

FAIR FACT SERIES II

# JAPAN'S FINANCIAL MARKETS

**FAIR**

Foundation for  
Advanced Information  
and Research, Japan





FAIRFACTSERIES I I

# JAPAN'S FINANCIAL MARKETS

PUSTAKA PERDANA



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# Foreword

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Japan's financial markets are in the midst of rapid deregulation, innovation and internationalization, and there is an increasing need among foreign researchers for dependable, up-to-date information on financial issues and problems relating to Japan. In order to meet this need, the *FAIR Fact Series — Japan's Financial Markets (JFM)* was first published in 1986. We are very glad that the JFM was quite successful and given a warm welcome by foreign researchers and professionals in the field of finance.

Since then, however, the Japanese financial markets have experienced great changes, and Tokyo has become one of the major international financial centers. These changes brought us to a conclusion that we should update the JFM to better meet the needs of foreign researchers and professionals on information about Japanese financial markets.

In this second edition, each topic was carefully chosen to provide the latest and comprehensive information on rapidly changing Japanese financial markets. In particular, on-going discussion on the financial system reform was covered in full length, with different viewpoints of various financial institutions.

Each topic was contributed by distinguished bankers and economists in the business, government and academic fields, and the views expressed in the book are those of the authors.

This book was edited by the Foundation for Advanced Information and Research, Japan (FAIR), a private, non-profit organization which was established in 1985 to promote foreign understanding of Japan, to study and collect information on other countries, to disseminate information and to promote cooperation in the development of the Asia-Pacific area.

It is our great pleasure that we could present this second edition of the JFM. By taking easier use into consideration, we arranged all the topics in one volume in the second edition, instead of issuing a series of booklets.

We believe that the second edition of the JFM will prove a useful tool for researchers and professionals interested in Japan's financial markets.

Ryuichiro Tachi,  
*Chairman, Financial Fact Series*  
*Editing Committee, FAIR, Japan*  
*Honorary President, Institute of Fiscal*  
*and Monetary Policy,*  
*Ministry of Finance*  
*Professor Emeritus, University of Tokyo*

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# Introduction

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Foundation for Advanced Information and Research, Japan (FAIR), a private, non-profit organization established in 1985, seeks to raise the level of mutual understanding between Japan and foreign countries, while respecting and preserving the political, social, historical, and cultural diversity of these countries. FAIR is engaged in a wide range of activities which include: sponsorship of research in the fields of economics, other social sciences and technology; exchange of researchers, businessmen and policy makers; sponsorship of international symposiums and joint study programs with foreign universities and research organizations; and the collection of information and public relations activities through the publication of books and periodicals.

As one of the major activities of FAIR, the first edition of the FAIR Fact Series - Japan's Financial Markets (JFM) was first published in 1986. We are very glad that the JFM was quite successful.

However, five years have passed since the release of the first edition, and we have felt a strong necessity to update the JFM to meet the needs of foreign researchers and professionals for the current information on Japanese financial markets.

In this second edition, the readers can find the information in the following order:

Part I of this book presents an overview of the direction of changes in Japanese financial structure. The topics included are the basic characteristics and transition of the post-war financial system, as well as the underlying changes in structure of the flow of funds and the financial behavior of individual and corporate sectors.

Part II provides up-to-date, comprehensive information on money and capital markets in Japan. Especially taken up in detail is the development of the Commercial Paper market and the financial futures market, both of which have recently grown very rapidly.

Part III focuses on the international financial market such as the foreign exchange market, foreign bonds market and the Euroyen market. Also examined is the recent development of Japanese overseas investment.

Part IV discusses the issue of financial deregulation and the subsequent changes and new developments in the activities of financial institutions in Japan.

Financial deregulation has significant implications on the sound management of financial system. Part V attempts to analyze the issues concerning risk management and capital adequacy rules of financial institutions, the settlement system, and the implications on monetary policy.

Lastly, in Part VI, the issue of financial system reform, which is currently under intense discussion, is examined in full detail. The first five articles are contributed by the officials of the Ministry of Finance, describing the deliberations under way at the Councils to the Finance Minister. Especially unique are the latter seven articles which are each contributed by those who represent the positions of the different types of financial institutions.

Each of the articles is written as an autonomous unit and can be read separately without reference to the book as a whole.

We believe that the readers, by keeping this book at your elbow, could use the JFM as an indispensable guide into the Japanese financial system.

Yuichiro Nagatomi  
*Chairman, Steering Committee*  
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*and Research*  
*President, Institute of Fiscal*  
*and Monetary Policy, Ministry of Finance*



# **PART I: OVERVIEW**

