

The 8th Japan Securities Summit

Is Japan Back?:
Some Progress, but a Need for More

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Agenda

- Corporate Governance Measures
- Other Market Enhancement Measures
- Market Impact
- The Need for More

Corporate Governance Measures

- JPX Nikkei 400 (January 2014)
- Stewardship Code (February 2014)
- Company Law Revisions – Comply or Explain (May 2015)
- Corporate Governance Code (June 2015)
- FSA Follow up Council (June 2015)

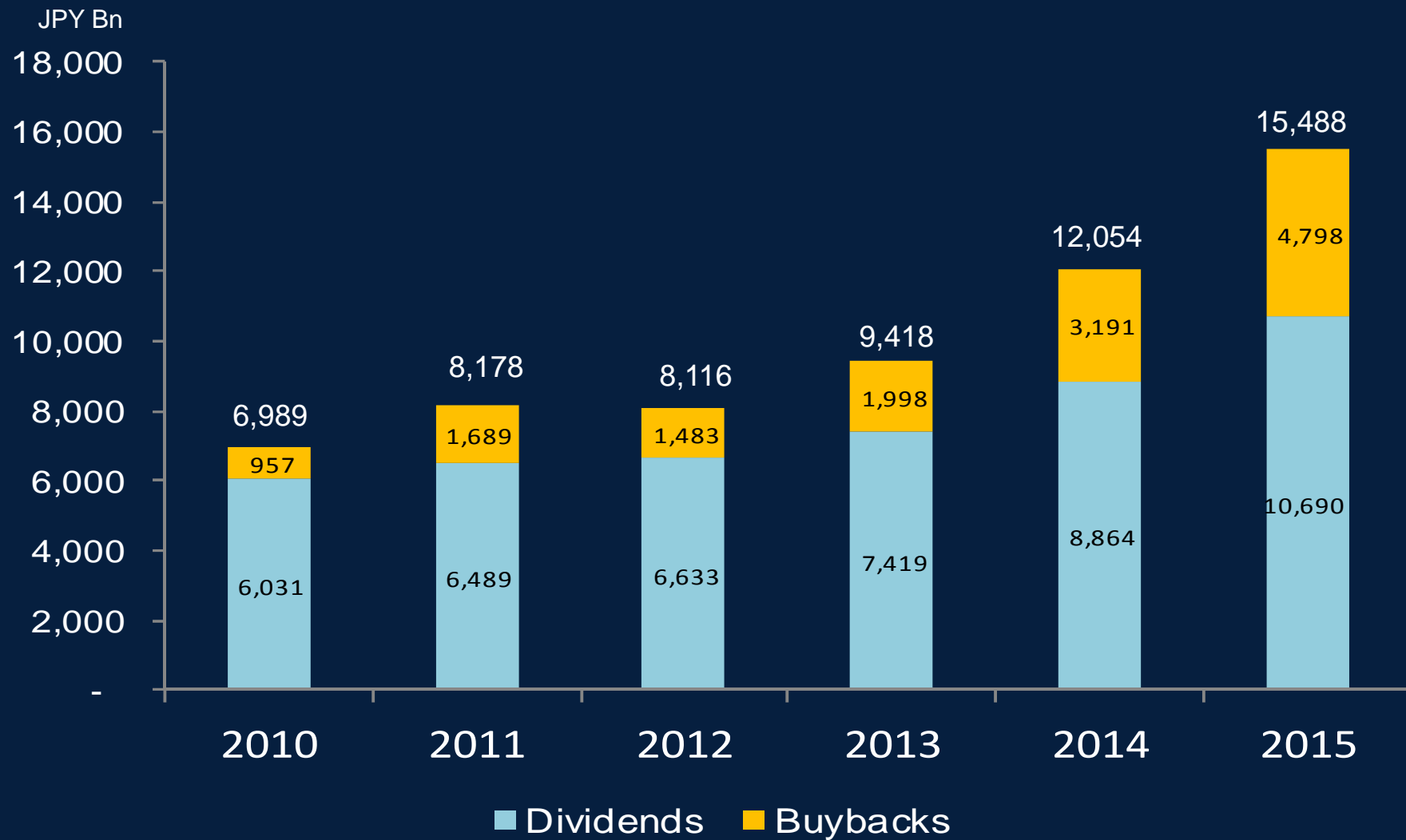
Other Market Enhancement Measures

- Monetary Policy Bazookas
- Better Regulation
- Nippon Individual Savings Accounts
- Government Pension Investment Fund (GPIF) Portfolio Shift
- Trans Pacific Partnership (TPP)

Market Impact (The Good)

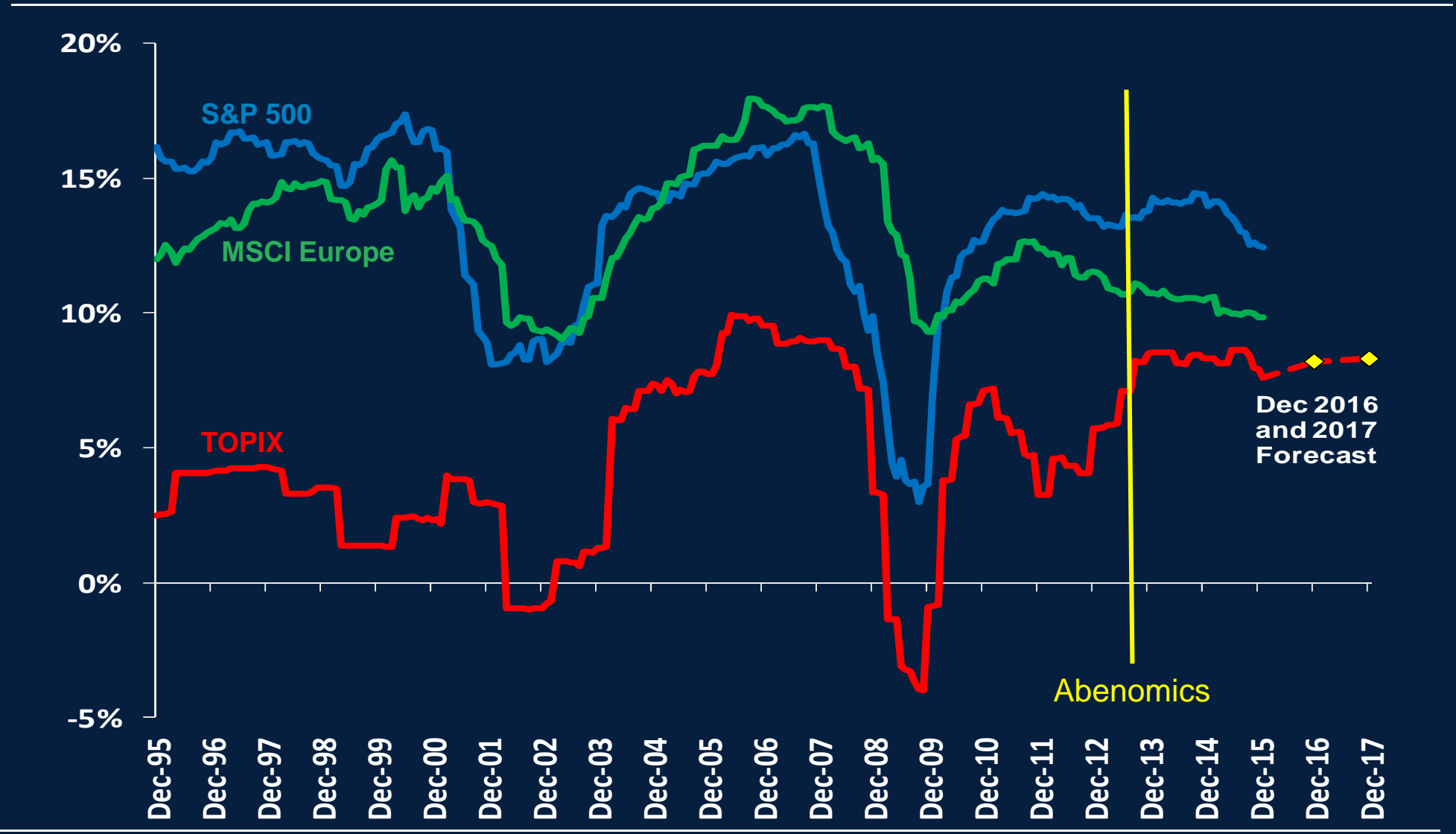
- Share Buybacks / Dividends 
- Return on Equity 
- Cross Shareholdings 
- Market Trading Volume and Revenue Wallet 
- Real Interest Rates 
- Core CPI (ex Energy) 

Share Buybacks / Dividends



Source: NEEDS, Bloomberg, Morgan Stanley

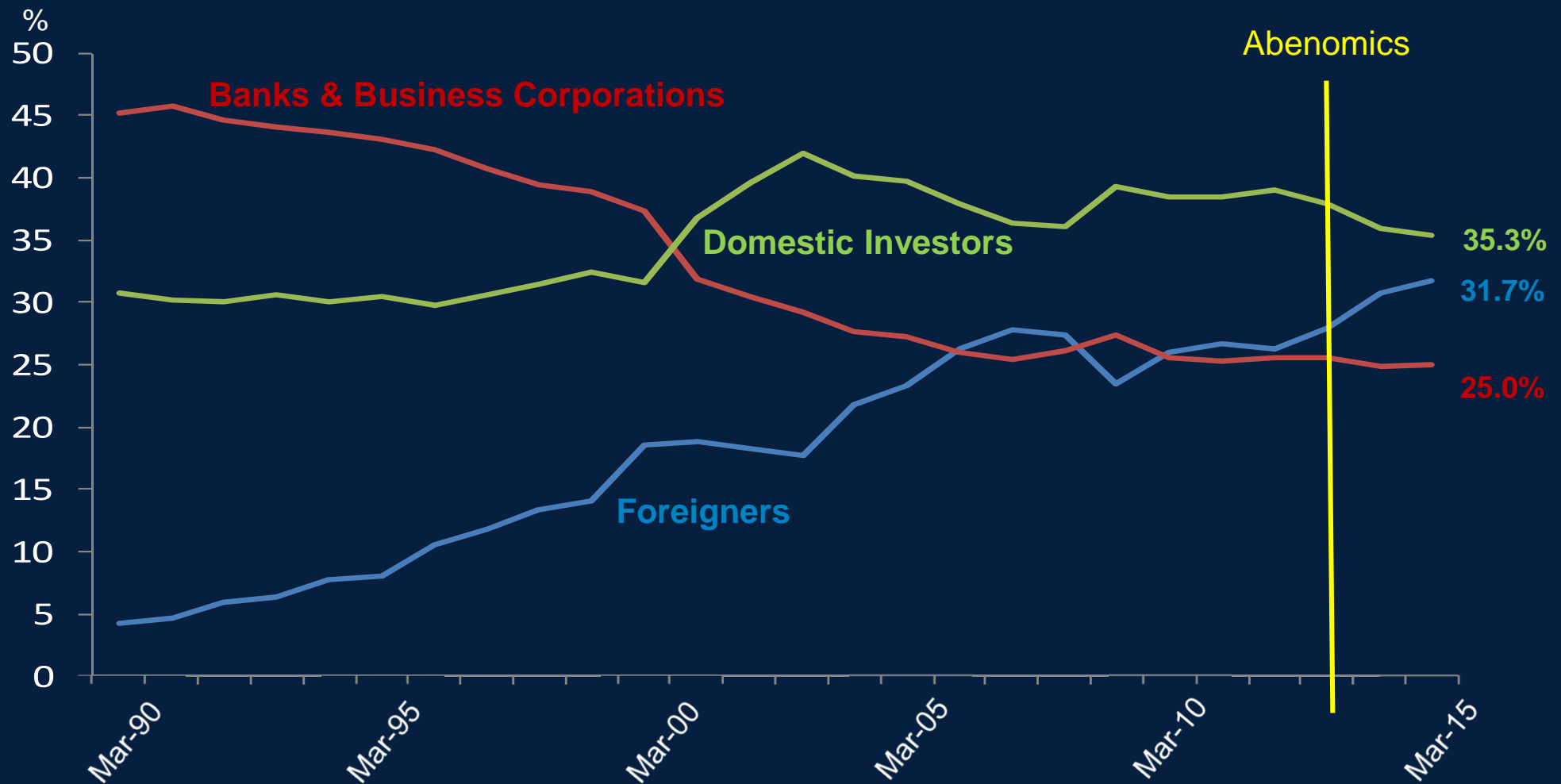
Return on Equity



Source: MSCI, RIMES, Bloomberg, Morgan Stanley. Monthly data as of Jan 31, 2016

Cross Shareholdings ↓

Japanese Companies Shareholding Trend



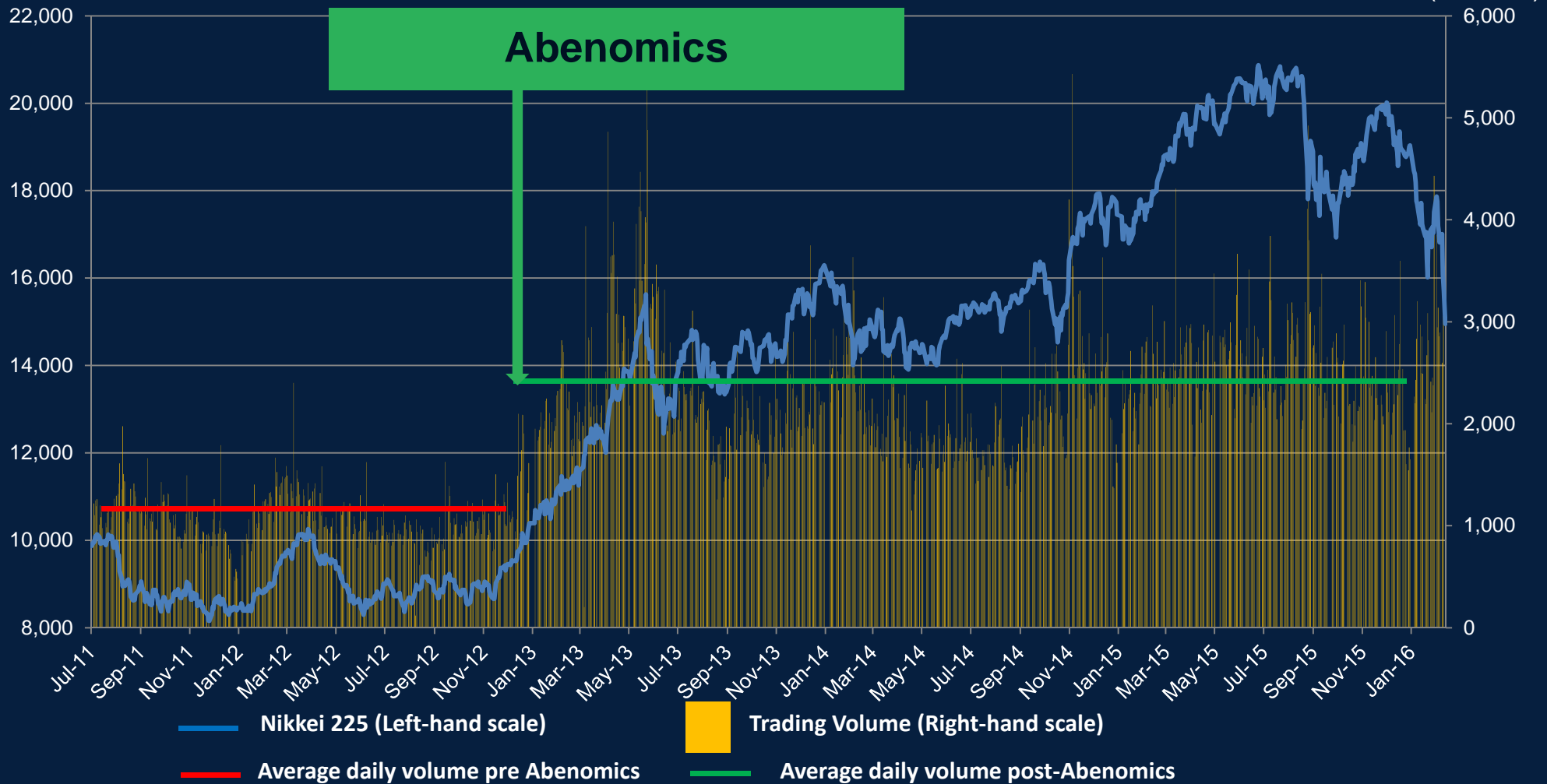
Source: Tokyo Stock Exchange, Morgan Stanley

Market Trading Volume

Nikkei 225

JPX Volume

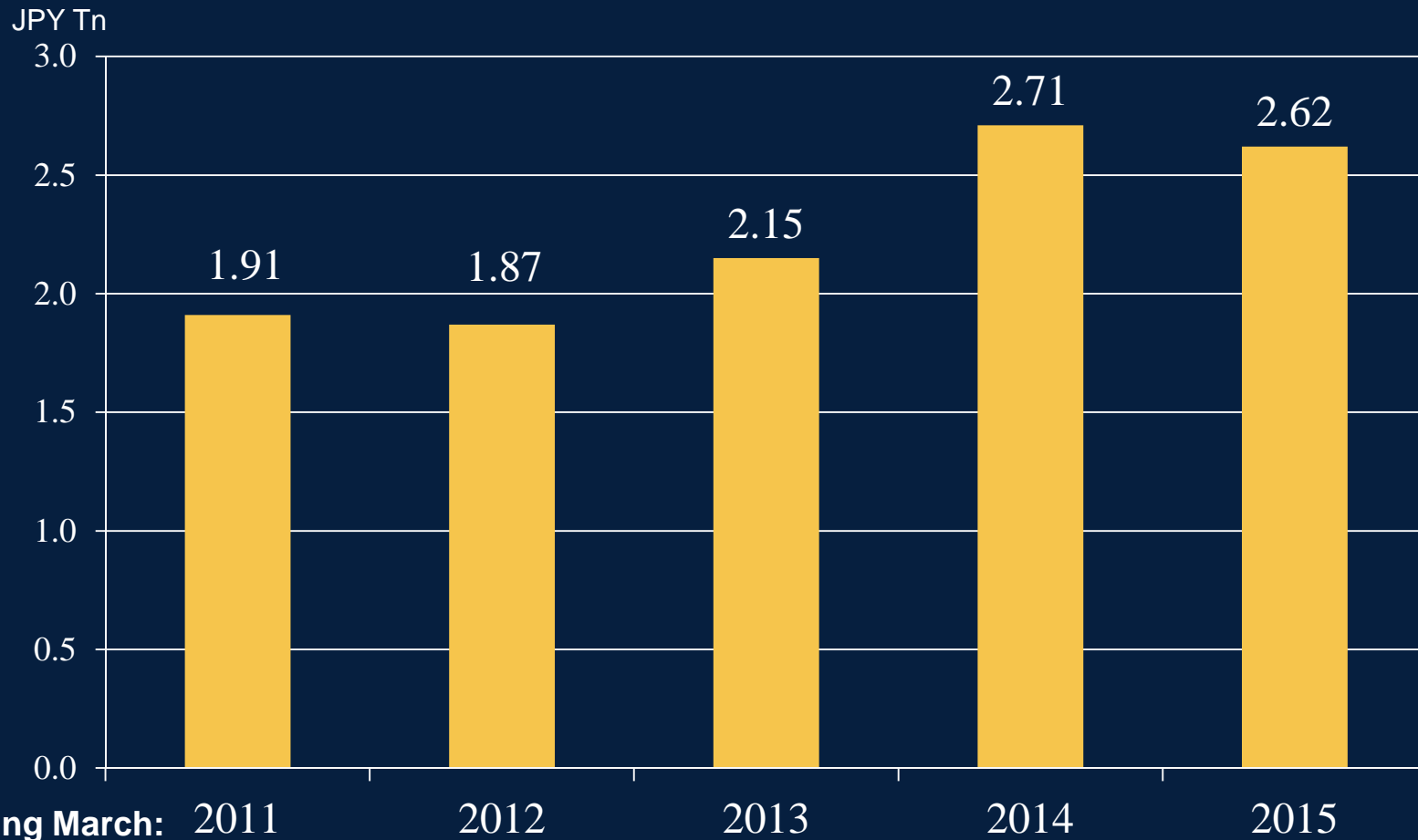
(JPY Bn)



Source: Japan Exchange Group, Morgan Stanley

Revenue Wallet

Japan Securities Industry Total Net Operating Revenue ⁽¹⁾

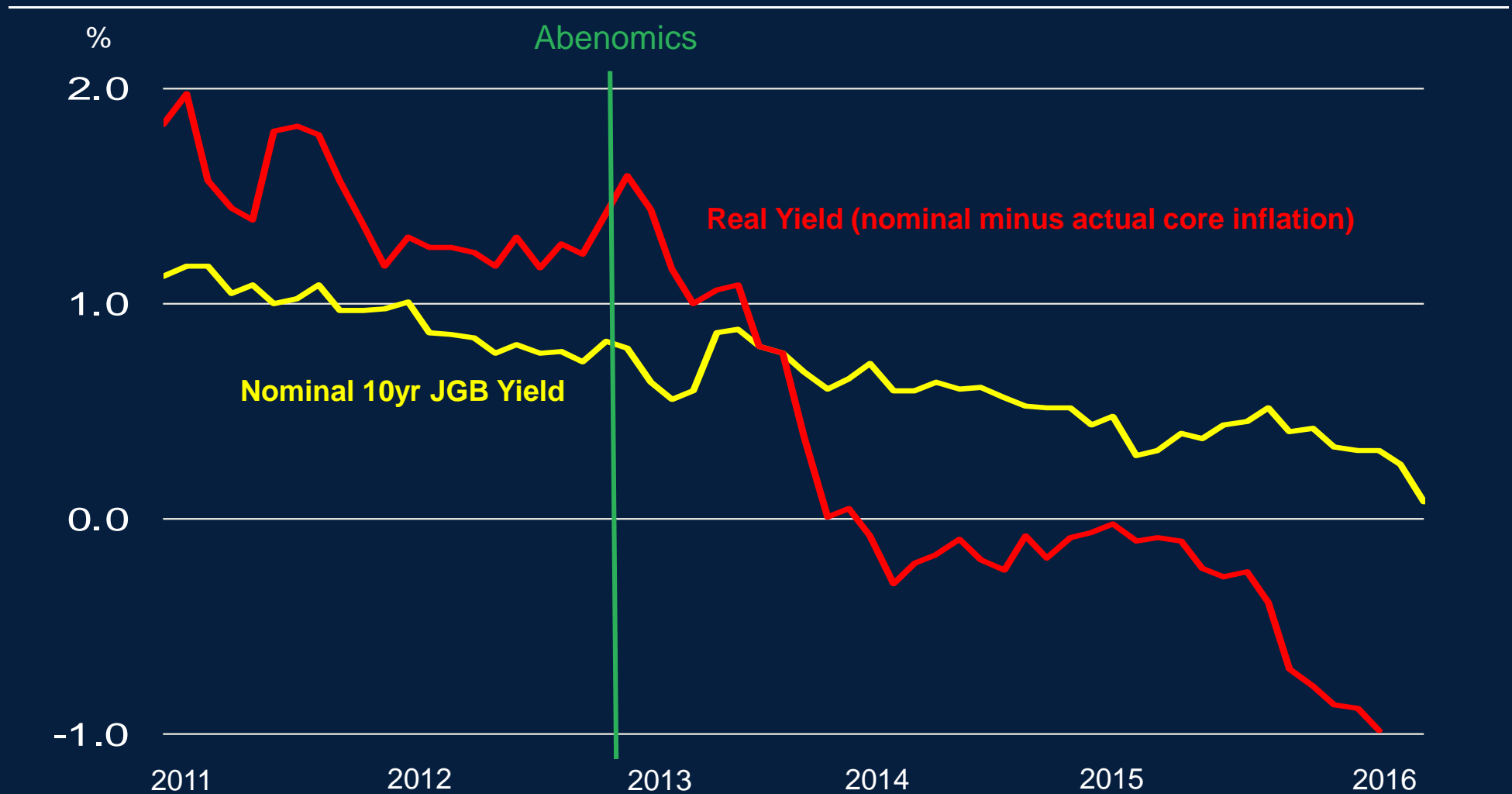


Source: Company Disclosures, Morgan Stanley

Note

1. Aggregate amount of net operating revenues of large domestic and foreign securities firms

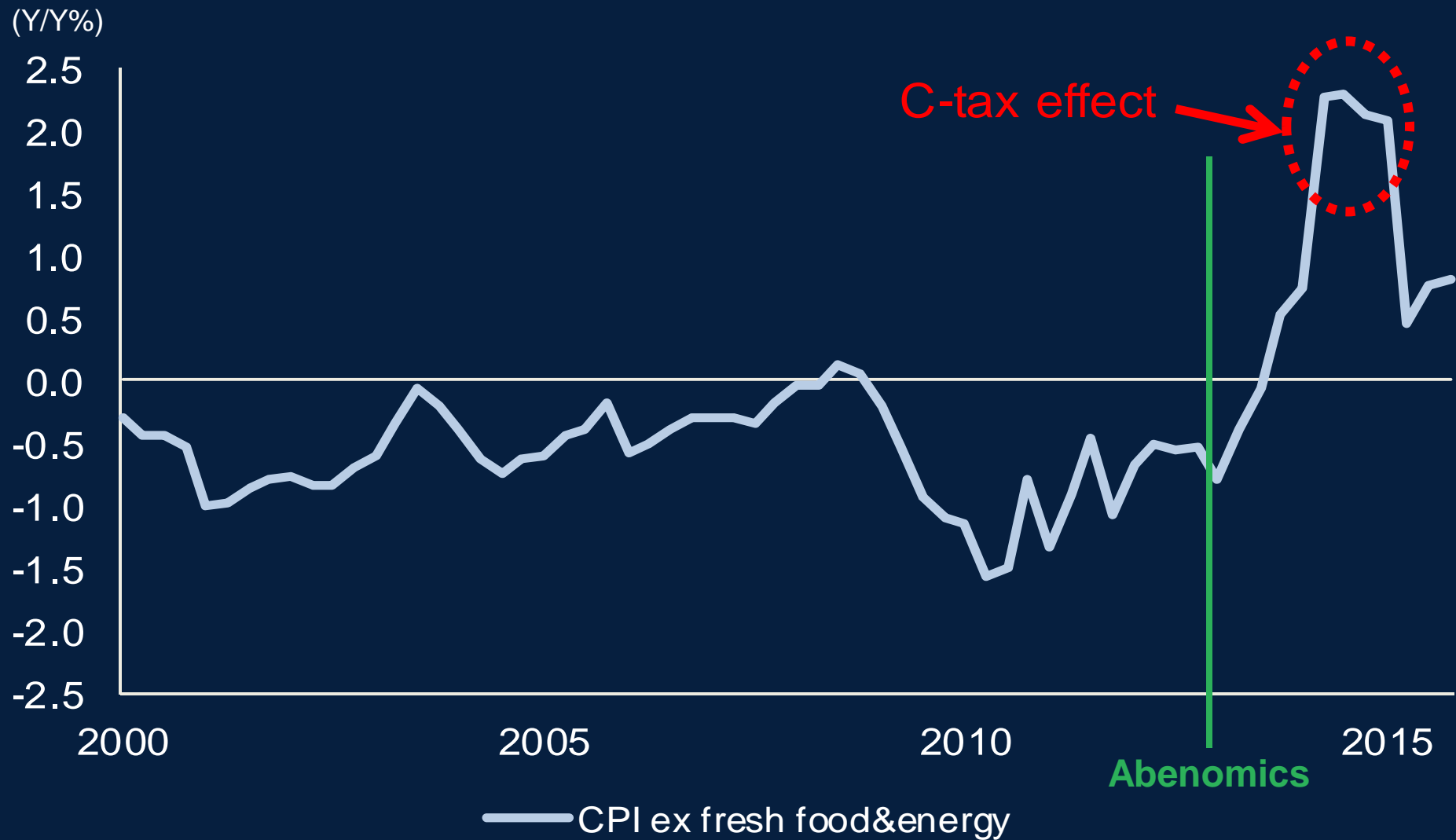
Real Interest Rates



Source: Bank of Japan, Morgan Stanley

Core CPI (ex Energy) ↑

CPI excluding fresh food and energy



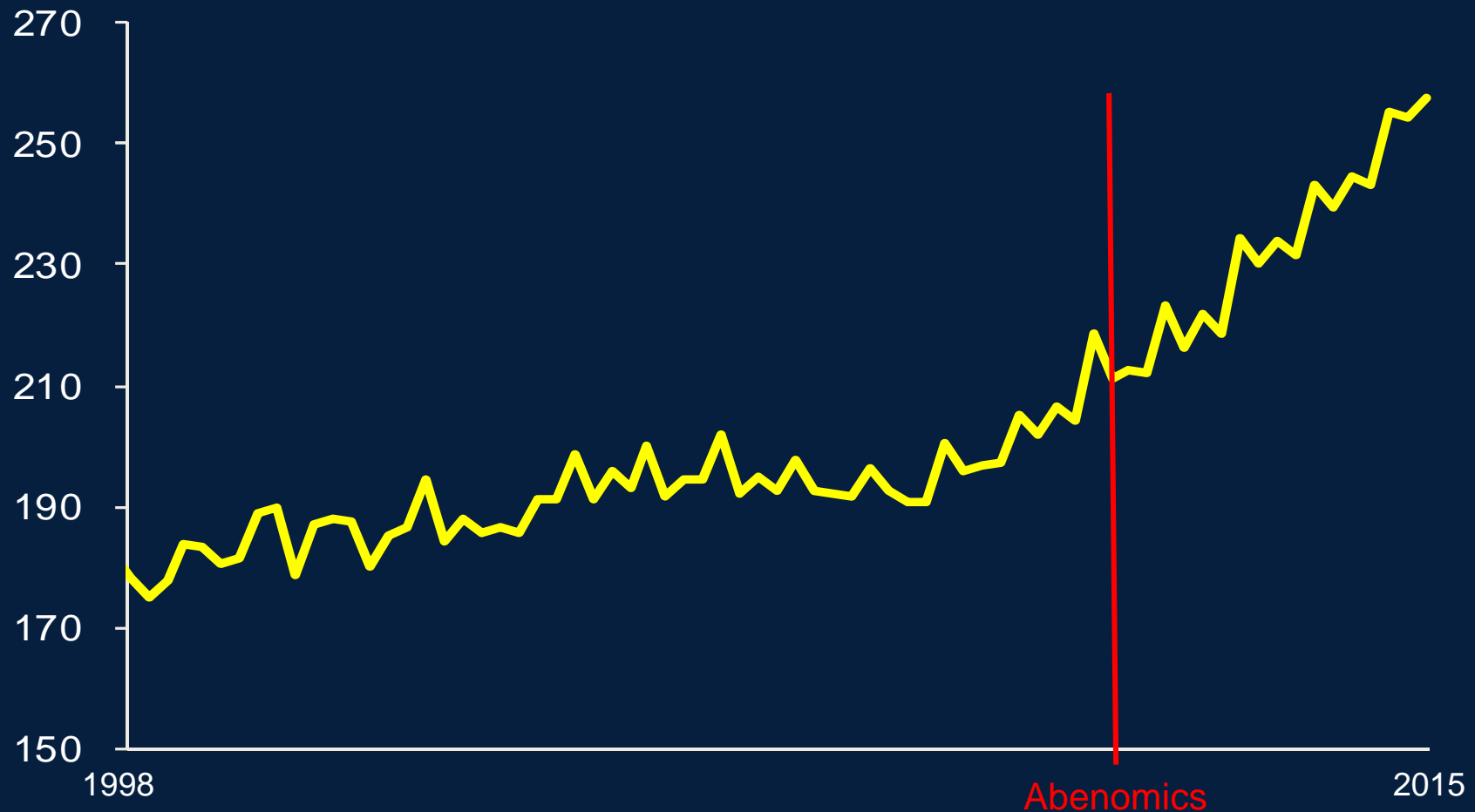
Source: Cabinet Office, Ministry of Internal Affairs and Communications, Morgan Stanley

Market Impact (The Not So Good)

- Corporate Financial Surplus 
- Savings to Investment 
- Inflation Expectations 
- Foreign Direct Investment (FDI) 
- Real GDP  / 

Corporate Financial Surplus

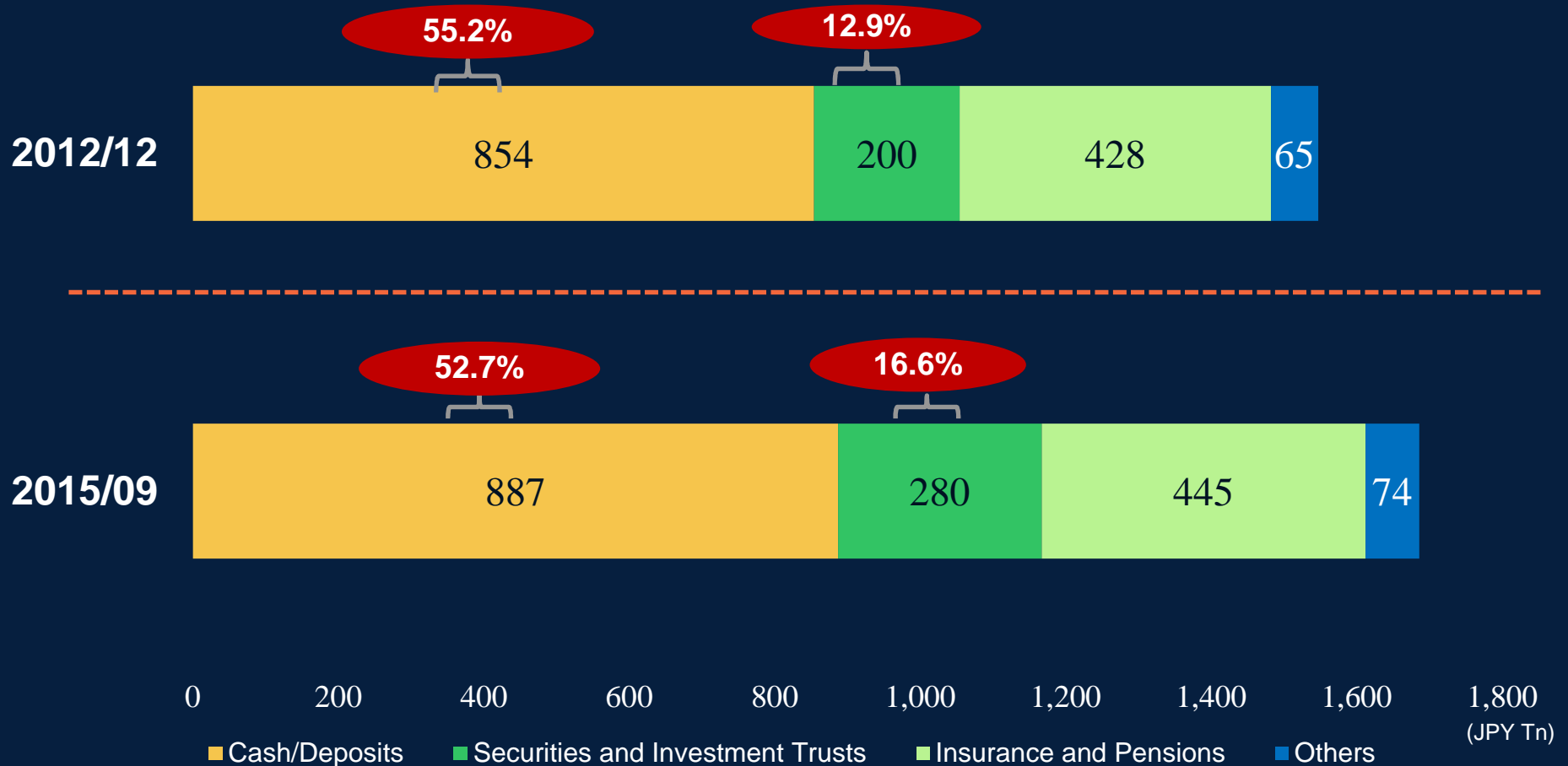
Currency and Deposits of Non-Financial Corporations (JPY trillion)



Source: BoJ, Morgan Stanley

Savings to Investment ↔

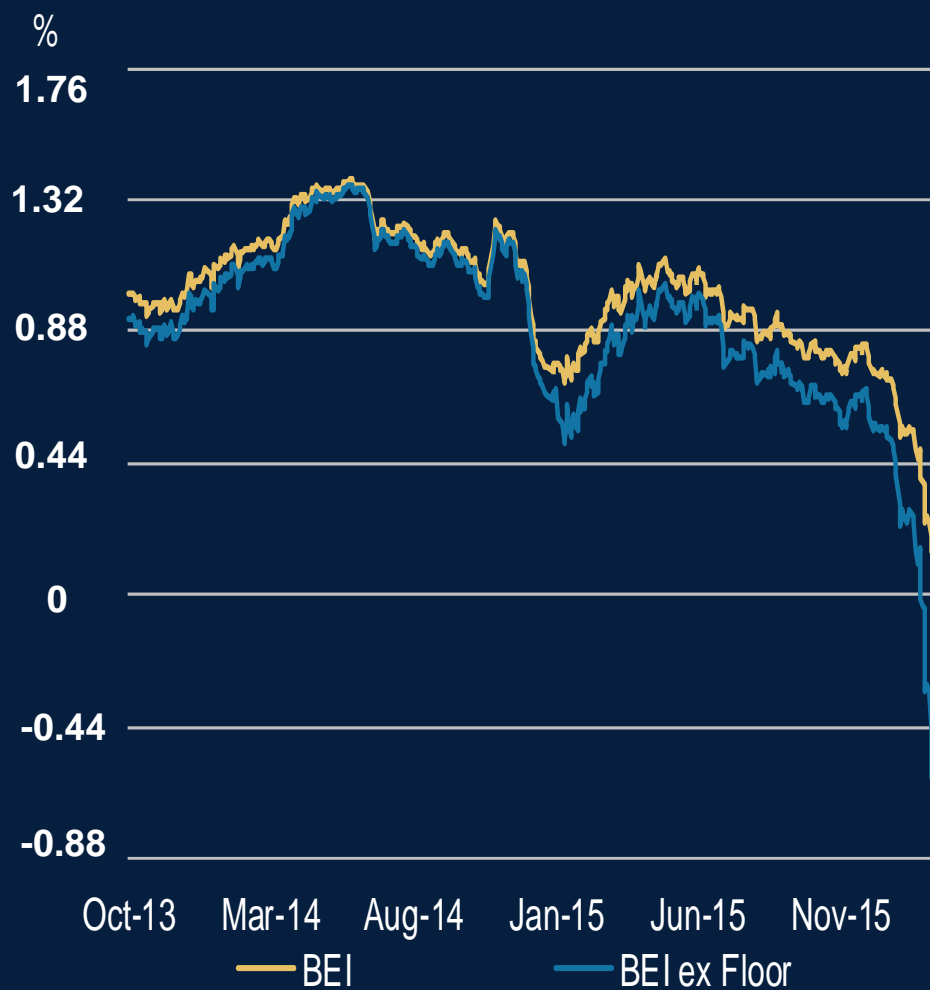
Household Financial Assets Pre and Post Abenomics



Source: BoJ, Morgan Stanley

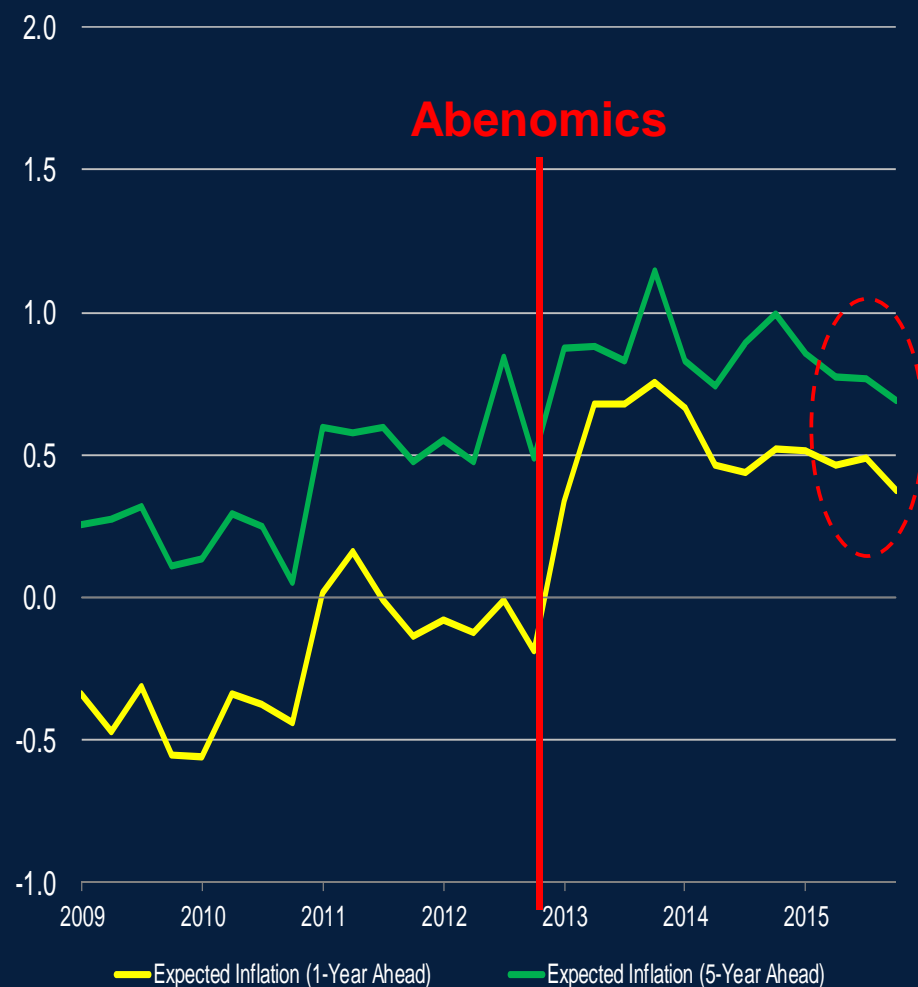
Inflation Expectations

BEI on JGBi



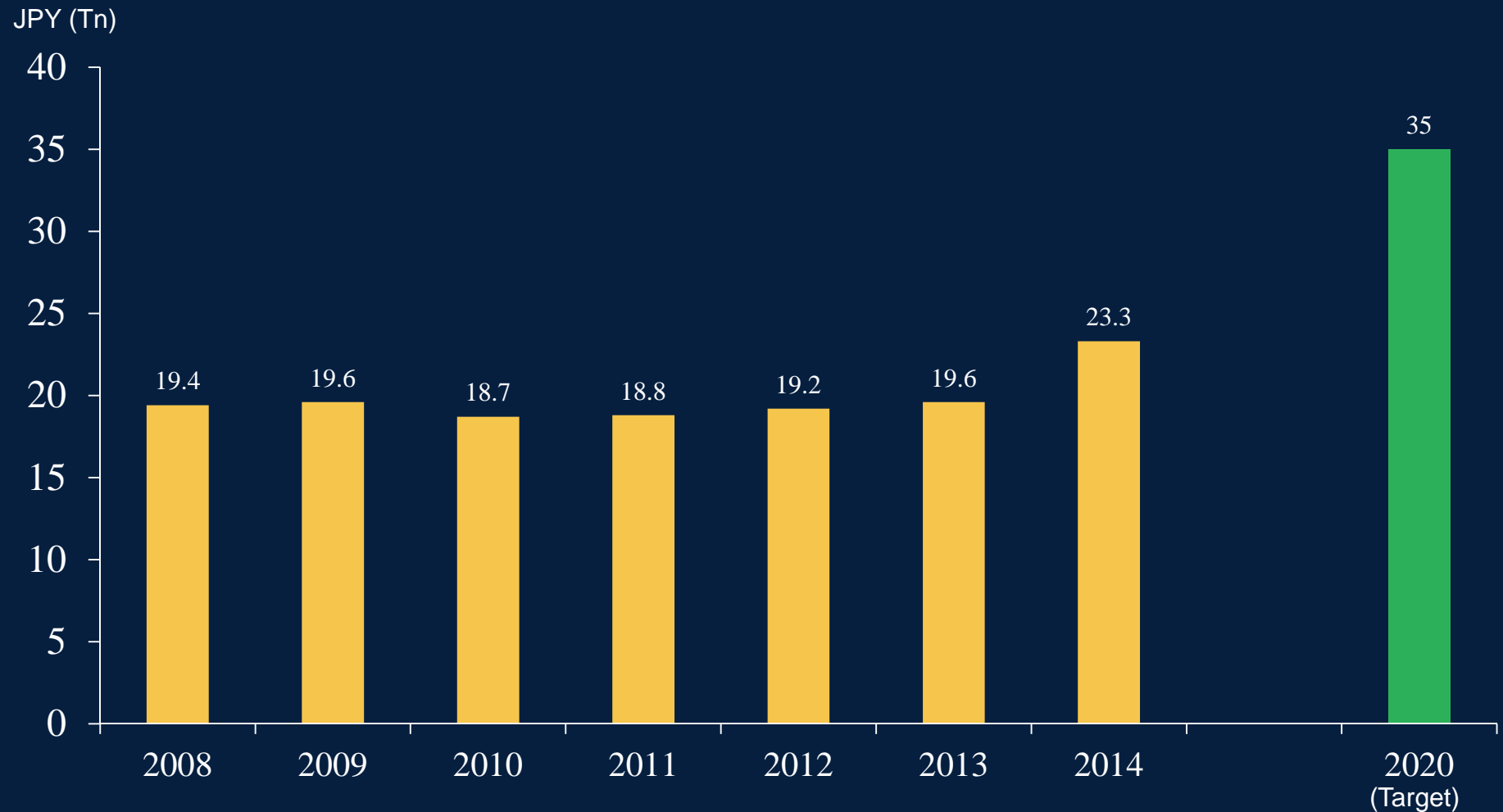
Source: Morgan Stanley

BoJ Surveys



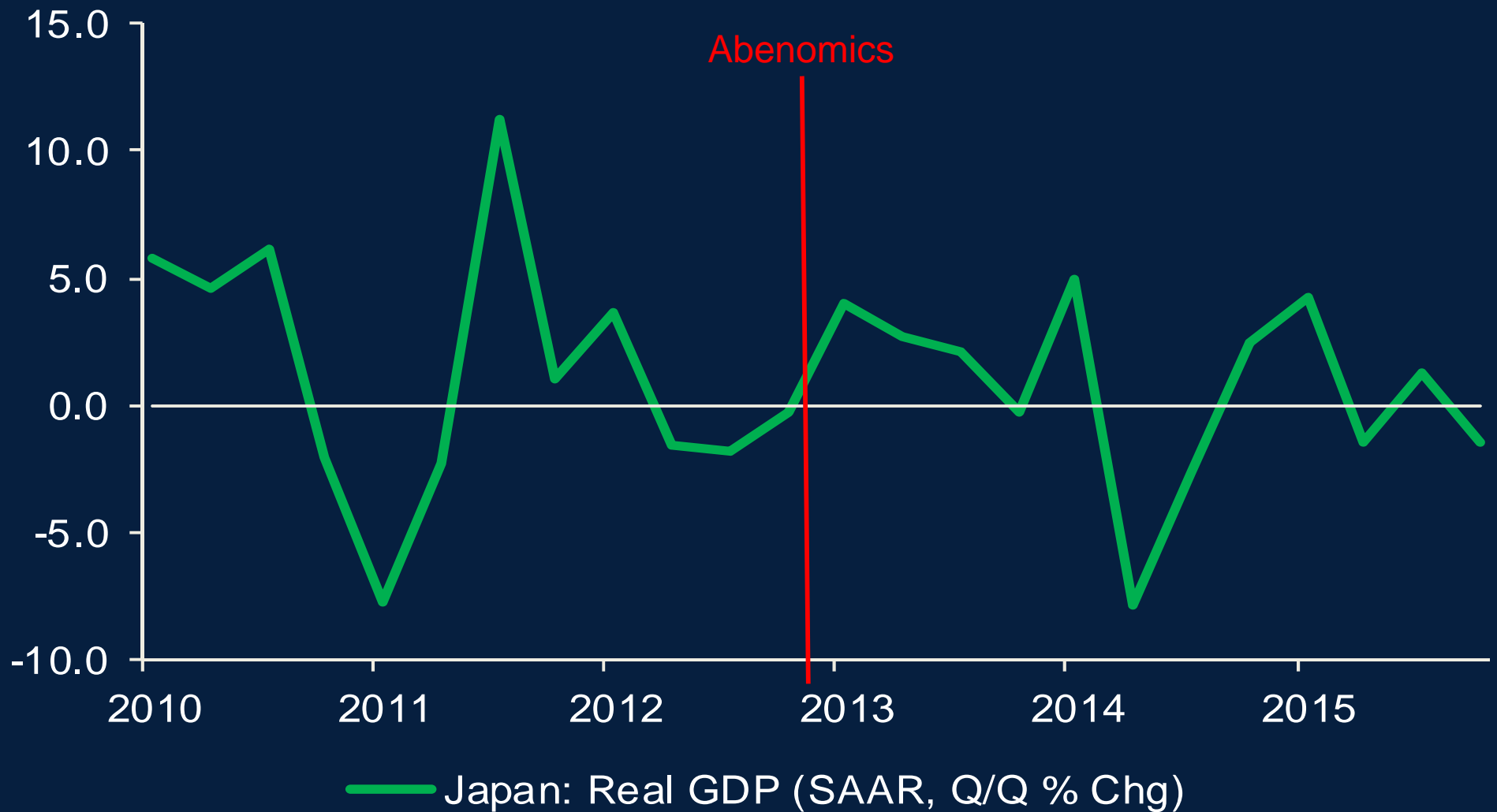
Source: BoJ, MIAC, Morgan Stanley

Foreign Direct Investment ↔



Source: Ministry of Finance

Real GDP ↔ / ↓



Source: Morgan Stanley

The Need for More

- Transmission of Negative Interest Rates
- Inflation Linked Yield Caps
- Immediately Postpone April 2017 Consumption Tax Increase
- Reduce Corporate Tax Rate to 25%
- Inheritance Tax Discount on Equities similar to Real Estate
- Workforce Expansion Measures (inc. foreign)
- Labor Reforms
- Faster FDI Initiatives including Integrated Resorts

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