Japan's Financial Markets: A New Era of Growth and Global Interest

In an interview with Marios Tsokkos, Managing Director of Mercury Global Reports, Hiromi Yamaji, Group CEO of Japan Exchange Group, Inc. (JPX), shed light on the factors driving Japan's robust market performance, the impact of corporate governance reforms, and the expanding role of financial derivatives and commodities markets. This exclusive discussion provides insights into the transformative dynamics reshaping Japan's financial ecosystem.



Hiromi Yamaji, JPX Group CEO

The Core Drivers of Japan's Market Momentum

Japan's financial markets, particularly its cash equity market, have achieved historic highs in recent years, driven by multiple factors. Both the Nikkei 225 and TOPIX indices have reached record levels, rewriting history for the first time in 34 years. According to Mr. Yamaji, this achievement is not a mere anomaly but the result of consistent efforts by various stakeholders.

"The strong performance of Japanese companies underpins this momentum," explained Mr. Yamaji. "Last year, corporate earnings reached record highs, accompanied by substantial capital expenditures exceeding 100 trillion yen. This trend is expected to continue, fueled by investment in digitalization and automation."

On the household side, a shift from a savings-oriented to an investment-oriented mindset has emerged, bolstered by government initiatives like the revamped Nippon Individual Savings Account (NISA) program. The updated NISA, made permanent in 2024, has spurred retail investment in domestic stocks, with younger generations playing a significant role.

"From January to November 2024, approximately 11.8 trillion yen was invested through the new NISA accounts, with a notable 50% of this amount directed towards Japanese markets, according to Japan Securities Dealers Association (JSDA), the major 10 brokers/dealders' NISA statistics," noted Mr. Yamaji.

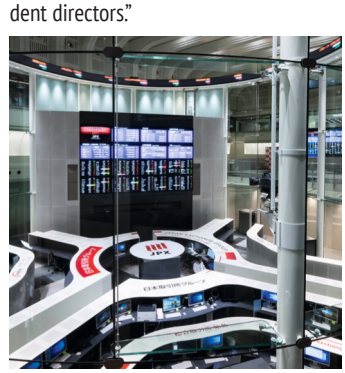
External factors, including geopolitical risks, a weak yen, and low interest rates, have also attracted foreign investors. Progress in corporate governance reform has further enhanced confidence, with companies prioritizing shareholder value and capital efficiency.

"Share buybacks and dividends have reached record levels," said Mr. Yamaji. "In 2024, share buybacks alone are expected to exceed 17 trillion yen, reflecting companies' commitment to shareholder returns."

JPX's Role in Sustaining Market Growth

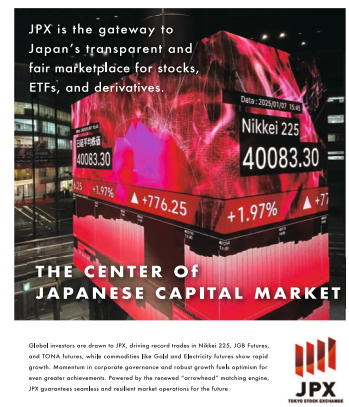
JPX has been instrumental in sustaining Japan's market momentum. Key initiatives include enhancing corporate governance standards and expanding product offerings.

"Corporate Governance Reform has been a cornerstone of our efforts," emphasized Mr. Yamaji. "Working alongside the government and regulatory agencies, the Corporate Governance Code and Stewardship Code were introduced in the mid-2010s. These frameworks have significantly improved governance practices, with most Prime-listed companies now having at least one-third independent directors."



The recent request made by the Tokyo Stock Exchange for "management to be conscious of cost of capital and share price," or so-called "PBR reform" initiative highlights JPX's commitment to aligning corporate actions with investor expectations. "This request encourages companies to analyze their capital efficiency and disclose actionable plans," Mr. Yamaji explained. "By November 2024, 89% of Prime-listed companies had responded, fostering deeper engagement between management and investors."

In addition to governance, JPX has strengthened its trading infrastructure.



The introduction of the "arrowhead" trading engine in late 2024 and the extension of trading hours have enhanced market resilience. "These advancements ensure stability during trading surges and maintain an open, fair market," Mr. Yamaji stated.

The Impact of Corporate Governance Reforms

Corporate governance reform remains a pivotal factor in attracting foreign investment.

"Since the reforms began in 1999, there has been a steady increase in board independence and transparency," said Mr. Yamaji. "However, the goal is not just compliance but fostering sustainable growth and long-term corporate value."

Feedback from global investors has been encouraging. "Many companies have responded positively to the reforms, implementing plans to enhance capital efficiency," he noted. JPX has supported these efforts by providing resources such as "good case studies" and "examples of bad cases and misalignments", helping companies align with market expectations.

Looking ahead, JPX aims to further improve market dynamics by encouraging dialogue between companies and investors and promoting transparency. "We consider ourselves a platform provider," Mr. Yamaji explained. "Our role is to equip market participants with tools and resources to drive meaningful change."

Growth in Derivatives and Commodities Markets

While the cash equity market often takes the spotlight, Japan's financial derivatives and commodities markets have also shown impressive growth. The Osaka Exchange (OSE) operates these markets, offering products like Nikkei 225 futures and TONA 3-month short-term interest rate futures.

"In 2024, the trading volume for financial derivatives reached a record high, driven by market volatility and increased demand for risk hedging," highlighted Mr. Yamaji. New products such as Nikkei 225 micro futures have gained popularity, particularly among retail investors.

The Tokyo Commodities Exchange, focusing on power derivatives, is also growing steadily. "Given Japan's real energy needs, we see significant potential in expanding this market," Mr. Yamaji said.

JPX's clearing house, JSCC, has played a critical role in supporting market growth by offering cross-margining solutions for OTC JPY Interest Rate Swaps and listed interest rate related derivatives products. "This feature enhances efficiency for clearing members and supports the overall liquidity of Japan's financial markets," noted Mr. Yamaji.

A Bright Future for Japan's Markets

As Japan's financial ecosystem continues to evolve, the collaborative efforts of JPX, companies, and investors are setting the stage for sustainable growth.

"The transformation of Japan's markets is still in its early stages," concluded Mr. Yamaji. "With ongoing reforms, innovative products, and enhanced infrastructure, we are confident that Japan will remain an attractive destination for global investment."

The achievements of Japan's financial markets reflect a broader story of resilience and innovation, signaling a new era of growth and opportunity on the global stage. **jpx.co.jp**

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