure requirements, and they consist of statutory disclosure rules under the Financial Instruments and Exchange Act and the timely disclosure required by the securities exchanges.

There are four types of statutory disclosure that the issuers of securities are required to make: (1) issuance disclosure, which requires companies to disclose information concerning certain matters when they publicly offer securities on the primary market; (2) periodic disclosure, which requires companies whose securities are listed and traded on the securities market to disclose information concerning certain matters on a continuing and regular basis; (3) tender offer disclosure; and (4) large volume holding disclosure (shareholdings of 5% or more). Timely disclosure, which is required by stock exchanges, obliges companies to continuously disclose their information after listing their securities. The type of information required is classified by subject into (1) information on listed companies; (2) information on subsidiaries, etc.; and (3) other information, such as supplemental information on majority shareholders, etc. Information is broadly categorized by type into (1) corporate decisions, (2) events and (3) information on financial results. At present, both statutory and timely disclosures are made via an electronic disclosure system using the internet. Statutory disclosure is made via the EDINET (Electronic Disclosure for Investors' NETwork) while timely disclosure is made using the TDnet (Timely Disclosure network).

Companies that are required to make issuance disclosure and periodic disclosure are also required by the Companies Act to disclose certain information. The disclosure of accounting documents required to be made by the Companies Act is aimed at protecting the interests of shareholders and credi-

Chart XVII-1. The Scheme of the Disclosure System on the Securities Market

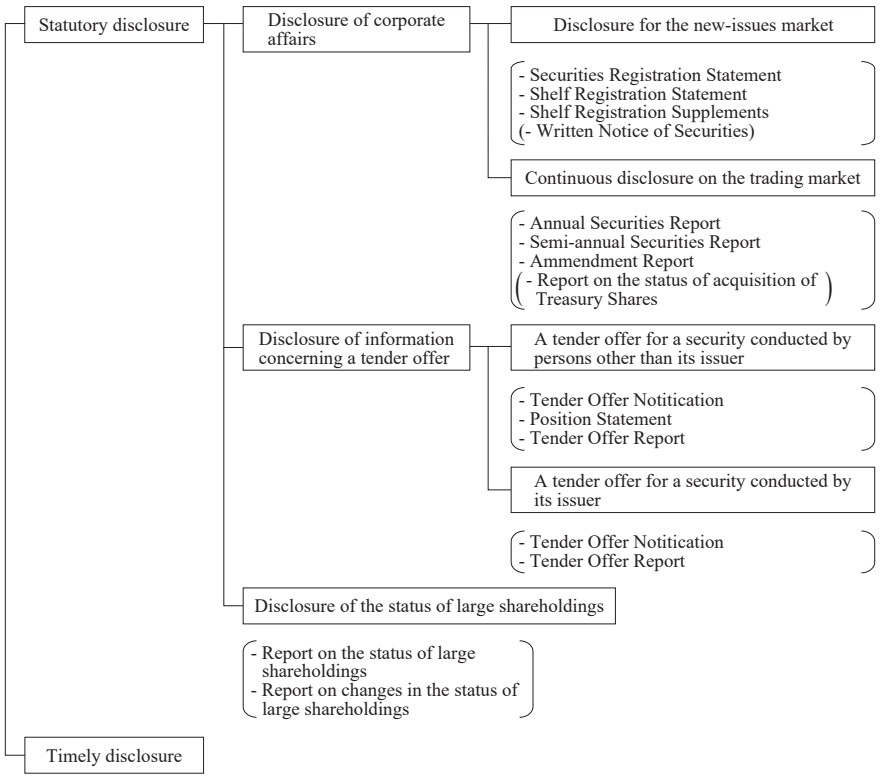


Table XVII-1. Disclosure Systems under the Companies Act and under the Financial Instruments and Exchange Act

Disclosure System under the Financial Instruments and Exchange Act		Disclosure System under the Companies Act
Furnishing information necessary for investors to make an investment judgment	Purpose of disclosure	Report on profits available for dividends and the company's capacity for offering security for loans (solvency)
Investors (including those who are not shareholders of the company at a given time)	Targets for which the disclosure is intended	Shareholders and creditors
Providing disclosure through EDINET and stock exchanges, replying to investor requests for disclosure	Method of disclosure	making of financial documents, keeping of such documents at the head office, and publication of a summary of annual settlement of accounts

tors and at regulating the amount that can be paid in dividends. In contrast, disclosures required to be made under the Financial Instruments and Exchange Act and under exchanges' regulations are designed to disclose information concerning the state of business of listed companies to help the investors to make informed and reasonable investment decisions.

2. Disclosure of Corporate Affairs under the Financial Instruments and Exchange Act

Issuance Disclosure

When a company publicly offers, or makes a secondary distribution of, securities whose aggregate value is ¥100 million or more, the issuer of such securities must, in principle, file a securities registration statement with the Prime Minister. Information at issuance is disclosed through the filing of the securities registration statement, etc. The securities registration statement must contain (1) matters pertaining to the offering or secondary distribution, and (2) information relating to the issuing company (the same information as that contained in the annual securities report described below). In addition, when a securities company solicits investors for the purchase of newly issued securities, it is required to provide investors with a prospectus that sets out information related to the issue that enables them to assess its value and to make an informed investment decision.

Periodic Disclosure

Issuers of securities listed on stock exchanges must file an annual securities report with the Prime Minister for each business year within three months after the expiration of the business year. The annual securities report constitutes the main document of statutory disclosure for the secondary market. More specifically, it must provide (1) key information on the issuer (such as trends in key management indicators and history), (2) situation of the issuer's business (including management policy, business environment, issues to be addressed, approach to sustainability, business risks, etc.), (3) information on the operational status of the issuer (details of shares issued, corporate governance, etc.), and (4) the financial position of the issuer. In addition, companies that are subject to periodic disclosure requirements must file half-yearly reports within 45 days of the end of the half year, and, if necessary, extraordinary reports and reports on treasury share purchases.

Issuers in the financial instruments market are expected to make full disclosure of all information necessary for investment decisions to ensure that fair prices are formed for their securities. If they fail to disclose information that is unfavorable to them, the prices of their securities will be formed on

Table XVII-2. Statutory Disclosure Documents Required to be Filed

Classification		Documents filed	Cases requiring the filing of documents (a summary)
Disclosure of corporate affairs, etc.	Issuance Disclosure	Securities Registration Statement	If a company issuing new shares or making a secondary distribution of shares through an offering whose total issuing or secondary distribution price is ¥100 million or more plans to solicit 50 or more investors for the purchase of its new shares or plans to sell to or solicit 50 or more investors for the secondary distribution on uniform terms and conditions, it must file a registration statement. * Small amount offering: In the case of a company issuing new shares or making secondary distribution of shares through an offering whose total issuing or secondary distribution price is less than ¥500 million the contents of the securities registration statement required to be filed by such company are simplified. * Incorporating system: A company that has been filing Annual Securities Reports continuously for one year may substitute the information therein and in the quarterly securities reports other than matters relating to the offering or secondary distribution of securities for securities registration statement securities report and quarterly securities reports filed in its place. * Reference system: When transactions of issued securities fulfill certain requirements of the securities market with which the issuer has been filing Annual Securities Reports for a year and the issuer's corporate information has broadly been disclosed, the description that one should refer to the last Annual Securities Reports, etc., may be substituted for a securities registration statement concerning matters other than the offering or secondary distribution of securities.
		Shelf Registration Statement	When any issuer who is authorized to file a securities registration statement under the reference system plans to issue new shares or make a secondary distribution of shares through an offering whose total issuing or secondary distribution prices are ¥100 million or more, such issuer may in advance file a shelf-registration statement of its shares.
		Shelf Registration Supplement	When a shelf-registration statement of a security is in effect, and when the issuer of such security plans to issue new shares or make a secondary distribution of shares whose total issuing or secondary distribution prices are ¥100 million or more, such issuer is required to file supplementary documents relating thereto.
	Periodic disclosure	Annual Securities Report	Any of (1) the issuer of securities listed on a stock exchange; (2) the issuer of securities stipulated by cabinet order as that similar to distribution conditions in (1); (3) the issuer of securities who is required to file a securities registration statement when it issues new shares or makes a secondary distribution of shares through an offering; or (4) the issuer of securities the number of whose owners was 1,000 or more at the end of any of the latest five years (excluding certain cases), is required to file a securities report.
		Semiannual Securities Report	Of the companies required to submit Annual Securities Reports, the issuers of securities listed on stock exchanges or stipulated by cabinet order as being similar in terms of distribution conditions must file quarterly securities reports.
		Extraordinary Report	If any material fact has occurred in a company submitting Annual Securities Reports.
		Share Buyback Report	Any issuer of a security listed on a stock exchange or stipulated by cabinet order as being similar in terms of distribution conditions and that has passed a resolution at a general meeting of its shareholders or at a board of directors' meeting to acquire its own shares must file this report.

the basis of an erroneous assessment of their value that does not reflect such withheld information. This is why the law requires the issuers of securities to periodically disclose all pertinent information, good or bad, in their annual securities reports, and why it contains penal provisions to discipline issuers who file an annual securities report containing false statements.

3. Other Disclosures to Be Made under the Financial Instruments and Exchange Act

Disclosure Relating to a Tender Offer

The act of soliciting an unspecified large number of persons through a public notice for an offer to purchase or to sell shares and of purchasing such shares off the exchange is called a "tender offer." If any person other than the issuer who is required to file an annual securities report proposes the purchase of such shares outside the market of a stock exchange, and in cases that fall within the purview of certain requirements, such as the purchase will result in the ownership of more than 5% of the securities, etc., the person must purchase such shares through a tender offer. The tender offeror is obligated to issue a public notice of (1) the purpose of the tender offer; (2) the purchase price; (3) the number of shares to be purchased; (4) the period during which shares will be purchased; and (5) other items stipulated in other Cabinet Office Ordinances ("public notice for commencing tender offer") and must also file a tender offer notification with the Prime Minister. In addition, the tender offeror must, on the day immediately following the end of the tender offer, issue a public notice or make an announcement disclosing the number of shares tendered, the number of shares purchased, and the method of settlement and file with the Prime Minister a tender offer report providing information on this.

The purpose of the regulations on tender offers is to ensure transparency and fairness in off-exchange transactions when transactions that affect control of a company take place, by requiring advance disclosure of information to investors and providing shareholders with an equal opportunity to sell their shares.

Disclosure of Status of Large Volume Holding of Share Certificates, etc.

When the number of shares of a listed company held by a person exceeds 5% of its outstanding shares (large-volume holders), such person is required to file a Report of Possession of Large Volume with the Prime Minister within five days (excluding Sundays and other holidays as may be stipulated by cabinet order) from the date when such person's holding rate is above 5% (called the "5% rule"). The Report of Possession of Large Volume must fur-

Table XVII-3. Transitions in Tender Offer Bid (TOB) System

	Major Developments
1971	• Public tender offer system introduced
1990	• Principles set down for forcing tender offers • Percentage share offer that triggers obligation to make tender offer decreased (from 10% to 5%) • Prior notification system abolished • Duration of offer extended • Shareholders' withdrawal rights expanded
2001	• Along with the deregulation, in principle, of purchasing treasury shares, system for making tender offers for a company's own shares introduced
2003	• Scope of acquisitions exempt from the TOB system enlarged
2004	• TOBs restricted to companies with equity securities • Electronic notification system introduced
2005	• ToSTNeT transactions made independent of market transactions
2006	• Disclosure for TOBs upgraded (purpose of acquisition, basis of price calculation, disclosure for MBOs) • Regulations implemented concerning the combined acquisition of shares on and offmarket • Obligating a third party posessing a large stake in a company to make a TOB, if the party increases its posession during the TOB period • Acceptance for lowering TOB price when share split occurs • Reasons for withdrawing TOB expanded • Obligating targeted company to submit a Position Statement • Obligating the offeror to answer targeted company's questions (reply to submitted questions) for the purpose of submitting a Position Statement • Calculation of duration of TOB set using business days • Targeted company allowed to demand extension of TOB period • Obligating the offeror to acquire all tendered shares
2008	• Specified listed securities added to securities eligible for TOBs • Monetary surcharge system introduced regarding TOB rules
2024	• Expansion of transactions subject to tender offer requirements (including on-market transactions executed during trading hours) • Lowering the threshold for the post-acquisition shareholding ratio that triggers a mandatory tender offer (33.33%→30%) • Regulations on combined purchases of trades both on and off the exchange have been abolished

nish information concerning (1) matters relating to the ratio of shares held by such person, (2) matters relating to the funds used by such person to purchase such shares; and (3) the purpose for which such person has acquired such shares. When the percentage of shareholdings of such person who must submit the report increases or decreases by 1% or more, such person must file a Change Report indicating the change that has occurred in the percentage of

such person's holdings of such shares. This disclosure is required because the actions of a single person holding a large volume of shares can have a significant impact on the formation of stock prices at the market.

4. Timely Disclosure System of Financial Instruments Exchanges (Stock Exchanges)

As described at the start of this chapter, stock exchanges require listed companies to disclose corporate information by their rules. For example, the Tokyo Stock Exchange stipulates in its Listing Rules that listed companies shall, in a timely manner, disclose information that may influence investors' investment decisions and specifies the matters to be disclosed and procedures for disclosing such matters (see Table XVI-4). Listed companies need to disclose both the resolutions and decisions adopted by their executive body promptly after such resolutions or decisions were adopted and any incidents caused by external factors at the time the companies had learned of such incidents.

Promptness is a feature of timely disclosure. For example, stock exchanges require listed companies to disclose their financial results immediately after their determination. In response, listed companies disclose earnings reports (*kessan tanshin*) according to the given format. The earnings report carries more weight in terms of helping investors to learn about financial results because it is released earlier than the annual securities report.

In addition, listed companies are obliged to provide accurate information in response to inquiries from stock exchanges immediately if required and to disclose the details of such information immediately when the stock exchanges deem it necessary and proper. For example, if there is a report or rumor regarding corporate information but the accuracy of such information is unconfirmed, the stock exchange concerned may make a query to the company about the accuracy of this information and require the company to disclose the response to this query.

The Tokyo Stock Exchange has put in place a system for issuing alerts to investors if it identifies any unclear piece of information about a listed company that could have a material impact on investors' investment decisions and the listed company requires time before providing proper disclosure regarding this information or when the information that can be disclosed immediately is limited, the TSE issues an alert to investors.

Table XVII-4. Main Points of Corporate Information Required by Timely Disclosure (in the case of the Tokyo Stock Exchange)

1. Decisions by Listed Companies	1. Offering of new shares to be issued, treasury shares to be disposed of, issued subscription Rights/warrants, or offering to entities who will subscribe to treasury subscription rights/warrants to be disposed of, or a secondary distribution of shares or subscription rights/warrants 2. Shelf-registration and the commencement of a demand survey 3. Decrease in amount of capital 4. Decrease in amount of capital reserve or profit reserve 5. Acquisition of one's own stock 6. Gratis allotment of shares or gratis allotment of subscription warrants 7. Shelf-registration concerning gratis allotment of subscription rights/warrants or commencement of a demand survey or a survey on intention to exercise the warrants 8. Share split or reverse share split 9. Dividend from surplus 10. Organizational restructuring such as mergers, etc. 11. Takeover bid or take over bid for own shares 12. Announcement of opinions about a takeover bid, etc. 13. Transfer or acquisition of all or part of a business 14. Dissolution (excluding dissolution by means of merger) 15. Commercialization of a new product or new technology 16. Business alliance or dissolution of business alliance 17. Transfer or acquisition of shares or equity interest accompanied by a change in a subsidiary or other matters accompanied by a change in a subsidiary 18. Transfer or acquisition of fixed assets, lease of fixed assets 19. Suspension or abolishment of all or part of a business 20. Application for delisting 21. Petition for commencement of bankruptcy, commencement of rehabilitation proceedings, or commencement of reorganization proceedings 22. Commencement of a new business 23. Change in representative directors or representative executive officers 24. Rationalization such as personnel reduction 25. Entering into a loan agreement subject to financial covenants, issuing corporate bonds subject to financial covenants, or amending the terms of financial covenants, etc. 26. Change in a trade name or a corporate name 27. Change in the number of shares for a share unit of a stock, or abolition/introduction of provisions for the number of shares for a share unit 28. Change in accounting period (change in the end date of the business year) 29. Petition to the Prime Minister stating an excess of liabilities or possibility of the halt of repayment of deposit, etc. (petition under the provisions of Article 74, Paragraph 5 of the Deposit Insurance Act) 30. Petition for mediation in accordance with specified mediation procedures pursuant to the Act on Specified Mediation for Promoting Adjustment of Specified Liabilities, etc. 31. Early redemption of listed bonds, etc., the convocation of bondholders' meetings, or other important matters relating to rights relating to listed bonds, etc. 32. Change in certified public accountants, etc. 33. Putting notes on matters related to the going concern assumption 34. Submission of application for approval of deadline extension for submission of annual securities report or semi-annual securities report 35. Cancellation of entrustment of shareholding services to a shareholding service proxy institution 36. Submission of internal control reports containing content to the effect that there is a material deficiency or that the evaluation result cannot be stated 37. Amendment to the articles of incorporation 38. Acquisition of all classified stocks subject to whole acquisition clause 39. Approval or rejection of a special controlling shareholder's request for sale of shares, etc. 40. Other important matters related to listed company operations, business, assets, or listed company stock certificates, etc.
2. Facts which Occurred for a Listed Company	1. Damage arising from a disaster or in the performance of its operations 2. Change in major shareholders or the largest shareholder 3. Fact which causes delisting 4. Filing of a lawsuit or a court decision 5. Petition for a provisional disposition or decision on such petition, etc. 6. Cancellation of a license, suspension of a business or any other disciplinary action corresponding to these on the basis of laws and regulations by an administrative agency or accusation of violation of laws and regulations by an administrative agency 7. Change in a parent company, change in controlling shareholders (excluding a parent company) or change in other related company 8. Petition or notification for commencement of bankruptcy proceedings, commencement of rehabilitation proceedings, commencement of reorganization proceedings, or execution of enterprise mortgage 9. Dishonor of a bill or check or suspension of trading by a clearing house 10. Petition for commencement of bankruptcy proceedings, commencement of rehabilitation proceedings, commencement of reorganization proceedings, or execution of enterprise mortgage pertaining to a parent company, etc. 11. Default on obligations or delay in collection 12. Suspension of trade with a business partner 13. Financial support, such as exemption of obligations 14. Discovery of natural resources 15. Special controlling shareholder's request for sale of shares, etc. 16. Claim for suspension of issue of stock or subscription rights/warrants 17. Demand for convocation of a general shareholders meeting 18. Unrealized loss of securities held 19. Acceleration of obligations pertaining to a corporate bond 20. The occurrence of an event specified in the financial covenants of a loan agreement subject to such covenants 21. Convocation of a bondholders' meeting for a listed bond, etc. and other important facts pertaining to rights of a listed bond, etc. 22. Change in certified public accountants, etc. 23. Delay in submission of annual securities report or the semi-annual securities report 24. Approval, etc. of deadline extension for submission of the annual securities report or the semi-annual securities report 25. The fact that an audit report attached to financial statements, etc. contains an "adverse opinion", "opinions are not expressed", or a "qualified opinion" with making issues concerning a going concern assumption as exceptions 26. An internal control audit report contains an "adverse opinion" or the fact that "opinions are not expressed" 27. Receipt, etc. of a notice of canceling a shareholder services agent agreement 28. Other important matters related to operation, business or assets of such listed company or related to a listed stock certificates, etc.
3. Listed Company Earnings Information	1. Earnings reports (kessan tanshin), quarterly earnings reports (shihanki kessan tanshin) 2. Amendments to performance estimates, differences in estimates and earnings results 3. Amendments to dividend estimates, revision of estimates, etc.

Note: In addition to the above, listed companies are required to disclose important decisions and new developments related to subsidiaries and other matters relating to controlling shareholders, etc.

Source: Tokyo Stock Exchange, *Securities Listing Requirements, Guidebook for the Timely Disclosure of Corporate Information*.

5. Ensuring the Appropriateness of Information Disclosure

In order to ensure the effectiveness of the Listing Rules, including the rules on timely disclosure, stock exchanges may implement prescribed measures against violations, such as when the disclosed information contains false statements or when there is a violation of requirements set forth in the Code of Corporate Conduct. These measures to ensure effectiveness are classified into two categories: improvement measures and penalties. The former requires the listed company to make improvements while the latter imposes a penalty on the listed company.

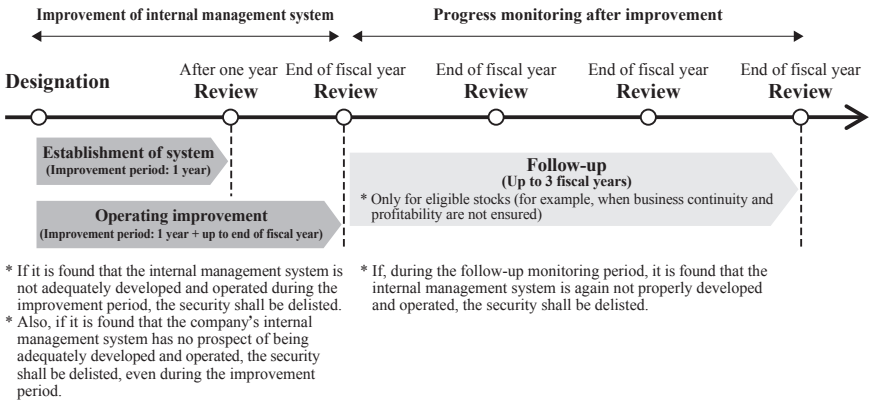
Improvement measures are categorized into designation as a security on special alert and the submission of an Improvement Report/Improvement Status Report. For example, if a listed company has made a false statement in its annual securities report or similar document, and the stock exchange recognizes that there is an urgent need for the company to make improvements to its internal management system, the listed company is designated as a security on special alert. In cases of designation as a security on special alert, the designation will, in principle, be lifted if the TSE finds that the internal management system has been appropriately established and is being operated effectively within the prescribed improvement period. However, the stock will be delisted if it is not determined that such systems have been appropriately established and are being operated effectively within that period, or if there is no longer a prospect of them being appropriately established and operated. In addition, in cases where the company has not ensured business continuity and profitability, the designation will remain in place for up to three business years even after improvements have been made to monitor progress, and the status of establishment and operation of the internal management system will be monitored on a continuous basis. If it is determined that maintaining market order would be difficult unless the listing is immediately revoked, the stock in question is delisted without receiving a designation as a security on special alert.

Meanwhile, if the stock exchange finds that there is a strong need for a listed company to make improvements even when the status of the listed company does not indicate the need for designation as a security on special alert, which can lead to possible delisting, the stock exchange may require the listed company to submit an Improvement Report containing the circumstances behind the violation and improvement measures. The listed company that has submitted the Improvement Report must submit an Improvement Status Report detailing the status of implementation and operation of improvement measures in a timely way after six months have passed since the submission of the initial Improvement Report. The Improvement Report and

Table XVII-5. Measures to ensure effectiveness

○ Penalty measures • Public Announcement Measure • Penalty on breach of the listing agreement	○ Improvement measures • Improvement Report, Improvement Status Report • Designation as Security on Alert

Chart XVII-2. Flow from designation as security on special alert to cancellation of designation



the Improvement Status Report submitted by the listed company concerned are made available for public inspection on the website of the stock exchange.

Meanwhile, penalties are categorized into either penalty fines for a breach of the listing agreement or public announcement measures. Depending on the degree of damage to shareholders' and investors' trust in the market, a judgment will be made on whether to apply a penalty fine for a breach of the listing agreement, which is a more severe measure.

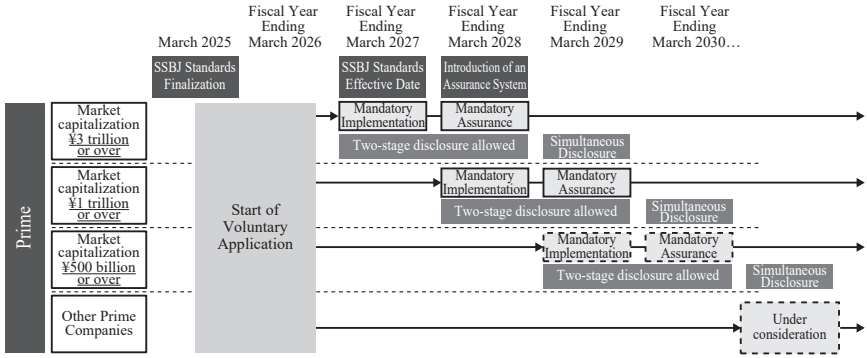
6. Recent Developments in Information Disclosure

Enhancing disclosure of sustainability information

Initiatives related to sustainability have recently become a central theme in corporate management in terms of increasing corporate value over the medium to long term, and investor interest in these initiatives is increasing worldwide.

In response to this trend, the Corporate Governance Code was revised in

Chart XVII-3. Timeline for the Implementation of Sustainability Disclosure Standards



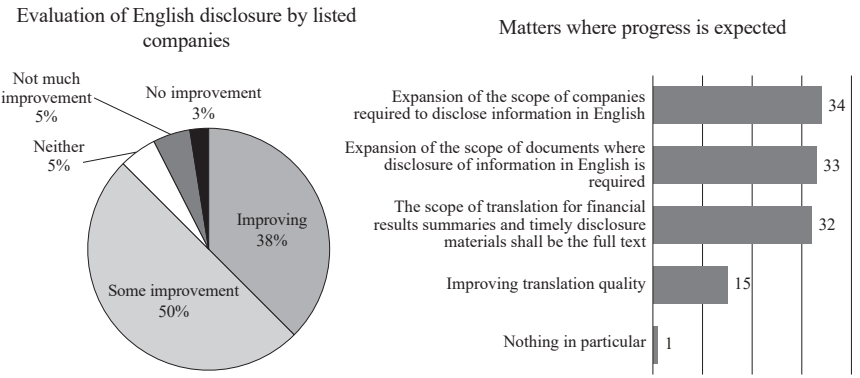
Source: Prepared by the Tokyo Stock Exchange based on the FSA's "Announcement Regarding the Publication of the Interim Summary of Issues by the Financial System Council's 'Working Group on the Disclosure and Assurance of Sustainability Information'".

Table XVII-6. Regulations Regarding English-Language Disclosures on the Prime Market

Target		Contents	Positioning
Financial results	• Financial Results Announcements and Quarterly Financial Results Announcements • Supplementary Materials for Financial Results	• Simultaneously with the disclosure in Japanese • While simultaneous disclosure of all documents and all text is preferred, disclosure of a portion or summary of the Japanese-language documents in English is also acceptable.	Obligation Code of Corporate "Conduct Matters to be observed"
Timely Disclosure Information	• All Timely Disclosure Items		
Additional Information	• Notice of Meeting • Report on Corporate Governance • Annual Securities Report etc.	• To the extent possible, disclose the same content in English at the same time as the disclosure in Japanese.	Best effort obligation Code of Corporate Conduct "Matters desired to be observed"

June 2021 and established a new principle that requires companies to make appropriate disclosure of their sustainability initiatives. In January 2023, the Cabinet Office Ordinance on Disclosure of Corporate Affairs was revised to add a new section in the annual securities report and other securities statements stating the company's "approach and initiatives to sustainability" and to require the disclosure of indicators such as the ratio of female managers in

Chart XVII-4. Overseas investor survey on English-language disclosure



Source: Tokyo Stock Exchange, "Results of the 2023 Survey of Overseas Investors on English Disclosure by Japanese Companies" (September 2025).

the "Information on Employees" section.

In 2024, the "Working Group on Disclosure and Assurance of Sustainability-related Financial Information" of the Financial Systems Council held discussions regarding the effective date and scope of the disclosure standards established by the Sustainability Standards Board of Japan (SSBJ). For companies listed on the Prime Market, it was decided that disclosure of sustainability information in accordance with the SSBJ Standards should be mandatory in annual securities reports for companies with a market capitalization of ¥3 trillion or more from the fiscal year ending March 2027 onwards, and for companies with a market capitalization between ¥1 trillion and ¥3 trillion from the fiscal year ending March 2028 onwards. Furthermore, to ensure the reliability of disclosed information, third-party assurance is required starting from the year following the implementation of the disclosure requirements. Discussions regarding the remaining issues, including whether to make this mandatory for companies with a market capitalization of less than ¥1 trillion and, if so, when, are scheduled to continue within the working group (as of October 2025).

Enhanced English-language disclosure

In light of growing calls for enhanced English-language disclosure, against the backdrop of increased stock trading and holdings by foreign investors, the Tokyo Stock Exchange made English-language disclosure mandatory for the Prime Market from April 2025. This rule mandates the simultaneous disclosure of financial results and timely disclosure information in both Japa-

nese and English, while requiring companies to endeavor to disclose other documents in both languages as well. As a result, more than 90% of companies, excluding those granted a grace period (up to one year), have in principle started to disclose information simultaneously in Japanese and English.

While this has been well-received with approximately 90% of overseas investors, who have noted that information asymmetry has been resolved to a certain extent, there have also been calls to promote English-language disclosures for companies listed outside the Prime Market and to further expand the scope of documents subject to disclosure. The Tokyo Stock Exchange will continue to conduct ongoing reviews, taking into account investor feedback and the status of companies' initiatives, to enhance the quality of English-language disclosures.

CHAPTER XVIII

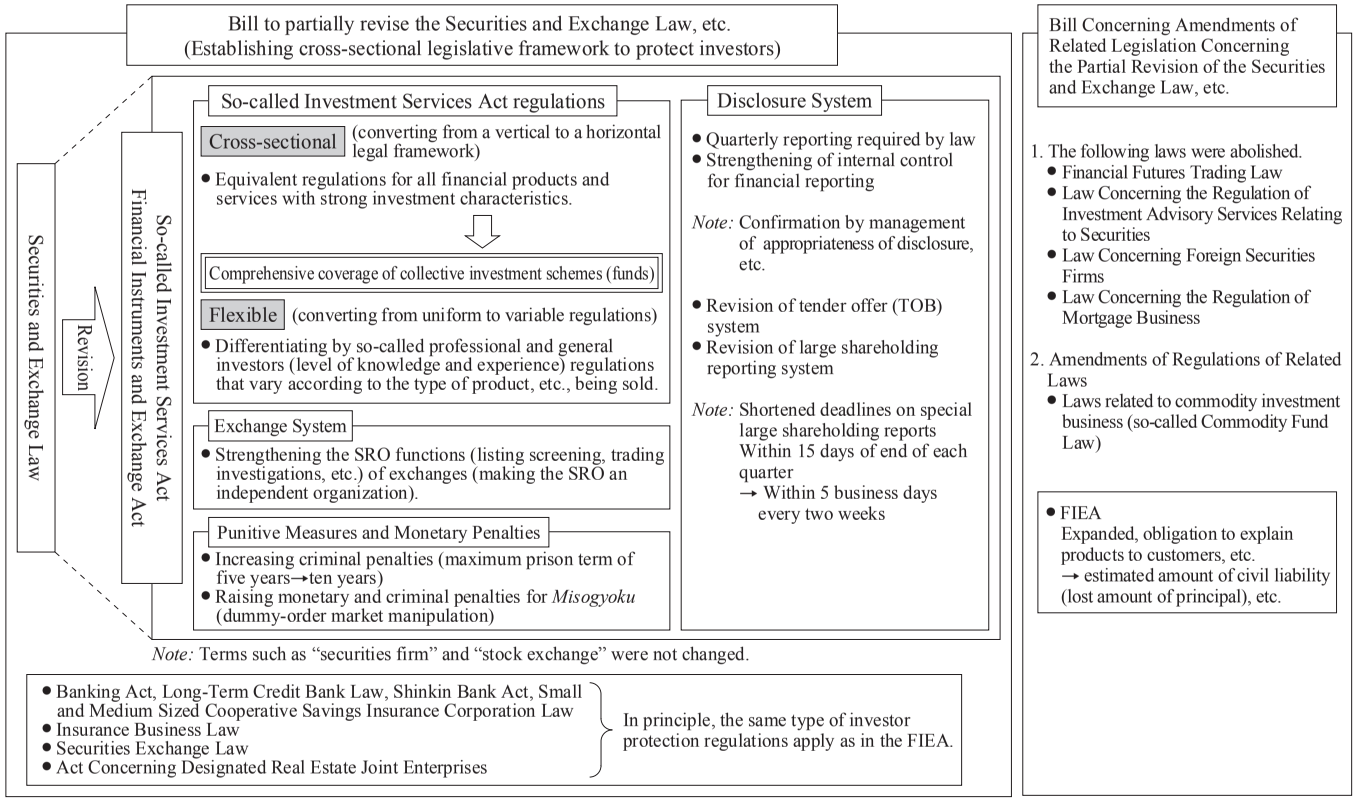
The Securities Regulatory System

1. Financial Instruments and Exchange Act

In 2006, the Securities and Exchange Act was comprehensively revised and renamed as the Financial Instruments and Exchange Act (FIEA). The purpose of this revision was to address the development of increasingly complex financial transactions and to introduce cross-sectoral and flexible regulation. In other words, the traditional siloed structure was revised, and a framework was established to apply common regulations to products sharing similar economic functions and risks. As a result, trust beneficiary certificates, mortgage securities, and group investment scheme interests are now subject to the FIEA enabling comprehensive investor protection. In addition, a framework has been established that makes registration mandatory for business operators engaged in sales and solicitation, investment advice, asset management, and asset administration, and subjects them to common conduct regulations. Furthermore, measures such as (1) the relaxation of disclosure regulations (tailoring information disclosure to the level of marketability), (2) the restructuring of business regulations (categorization into Type I and Type II Financial Instruments Business Operators, etc.), and (3) conduct regulations based on investor attributes (distinguishing between professional investors and general investors) were introduced, thereby establishing a regulatory framework that was tailored to risk characteristics.

Major amendments since then include a review of firewall regulations between securities companies, banks, and insurance companies in 2008; the introduction of public regulation of credit rating agencies in 2009; the establishment of the Alternative Dispute Resolution (ADR) System in the financial sector; and the establishment of a framework for alliances between financial instruments and commodity exchanges. Revisions in 2011 established a disclosure system for rights offerings; in 2015 the special provisions for qualified institutional investors were revised; an amendment in 2017 introduced a registration system for High-Speed Traders and fair disclosure rules. A further amendment in 2019 established regulations for derivative transactions involving crypto-assets and classified rights transferable via electronic re-

Chart XVIII-1. Transition from Securities and Exchange Act to Financial Instruments and Exchange Act



Source: Materials produced by the FSA.

cords as "Paragraph 1 securities," while a 2021 amendment introduced a notification system for investment management businesses targeting overseas investors.

Furthermore, the 2024 amendment (Act No. 32 of 2024) set forth the objective of realizing a "leading asset management center," relaxed entry regulations for the investment management business, and established a registration system for providers of investment management-related services. This enabled specialization and outsourcing of investment management operations in an institutional context, thereby expanding the pool of participants in the asset management industry. In addition, the rules governing tender offers (TOBs) and the large-scale shareholding reporting system were revised; the threshold for triggering reporting obligations was lowered from "more than one-third" to "more than 30%," and the regulations were expanded to cover both on-market and off-market transactions. Furthermore, efforts were made to improve the accuracy and transparency of information disclosure by including equity derivatives in large-shareholding reports, clarifying the definition of joint holders, and specifying the purpose of holdings.

2. Other Laws and Regulations Related to the Securities Market

While the Financial Instruments and Exchange Act (FIEA) serves as the most fundamental law concerning securities, securities business operators, and transactions on the securities markets, there are, in fact, many other related laws and regulations. Upon enactment of the FIEA, from the point of view of investor protection, other laws were revised so that they shared, to the extent possible, common regulations with the FIEA for financial instruments not covered by the FIEA but having the same economic function. For example, such related laws as the Banking Act (Article 13-4), Insurance Business Act (Article 300-2) and the Trust Business Act (Article 24-2) implemented provisions equivalent to the FIEA's code of conduct. Specifically, these laws include: regulation of advertising, etc.; obligations to clarify conditions of transactions in advance; provision of documents prior to conclusion of contracts; prohibited acts; prohibition of compensation of loss, etc.; and best execution policy.

The Act on Sales, etc. of Financial Instruments (renamed the "Act on the Provision of Financial Services and the Development of an Environment for Their Use, etc. (Financial Services Provision Act)" following the 2024 amendment) comprehensively regulates the sale and solicitation of deposits, savings, trusts, insurance, and securities, and other financial products. The 2006 amendment expanded the obligation to provide explanations to customers (Article 4, paragraph 1, items ii, iv and vi) and introduced the principle of

Table XVIII-1. Banking Act, Insurance Business Act, and Trust Business Act

1. Acts that have sales and solicitation rules equivalent to those of the FIEA for deposits, insurance policies, and investment trusts with strong investment characteristics

(Points of view on which regulations have been implemented for each act)

	Banking Act (specified deposits, etc.)	Insurance Business Act (specified insurance policies, etc.)	Trust Business Act (specified trust agreements)
Advertising, regulations, etc.	• In the case of derivative deposits, if the bank has the right to extend the term of the deposit, it must indicate to the customer the risk that the interest rate could fall below the market rate to the disadvantage of the customer.		
Obligation to deliver written documents	• Exceptions to the obligation to deliver written documents - When a document on foreign currency deposit, etc. was delivered within the past year - When a similar document was delivered within the past year *Note:* Establish transitional measures at the time of enforcement (can be issued prior to enforcement; can be issued within three months of enforcement) • In the case of derivative deposits, the document prior to conclusion of contract must contain the same contents as the items shown in the advertisement, etc.	• The document prior to conclusion of contract must contain notes on material items in accordance with provisions in supervisory guidelines regarding the contract outline and cautionary information Eg.: The contract outline is dictated on the statutory level, while cautionary information is dictated on the cabinet office order level. • Items covered in the document delivered upon conclusion of contract can be adjusted in line with the items included in the insurance policy, etc. Eg.: Items regarding the type and content of the contract can be omitted from the document delivered upon conclusion of contract if they are contained in the insurance policy, etc.	• Exceptions to the obligation to deliver the document prior to conclusion of contract (Documents regarding a similar contract has previously been delivered, and the customer has made it clear that issuance of documents is not necessary, etc.)
Prohibited acts	• Generally prohibited acts in the banking business • Concluding a contract without adequate explanation necessary for understanding the document prior to conclusion of contract or the document on foreign currency deposits, etc.	• Generally prohibited acts for concluding or soliciting purchase of insurance policy • Concluding a contract without adequate explanation necessary for understanding the document prior to conclusion of contract	• Generally prohibited acts in underwriting trusts • Concluding a contract without adequate explanation necessary for understanding the document prior to conclusion of contract
Professional investors (*Tokutei Toushika*) (Type of contract)	• One type (contract for specified deposits, etc.)	• One type (contract for specified insurance policies, etc.)	• One type (contract for specified trusts)

2. Business scope of banks and insurance companies (Auxilliary businesses)

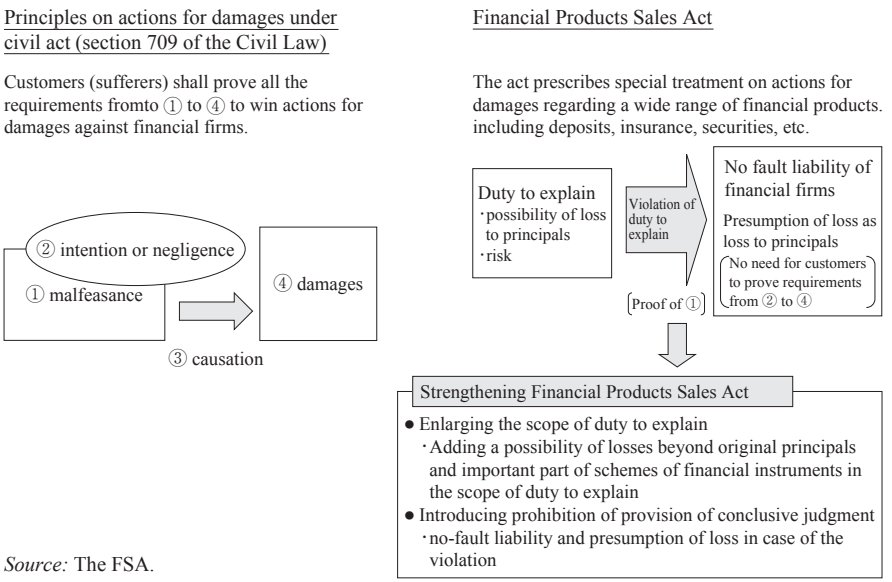
- Expanded to include agency or intermediary business for concluding investment advisory and discretionary investment contracts (banks only).
- Expanded to include emission rights derivatives trading. (intermediary and consulting services for emission rights trading also permitted as incidental businesses).

3. Business scope of banking and insurance company subsidiaries

- Business scope of securities subsidiaries expanded (full coverage of Financial Instruments Businesses).
- Scope of financial-related businesses expanded (private placements, investment advisory and agency business, self-management, emission rights trading, emission rights derivatives trading, etc.).

Source: The FSA.

Chart XVIII-2. Enhancement of the Act on Sales, etc. of Financial Instruments



Source: The FSA.

suitability (Article 4, paragraph 2). These revisions established a framework under which, in the case of a violation of the suitability rule, the seller is liable to compensate the customer for damages, which are presumed to be the amount of any loss of principal (Article 7). The 2023 amendment introduced a new "duty to conduct business operations in good faith and fairly, taking into account the best interests of customers," further strengthening the effectiveness of the code of conduct and consumer protection. Furthermore, the Commodity Exchange Act (now the Commodity Derivatives Transaction Act) clearly defined obligations regarding advertising and disclosure, as well as prohibition of loss compensation, backed with penalties, thereby establishing a cross-sectoral investor protection framework for the financial sector. The 2020 amendment introduced a new category of financial services intermediary business (Article 11, paragraph 1).

While most of the business and conduct regulations regarding the investment trust management business and asset management business of investment corporations have been incorporated into the FIEA, the Act on Investment Trusts and Investment Corporations (Investment Trust Act) retains its own provisions, resulting in a dual regulatory framework together with the FIEA. There are several laws pertaining to issuance of securities. Issuing of public bonds is approved based on the provisions of the Public Finance Act

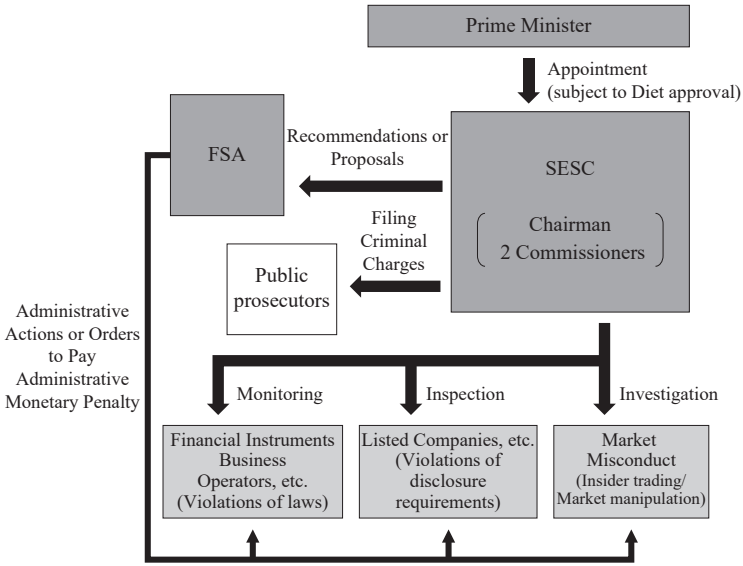
and the Local Government Finance Act while deficit-covering bonds are governed by the special law of each fiscal year (The Special Deficit-Financing Bond Law of 2021 set the issuance period for special bonds up to 2025, maintaining the multi-year framework adopted from 2012). For private securities, the Companies Act provides for the issuance of stocks and corporate bonds by corporations. As for corporate bonds and other bonds, the Secured Bond Trust Act and the Enterprise Mortgage Act are separately enforced in regard to collateral. In addition, the Act on the Securitization of Assets is in place regarding the issuance of asset-backed securities.

3. Organization of the Securities Regulatory System

After the war, under the Securities and Exchange Act, the Securities and Exchange Commission, modeled after the U.S. Securities and Exchange Commission (SEC), was established as an external bureau of the Ministry of Finance to oversee the securities regulatory system. However, after the end of the U.S. occupation in 1952, responsibility for securities administration was once again placed under the Securities Business Division in the Finance Bureau of the Ministry of Finance. Then in 1964, the Securities Bureau was created within the Ministry of Finance. The Securities Bureau regulated the securities business as a core authority for overseeing the license system of securities business operators over a period of about 30 years under the revised Securities and Exchange Act of 1965. During Japan's bubble economy years, the country's securities market demonstrated significant growth to become one of the major markets on a global level. On the other hand, the market came under severe criticism for lacking openness and being scandal-ridden. In particular, the major financial and securities scandals in 1991 provided a strong impetus for reforms of the securities regulatory system, along with market reforms.

In 1992, the Ministry of Finance bolstered its market surveillance by establishing the Securities and Exchange Surveillance Commission (SESC) and transferring surveillance to this body. Further change came in June 1998 when the government set up the Financial Supervisory Agency as an external bureau (Article 3, "Committees" of the National Government Organization Act) of the Prime Minister's Office, under which the SESC was placed Subsequently, with the enforcement of the Act on Revision, etc. of Related Acts for the Financial System Reform in December 1998, the Financial Supervisory Agency took over the role of overseeing the securities regulatory system. Concurrently, the Financial Reconstruction Commission, which was established around the same time, was given the highest responsibility over the financial and securities regulatory system.

Chart XVIII-3. Securities Administration and the Monitoring System for Securities Transactions, etc.

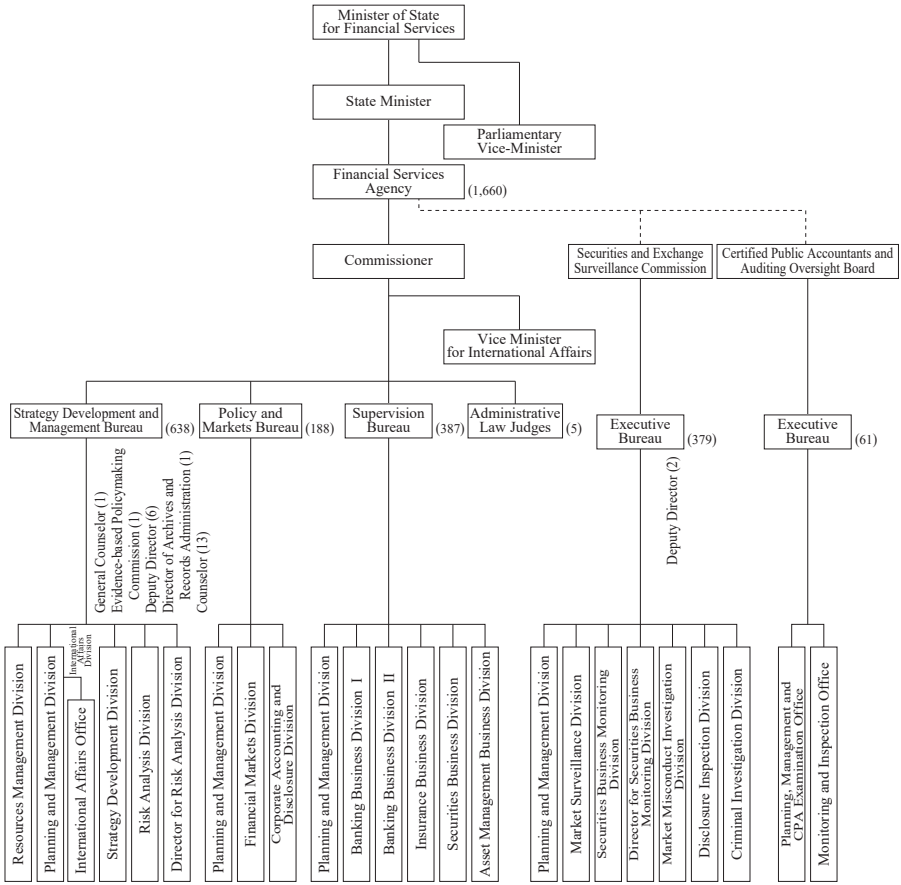


Source: Materials available on the website of the Securities and Exchange Surveillance Commission.

Then in 2000, the Financial Supervisory Agency was reorganized as the Financial Services Agency (FSA) to which the Ministry of Finance transferred the financial system planning and law drafting functions in 2001, the same year as the Financial Reconstruction Commission was transferred to the FSA and the SESC also became part of the FSA. Through this process, the major portion of securities regulation in Japan was consolidated into a system administered by the FSA and the SESC. The policy on securities regulation also shifted from preventive administration to ex post monitoring. Behind this shift was the clarification of the objective of the administration to increase the welfare of people in Japan primarily through promoting sustainable growth of corporations and the economy and stable asset formation, following the winding-down of a bad debt issue among others after the collapse of the bubble economy.

The FSA was reorganized in July 2018 into three bureaus—the Strategy Development and Management Bureau, the Policy and Markets Bureau, and the Supervision Bureau—with an eye toward enhancing the FSA's strategy planning function and administrative expertise, and strengthening its ability

Chart XVIII-4. Organization of the Financial Services Agency (Fiscal 2025)



*Figures represent the authorized staff complement levels as of the end of fiscal 2025.

*One of the Senior Deputy Director-Generals holds the position of Chief Record Officer and one of the Deputy Director-Generals holds the position of Director-General of the Certified Public Accountants and Auditing Oversight Board on an ex officio basis.

*The staff complement of the Supervision Bureau includes the Senior Chief Inspector and other positions, as well as 98 Lead Investigators.

Source: FSA materials.

to respond to advances in fintech. Under this system, the following measures have been implemented: (1) support for businesses (2) promotion of the Doubling Asset-based Income Plan to realize a leading asset management center (3) facilitation of financing for start-ups (4) implementation of corporate governance reform and enhancement of corporate information disclosure (5)

promotion of sustainable finance, and (6) preparation for dealing with various risks, including money laundering (as of October 2025).

4. Law Enforcement by the Financial Services Agency

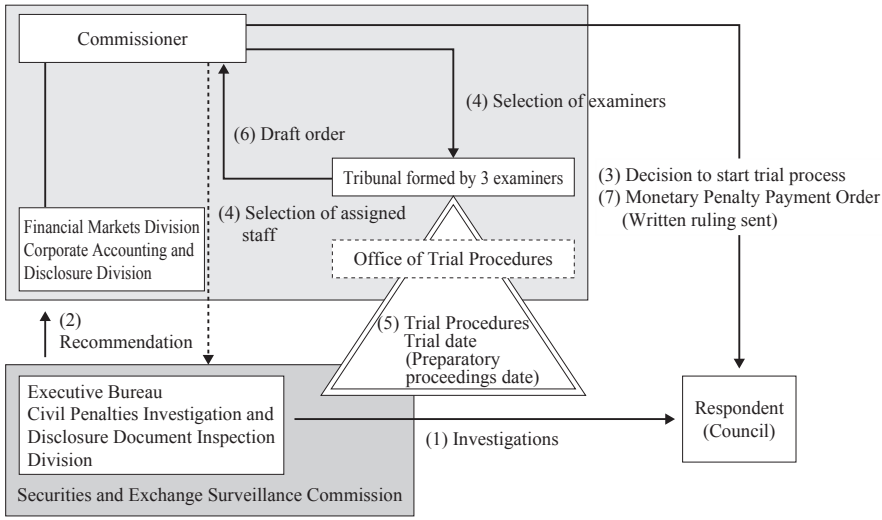
The executive authority for the Financial Instruments and Exchange Act lies with the Prime Minister of Japan, the top cabinet minister, who in turn oversees the Financial Services Agency (FSA). In actual practice, the Prime Minister delegates this authority (with some exceptions such as the authority relating to approvals and other administrative dispositions) to the Commissioner of the FSA as stipulated in Article 194-7, "Delegation of Authority to the Commissioner of the FSA." Major types of authority delegated to the Commissioner include the authority to issue Business Improvement Orders to Financial Instruments Business Operators and Registered Financial Institutions (Articles 51 and 51-2), as well as orders to suspend operations or revoke their registration or authorization (Articles 52 and 52-2). The FSA commissioner is also required to issue an Administrative Surcharge Payment Order if certain conditions are met. Primary examples subject to the issuance of the Administrative Surcharge Payment Order include non-submission of securities registration statements, etc. and false statement (Articles 172, 172-2, 172-3, and 172-4) and non-submission, misrepresentation and false statement of the public announcement of the start of an offering or the Tender Offer Notification (Articles 172-5 and 172-6). When it is found that an unfair trading practice, such as the spreading of rumors, use of fraudulent means, market manipulation, or insider trading (Articles 173, 174, 174-2, 174-3, and 175), has occurred, an Administrative Surcharge Payment Order is, in principle, issued through a hearing procedure based on a draft order prepared by a hearing examiner (Articles 178, 185-6, and 185-7).

In addition, the following inspection authority and related powers for issuing orders and administrative dispositions by the FSA are delegated by the Commissioner to the SESC. Certain other matters and some of the matters delegated to the commission may be delegated to the Director-General of the Finance Bureau or to the Director-General of the local finance bureau. The Director-General of the Local Finance Bureau collaborates with Securities Inspectors in each region.

(1) The authority to require Financial Instruments Business Operators and parties executing transactions with Financial Instruments Business Operators to produce or submit for inspection reports related to the business and assets of such operators

(2) Similar authority over Authorized On-Exchange Transaction Service Operators (Foreign Securities Companies), etc.

Chart XVIII-5. Flow Leading to the Payment of Administrative Surcharge



Note: Designated staff members are selected among the employees by the FSA Commissioner to assert and verify the violations, etc., in the trial proceedings. They submit preparatory documents and give evidence, etc.

Source: Materials available on the website of the Securities and Exchange Surveillance Commission.

Table XVIII-2. Major Legal Basis of Inspection and Supervision by the FSA

Financial Instruments and Exchange Act	
Article 56-2	Financial Instruments Business Operators, Etc.
Article 60-11	Authorized On-Exchange Transaction Service Operators, Etc.
Article 63-6	Specially Permitted Business Notifying Persons, Etc.
Article 66-22	Financial Instruments Intermediary Service Providers, Etc.
Article 75	Authorized Financial Instruments Firms Association, Etc.
Article 79-77	Investor Protection Fund, Etc.
Article 106-6, Article 106-20	Major Shareholders, Etc. of Financial Instruments Exchanges and Their Holding Companies
Article 151	Financial Instruments Exchange, Etc.
Article 153-4	Self-Regulatory Organizations
Article 155-9	Foreign Financial Instruments Exchange, Etc.
Article 156-5-8	Major Shareholders, Etc. of Clearing Organization
Act on Investment Trusts and Investment Corporations	
Article 22	Investment Trust Management Companies and Trustee Companies, Etc.
Article 213	Investment Corporations, Etc.

(3) Similar authority over authorized and certified associations or those entrusted by such associations

(4) Similar authority over issuers of OTC or tradable securities

(5) The authority to require financial instruments exchanges and their subsidiaries, issuers of securities listed on respective exchanges and foreign financial instruments exchanges to produce and submit reports and be inspected

(6) The authority to require related parties of incidents subject to administrative surcharge to produce and submit reports and be inspected

The SESC carries out investigations within the permissible scope and when considered necessary, it may recommend the Prime Minister or the FSA commissioner to take an administrative disciplinary action (Act for Establishment of the Financial Services Agency, Article 20) and other measures.

5. The Securities and Exchange Surveillance Commission

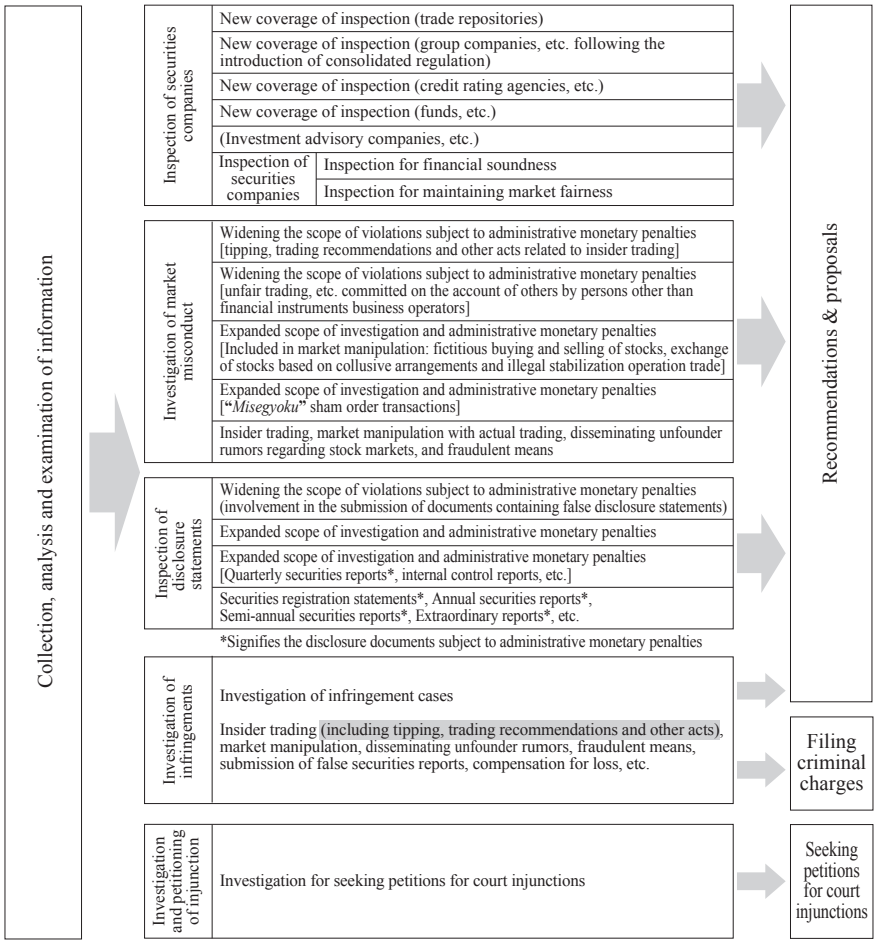
The Securities and Exchange Surveillance Commission (SESC) comprises a chairman and two members appointed by the Prime Minister with the approval of the House of Representatives and the House of Councillors (Act for Establishment of the Financial Services Agency, Articles 10 to 12). As described in the preceding section, the SESC has the authority delegated by the FSA commissioner to require a wide range of people related to Financial Instruments Business Operators and registered financial institutions to produce or submit for inspection reports and materials (FIEA Article 56-2, Article 60-

Table XVIII-3. Number of criminal accusations by Business Year (as of End of September 2025)

Business Year	92－17	2018	2019	2020	2021	2022	2023	2024	2025
Fake statement of Disclosure documents	41	3	1	0	0	0	1	0	0
Disseminating Unfounder Rumors・Fraudulent Means	28	0	0	0	2	0	1	0	0
Market manipulation	31	0	0	1	1	1	1	0	0
Insider trading	81	5	1	1	5	7	1	7	1
Others	11	0	1	0	0	0	0	0	0
Total	192	8	3	2	8	8	4	7	1

Source: The website of the Securities and Exchange Surveillance Commission's Initiatives (End of September 2025).

Chart XVIII-6. Activities of the SESC



Source: Data disclosed by Securities and Exchange Surveillance Commission.

11, Article 63, Article 66-22, Article 75, Article 79-4, Article 79-77, Article 151, Article 156-15, Article 156-34, etc.). The commission also has the authority to demand the production or submission for inspection of reports and materials from the submitters of securities registration statements or Statements of Large Volume Holders and tender offers (FIEA Article 26, Article 27-22, Article 27-30, etc.).

The SESC is responsible for: (1) routine market supervision of Financial Instruments Business Operators and other entities (reviewing the details of

securities trades); (2) detailed on-site inspections of Financial Instruments Business Operators, registered financial institutions, and other entities; (3) disclosure inspections of entities filing securities registration statements and reports; (4) investigations regarding administrative monetary penalties for unfair trading, disclosure violations, and similar violations. Furthermore, in terms of investigating offenses that undermine market fairness, such as the submission of notifications or reports containing false statements regarding material matters or market manipulation, authorities are granted powers of voluntary investigation (Article 210), including questioning, inspection, and retention of items, as well as powers of compulsory investigation (Article 211, etc.), such as on-site inspections, searches, and seizures, based on judicial authorization.

As described in the preceding section, after the SESC has made its recommendations based on its securities investigations, the FSA commissioner may issue orders to improve business operations, revoke registration, or suspend operations. When the commission recommends action as a result of its administrative surcharge investigations, the Commissioner issues an Administrative Surcharge Payment Order when it is found that the statutory requirements are satisfied. Furthermore, when the SESC is convinced that irregularities have been committed following the investigation in a criminal case, it must report the case to the Public Prosecutors Office pursuant to the provision of Article 226, Paragraph 1 of the FIEA.

In the 2008 revision of the FIEA, the authority to petition the court for Prohibition and Stay Orders (Article 192, Paragraph 1) was delegated to the SESC. It first used this power to crack down on a business operator not registered as a Financial Instruments Business Operator in 2010. Most recently, in 2024, the SESC filed a petition with the court for an order of prohibition and suspension against Global Investment Lab Inc. and its affiliates for conducting financial instruments business without registration; similarly, in 2025, a petition was filed against Black Clover Limited and its affiliates, and the Tokyo District Court issued an order of prohibition and suspension.

6. Self-Regulatory Organizations

A self-regulatory organization is an organization established voluntarily by intermediaries, etc. under the respective legal framework with the purpose of ensuring fair and smooth trading of securities and other transactions and of contributing to the protection of investors. It takes on the role of securing the public nature of the securities market through formulating its own rules and ensuring adherence to those rules along with the laws, regulations and other rules set out by the government.

Table XVIII-4. List of Self-Regulatory Organizations Governed by the FIEA (As of the end of September 2025)

	Rules, etc.	Organization
Financial Instruments Exchange	Licensed	Japan Exchange Regulation (see main text)
	Same as above	Nagoya Stock Exchange
	Same as above	Fukuoka Stock Exchange
	Same as above	Sapporo Securities Exchange
Financial Instruments Firms Associations	Authorized	JSDA
	Certified	The Investment Trusts Association, Japan
	Same as above	Japan Investment Advisers Association
	Same as above	Financial Futures Association of Japan
	Same as above	Type II Financial Instruments Firms Association
	Same as above	Japan Virtual and Crypto assets Exchange Association
	Same as above	Japan Security Token Offering Association
Investor Protection Organization	Certified	Financial Instruments Mediation Assistance Center (FINMAC)

Source: Compiled based on data available on the website of the FSA, etc.

Table XVIII-5. Principal Rules of the Japan Securities Dealers Association (As of the end of September 2025)

Self-Regulatory Rules
Rules Concerning Solicitation for Investments and Management of Customers, Etc. by Association Members
Rules Concerning Establishment of Confidential Corporate Information Management System by Association Members
Rules Concerning Establishment of Order Management System by Association Members
Rules Concerning Application for Confirmation, Examination, Confirmation, Etc. of Incidents
Rules Concerning Financial Instruments Intermediary Services Providers
Rules Concerning Elimination of Relationships with Antisocial Forces
Rules Concerning Qualification and Registration, Etc., of Sales Representatives of Association Members
Guideline for Protection of Personal Information
Rules Concerning Maintenance of and Compliance With Ethical Code by Association Members
Uniform Practice Rules
Rules Concerning Handling of OTC Incident-Related Securities
Rules Concerning Processing of Rights in Case of Forgetting Entry of a Name Change on Stocks
Rules Concerning Exchanges of Bonds Drawn for Redemption by Lottery in OTC Trading
Rules Concerning Elimination of Fails in Bonds, Etc.
Dispute Handling Rules
Rules Concerning Outsourcing, etc. for Resolution of Disputes, Etc. Between Customers and Association Members
Rules Concerning Mediation of Disputes Between Association Members

The Financial Services Agency (FSA) acknowledges the money lending associations, certified payment service associations and designated dispute resolution organizations as self-regulatory organizations in addition to the Financial Instruments Firms Associations. Financial Instruments Firms Associations are categorized into Authorized Financial Instruments Firms Associations, which are authorized by the Prime Minister under the FIEA (Article 67-2), and Certified Financial Instruments Firms Associations, which are certified by the Prime Minister under the FIEA (Article 78). The JSDA is currently the only Authorized Financial Instruments Firms Association and its members comprise Financial Instruments Business Operators and registered financial institutions. The JSDA has in place Articles of Association, Fair Practice Rules, Uniform Practice Rules, board resolutions, and dispute resolution rules. Members are required to carry out securities transactions in compliance with these rules. The JSDA is also empowered to take disciplinary action when members violate these rules. The scope of disciplinary action may include reprimand, imposition of monetary penalties, suspension or limitation of membership or expulsion, or the issuing of a formal warning (JSDA Articles of Association, Article 28, Article 29).

Certified Financial Instruments Firms Associations include The Investment Trusts Association, Japan which includes investment trust management companies, trust companies, etc. that serve as trustees in investment trusts without instruction by trustor, and securities companies and registered financial institutions that purchase and sell beneficiary certificates of investment trusts as members, and The Japan Investment Advisers Association which has investment advisory companies as members.

The FIEA distinguishes between a "stock company that operates financial instruments exchange markets" and a "self-regulatory organization" and recognizes a "financial instruments exchange" or "self-regulatory organization" thereof as a self-regulatory organization relating to the exchange market. With the authorization of the Prime Minister, the self-regulatory functions of Japan Exchange Group are entrusted to Japan Exchange Regulation pursuant to Article 85 of the FIEA. These services include the listing and delisting of financial instruments, inspections of members' compliance with laws and regulations, and other matters specified by Cabinet Office Order as necessary to ensure fair trading (Article 84, Paragraph 2). Japan Exchange Regulation has a Listing Examination Department that screens listing applicants for suitability, a Listing Department that maintains and improves the quality of listed financial instruments, a Market Surveillance Department that investigates and seeks to prevent unfair trading practices, and a Participants Examination Department that investigates participants' compliance and implements disciplinary action. Under rule 34 of the Trading Participant Rules, violations of laws or rules and regulations by participants are punishable by revocation of

trading qualifications, suspension or restriction of trading, and monetary penalties or official warnings, etc.

7. International Organization for Securities Regulation

The International Organization of Securities Commissions (IOSCO) is an international organization that sets forth global standards for the securities sector in various countries. It takes on the role of promoting, in particular, the development and implementation of, and compliance with, internationally recognized securities regulations. In the process of implementing reforms to the international rules after the financial crisis, IOSCO worked in cooperation with the G20 and the Financial Stability Board (FSB), discussed below. IOSCO was established in 1974 as the Inter-American Association of Securities Commissions. In 1983, the organization's bylaws were revised to expand membership beyond the Americas, and the organization was renamed IOSCO at the Paris Annual Conference in 1986. As of October 2025, there were 241 member organizations, overseeing and regulating over 95% of the world's securities markets. The Securities Bureau of Japan's Ministry of Finance became an ordinary member in 1988. The FSA has succeeded the position and is an ordinary member at present. Besides the FSA, the Securities and Exchange Surveillance Commission is an associate member, along with the Ministry of Economy, Trade and Industry and the Ministry of Agriculture, Forestry and Fisheries, both of which oversee commodity futures. Meanwhile, Japan Exchange Group, Inc. and the JSDA are affiliate members. IOSCO has published a wide range of principles, policies, standards, guidance, codes, recommendations, and practices regarding securities trading that have been implemented in many countries. IOSCO's documents are important also for Japan's securities regulators, which have taken steps to implement policies through defining laws and self-regulatory systems. The Financial Services Agency closely follows IOSCO trends and publishes them on its website.

The FSB was established as an international body in April 2009, succeeding the Financial Stability Forum (FSF), which had been established in 1999, with an expanded mandate following the global financial crisis. Members of the FSB include financial supervisory authorities and central banks from 25 major countries and regions, including Japan. In addition, international organizations such as IOSCO, the IMF, the World Bank, the Bank for International Settlements (BIS), and the Basel Committee on Banking Supervision (BCBS) are members of the FSB. From Japan, the Bank of Japan, the FSA and the Ministry of Finance are participating members. According to the FSB Charter, the organization is responsible for the monitoring and assessment of vulnerabilities affecting the global financial system and for identifying and

Chart XVIII-7. IOSCO Organization Chart

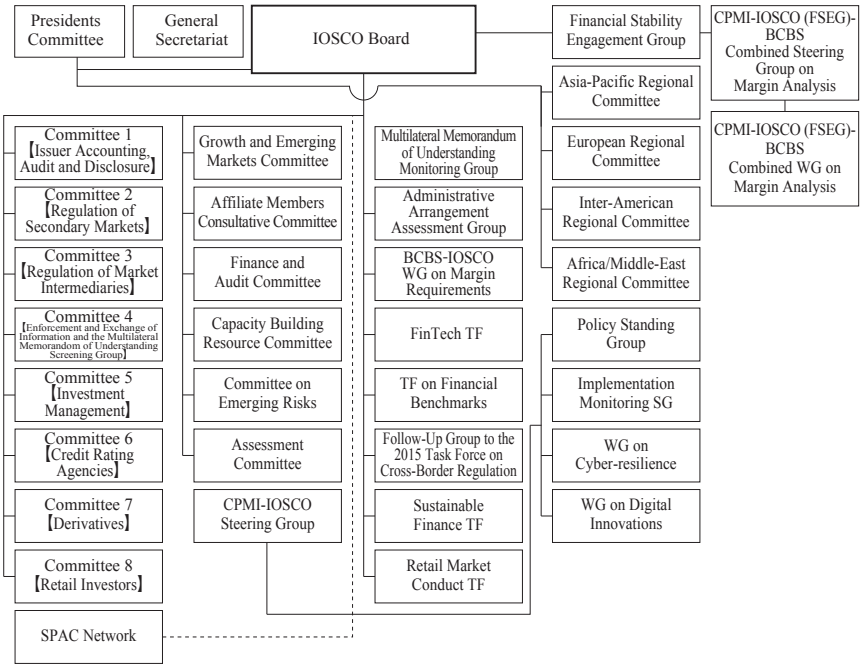


Table XVIII-6. Major IOSCO Committees

Presidents Committee	The Presidents Committee is composed of all the Presidents (Chairs) of ordinary and associate members and meets once a year during the Annual Conference. It has the right to make decisions on all matters necessary for the IOSCO to achieve its objectives.
The IOSCO Board	The IOSCO Board is comprised of securities regulators of 34 countries, including the FSA. It is the governing and international standard-setting body for the securities industry. Under the Board are (1) several policy committees that discuss policy issues and conduct policy work; among other committees is (2) the Growth and Emerging Markets Committee, comprised of regulators of emerging markets and countries, which seeks to promote the development and greater efficiency of emerging markets by establishing principles and standards and providing training, etc.
Regional Committees	There are four regional committees—Asia-Pacific Regional Committee, Inter-American Regional Committee, European Regional Committee, and African/Middle-East Regional Committee—and they discuss specific issues pertinent to their own regions. Japan belongs to the Asia-Pacific Regional Committee.

Source: Websites of IOSCO and the FSA.

reviewing regulations, supervisory and related actions needed to address these vulnerabilities and their outcomes. Particularly important tasks of the FSB include the designation of global systemically important financial institutions (G-SIFIs) that operate across borders and the formulation of guidelines for establishing supervisory colleges. The organization also examines international standards and principles relating to the shadow banking system and other activities that have not been subject to regulations thus far, and serves as an intermediary function to coordinate matters among related entities. The outcomes of activities of the FSB are reported and addressed as recommendations when appropriate at the G20 summit.

APPENDIX

Chronology of Events Related to Securities

(1870−2025)

Year Date	Changes implemented
Apr. 23, 1870	The Japanese government publicly offers 9% coupon bonds on the London market (the first public bond ever to be so offered).
Oct. 13, 1874	The stock trading ordinance is enacted (the nation's first securities law), but it is not enforced.
May 4, 1878	The stock exchange ordinance is promulgated.
May 15, 1878	The Tokyo Stock Exchange is established.
June 17, 1878	The Osaka Securities Exchange is established.
Mar. 4, 1893	The Securities Exchange Law is promulgated.
Aug. 1, 1894	The Sino-Japanese War breaks out.
Mar. 9, 1899	The Commercial Code is promulgated (the basic law of today's Companies Act).
Feb.10, 1904	The Russo-Japanese War breaks out.
Mar. 13, 1905	The Secured Bonds Trust Act is promulgated.
Feb. 1910	Securities brokers engage in sub-underwriting in the issuance of the No. 1 issue of public bond with 4-percent interest.
July 28, 1914	World War I breaks out.
Apr. 1, 1918	The Securities Installment Sales Act is promulgated.
Mar. 15, 1920	Stock prices crash, touching off a reactionary depression.
Apr. 20, 1922	The Securities Exchange Law is amended: development of membership-based exchange, two transaction categories - spot transactions and net-balance settlement transactions
Sept. 1, 1922	Osaka Securities Exchange starts short-term futures transactions (time bargains).

Sept. 1, 1923	Great Kanto Earthquake, September 7 Moratorium.
June 2, 1924	The Tokyo Stock Exchange starts short-term futures transactions (time bargains).
Mar. 15, 1927	Financial crisis occurs.
Mar. 30, 1927	The Banking Act is promulgated.
Apr. 22, 1927	Financial crisis continues, 3-week moratorium is implemented.
1928	The Tokyo Stock Exchange and the Osaka Securities Exchange mark their 50th anniversaries. The Tokyo Stock Exchange computes a stock price index for the first time (Fisher's ideal index, monthly average) and starts publishing it.
Oct. 24, 1929	The New York Stock Exchange crashes (Black Thursday), setting off a world-wide depression.
Jan. 11, 1930	Gold embargo is lifted, causing an outflow of massive amount of specie and an outbreak of industrial depression (Showa Depression).
Sept. 18, 1931	The Manchurian Incident breaks out.
Sept. 21, 1931	U.K. decides to terminate the gold standard, setting off a worldwide financial crisis.
Dec. 13, 1931	Reimposition of gold embargo is executed.
May 15, 1932	The Bank of Japan begins underwriting issuance of deficit-covering government bonds.
May 5, 1933	Banks and trust banks as trustees of corporate bonds initiate a clean-up movement of corporate bonds, disallowing issuance of unsecured corporate bonds.
May 27, 1933	The U.S. enacts the Securities Law.
June 6, 1934	The U.S. enacts the Securities and Exchange Law.
July 7, 1937	Marco Polo Bridge Incident occurs, setting off the Second Sino-Japanese War.
July 17, 1937	Fujimoto Bill Broker Securities forms a securities investment partnership–the first investment trust.
Mar. 29, 1938	The Securities Business Control Act is promulgated.
Mar. 31, 1938	The Securities Underwriting Business Act is promulgated.

Sept. 3, 1939	World War II breaks out.
Aug. 30, 1941	The Stock Price Control Ordinance is promulgated.
Dec. 8, 1941	The Pacific War breaks out.
Feb. 18, 1942	The Act for Registration of Corporate Bonds, etc. is promulgated.
Mar. 11, 1943	The Japan Securities and Exchange Act is promulgated. On June 30, the Japan Securities Exchange is established, and the 11 stock exchanges (as corporations) are abolished to become branch exchanges of the Japan Securities Exchange.
Oct. 19, 1943	Exchange Member Administration Guidelines are issued; Securities Business Administration Guidelines are issued (December 17)
Mar. 10, 1945	After the Great Tokyo Air Raid, the Wartime Finance Bank decides to provide unlimited support by buying at the March 9 price.
Aug. 10, 1945	Japanese stock exchanges nationwide temporarily suspend operations.
Aug. 15, 1945	Japan loses the war.
Sept. 26, 1945	The GHQ releases a memorandum (dated Sept. 25) banning the resumption of business by the securities exchange.
Dec. 1945	Investors start group trading in stocks in Tokyo and Osaka.
Apr. 17, 1946	Shinnihon-Kogyo Corporation's stock is publicly offered as the first public stock offering after the war.
Aug. 8, 1946	The Holding Company Liquidation Commission is established and begins designation of holding companies.
Jan. 18, 1947	The Act Concerning Adjustment, etc. of Disposal of Securities is promulgated.
Mar. 28, 1947	The Act Concerning Dissolution of Japan Securities Exchange is promulgated, and the securities exchange is dissolved on April 16.
Mar. 28, 1947	The Securities and Exchange Law (of 1947) is promulgated.
Apr. 14, 1947	The Antimonopoly Act is promulgated.
July 23, 1947	The Securities and Exchange Commission is established.

Oct. 10, 1947-	The securities democratization movement spread across the country by the end of the year.
Apr. 13, 1948	The revised Securities and Exchange Act (of 1948) is promulgated, and it makes securities companies subject to registration.
Nov. 7, 1948	Article 65 of the Securities and Exchange Act is enforced.
Jan. 31, 1949	The GHQ announces a policy authorizing the resumption of securities trading.
Feb. 12, 1949	Securities companies hold inauguration meetings of stock exchanges in Tokyo (Feb. 12), Osaka (Feb. 15), and Nagoya (Mar. 7).
Apr. 20, 1949	Adams GHQ Officer in charge of securities instructs the three principles of securities exchange.
May 9, 1949	The Japan Securities Dealers Association is founded (as a federation of securities dealers associations).
May 16, 1949	The stock exchanges of Tokyo, Osaka, and Nagoya start floor trading.
July 4, 1949	Stock exchanges in Fukuoka, Hiroshima, Kobe, Kyoto, and Niigata start floor trading.
Apr. 1, 1950	The Sapporo Stock Exchange starts floor trading.
June 25, 1950	Disturbance outbreaks in Korea.
June 1, 1951	Margin trading is started.
June 1, 1951	The Securities Investment Trust Act is promulgated and enforced, and stock investment trusts start operating on June 15.
Jan. 4, 1952	Based on the Dow Jones stock pricing method, average stock prices (TSE average stock price) are adopted on exchanges and announced.
Apr. 28, 1952	Treaty of Peace with Japan and the U.S.-Japan Security Treaty come into effect.
Aug. 1, 1952	The Securities and Exchange Commission is abolished, and its function is transferred to the Securities Section of the Finance Bureau of the Ministry of Finance.
Sept. 10, 1952	The Securities and Exchange Council is created.

Mar. 5, 1953	Nationwide stock markets crash at the news of Russian leader Stalin is in a critical condition.
Oct. 26, 1954	The Tokyo Stock Exchange's labor union goes on strike, demanding improvements in labor conditions.
June 1955	Movements to revive term (time bargain) transactions reach a peak.
Apr. 2, 1956	The stock exchanges in Tokyo and Osaka open a bond trading market.
Oct. 7, 1958	Trading on the Tokyo Stock Exchange tops 100 million stocks for the first time.
Feb. 18, 1959	Foreign currency-denominated bonds (USD public bonds) are issued for the first time after the war.
Jan. 11, 1961	Bond investment trusts are launched.
July 18, 1961	The Dow Jones average stock price hits the peak at 1,829.74.
Oct. 2, 1961	The stock exchanges of Tokyo, Osaka, and Nagoya open Second Sections.
July 18, 1963	President Kennedy of the United States proposes the creation of an interest equalization tax, and stock prices on the Tokyo Stock Exchange crash on July 19.
Jan. 20, 1964	Japan Joint Securities is founded and continues to buy stocks from the fall season to the end of the year.
Sept. 25, 1964	Capitalization Coordinating Committee agrees to restrain capital increases after February 1965.
Jan.12, 1965	Japan Securities Holding Association is founded, takes on stock holdings of investment trusts.
May 21, 1965	Talks about the rehabilitation of the near-bankrupt Yamaichi Securities are reported, plunging the market into a semi-crash.
May 28, 1965	The Bank of Japan decides to provide special loans to 19 management companies including Yamaichi Securities.
July 27, 1965	Economic reconstruction measures, including the policy for issuing deficit-covering government bonds, are decided.
Oct. 1, 1965	The amended Securities and Exchange Act is enforced; among other things, it requires securities companies to obtain a license from the government.

July 1, 1967	Liberalization of capital transactions (first round) is implemented.
Apr. 1, 1968	Securities companies are fully transfered to a license system.
June 4, 1968	The Tokyo Stock Exchange's market capitalization on its 1st section reaches ¥10 trillion.
Jan. 31, 1969	Nihon Gakki pursues capital increase by issuing shares on market with preferential terms for shareholders. Issuing of shares on market becomes active.
July 1, 1969	TOPIX is introduced.
Mar. 3, 1971	The Law Concerning Foreign Securities Firms is promulgated.
Jan. 24, 1973	The Dow Jones average stock price hits a peak of 5,359.74.
Feb. 13, 1973	The government shifts the exchange rate system to a floating exchange rate system.
June 2, 1973	Agreement reached with OPEC on major oil companies and raising of oil prices; the first oil crisis begins.
1975	The Ministry of Finance starts issuing a massive amount of government bonds, and the turnover of bonds on the OTC market increases sharply.
May 15, 1978	The Tokyo Stock Exchange celebrates its 100 year anniversary and enters its second century.
Mar. 30, 1979	Unsecured corporate bonds (Sears, Roebuck and Company) are issued for the first time since the end of the war.
Dec. 1, 1980	A new Foreign Exchange and Foreign Trade Act is enforced, and in- and out-bound securities investments are liberalized, in principle.
Oct. 1, 1982	Revised Commercial Code is enforced, unit share system is introduced, and the face value of newly founded company's stock is set at ¥50,000.
Apr. 9, 1983	City banks and other financial institutions start OTC sale of government bonds.
Apr. 20, 1984	The Law Concerning the Custody and Transfer of Stock Certificates is promulgated.
Oct.19, 1985	The Tokyo Stock Exchange starts bond futures trading, the first securities futures trading since the end of the war.

Dec. 24, 1985	Merrill Lynch and five other foreign securities firms are admitted to the Tokyo Stock Exchange for the first time.
Oct.11, 1986	NTT begins offering its shares to the general public.
Nov. 25, 1986	The Law Concerning the Regulation of Investment Advisers Relating to Securities is enforced.
June 9, 1987	The Osaka Securities Exchange starts Futures 50 trading as the first stock futures trading market.
Oct. 20, 1987	The Tokyo Stock Exchange records the largest fall (14.9%) following the crash of the New York market, Black Monday; stock price crash ripples throughout the world.
Dec. 15, 1987	The Law Concerning the Regulation of Mortgage-Backed Securities Business is enforced.
Sep. 3, 1988	The Tokyo Stock Exchange (TOPIX) and the Osaka Securities Exchange (the Nikkei 225) start stock index futures trading on full scale.
June 12, 1989	The stock exchanges in Osaka (Nikkei 225); Nagoya (Option 25, on Oct. 17); and Tokyo (TOPIX) start trading stock index options.
Dec. 29, 1989	The Dow Jones average (the Nikkei average) shoots up to an all-time high of 38,915.87.
Mar. 20, 1990	With the rapid plunge in stock prices, public offering of stocks on the market has come to a halt.
June 24, 1991	Following the involvement of the big four securities companies in the loss compensation issue with corporate clients and in transactions with antisocial forces, the President of Nomura Securities and the President of Nikko Securities take responsibility and resign, which leads unfolding securities scandals over the subsequent several months.
Oct. 3, 1991	The revised Securities and Exchange Act is approved. Revisions include the prohibition of discretionary account transactions and prohibition of loss compensation dealings.
June 26, 1992	The Law Concerning Realignment of Related Laws for a Reform of the Financial System and the Securities Trading System is promulgated, and the Securities and Exchange Surveillance Commission is launched on July 20.

Aug. 18, 1992	The Nikkei stock average plunge to 14,309.41 and emergency measures are quickly announced. Comprehensive economic measures, including the injection of public funds, are revealed (August 28).
July 2, 1993	Kogin Securities and other securities companies affiliated with financial institutions were established for the first time.
Apr. 1, 1994	Brokerage commissions securities companies charge on block trading are liberalized.
Oct. 1, 1994	Amendment to the Commercial Code for deregulating treasury stock purchases is enforced.
Feb. 26, 1995	Barings Securities of U.K. goes bankrupt.
Aug. 30, 1995	Hyogo Bank goes bankrupt under the Banking Act for the first time after the war and the BOJ provides a special loan.
Sept. 8, 1995	The Bank of Japan cuts the discount rate to an all-time low of 0.5%.
Jan. 1, 1996	The regulation of the issuance of corporate bonds is abolished.
June 21, 1996	Six laws relating to housing-loan and financial matters are promulgated.
Nov. 11, 1996	Prime Minister Ryutaro Hashimoto instructs his cabinet to come up with ideas for a sweeping financial system reform to revive the Tokyo market in preparation for the 21st century (a Japanese version of the "financial Big Bang").
Apr. 25, 1997	Nissan Life Insurance becomes the first bankrupt life insurer after the war.
June 20, 1997	The Act for Establishing Financial Supervisory Agency is promulgated.
Nov. 3, 1997	San'yo Securities, Hokkaido Takushoku Bank (Nov. 17), and Yamaichi Securities (Nov. 22) go virtually bankrupt.
Apr. 1, 1998	The government starts carrying out Big Bang reforms, the amended Foreign Exchange and Foreign Trade Act is enforced, and the brokerage commission on trades worth ¥50 million or more and less than ¥1 billion are liberalized.
June 22, 1998	The Financial Supervisory Agency is launched.
Sept. 1, 1998	The SPC Act is enforced.

Oct. 16, 1998	Eight laws related to financial reconstruction are promulgated.
Oct. 23, 1998	The Long-Term Credit Bank of Japan and Nippon Credit Bank, Ltd. (December 13) are placed under temporary government control.
Dec. 1, 1998	The Act on Revision, etc. of Related Acts for the Financial System Reform is enforced.
Dec. 15, 1998	The Financial Reconstruction Commission is launched.
Apr. 1, 1999	Securities companies start managing their customers' assets separately from their own.
Oct. 1, 1999	Brokerage commissions on stock transactions are liberalized.
Nov. 11, 1999	The Tokyo Stock Exchange launches Mothers market, a market for high-growth and start-up stocks.
Mar. 1, 2000	The Niigata Stock Exchange and the Hiroshima Stock Exchange are consolidated into the Tokyo Stock Exchange.
Mar. 17, 2000	The regulatory agency cancels the securities registration of Minami Securities, the first such cancellation ever in Japan.
May 8, 2000	The Osaka Securities Exchange opens the NASDAQ Japan market, later converted to the Hercules market for start-up companies on Dec. 16, 2002.
May 31, 2000	The Securities and Exchange Act as amended in 2000 is promulgated, and the portion of the Securities and Exchange Act that provides for reorganizing stock exchanges into corporations is enforced on Dec. 1.
May 31, 2000	The Act on Sales, etc. of Financial Instruments is promulgated.
July 1, 2000	The Financial Services Agency goes into operation.
Mar. 1, 2001	The Kyoto Stock Exchange is consolidated into the Osaka Securities Exchange.
June 1, 2001	The system of electronically disclosing the contents of securities reports, etc. (Electronic Disclosure for Investors' NETwork "EDINET") goes into operation.
Oct. 1, 2001	The amended Commercial Code—lifting the ban on treasury stocks and instituting the system of trading units of shares—is enforced.

Nov. 30, 2001	The amended securities taxation system (which reduces the tax rate applicable to capital gains made by individuals from the sale of shares) is enforced.
Dec. 17, 2001	Nomura Holdings is listed on the NYSE.
Jan. 30, 2002	Banks' Shareholdings Purchase Corporation is established.
June 5, 2002	The Act on Securities Settlement System Reform Law is enacted.
Nov. 29, 2002	The Bank of Japan starts buying up cross-held shares released by banks.
Dec. 1, 2004	The ban on banking institutions against engaging in the securities intermediary service business is lifted.
Dec. 13, 2004	The JASDAQ Stock Exchange opens for business.
June 14, 2006	The Financial Instruments and Exchange Act is published and goes into effect Sept. 30, 2007.
Sept. 15, 2008	Lehman Brothers Holdings Inc. files for protection under Chapter 11 of the U.S. Bankruptcy Code, creating the Lehman Shock that spins the world into financial crisis.
Jan. 5, 2009	Japan implements a fully dematerialized registration system for stocks.
Mar. 11, 2011	Great East Japan Earthquake occurs, followed by a hydrogen explosion at Tokyo Electric Power Company's Fukushima nuclear power facility on March 13.
Aug. 5, 2011	S&P lowers the long-term credit rating for U.S. government bonds from AAA to AA+.
Jan. 1, 2013	The Tokyo Stock Exchange Group, Inc. and Osaka Securities Exchange Co., Ltd., merged their operations, giving birth to the Japan Exchange Group, Inc. (JPX)
Apr. 4, 2013	The Bank of Japan introduced a quantitative and qualitative monetary easing program aimed at achieving 2% inflation in the Japanese economy within two years.
Mar. 5, 2015	FSA and TSE decide on the Corporate Governance Code.
Nov. 27, 2015	MOF records negative yield for the first time in the 2-year JGB auction.
Jan. 29, 2016	BOJ decides on additional monetary easing policy of applying negative interest rates in part on excess reserves at its Monetary Policy Meeting.

Aug. 31, 2016	Nomura Asset Management ends the management of MMFs.
May 29, 2017	FSA recommends individual disclosure of the results of voting rights exercise for institutional investors.
Apr. 1, 2018	FSA opens registration system for High Frequency Trading (HFT) operators.
July 30, 2019	JPX announces a definitive agreement to acquire Tokyo Commodity Exchange to create a single consolidated exchange.
Oct. 1, 2019	Charles Schwab cuts trading fees for stocks, ETFs and options to zero.
Oct. 25, 2019	Toyota Finance Corporation issues 0% yïeld bond.
Feb. 25, 2020	Nomura Securities announces investment trust with 0% trust fee.
Mar. 30, 2020	Nomura Securities and Nomura Research Institute issue bonds using blockchain technology.
Apr. 20, 2021	SBI Securities issues corporate bond-type digital securities, the first security token offering for general investors in Japan.
Nov. 1, 2021	Launch of financial services intermediary business.
Apr. 4, 2022	TSE reorganizes four existing markets into three markets: Prime Market, Standard Market and Growth Market.
Dec. 23, 2022	The government passes a cabinet order to make the NISA permanent and significantly expand it from Jan. 1, 2024.
Sep. 30, 2023	SBI Securities waives brokerage fees for domestic stocks.
Dec. 25, 2023	Osaka Digital Exchange launches trading of digital securities.
Feb. 22, 2024	The Nikkei Stock Average reaches 39,098.68, surpassing its previous record high for the first time in 34 years.
Mar. 19, 2024	The Bank of Japan decides to end its negative interest rate policy and abolish yield curve control.
Aug. 31, 2025	Japan Post Bank announces plans to issue a digital currency for its depositors.
Oct. 27, 2025	The Nikkei Stock Average surpasses the 50,000 mark for the first time in history.

The "Chronology of Events Related to Securities" that covers more details of events from 1945 is available on the Japanese-language website of the Japan Securities Research Institute (JSRI) (https://www.jsri.or.jp/). Events may be searched by name.

The "Chronology of Events Related to Securities" is also contained in the following publication issued by the JSRI:

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