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The Japanese Banking System in the Future*

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The present banking system in Japan stands at bay. Its future looks gloomy without determined reforms. The paper examines what issues the Japanese banking system faces at present. Then, it introduces a couple of proposals to deal with the issues. First, the idea of narrow banking is applied to the present Japan. It states that the Japanese banking institution should be divided into the pure bank and the asset management institution. The pure bank should be under a strict government regulation on its portfolio in order not to be defaulted. The latter should compete with other investment institutions in the money and capital market. With this separation of banks in Japan, we could introduce comprehensive financial reforms focused on price competition and product innovation. Second, a reform plan of the Ministry of Finance and other ministries in charge of financial services is proposed. The point of the reform is to create an independent bureau in charge of all financial services and markets. Principles of policy management towards financial services and markets are also examined.

Keywords: the Japanese banking system, the Postal Savings System, narrow banking, asset management services, the Japanese Ministry of Finance, policies towards money and capital markets, the Japanese Big Bang

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I. Introduction

To observers, particularly to non-Japanese observers, it may seem that there are so small number of banks in Japan that the Ministry of Finance(MOF) should have no problem at all in overseeing them. Therefore, some may conclude that there must be something wrong with the MOF's oversight procedures for bank failures to become so commonplace in recent Japan. The statistics at face value would seem to bear out the supposition that Japan has small number of banks. The Bank of Japan(BOJ) has long used the term of "all banks" in its reports, referring to a group of 150 institutions[1]. (Except where noted, the figures for the Japanese banking institutions cited in this section of the paper are as of March 1996.) By contrast, there are well in excess of 10,000 commercial banks in the United States, with an additional 3,000 or so thrift institutions.

What many observers do not realize is that the BOJ's figure provides an incomplete picture of the Japanese banking sector. There are some financial institutions in Japan that are in fact banks even though they are not called by that name, and others that are called banks but really are not. The definition of the word "bank" and the functions of the institution do not necessarily match up. A bank is a bank because it is a part of the public infrastructure, the national payments system. In other word, only a bank is eligible to provide deposits that serve as a means of payments to other individuals and organizations. In other words, any deposit-taking institution should have the name of "bank." That is why banks are given specific treatment of public policy and why they have special obligations and responsibilities to the society although they are private entities. Unfortunately, banks in reality tend to ignore their public role. The notorious Jusen (housing finance companies) debacle is one of examples how banks, owners of Jusen, ignored their public responsibilities. Another would be found in the recent widely published reports telling mismanagement at many rather small sized institutions. Regardless of what an institution is called, those involved in banking should have certain ethical standards that ought to be upheld. Nevertheless, managers and employees are likely to perceive their responsibilities differently, if the institution they work for is not called a "bank", however much it might function like one. The general public as well tends to regard institutions differently depending on whether the word "bank" is used in their name.

It is time for Japanese financial institutions to adopt names that reflect reality. Any financial institution that is part of the national payments system ought to be called a bank, and any financial institution that is not should be prohibited from using the word "bank" in its name. For example, the MOF should make it clear that the Credit Cooperatives (*shin'yo kumiai*, of which there are 369 institutions) are really banks by calling them "Credit-Cooperatives Banks." Similarly, the finance department of the Agricultural Cooperatives (*nogyo kyodo kumiai*; 2,446) should go by the name "Agricultural Cooperative Bank." Arti-

1) See the Bank of Japan, Economic Statistics Monthly, before March 1996.

cle 6 of the Bank Law stipulates that only banks as defined by the law may use the word "bank" in their names. However, there are exceptions. The Long-term Credit Banks (choki shin'yo ginko; 3) defined not by the Bank Law but by the Long-term Credit Bank Law and the Trust Banks (shintaku ginko; 31) call themselves "banks." So there is no reason why other financial institutions that provide payments services should not be required to use the word "bank" somewhere in their names. In fact, many of these institutions do call themselves banks in English. Credit Unions (*shin'yo kinko* ; 416) refer themselves as "Shinkin Banks" in their English names. The central agricultural finance institution that calls itself *Norin Chuo Kinko* in Japanese goes by the name the "Norin Chukin Bank" in its overseas operations.

Obviously, maintaining the stability of the national payments system will continue to be a top priority of the Japanese public policy towards financial service industry and markets. Requiring institutions that do indeed provide transaction deposits to use the word "bank" in their names would make it clear to all concerned - both the institutions themselves and the people they do business with - that they are members of the payments system.

The Bank of Japan has recently changed the term "all banks" in statistical reports, adopting in its place the term "domestically licensed banks" (173 institutions). The domestically licensed banks cover City Banks (11), Regional Banks (64), Regional Banks II (65), Trust Banks (31) and Long-term Credit Banks (3); including the institutions formerly referred to collectively as "all banks" as well as the trust banking subsidiaries of domestic banks and foreign trust banking companies. While the new concept is meant to convey the idea that these 173 institutions are "banks" established in accordance with the Japanese laws, it still excludes the Credit Unions, the Credit Cooperatives, the Labor Credit Associations (*rodo kinko*; 47), the Agricultural Cooperatives, and the Fishery Cooperatives (*gyogyo kyodo kumiai* ; 1,335) from the concept, though they are providing payments services to the public. Perhaps, some day in future, all of Japan's financial institutions will have names that reflect their functions as banks.

Needless to say, banks and *de facto* banks are not providing only payments services. They accept money from the public, make loans and investments, and return the fruits to them as financial intermediaries. This function of asset management is another important function of banks. However, this function is not solely performed by banks. Non-bank financial intermediaries such as insurance companies, securities investment trusts and pension funds do exist to extend asset management services. Banks are institutionally chartered monopoly in payments functions on one hand and compete with others in asset management services on the other.

The banking system is consisted of the specific institutions of banks, their collective group of banking industry, money and capital markets where banks exhibit their roles, public policies and regulation, and customs and habits.

The present banking system in Japan stands at bay. Its future looks gloomy without determined reforms. The depressed Japanese banking system will have unfavorable influences over the real economic activities in the world as well as in Japan. The first part of this paper in the following describes what crises the Japanese banking system faces at present. The second section concerns in how to deal with the non-performing loans accumulated in the banking system. This includes reviews of measures enacted by the recent Diet. The most decisive policy measure will be shown to deal with the non-performing loans as one of the options in future. The third section of the paper will show a drastic plan to overhaul the Japanese banking system and its possible consequences. A plan will be proposed to divide banks into "pure banks" and nonbank asset management institutions. The plan of overhauling follows the long lasting idea of "narrow banking" since the Chicago plan of banking reform in 1933. It is worthwhile to contemplate the application of the idea to the case of Japan and its aftermath. The last two sections conclude this paper by giving rejoinders to conceivable criticism to the idea of complete overhauling of the Japanese banking system.

Ⅱ. Crises underlying the Japanese Banking System

Nonperforming loans accumulated in almost all Japanese banks pose serious problems to the Japanese economy[2]. Everybody will agree that this nonperforming loan problem should indicate a crisis of the Japanese banking system. However, the crisis does not lie only with the nonperforming bank loans. Other five symptoms show how the system is in pressing adversity.

The first of the five, the rate of return on financial assets held by the household sector has been declining since early 1970's[3]. It means that an incentive for the household to save becomes less and less. Some may say that it will not make any policy issue, as the declining trend may reflects that the Japanese economy has been matured. However, the rate return on financial assets held by the financial sector (banks and other financial institutions as a whole) has been kept higher with unchanged discrepancy with the household rate of return since early 1970s, even though the rate follows the similar declining trend as the rate of the household. The fact implies that the trend might be caused not only by the structural change in the economy but by the deeply-rooted problems in the financial sector. Without determined policy efforts, the Japanese people might change their saving behavior to consume more and save less.

The second critical fact is the weakened viability of the Japanese financial system, particularly of its banking system. We could show several cases for the less viable system such as "hollowing out" phenomena[4].

Third, recent development of new technology in telecommunication and information

2) According to the official report of the MOF, the Japanese banks as a whole have nonperforming loans of about 40 trillion yen, out of which 18.6 trillion yen including losses of Jusen loans should be paid off in future at the end of March 1995. Probably the real figure will be more serious. The author estimates that 7.5% of total bank loans of 670 trillion yen should be of problems.

3) Two figures in the next page (Fig. 1 and 2) illustrate how the rate of return has moved. The rate is calculated as the ratio of annual asset incomes (dividends and interests paid) relative to the value of total financial assets held at the beginning of the corresponding year. All data are available from Annual Report of National Accounts, published by Economic Planning Agency.

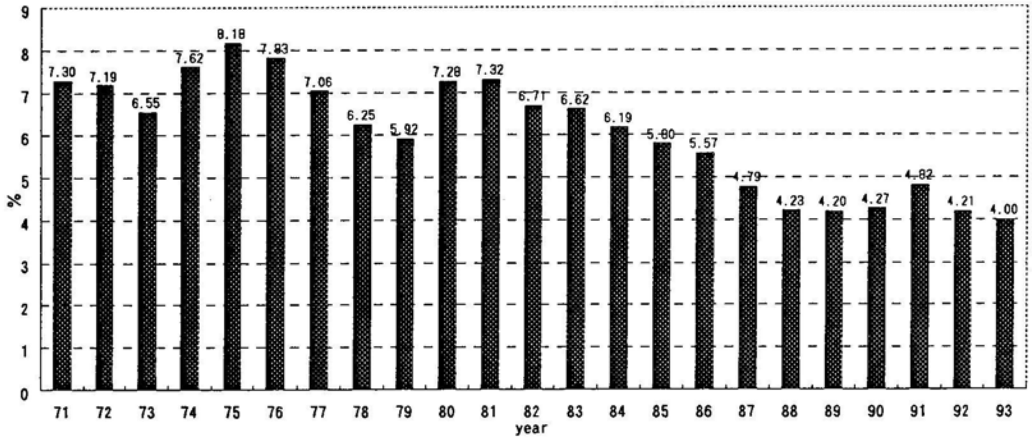

Fig. 1 The Rate of Return on Financial Assets of Household
1971-1993

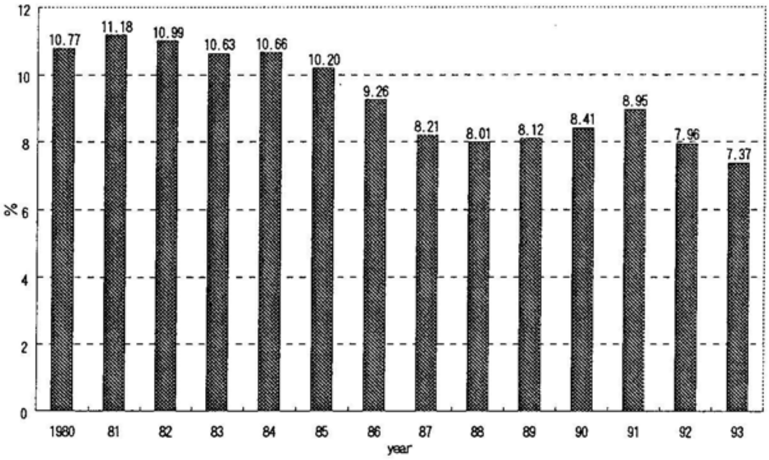

Fig. 2 The Rate of Return on Financial Assets of Financial Institutions
1980-1993

processing has not been well adopted in Japan. If the situation kept unchanged, an inefficient system in finance would be realized that new entrants from other industries equipped with advanced technology would exist as *de facto* financial service firms together with traditional financial institutions protected by the government regulations and habitual practices.

The fourth problem is located in the Japanese politics and public administration in relation to the financial system. Recent confused and tardy process with regard to the Jusen issue indicates many implications, one of which is that indirect and invisible spending of public money would be chosen to deal with nonperforming loan problems to make moral hazard penetrate more among the Japanese banks[5].

The fifth critical moment lies with the ex-

4) Indeed liberalization of the Japanese financial system including the banking system has been underway. However, the process of deregulation was reluctant to introduce financial innovations. Very limited range of financial instruments newly invented makes one of causes of "hollowing out".

panding Postal Saving System together with the public financial intermediation that pose concerns of less viability of the market forces in the Japanese financial system[6].

The Japanese banking system should resolve these five problems in addition to the nonperforming loan problem to overcome the critical situation. The solution could not be found within the traditional institutional framework. Structural reforms are primary to solve problems. What reforms should Japan take? The most essential one is to build in completely competitive market mechanisms within the Japanese financial system.

In words, importance of competition in the banking industry as well as establishment of market mechanisms has been claimed even in Japan since 1970 when the Financial System Research Council[7] reported on the improvement of efficiency of the Japanese banking system[8]. However, it is time to actualize some determined restructuring of the financial system to fix market mechanisms. The process of the restructuring in the real world towards more complete market mechanisms may not be clear to detail at present. However, we have some indisputable facts. One is that securities market in a broad sense will and should take more important role in the future system. In fact, the actual situation has evolved on this trend. In 1994 56.3 percentage of funds raised by non-financial sectors in Japan took the form of issuing securities. It is for the first time that the ratio exceeded 50% since flow of funds data were available from the BOJ[9]. The "systemic securitization" is underway in the Japanese financial system. The key of restructuring lies in this fact.

Ⅲ. Solving Nonperforming Loans under Securitization

The scheme of the Jusen disposition by the government was legalized to establish a specific organization called the Housing Finance Credit Management Organization (*Jutaku Kinyu Saiken Kanri Kiko*). At the same time the six Financial Laws were enacted covering amplification of the Japanese Deposit Insurance System as well as introduction of the early corrective action of the government. With these it seems that government measures to cope with

5) The general public took against the use of tax money of 680 billion yen to deal with Jusen losses. However, about 1,000 billion yen that was determined by the deposit insurance system and the BOJ to dispose failed banks was not under criticism. However, those indirect money used is the same as tax money that comes from the general public, because the Japanese deposit insurance is compulsory to all banks and all residuals in excess of revenue to costs of the BOJ should be transferred to the central government budget similar to tax revenue.

6) Disputes with regard to the private and the government financial intermediary process have a long history. To the beginning, the issue was conflicts between the private banks and the Postal Savings, while it becomes more extended to the intermediation processes as a whole.

7) The council is the official advisory organization to the Banking Bureau of the MOF that covers issues of the banking industry as a whole. Here the word 'official' means that it is established by the law governing the market and industry it concerns. In response to the compartmentalized public administration of the MOF towards financial markets and industries, official advisory organizations are also compartmentalized. The Insurance Council deals with insurance, the Foreign Exchange Council concerns with the foreign exchange market and the Securities and Exchange Council is in charge of issues with regard to securities market and industry.

8) The Financial System Research Council, Report on How the Private Financial Institutions in General Should be, the MOF, July 1970 (in Japanese).

nonperfoming loan problems have been completed. However, there remains possibility that problems emerge again to realize crisis depending upon the management of the new schemes.

The fatal cause of the increased nonperforming loans at banks portfolio is, needless to say, declined land prices and depressed real estate markets. It is hard to forecast that the real estate market in near future will regain high active transaction and land prices will increase again. Then nonperforming loans should be disposed as they are. It means that banks should continue to pay off huge amount of losses for longer years from their profits. For that period banks will not be able to extend active loan extensions to make recovery of the Japanese economy certain, while there might happen unexpected events unfavorable. Therefore, we should make good preparation for the most unfavorable course of events in coming future. The determined measure to deal nonperforming loans should be arranged in advance, considering the worst case. One of the drastic options we should have is the set of policies as follows:

(1) The government should comprehend correctly conditions of the balance sheet of every bank to identify bad banks of excess liability and health banks. (2) The government should send directory to dissolve bad banks with clear statement that all deposits could be protected. (3) the government should introduce a specific organization to deal with dissolved banks. All nonperforming loans of dissolved banks should be transferred to the organization in exchange for government bonds by adequate terms of trade. (4) Assets and liabilities of dissolved banks after the exchange should be transferred to other health banks and／or new comers to the banking industry.

This scheme is taking along with "securitization" of the financial system in the sense that bad loans of bad banks should be substituted by

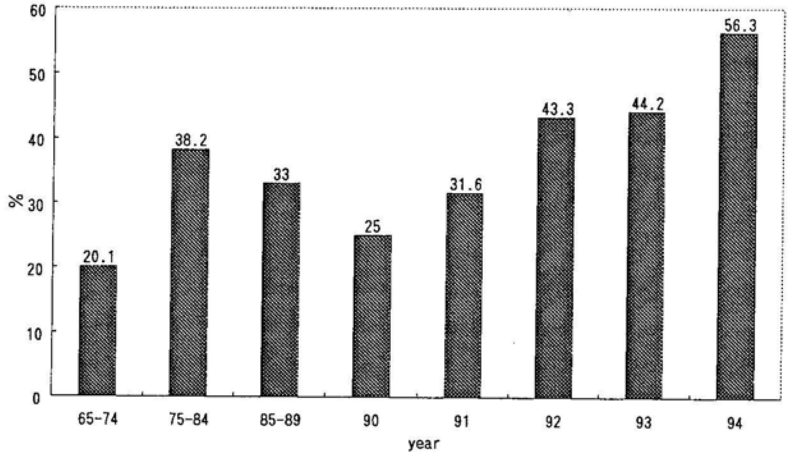

Fig. 3 New Securities Issued Relative to Total Fund Raised Nonfinancial Sector

9) See the Figure 3.

government bonds. The cost of the substitution should be shared by the general public. At present it will amount to about 7 trillion yen[10]. This is a huge figure. It seems that, even 680 billion yen having produced a prolonged confusion in the Japanese politics, such a measure could not be realized. However, the money should be considered as an investment cost to revitalize the Japanese banking system. The government should show a clear scenario to overhaul the system and to make its implementation a pledge.

In case of the Jusen dispute, the government failed to show how it should reform the Japanese banking system after the *Jusen* and other nonperforming loan problems are resolved. It was natural that the Japanese tax payers should consider the money of 685 billion yen just as an payment of the past debts. Instead we should show a definite plan of banking reform at the same time of asking for public money in order to solve the nonperforming loan problem of banks.

Ⅳ. Restoring Viability of the Japanese Banking System: A Plan of Bank Division into the Pure Bank and the Asset Management Institution

It is indispensable for restoring viability of the Japanese banking system to introduce thoroughgoing competitive market mechanisms. It means that bankruptcy of banks is permissible in the new system. However, banks do have a social role of providing payments services to the public. So bankruptcy of banks is not desirable to promote this social role. It is natural that competition in banking industry might be halfway, if the public role of banks is seriously taken under consideration. However, the halfway competition will not result to expected viability of the system. Therefore, the following measure should be implemented to introduce completely competitive market mechanisms in the Japanese banking system and to revitalize the Japanese banks: that is to separate payment services from banks to establish "pure banks" that should be under strict government regulations in order not to fail. Other facilities of banks as financial intermediaries such as asset management for the general public should be placed under complete market mechanisms. This is an idea to divide present banks into "pure banks" and asset management institutions. In this scheme only "pure banks" can provide payments services (transaction deposits) to the public. Instead "pure banks" can not make investments into assets other than designated safe ones such as short-term government bonds. Institutions deprived of payments services can make any businesses other than taking transaction deposits with finality in settlements. It is under their own decision after the plan of bank division is implemented whether they should take organization such as universal banks or holding companies. It is sure that such banking and financial intermediation systems as a whole should revitalize the Japanese financial system through thoroughgoing competition. Together with the already proposed scheme for banks' nonperforming loans, the drastic bank division plan will change the Japanese banks into two separated industries: "pure banks" and asset management institutions. The former will pay as interest to transaction deposits the discrepancy between portfolio return on investment to designated safe assets portfolio and operation costs. Numerous number of "pure banks" will compete in the industry under the same portfolio regulation. Then they will make attempts to introduce advanced technology, seeking for the economies of scale in payments service. On the other hand, competition in the asset management industry will be more promoted among the existing asset management firms like insurance and securities investment trusts as well as new asset management institutions divided from banks. Households will have higher performance of its financial assets almost all of which will be invested to those financial commodities, old and new, that asset management firms will produce.

"Pure banks" take the least risk of default. Households, particularly those with small amount of savings, who prefer less risks will have deposits of "pure banks" more. Therefore, the deposit insurance system established for the protection of small depositors and for the sake of stability of payments system would lose the reason for its existence. Therefore, it should be abolished in the new system of bank division. The possible indirect and invisible abuse of public money through the deposit insurance system will become out of concern. The moral hazard in banking will disappear.

Needless to say, the Postal Saving System is no more than banks with payments services. It takes demand deposit and provides transaction services. Then the Postal Saving System should be under the similar division scheme as private banks. A part of the Postal Saving System should turn to a state owned "pure bank" and the other should become a state owned asset management institution. The former should be subject to the same portfolio regulation as private "pure banks." The latter should be of less free hand with regard to its operations than private institutions in the sort. The state owned asset management institution should be regulated to some degree. It would be plausible that its portfolio investments must be within government and local public bonds. At present, almost all funds of the Postal Sav

ings are invested in the non-marketable Certificate of Deposits issued by the Trust Fund Bureau, an organization of the Finance Bureau, the MOF, while the fund raised being to be used as the source of fund of the Fiscal Investment and Loan Program of the government. Under the new system, a market for the certificates should be opened to the general public as one of the markets for government bonds. In this way, the government financial intermediation system will be involved in the open market mechanisms. Thus it should be one of the systems compatible with the competitive price mechanisms.

Competition in asset management businesses will reveal some defect of the Japanese asset management system at present. Particularly, compartmentalization of institutions in charge of asset management would be reexamined and reformed to a more integrated system.

Public administration towards financial institutions and markets will also be reexamined under the new system. Its reform is inevitable to manage the new system. In this respect, it should be reviewed seriously that public administrative organizations have been segmented. In the Jusen dispute it was revealed that the Ministry of Agriculture, Forestry and Fishery is taking a great role in public administration towards finance institutions and markets. In addition, the Ministry of Post and Telecommunication as is well known, the Ministry of International Trade and Industry, the Ministry of Welfare, and even the Ministry of Construction have privilege in some way or other in the field of the Japanese finance. Public administration is too much diversified. Furthermore, in every ministry, even in the MOF, it is not easy to have skilled officers specialized in financial matters, as the field does not make major stream in bureaucracy. Public administration since now requires skilled know-how. In order to accumulate skills with regard to financial markets, the government should have a ministry specialized in finance independent from the MOF and other ministries.

The BOJ should also be restructured under the new system. The most remarkable influence the BOJ will have will be that the modus operandi of monetary policy has to be changed from the credit control at the BOJ window to open market operations. This change has been realized to some degree as the BOJ lending has declined its weight in money supply process. However, the trend will be fixed if the new system is introduced. The BOJ should control money supply daily as well as counter-cyclically by means of open market operations. Therefore, the BOJ should be more market-oriented. The legal foundation of the BOJ should be reviewed to assure its market-oriented policy behavior. The most important issue in this respect will be how to ascertain the neutrality of the BOJ and to enhance its credibility and accountability.

Thus the new Japanese banking system of divided "pure banks" and other asset management institutions will have to induce a series of reforms in the deposit insurance system, public financial intermediation, asset management systems, the MOF and other government regulatory organizations, and the BOJ. Then the viability of the Japanese banking as well as financial system as a whole will be recovered. The present money amounted to several trillion yen will not be wasteful, if such a new system is assured to make birth in near future with the money.

V. Rejoinder to Possible Cases against the Division Plan

Not small number of criticisms are conceivable against the banking reform plan mentioned above. It is a Japanese version of so called "narrow banking" idea with long history in the theory of banking[11]. No country, however, has had realized this idea. Does it mean that the plan is just an academic product? However, it should be noted, first, that Mr. Franklin D. Roosevelt seriously examined the implementation of the plan Chicago University professors advised to him. Second, he had to

10) The amount of 7 trillion yen is calculated in the following way: first, assume that the total nonperforming loans is 50 trillion yen; second, 20% of total banks in number should be dissolved; third, 30% of assets of dissolved banks could not be collected; then the loss burden shared by the public will be $50*0.2*(1\text{-}0.3)=7$. The United States government is told that it has used (or will use) 183.1 billion dollars in total to deal with failed S&Ls disposition. The 747 S&Ls under disposition had 241.5 billion dollars of total assets. It means that 75% of total assets held by the bankrupted S&Ls turned to burden shared by the public. In our hypothetical figure, 70% of assets of dissolved banks are to be burdened by the public.

give up the implementation not because of the plan *per se*, but because of lack of sufficient safe assets at that time. The implementation of the plan of bank division or the proposal to establish "pure banks" depends upon how seriously they recognize the crisis of banking under review and whether sufficient safe assets are existing in the real world. The author of the present paper judges that the present Japanese banking crisis is as serious as in 1930s in the United States. There are sufficient safe assets available in the Japanese financial system at present and in future, as the Japanese government bonds outstanding are increasing more and more because of the government budgetary conditions and if the Certificates issued to the Postal Savings by the Trust Fund Bureau of the MOF is opened to the publi2c[12].Therefore, the criticism that the plan of bank division is merely an academic product does not hit the mark.

They may take against the plan of bank division on the ground that the plan neglects roles of banks as they were in economic development and growth. Some critique says that the plan destroys the mechanism of credit multiplier the banking system has had to result. However, it should be considered that the credit multiplier theory assumes a set of strict conditions implausible in the real world. Moreover, banks in reality have changed its fundamental characteristics from purely commercial banks to those of mutual-fund-like institutions. Borrowers as a whole become more dependent on securities in raising funds and less bank borrowing. The Japanese statistics tells us that securities held by banks is 24.8% relative to bank loans extended at the end of March 1995, while the figure in early 1990s was 18.0%. Should the critique consider that the fact gives evidence of poorer performance of banks in the economy?

Some might comment that the plan of bank division should decreases managerial efficiency of banks, emphasizing economies of scale and scope in banking. However, the concept of managerial efficiency used by the commentator is ambiguous. The bulk of nonperforming loan in banks portfolio and many reported scandals might show lowered efficiency. If so, the plan of bank division could not decrease efficiency in management of banks.

Many experts believe that stability of the Japanese banking system can be assured within the institutional framework at present. Systemic risks as well as bank run could be avoided by safety nets now available. The BOJ lending as tender of the last resort, the deposit insurance system and recently legalized early correction measures by the MOF are enough to prevent the banking system from destabilizing. However, the problem remained is the cost of safety nets in working. Within the present framework the nets will work out to keep stable banking system only with huge cost, particularly indirect and invisible one to the public.

It might be questioned if the "pure bank" could do its businesses with sufficient level of profit. In reality many securities investment trusts specialized in short-term markets have been requesting to attach payment function to

11) With regard to narrow banking and its related topic, too many literature are available to list all of them. Here only one book is nominated. Ronnie J. Philips, The Chicago Plan & New Deal Banking Reform, M. E. Sharpe, 1995.

their beneficiary securities (MMF in the Japanese sense). The fact means that the joint business of safe securities portfolio management and payment services provision could be profitable. Furthermore, some might cast doubts to the plan of bank division under the assumption that all assets held could have full liquidity and that delivery of goods and services with instantaneous payment could be feasible. However, as the real world is far from the assumed one, such criticism would be off the mark.

VI. Concluding Remarks in relation to the Proposal of the Japanese Big Bang

Indeed the proposal of bank division into "pure banks" and nonbank asset management institutions may be too drastic to realize in the near future. However, it should be at least necessary to take such an idea into consideration, when we consider the future banking system in Japan. What is the bank? We should seriously identify functions of the bank. Then we should find what function could be best performed in what institutional framework. Comparing the experimental results with actual figures, we could see what parts of the actual institutional framework should be replaced. Such a procedure in thinking is indispensable to discussions with regard to the Japanese bank reform. Any parts of present institutional framework were established when they were anticipated to fulfill their assigned functions. However, with time passed, the relationship between the institution and the function became reversed so that the function should be restricted by the institution. In order to overcome the present crisis underlying the Japanese banking system, there should be flexibility of the institution that follows the advancement of the function.

The prime minister, Ryutaro Hashimoto, invited his Finance and Law Ministers and asked them to build a comprehensive reform plan of the Japanese financial system. It was November 11 of the last year. In advance for 5 months to the prime minister's initiative towards the so-called Japanese Big Bang, the director of Securities Bureau of the MOF organized an ad hoc working committee under the Securities and Exchange Council. The director asked the committee how the Japanese securities market, securities firms and the MOF policy should be in the coming new century. He pointed three fundamental changes in the environment of the Japanese securities market, (1) advancement of financial liberalization and globalization, (2) rapid progress in communication and information processing, and (3) aging society. In order to cope with those changes, the securities market, the securities industry and the public administration towards the market and the industry should change themselves to achieve more efficient market, more flexible corporate

12) At present the Japanese banks as a whole are taking demand deposits amounted to 124.5 trillion yen, while their portfolio having 46.7 trillion yen of government securities and bonds. Bank reserves will be 6.2 trillion yen. If the government bonds exchanged for nonperforming loans of failed banks amounts to 50 trillion yen and all of them are to be held by banks, then there is shortage of government bonds of 21.5(=124.5-46.7-6.2-50.0) trillion yen adequate for the "pure banks" portfolio. However, the shortage will disappear if the Trust Fund Bureau issues bond in the open market instead of issuing certificates directly to the Postal Savings, which has demand deposit type of savings in 16.7 trillion yen, while the certificate directly issued by the Trust Fund Bureau is outstanding in 346.2 trillion yen.

finance and more diversified portfolio of investors. Without comprehensive reforms, securities market would lose its ground in the coming new century.

Under his request, the working committee had a series of intensive discussion since June 1996 to formalize how the market and the industry should be and what the MOF should do. Mr. Hashimoto's idea of the Japanese Big Bang has just helped the working committee to proceed its discussion more intensively, because the statement of the prime minister implicated that the securities market should be the focal point of his Big Bang[13]. On November 29, the committee disclosed a summary of its examination for a half of a year. The summary report points out 22 agenda that should be further examined to actualize reforms, 6 of which are concerning with investment instruments, 8 with regard to the market for securities and another 8 related to the securities industry[14]. December 19, the Foreign Exchange Council also published a proposal to implement a fully liberalized foreign exchange transaction in Japan. December 26 a working committee of the Financial System Research Council disclosed its interim summary report indicating that the bank holding company system should be introduced to vitalize the Japanese banking system. Thus the financial reform plans are under hot discussion in recent days in Japan after the prime minister's proposal. The idea of introducing the 'pure bank' system as well as the comprehensive asset management system, though it looks too drastic in the real world, should take the role of the ideal type of reforms under discussion among practitioners.

13) In the last page of the 3 pages statement 9 examples of reforms were shown, out of 6 were matters of the securities market and the securities industry.

14) For example, those 8 market related topics are (1)how to lead more differentiated securities transactions and how to improve competitive relations among different transactions, (2)how to refine accessibility of market information, (3)how to have better infrastructure of order execution, clearing and settlement, (4)reexamination of rules as to new stock issue, (5)refinement of public disclosure system, (6)monitoring, inspection, and conflict solving mechanisms, (7)how to enlighten the general public through education on the securities market and the industry, and (8)measure that should be taken in response to development of electronic transaction.