



**FPL Japan Electronic Trading Conference 2012**

# **Invigorating the Japanese Stock Market**

October 2, 2012

Ryusuke Yokoyama

Executive Officer (Marketing Business Development)

Tokyo Stock Exchange, Inc.



## **I . Current Conditions of the Japanese Market**

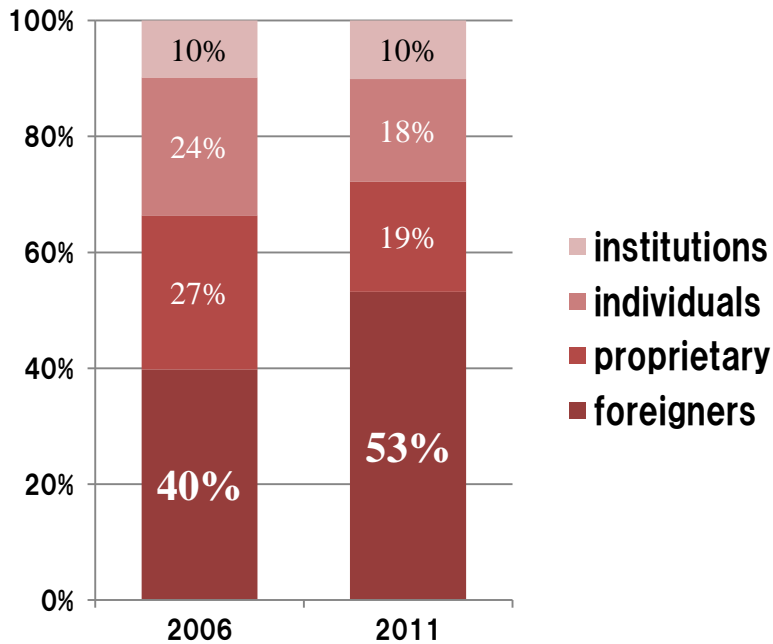
## **II . Approach toward HFT and Algorithmic Trading**

## **III. Approach toward Institutional Investors**

## **IV. Approach toward Individual Investors**

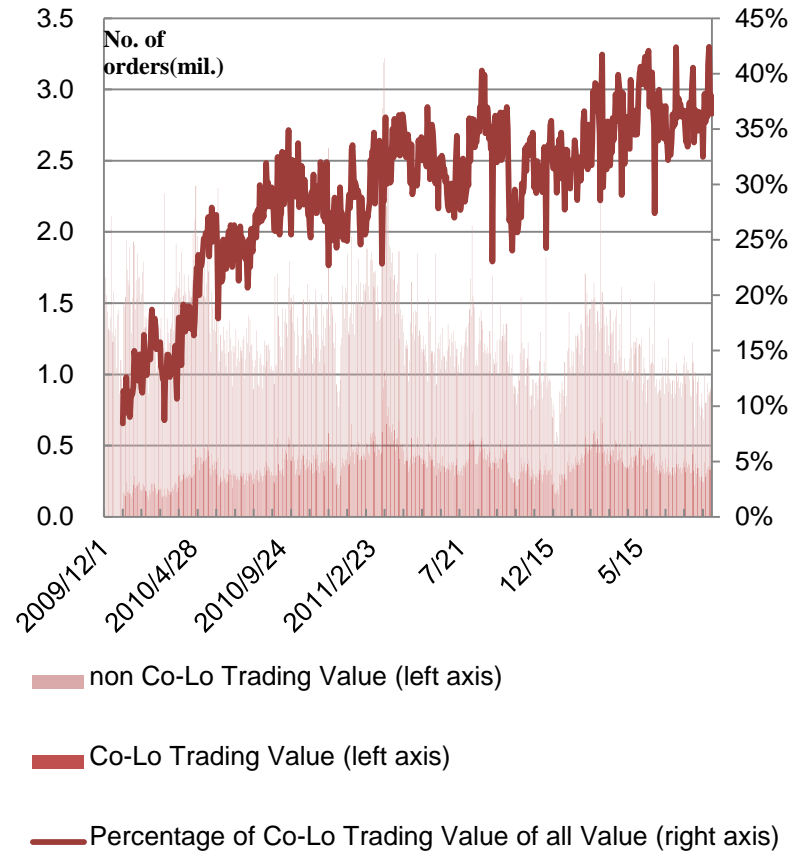
# Rising Ratio of High-speed Trading and Change in Investor Composition

**Change in Investor Composition**



Source: TSE

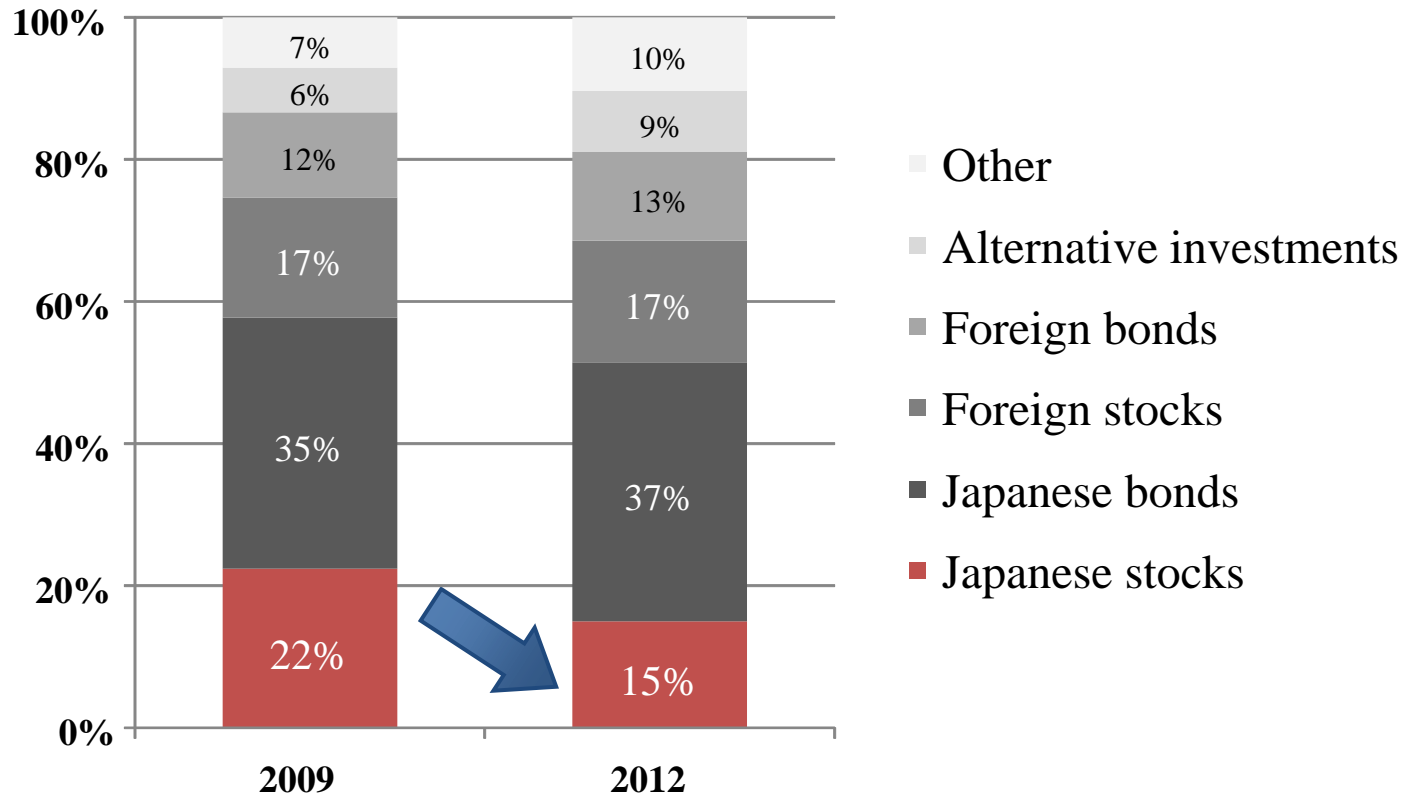
**Ratio of Orders placed via  
Co-Location Area**



Source: TSE

# Overseas Shift by Domestic Institutional Investors

**Change in Asset Allocation of Japanese Pension Funds**



Source: Survey on Trends in Pension Investments by JP Morgan Asset Management (Japan) Limited (2012)

# Japan left behind in the Asian Era

## Change in Market Capitalization of Major Exchanges

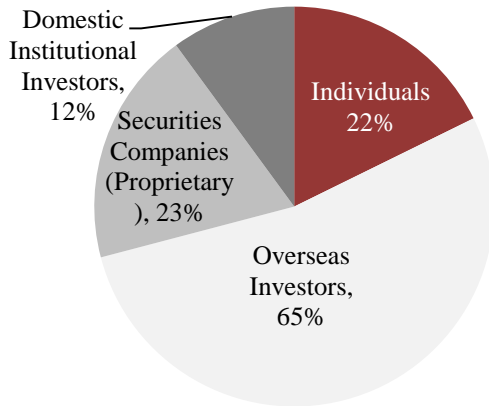
	Exchange	As of end 2006	July 2012	Compared with 2006
		Market Capitalization	Market Capitalization	
Developed Countries	NYSE	15.4	13.2	-15%
	TSE	4.6	3.3	-28%
	NASDAQ	3.9	4.5	+16%
	LSE	3.8	3.3	-13%
	Euronext	3.7	2.5	-33%
Asia	SEHK	1.7	2.4	+40%
	SSE	0.9	2.3	+149%
	KRX	0.8	1.1	+26%
	NSE	0.8	1.1	+38%
	TSEC	0.6	0.7	+12%
	SZSE	0.4	0.7	+84%

Source: WFE

\* Unit of Market Capitalization: USD trillion

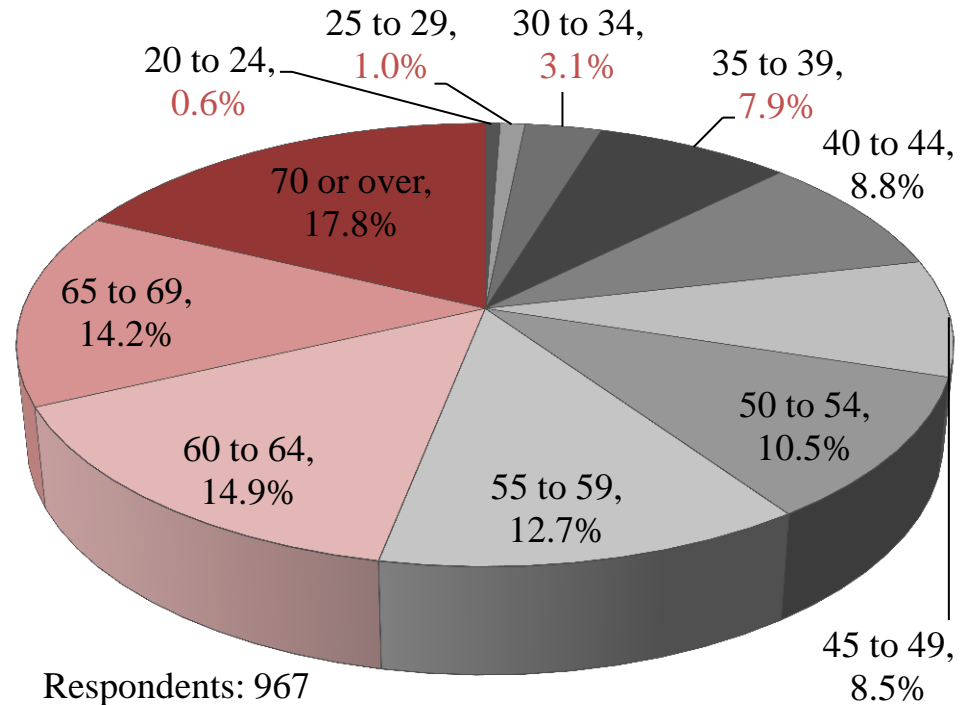
# Prospects of the Industry as seen from Age of Individual Investors

## Investor Composition



Source: TSE

## Individual Investors by Age



Source: Survey on Individual Investors' Awareness of Securities Investments by Japan Securities Dealers Association (2011)

**Individual investors aged 60 or above account for 47%. Unless something is done, the securities industry will be on the wane.**

## **Partial Amendment to the Order for Enforcement of the Financial Instruments and Exchange Act (Oct 2012)**

- The amendment will include removing the 5% rule related to the tender offer restriction that is applied to transactions via PTS (proprietary trading systems).

## **Business Combination between TSE and OSE (Jan 2013)**

- The business combination between TSE and OSE will be implemented in January 2013.
- After the business combination, Japan Exchange Group, Inc. (tentative) will aim to become Asia's number one exchange.



## **I . Current Conditions of the Japanese Market**

## **II . Approach toward HFT and Algorithmic Trading**

## **III. Approach toward Institutional Investors**

## **IV. Approach toward Individual Investors**



## Reduce response time for order acceptance notices from arrowhead and increase capacity (Jul 2012)

- Increase capacity and reduce response time for order acceptance notices by replacing trading servers with the latest devices (reduce from 2 ms to 1 ms or less)

## Subdivide time stamp (Jul 2012)

- Change time stamp in messages sent from arrowhead from 100 ms to 1 ms.

## Provide arrownet version2.0 (Jun 2012)

- Offer wideband connection and allow aggregated lines to provide a more effective and robust network.

# The True Opinions of HFTs

We don't want non-HFT investors to dislike us. We want to coexist with them.

HFT accounts for 30 to 40% in the TSE market and we hope to maintain the ratio in the future.

A considerable ratio of trading volume by non-HFT players is also required.

In a sound market, transactions by individual investors account for 15 to 20%.

Participation of not only HFTs but also various investor classes is an important factor for any market.

Latency on its own is losing its appeal and competitiveness.



Strategy for FY2012

## Revitalization of the Japanese Stock Market

Increase IPOs - Fulfill Function of Providing Risk Money -

Enrich Services for Listed Companies -Improve Added-Value of TSE Listing-

Expand Layers of New Investors -Greater Market Depth due to an Expanded Investor Base-

## Further Improve Market Infrastructure Convenience and Reliability

Promote Next-Generation Market Structure -Achieve New Market Design/Services-

Progress in 2<sup>nd</sup> year of  
Medium-Term  
Management Plan

Expand ETF/Derivatives Market -Act as a One-Stop Market-

Fulfill Self-Regulatory Functions Responding to Evolving Environments

Strengthen Policy Recommendation/Enhance Information Releases

Expand and Strengthen Functions of Market Infrastructure



## **I . Current Conditions of the Japanese Market**

## **II . Approach toward HFT and Algorithmic Trading**

## **III . Approach toward Institutional Investors**

## **IV . Approach toward Individual Investors**

## Overseas institutional investors

Top executives visit major financial centers



- Visit investors in North America in early June



- Visit Hong Kong and Singapore in late July



- Hold events in Beijing in early August



- Visit investors in Europe in early October



- Planning to visit investors in Hong Kong and Singapore in November

## Domestic institutional investors

Individual visits to institutional investors to propose the use of ETFs

- Individual visits to domestic institutional investors or hold seminars to propose the use of ETFs
- Issue reports which propose the use of ETFs

### Appeal point

- Diversification of listed products (120 issues)
- High liquidity (Trading and creation/redemption)
- Enhanced price transparency with iNAV calculation among others

Evaluation Item	Current Assessment by Institutional Investors
Information Disclosure	<ul style="list-style-type: none"> <li>■ Japanese companies are highly praised for the frequency of IR activities even from a global perspective.</li> <li>■ There is a strong need for disclosure of cash flow statements.</li> </ul>
Capital Policies	<ul style="list-style-type: none"> <li>■ With respect to shareholder returns, they are greatly interested in listed companies' view, dividend policies and reasons for share buybacks.</li> </ul>
Governance of Board of Directors	<ul style="list-style-type: none"> <li>■ They have great expectations for and interest in independent oversight of management by what is known as independent officers.</li> </ul>
Protection of Minority Shareholders	<ul style="list-style-type: none"> <li>■ They are keenly interested in listed companies' policies related to the protection of minority shareholders for each capital increase.</li> </ul>

# Bring Back Funds Invested into Foreign Stocks and Other Assets

## ■ Lineup of ETFs on TSE (related to overseas and other assets)

### Foreign Stocks

- CSI 300 (China, Shanghai and Shenzhen)
- HSCEI (China, Hong Kong)
- KOSPI 200 (Korea)
- IBOV (Brazil)
- S&P CNX Nifty Index (India)
- S&P CNX Nifty Index Futures (India)
- Dow Jones Industrial Average (US)
- S&P500 (US)
- MSCI Emerging Market Index (Emerging countries)
- MSCI-KOKUSAI (Developed countries)
- MSCI-ACWI ex Japan
- SET50 Index (Thailand)
- FTSE Bursa Malaysia KLCI Index (Malaysia)

### Commodities

- Gold
- Silver
- Platinum
- Palladium
- Precious metal basket
- Natural gas
- Crude oil
- Gasoline
- Aluminum
- Copper
- Nickel
- Wheat
- Corn
- Soy beans
- All Commodities DJ-UBSCI
- Energy DJ-UBSCI
- Industrial Metal DJ-UBSCI
- Agriculture DJ-UBSCI
- Grains DJ-UBSI
- Capped Component 35/20 Total Return Index Commodity

### REIT

- Tokyo Stock Exchange REIT Index (Real Estate Investment Funds)
- S&P/ASX200 A-REIT Index (Australia)

### Foreign Bonds

- Citigroup World Government Bond Index
- iBoxx ABF Pan-Asia Index
- Barclays Capital Emerging Markets Government Bond Index



Gain exposure through ETFs or ETNs.

## Initiative (2)

# Attract Institutional Investors' Funds with Better Corporate Governance

Mar. 2004		TSE	Establish Principles of Corporate Governance for Listed Companies
Jul. 2004	<b>A C</b>	TSE	Launch Electronic Voting Platform
Jun. 2009	<b>D</b>	METI	Publish Report of the Corporate Governance Study Group
Aug. 2009	<b>A B</b>	TSE	Restrict third-party allotment
Dec. 2009		TSE	Develop rules on Respect for the Principles of Corporate Governance for Listed Companies
Mar. 2010	<b>D</b>	TSE	Obligate appointment of independent directors
2012	<b>A C</b>	FSA METI MOJ	Discuss legislation of corporate governance at the Ministry of Justice's Legislative Council Companies Act Subcommittee

**A** Protection of shareholder rights

**B** Equality of shareholders

**C** Information disclosure and transparency

**D** Role of board of directors and board of auditors

(TSE) Tokyo Stock Exchange, (METI) Ministry of Economy, Trade and Industry, (MOJ) Ministry of Justice, (FSA) Financial Services Agency

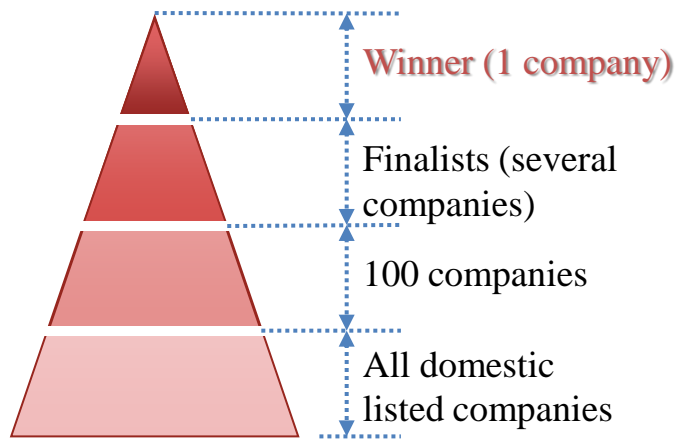


**Steady progress and proactive approach**



**Corporate Value Improvement Award**

Award listed companies which aim to improve corporate value by including investor concerns



**Resolve Communication Gap**

Hold seminars for the management of listed companies

Seminar hosted by TSE

“Issue selection/exercise of voting rights by institutional investors and their impact on corporate performance”

Date: July 6, 2012

Target audience: Officers, directors, and other related parties of listed companies



Good technology, products, services + Good capital management  
= Excellent company



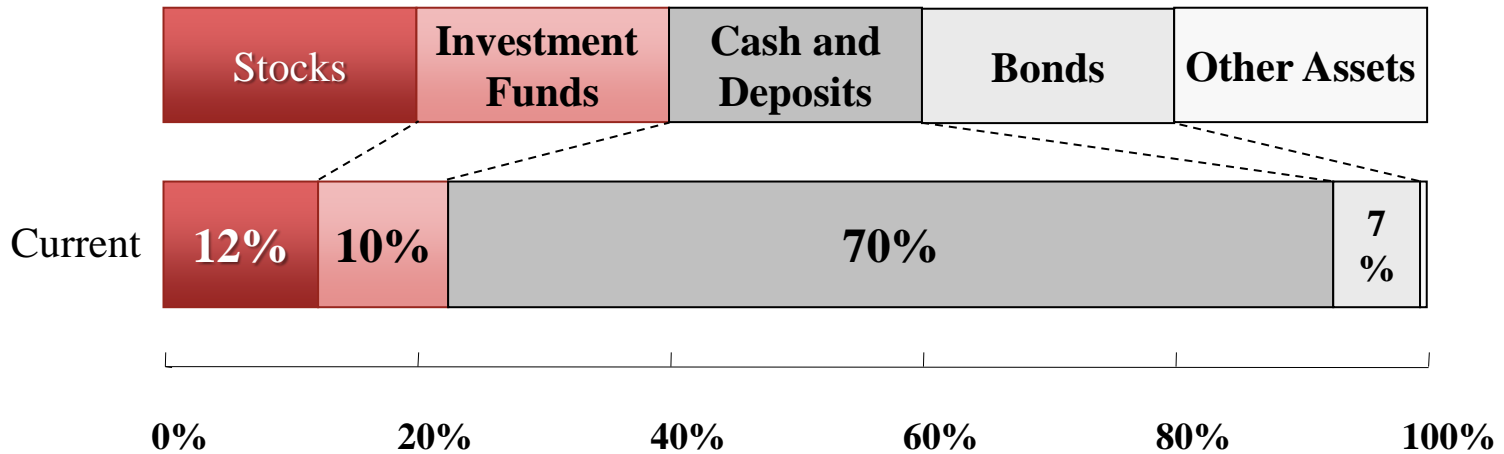
## **I . Current Conditions of the Japanese Market**

## **II . Approach toward HFT and Algorithmic Trading**

## **III . Approach toward Institutional Investors**

## **IV . Approach toward Individual Investors**

# Only about 20% of Household Financial Assets is Invested in Stocks and Investment Funds



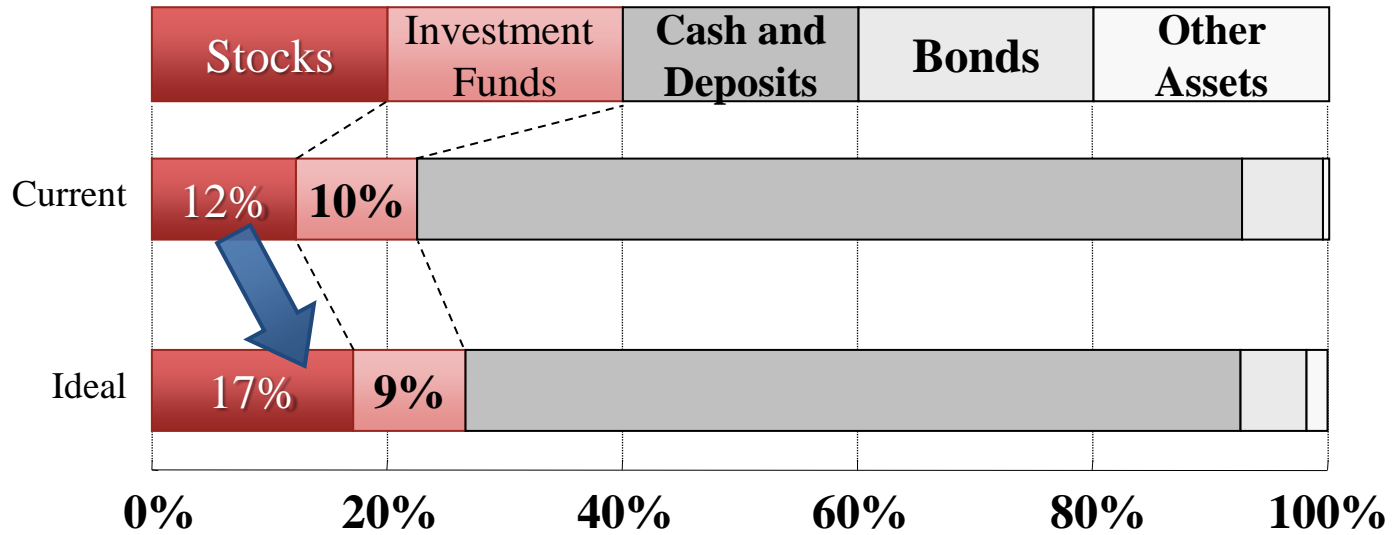
Source: TSE



According to a survey of 1,000 domestic individual investors conducted in March 2012, TSE reconfirmed that the stock investment ratio was extremely low.

## Discovery (1)

# There is a Gap between Current and Ideal Asset Allocation



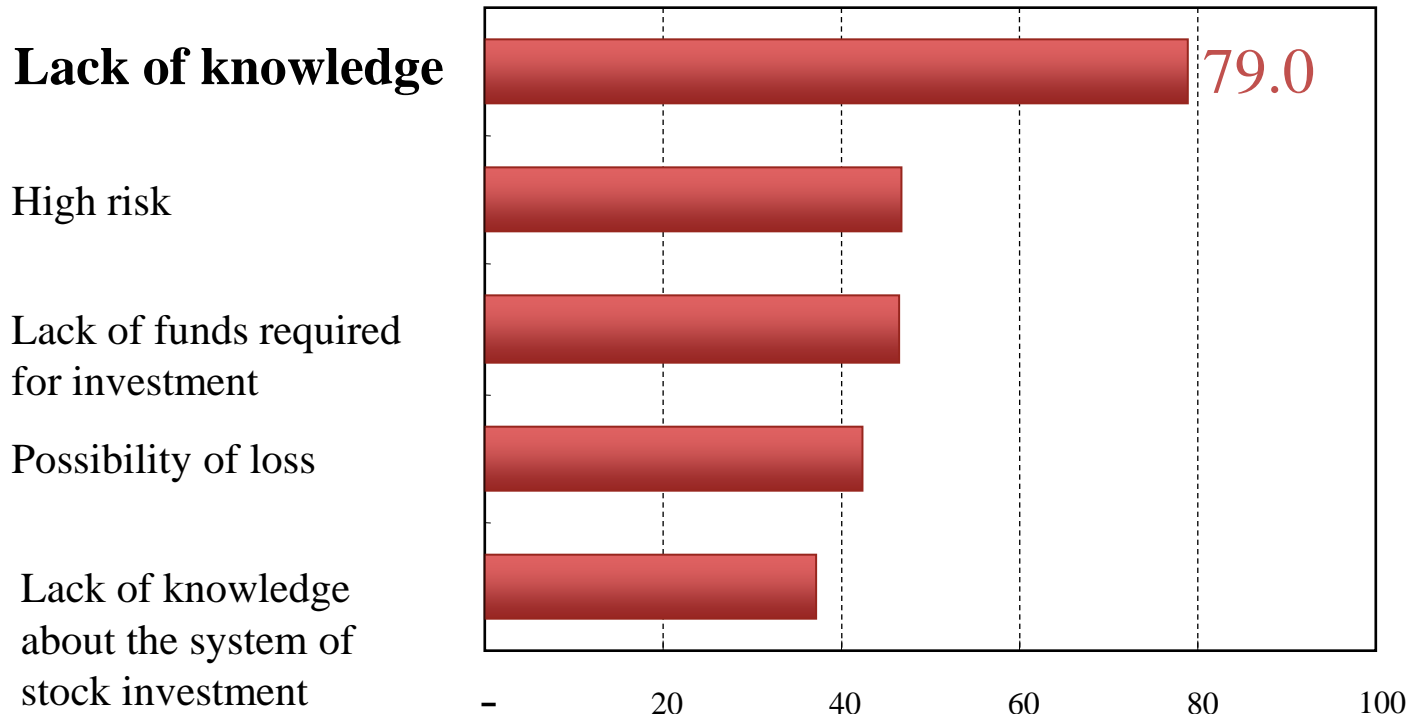
Source: TSE



The gap between the current and ideal situation is only 5%. However, it is equivalent to approx. JPY 42 trillion (13% of stock trading value in the TSE market in 2011).

## Discovery (2)

# Lack of Knowledge is behind People not Investing in Stocks



The entire industry has focused on investor education, but...

→ The result was a surprise, but we can improve the situation with more effort.

- ▶ **Do we leave the situation as it is?**

**TSE is holding free seminars across the nation, covering themes from the significance of stock investments to issue selection for those who have no investment experience to promote the appeal of Japanese stocks.**

- TSE holds **more than 70 seminars at a total of 40 cities across Japan**, starting from May 30 (Wed.), 2012 at TSE Hall.
- Opinion leaders taking an active role in the investment industry give a lecture at each seminar.

**Mr. Ken Shibusawa**

Chairman,  
 Commons Asset  
 Management Inc.

**Mr. Haruhiro Nakano**

President & CEO,  
 Saison Asset  
 Management Inc. Co.,  
 Inc.

**Mr. Hideto Fujino**

Director and CIO  
 Rheos Capital Works,  
 Inc.

**Mr. Atsuto Sawakami**

Chairman,  
 Sawakami Asset  
 Management Inc.

**Mr. Oki Matsumoto**

President & CEO,  
 Monex, Inc.

**(Contents of seminar)**

**We answer the following questions.**

- **Why are securities investments important now?**
- **How do securities investments contribute to society?**
- **How do we select good issues?**



**(Feedback from participants)**

- **I like the seminar concept, “Revitalizing Japan”.**
- **It made me think about what investment is.**
- **I hope to improve society by investing companies that I want to support.**
- **I want to contribute to the future development of the Japanese economy.**

**Improve Corporate Governance**

Mar. 2004		TSE	Establish Principles of Corporate Governance for Listed Companies
Jul. 2004	<b>A C</b>	TSE	Launch Electronic Voting Platform
Jun. 2009	<b>D</b>	METI	Publish Report of the Corporate Governance Study Group
Aug. 2009	<b>A B</b>	TSE	Restrict third-party allotment
Dec. 2009		TSE	Develop rules on Respect for the Principles of Corporate Governance for Listed Companies
Mar. 2010	<b>D</b>	TSE	Obligate appointment of independent directors
2012	<b>A C</b>	FSA METI MOJ	Discuss legislation of corporate governance at the Ministry of Justice's Legislative Council Companies Act Subcommittee

**A** Protection of shareholder rights    **B** Equality of shareholders    **C** Information disclosure and transparency    **D** Role of board of directors and board of auditors

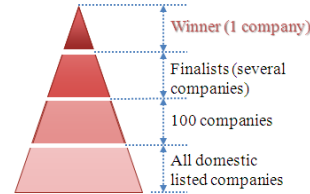
(TSE) Tokyo Stock Exchange, (METI) Ministry of Economy, Trade and Industry, (MOJ) Ministry of Justice, (FSA) Financial Services Agency

➔ **Steady progress and proactive approach**

**Enhance Corporate Value**

**Corporate Value Improvement Award**

Award listed companies which aim to improve corporate value by including investor concerns



**Resolve Communication Gap**

Hold seminars for the management of listed companies

Seminar hosted by TSE  
"Issue selection/exercise of voting rights by institutional investors and their impact on corporate performance"

Date: July 6, 2012  
Target audience: Officers, directors, and other related parties of listed companies

➔ **Good technology, products, services + Good capital management = Excellent company**



Expand analyst coverage of Mothers and main markets.  
 Support to prepare analyst reports for approx. 60 listed companies.

## Features

- Provide characteristics and potential of listed companies
- Offer indicators of each company's figures and data which form the basis of corporate performance
- Evaluate and analyze company's strengths that are not available from financial statements

## Available at

- Holistic Company Research (<http://www.holistic-r.org/>)
- Tokyo Stock Exchange, Inc. (<http://mothers.tse.or.jp/>)
- IFIS Japan Limited "IFIS Kabu Yoho" (IFIS Stock Forecast) (<http://kabuyoho.ifis.co.jp/>)

ホリスティック企業レポート(一般社団法人 証券リサーチセンター 発行)

**日本ケアサプライ (2393 東証マザーズ)** 発行日: 2012/7  
 掲載日: 2011/12/29  
 調査方法: 主要訪問

**福祉用具レンタル即のトップランナー**

> 概要

◆ **福祉用具サプライ事業が収益源**  
 -同社は全国の福祉用具レンタル事業者向けに電動ベッドなどを貸し出すレンタル即サービスを主力事業に、進捗合連などの介護サービスも提供  
 ・事業セグメントはレンタル即サービスの「福祉用具サプライ事業」と介護サービスの「在宅介護サービス事業」の2事業。福祉用具サプライ事業は売上高の約9割、営業利益のほぼ全額を担う同社の主力事業  
 ・福祉用具サプライ事業の営業拠点は北海道から沖縄まで全国 68 拠点で、取引先は2,000~3,000 事業者

【主要指標】	前年	今年予想
売上高(百万円)	10,700	
営業利益(百万円)	102,200	
営業利益率(%)	9.60	
上場日	2006/9/27	
1人あたりEPS	-11.00	

◆ **2012年4月の改正介護保険法施行はプラス要因と判断**  
 ・全国展開の数は少なく、三愛商事傘下が強みだが、介護保険制度の変更はプラス要因  
 ・06年改正介護保険法施行のレンタル制度でゾラントレンドだった業績は、高齢化によるレンタル利用者の増加で底打ちから反転の兆し。12年4月の改正介護保険法施行では、レンタル適応品目が増加するなど同社にはポジティブに作用

【主要指標】	前年	今年予想
PER(倍)	16.0	14.3
PBR(倍)	1.0	1.0
EV/EBITDA	3.24	2.84
EV/EBIT	0	0.8
EV/営業利益	21.04	0.82

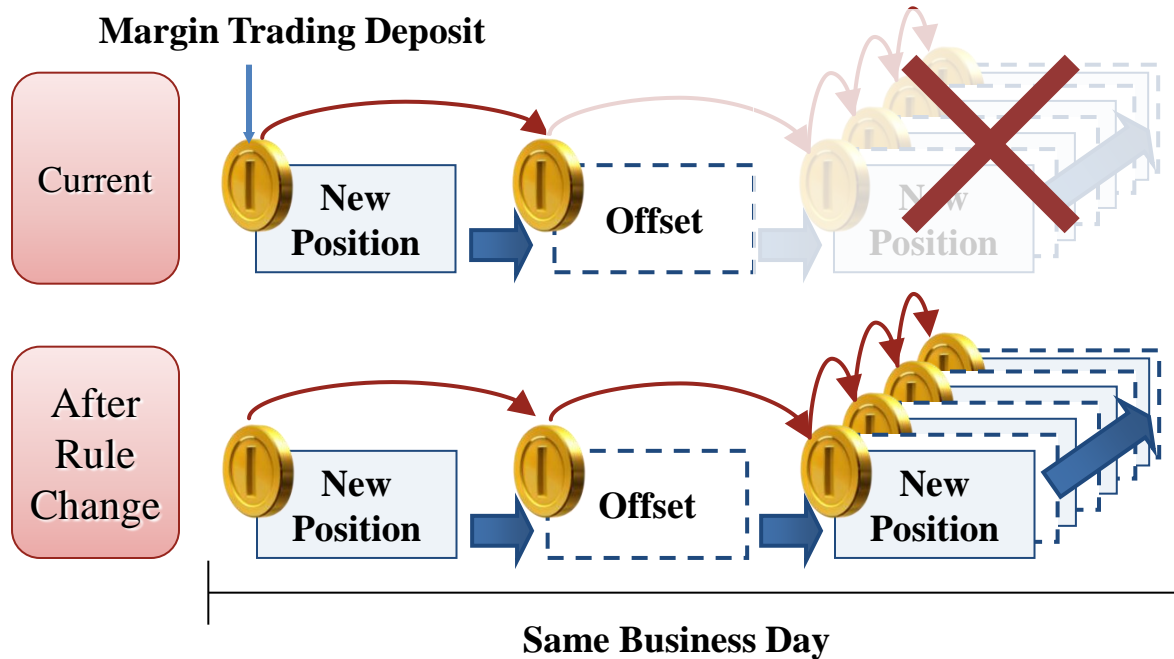
> 投資判断

◆ **2012年3月期は会社評価を上回る可能性**  
 ・2012年3月期第2四半期決算は、売上高が前年同期比2.6%増の44.2億円、営業利益は同1.5%減の1.65億円となった。売上面ではレンタルの商品ラインアップの拡充が要因。一方、利益面では在宅介護サービス事業が異字化したものの、レンタル商品拡充による減価償却費増が収益を圧迫  
 ・12年3月期のアナリスト業績予想は、売上高が前期比2.8%増の88.7億円、営業利益は同7.1%減の10.5億円を見込み、いずれも会社評価を上回る見通し

\*月報の掲載は最終頁をご覧ください

## Initiative (4)

# Relaxation of Restriction on Margin Trading Deposits



- Margin trading accounts for **60%** in trading by short-term investors.
- According to a survey conducted by an online securities company, **50 to 70%** of individual investors responded that they will increase trading due to the relaxation of the restriction on margin trading deposits.



Short-term investors can be expected to increase trading.

- ▶ Global exchanges are trying to increase earnings by expanding the derivatives market. TSE is no exception.
- ▶ On the other hand, it is our responsibility as the No. 1 exchange in Japan to revitalize the stock market for the country and the industry as a whole.
- ▶ As a main market, TSE aims at a well-balanced market composed of a variety of investor bases.
- ▶ Domestic cross-market competition is important, but it is more important to take measures to increase market size.
- ▶ TSE will take the lead and dedicate efforts toward achieving these goals. Let's pull together toward revitalizing the Japanese market!



<Contact>

Tokyo Stock Exchange, Inc.  
Market Business Development  
+81-3-3665-5765  
mkt-biz@tse.or.jp

- ◆ Copyright © Tokyo Stock Exchange, Inc. 2012 All rights reserved.
- ◆ The description in this document are intended solely for the purpose of providing information on arrowhead, Tdex+, Flex, Co-Location, Proximity and other services of TSE. Losses may be incurred due to fluctuation of prices, etc. of TSE products, and the entire deposited margin or a portion of such may be lost. Losses may also exceed deposited margin. When trading TSE products, investors must carefully review the documents provided by their financial services provider before contract signing, and must trade on their own responsibility based on their own judgment only after fully understanding the product qualities, the trading mechanism, relevant fees, the risk involved, etc.
- ◆ While every effort is taken to ensure the accuracy of the information contained in this document, Tokyo Stock Exchange, Inc. (TSE) does not guarantee, nor assume responsibility for any damages caused by any errors, misunderstanding or omissions.
- ◆ TSE reserves the right to change the contents of this publications without notice.
- ◆ Without consent of TSE, this document is available only for internal usage.