

1974

Tokyo as an International Capital Market--Its Economic and Legal Aspects

Mitsuru Misawa

Follow this and additional works at: <https://scholarship.law.vanderbilt.edu/vjtl>



Part of the [International Trade Law Commons](#), and the [Securities Law Commons](#)

Recommended Citation

Mitsuru Misawa, Tokyo as an International Capital Market--Its Economic and Legal Aspects, 8 *Vanderbilt Law Review* 1 (2021)

Available at: <https://scholarship.law.vanderbilt.edu/vjtl/vol8/iss1/1>

This Article is brought to you for free and open access by Scholarship@Vanderbilt Law. It has been accepted for inclusion in Vanderbilt Journal of Transnational Law by an authorized editor of Scholarship@Vanderbilt Law. For more information, please contact mark.j.williams@vanderbilt.edu.

Vanderbilt Journal of Transnational Law

VOLUME 8

FALL 1974

NUMBER 1

TOKYO AS AN INTERNATIONAL CAPITAL MARKET—ITS ECONOMIC AND LEGAL ASPECTS

*Mitsuru Misawa**

I. INTRODUCTION

The internationalization of the Japanese capital market began in 1955, but for a considerable length of time the market served only as a source of foreign capital needed to cover the deficits in the nation's balance of payments. It was not until after 1970, when the Japanese balance of payments showed a steady surplus, that the Japanese market could accommodate the issue and acquisition of foreign securities on a full-fledged scale, and that Tokyo could become a truly international capital market. This trend, however, proved to be short-lived, for the steep rise in the cost of oil imports has recently forced the Japanese Government to revert to its pre-1970 policy, and take measures to reduce the deficits in the nation's long-term capital payments balance.

It is now a subject of debate in the international business world whether the Tokyo capital market will ever re-emerge as an international capital market. This article attempts to evaluate whether and in what form the Tokyo capital market can be expected to regain its former place in international finance. To evaluate this prospect, one must examine Japan's economy and international balance of payments position, as well as Tokyo's development as

* Senior Vice President, The Industrial Bank of Japan Trust Company (New York). LL.B., 1960, Tokyo University; LL.M., 1964, Harvard University; M.B.A., 1965, University of Hawaii; Ph.D. in Business Administration, 1967, University of Michigan.

an international market and the relevant laws and regulations governing the operation of this market.

II. ECONOMIC ASPECTS OF THE TOKYO CAPITAL MARKET

A. *Medium-Range Forecast of the Japanese Economy*

During the 1960's, the Japanese economy grew at an average net rate of 11.1 per cent.¹ However, with the recent oil crisis coming on top of other resource problems, a prevalent labor shortage and limited plant site availability stemming from pollution problems, the growth rate is expected to taper off. Various estimates of Japan's future economic growth indicate that a rate of seven per cent, a figure slightly higher than in other advanced countries, is likely for the Japanese economy.² Since this figure is arrived at by dividing the expected ratio of investment (ratio of investment to GNP) by the expected coefficient of marginal capital (investment necessary for increasing production per unit), an examination of these two components is in order.

During the 1960's, Japan's marginal capital coefficient was 2.98,³ which was less than the respective figures of West Germany, 5.32; France, 4.43; Britain, 3.64; and the United States, 3.54.⁴ This differential resulted from two factors: (1) investment in Japan was mainly allocated for the expansion of production, and (2) the amount allocated for antipollution purposes and for social overhead capital was not so high as in the United States and Europe. With the start of the 1970's, however, Japan began to orient its resources toward a welfare economy, which requires large investments in unproductive antipollution and social overhead facilities. As a result of this orientation, Japan's marginal capital coefficient is expected eventually to rise as high as West Germany's 5.32.

1. ECONOMIC PLANNING AGENCY, ANNUAL REPORT ON NATIONAL INCOME STATISTICS, 24, 25 (Okurasho Insatsu Kyoku 1974) [hereinafter cited as ANNUAL REPORT].

2. For example, the Economic Planning Agency forecasts that the average growth rate during the period of 1973-85 will be 7.1%. See *Nihon Keizai Shinbun* (Japan Economic Journal), July 5, 1974, at 3.

3. Calculated from MINISTRY OF FINANCE, SHOKEN KANKEI SHUYO SANKO SHIRYOSHU (MATERIALS CONCERNING SECURITIES) 13 (Okurasho Shoken Kyoku 1974).

4. For the international comparison of productivity, see ECONOMIC PLANNING AGENCY, ECONOMIC SURVEY OF JAPAN (1972-73) 70-78 (The Japan Times, Ltd. 1973).

On the other hand, Japan's investment rate in the 1960's stood at 33.1 per cent, much higher than the approximately 20 per cent registered by the United States and Western European countries.⁵ This trend is expected to continue in the 1970's because investments in housing construction and social overhead capital are at high levels and because private equipment investment, which constitutes the bulk of overall investment, will remain active. Therefore, in the 1970's the Japanese investment rate is expected to climb slightly to an average of 37 or 38 per cent. In this connection, it should be noted that a high rate of savings is necessary to support such a high investment rate. While the effects of galloping inflation cannot be ignored, of course, it is thought unlikely that there will be any drastic change in the rate of savings.⁶ Consequently, the projected net growth rate will be 7.1 per cent on the basis of a projected investment rate of 38.00 divided by a projected marginal capital coefficient of 5.32.

In estimating the growth rate of the Japanese economy, one must consider the export-import balance problem. The price of crude oil has skyrocketed since the "oil crisis," resulting in an increase of Japan's oil imports to approximately ten billion dollars a year. Under these circumstances, Japan is obliged to maximize its exports to offset the increased cost of imported oil. However, the prospects for an unusually large export surplus are not great. The first reason for this projection is that during the 1970's wholesale prices are expected to rise by about seven per cent, consumer prices by eight per cent, and gross wages by sixteen to eighteen per cent,⁷ which will result in a decline in the competitiveness of Japa-

5. Calculated from ANNUAL REPORT, *supra* note 1, at 20-21.

6. The reasons for the high level of savings in Japan are many. First, people tend to keep a certain degree of liquidity because Japan has always lagged far behind most other industrialized countries in public provision for social security. Secondly, there is the fact that thrift has traditionally been considered a virtue in Japan. The value of thrift is too strongly ingrained in the Japanese way of life to undergo much change in a short period of time. For details see Misawa, *Securities Regulation in Japan*, 6 VAND. J. TRANSNAT'L L. 447, 457-58 (1973).

7. For the past trends of these figures see ECONOMIC SURVEY, *supra* note 4, at 103-46. The Economic Planning Agency forecasts that average rises of wholesale prices, consumer prices and gross wages during the period of 1973-85 will be 5.7%, 7.4% and 15.7% respectively. For the details of this forecast see Nihon Keizai Shinbun (Japan Economic Journal), July 19, 1974, at 1.

nese goods. In addition, an excessive export drive by Japanese industries is unlikely, since past experience has taught Japanese manufacturers to be sensitive to world opinion and to avoid tactics that could disrupt international trade balance and provoke unfavorable repercussions. Secondly, the rising cost of manpower will enhance the tendency—in such labor intensive industries as automobiles and household electrical equipment—to shift production abroad where labor is cheaper, while Japan increasingly turns to the production of technologically sophisticated goods. Even in the case of process industries like petrochemicals and steel, domestic operations are so badly hampered by the shortage of raw materials and the difficulty of finding suitable plant sites that producers will probably be forced to look overseas. Should such a trend turn into a general practice, Japan will eventually become a re-importer of manufactured goods.

Taking these factors into account, it is difficult to conceive of another boom in capital exports similar to the one experienced between 1970 and 1973, when Japan was able to accumulate a large foreign exchange surplus. The Japanese Government, however, will regulate the inflow or outflow of capital as required by the balance of payments and other trends in the economy. In addition to the government's active adjustment of the long-term capital balances, it is projected that the trade balance will be improved considerably, at least within a moderate length of time. Therefore, this writer believes that the yen will gradually be stabilized with stronger potential from a medium-range point of view, hopefully placing the strength of the yen almost on par with the dollar and the deutschemark; eventually, the yen should become a reserve and settlement currency. Under these circumstances, in a medium-range forecast, it will again become possible for the Tokyo market to export a certain amount of capital. Further, it may become necessary for Japan to do this to maintain a sound equilibrium in its international payments.

B. *Recent Position of Japan's International Balance of Payments*

Japan's balance of payments, which had registered a surplus since 1968, has fallen into the red since March 1973 (see Table 1). Examining the figures for fiscal 1973, one notes the following: (1) the balance of trade showed a surplus of no more than 817 million dollars, a notable decrease from the 8.356 billion dollar surplus in

the preceding year; and (2) the long-term capital balance showed a sizable deficit of 9.140 billion dollars—almost a two-fold increase over the preceding fiscal year. As a result, a large deficit of 13.445 billion dollars was registered in Japan's overall balance of payments. Thus, the surplus trend in the overall payments balance, which had continued for five straight years from fiscal 1968, has come to an end. This change from a surplus to a deficit can be examined in light of the movements of both the trade and long-term capital balances.

First, the balance of trade was greatly affected by the oil crisis; a trade balance deficit resulted from the arrival of large quantities of so-called "\$10-a-barrel" crude oil, coupled with the higher prices of other imported goods. In addition, it is generally believed that imports will inevitably continue at a high level relative to the high cost of oil, but a sharp rise from the current level is not anticipated. In contrast to imports, exports have started to rise sharply, with strong prospects for continued increases. The impetus for this export increment is provided by the continuance of the global material shortage and the short-term export drive promoted by the Japanese Government's overall demand curbing policy.

Secondly, the large deficit in the long-term capital balance which prevailed from January to April 1974, stemmed from an increased outflow of capital in the form of foreign investments by Japanese manufacturers, brisk overseas investments and loans by Japanese financial institutions, in addition to the Japanese purchase of foreign securities. This shrinking trend is likely to continue throughout fiscal 1974. Moreover, governmental measures designed to check the inflow of foreign currency through the use of Foreign Exchange Control Regulations and promote the outflow of capital under the Foreign Currency Deposit and the Foreign Currency Loan Systems⁸ were initiated in fiscal 1971 to reduce the accumulation of foreign currency and resulted in further enlarging Japan's capital balance deficit. Moreover, the aforementioned measures undertaken to encourage the inflow of foreign currency together with the general decline in overseas investment on the

8. Although the figure is not publicly available, the Ministry of Finance is known to hold large foreign currency deposits at Japanese commercial banks. However, the Ministry of Finance has recently made considerable withdrawals of their deposits to support the yen.

part of Japanese enterprises will most likely continue. Worthy of particular mention is that a series of measures have been initiated by the Export-Import Bank of Japan aimed at curbing overseas investments and promoting the acquisition of "impact-loans."⁹

Judging from the movements of trade balances and long-term capital, it is highly probable that the enormous deficit of more than 13.400 billion dollars in the overall payments balance of fiscal 1973 will dwindle to half that amount in fiscal 1974. The Japanese Government expressed the hope that this year's balance of payment deficit could be reduced to between six billion dollars and seven billion dollars with equilibrium being achieved in three to five years.¹⁰ Therefore, the question of Japan's prospective international balance of payments position remains unanswered.¹¹ From past experience the future depends on the trends in Japan's trade and long-term capital balances.

III. HISTORICAL DEVELOPMENT OF THE TOKYO CAPITAL MARKET

A. *Issues of Yen-Denominated Publicly Offered Foreign Bonds*

The internationalization of the Tokyo capital market started in December 1970, with the issue by the Asian Development Bank of yen-denominated publicly offered bonds. Since, however, approximately 80 per cent of the bonds were purchased by banks, they almost could have been considered privately placed bonds, but in a sense, this first issue served as a test of the maturity of Tokyo as an international financial center. In June 1971, the World Bank issued yen-denominated bonds. This was a noteworthy issue since the portion purchased by banks approximated only one-third of the total and, moreover, the issue terms were consistent with the prevailing market conditions. Encouraged by the World Bank's success, the Asian Development Bank decided to undertake a full scale issue of publicly offered bonds (see Table 2). The success of the World Bank and the Asian Development Bank issues prompted

9. This means the loans to Japanese companies extended by foreign banks, utilization of which is not specified.

10. *Nihon Keizai Shinbun* (Japan Economic Journal), May 23, 1974, at 13.

11. For the details of mid-term forecast of Japan's balance of payments see THE INDUSTRIAL BANK OF JAPAN, WAGAKUNI KOKUSAISHUSHI NO CHUKITEKI TENBOO NI TSUITE (MID-TERM FORECAST OF JAPAN'S BALANCE OF PAYMENTS) 28-315 (The Industrial Bank of Japan).

many foreign organizations to follow suit (see Table 3). These organizations consisted of international institutions, national governments, local public bodies, public corporations, and private enterprises running the gamut of the public and private sectors (see Table 4).

The main business of the Tokyo international capital market is to handle issues of yen-denominated publicly offered foreign bonds, with an emphasis on high grade yen-denominated bonds floated by well known international issuers such as international institutions and foreign governments.¹² The reasons for this are two-fold: First, since the internationalization process has just begun, the market is not yet fully consolidated; secondly, investors have very little knowledge of international conditions, an underdeveloped sense of risks, and a poor grasp of proper interest rates. Thus, it is considered best to focus on issues that are sure to foster the growth of a first-rate capital market. Consistent with this goal, the market considers good issuers with established international reputations to be those that have made international issues publicly in the United States and Europe at least three times during the past five years or at least ten times during the past twenty years.¹³

In addition to World Bank and Asian Development Bank bonds, Australian Government bonds were issued in July 1972, and Quebec (Canada) bonds the following September. The Australian bonds were the first to be floated by the Australian Government in 55 years and represented a revitalization of the yen-denominated bond market, which had been dormant since the World War I era when the British, French and Russian Governments turned to the Japanese market for short-term war financing. Hence it can be said that the recent issues by the Australian Government on the Tokyo capital market were the first long-term yen-denominated publicly offered government bonds as such. For this reason, the flotations of the Australian Government bonds and of the Quebec bonds on the Japanese capital market were significant events since they, in effect, inaugurated the full-scale internation-

12. MINISTRY OF FINANCE, OKURASHO SHOKENKYOKU NENPPU, 1973 NENBAN (ANNUAL REPORT - MINISTRY OF FINANCE, 1973) 52 (Kinyu Zaisei Jijyo Kenkyukai 1973).

13. *Id.*

alization of the Japanese capital market.

B. *Issues of Foreign Currency Bonds by Overseas Institutions on a Private Placement Basis*

Concurrent with the public offering in the Japanese market of yen-denominated foreign bonds, moves to float privately placed foreign currency bonds in Japan started in July 1972, with the issue of twenty million dollars worth of bonds by the European Investment Bank. Thus far, such bonds have totaled 906.8 million dollars in 46 issues (see Table 5). In addition, there were instances when a portion of the bonds floated in a public offering or a private placement basis in overseas capital markets were sold in Japan in the form of private placements. An example of such an issue under this type of sale was the North American Rockwell Overseas Corporation bond issue in May 1972. These bonds were small in denomination, but large in number, reaching 228 issues with the total amount of 280.82 million dollars.

The yen-denominated publicly offered bonds consisted of those issued by international institutions, while the privately placed or privately sold foreign bonds consisted mainly of those issued by private foreign enterprises. The bonds on the Japanese market, both public and private, are of a diverse nature (see Tables 6 and 7) covering such currencies as the dollar, deutschemark, franc, yen or deutschemark with a dollar option clause. The variety of bonds include not only standard but also convertible bonds.

C. *Domestic Issue of Foreign Stocks*

Similar to the development of the foreign bond market, the domestic issue of foreign stocks began with the private placement of stocks by L'Air Liquide S.A. of France in May 1972. The first foreign issuer to make a public offering in Japan was General Telephone & Electronics Corporation, a United States corporation, in October 1972. Thus far, there have been 30 foreign stock issues totaling 102.8 million dollars, three of which were public offerings totaling 50.81 million dollars (see Table 8). Besides the above-cited domestically issued foreign securities, the regulation of the acquisition of previously issued securities via foreign securities exchanges was liberalized in July 1971 for the benefit of the investing public with the inclusion of such foreign securities in investment trust portfolios in February 1970. As one of the yen counter-measures,

the Japanese Government removed virtually all the restrictions in May 1972, and put everything on a completely free basis. The foreign securities acquired through foreign securities exchanges consisted of stocks valued at 54.8 billion yen and bonds at 69.5 billion yen as of December 1973, both showing a marked gain. Since the beginning of 1974, however, there has been a sharp decline due to newly imposed governmental restrictions (see Table 9).

In the wake of such increased investment in foreign securities, six shares—FNCC, Dow Chemical, First Chicago, GTE, I.U. International Corp. (U.S.A.), and Paribas (France)—were listed on the Tokyo Stock Exchange in December 1973. Further, in February of 1974 Cie Française des Petroles, S.A. joined the list (see Table 10). Presently, the daily volume of trading has averaged 30,694 shares and 423.13 million yen (see Table 11).

D. *Syndicated Loans*

Since 1972, syndicated loan activities utilizing dollars acquired from the Eurodollar market and from Japan's foreign reserve surplus¹⁴ have been very brisk. Although Japan has a short history of organizing syndicated loans, the total loan sum had already reached five billion dollars by the end of 1973.¹⁵ Borrowers of these loans included international oil companies, financial institutions and public organizations.¹⁶ At present, however, the formation of syndicated loans is being restrained as a result of the increasing deficit in Japan's international balance of payments. The Bank of Japan has recently decided to strengthen its guidance to commercial banks on the borrowing and lending of Eurodollars,¹⁷ since it

14. This is based upon foreign currency deposits held by the Ministry of Finance at Japanese commercial banks. See note 8 *supra*.

15. The Eurocredit market expanded at a fairly rapid pace. In 1973, the volume grew to \$23 billion, of which \$5.3 billion (26.5%) was estimated to be syndicated by Japanese banks. See *EUROMONEY* 35 (Euromoney Publication Limited, Feb. 19, 1974); *Nihon Kogyo Shinbun* (Daily Industrial Paper), Mar. 12, 1974, at 3.

16. The borrowers' names are not usually disclosed. Among the borrowers for whom Japanese banks acted as a manager in syndicated loans, the following names are included: Republic of Colombia, Instituto Mobiliare Italiano, National Iranian Tanker Co., Comision Federal de Electricidad, National Bank of Hungary and Deutsche Aussenhandelsbank.

17. *The Japan Times*, July 3, 1972, at 8.

believes that competition among Japanese banks for Eurodollar loans may drive up the interest rates for these funds. Since short-term Eurodollar funds borrowed by Japanese banks at high interest rates were being re-lent on a medium and long-term basis, the Bank of Japan takes the position that such a method is not advisable because of the risks involved. Therefore, Japanese banks planning to borrow in the Euromarkets must obtain the Bank of Japan's approval on an individual basis. In addition, the Bank of Japan will limit Japanese bank loans abroad to commitments involving Japanese firms or to those loans with small foreign exchange risks.

IV. LEGAL ASPECTS OF THE TOKYO CAPITAL MARKET

A. *Regulatory Structure*

Since the Japanese Securities Exchange Law of 1948¹⁸ is applicable to the proposed securities issues of foreign entities, one must examine the application of the law. The Securities Exchange Law was enacted at the insistence of the occupation authorities as a condition for the reopening of the Japanese securities exchanges. The Japanese law is a modified version of the United States Securities Act of 1933 and the Securities Exchange Act of 1934 and contains provisions substantially similar to United States laws requiring the disclosure of corporate information and covering the regulation of the securities markets.¹⁹ However, the pattern of securities regulation in Japan differs somewhat from that of the United States because of the differences in the basic legal systems and the social structures of the two countries.

In Japan the supervision of the securities markets is entrusted to the Ministry of Finance, which exercises its control through the Ministry's Securities Division. The Securities Division exercises executive, quasi-judicial and quasi-legislative powers similar to those of the Securities and Exchange Commission in the United States. Consistent with the policy underlying United States securities regulation, the Japanese law requires the disclosure of corpo-

18. Law No. 25 of Apr. 13, 1948 (Japan). Subsequent amendments to the law reflected United States developments. Most recently the law was amended on Mar. 3, 1971. Law No. 4 of 1971 [hereinafter cited as Securities Exchange Law].

19. For the detail of securities regulation in Japan see Misawa *supra* note 6, at 447-510.

rate information through the registration system when securities are to be sold to the public.²⁰ Public corporate securities issues are generally subject to the law, but all bond issues, bank securities and small issues under 100 million yen (approximately 0.33 million dollars) are exempted from the registration requirement.²¹ Registration statements must contain adequate information for the benefit of the investors,²² but if the Ministry of Finance finds that a registration statement includes false information, fails to include information covering important matters or is misleading, it may deny registration.²³ Before the Ministry issues a formal "stop order," however, the company is entitled to a hearing at which it may present clarifying information and amend its registration statement,²⁴ and if the Ministry of Finance deems the amendment appropriate and satisfactory, it permits the registration of the issue,²⁵ which is a *sine qua non* for the offering of securities to the public. Moreover, the Law also requires that a prospectus, containing essentially the same information as the registration statement, be presented to every subscriber of the corporate issue.²⁶ Included in the prospectus must be all information that the Ministry of Finance deems essential and appropriate to the public interest, or for the protection of investors.²⁷ In addition to its jurisdiction over securities registrations, the Ministry of Finance has authority to regulate the trading of securities, and to conduct studies and investigate matters in the public interest covering the entire field of securities issuance and trading. For example, the Ministry may investigate securities dealers,²⁸ securities exchanges,²⁹ securities dealers associations,³⁰ issuing companies and companies submit-

20. Securities Exchange Law art. 4.

21. Japan Ministry of Finance Regulation, *Registration of Offers and Sales of Securities* No. 32, art. 1 (1972). This regulation was promulgated pursuant to the 1972 amendments in the Securities Exchange Law.

22. Securities Exchange Law art. 5.

23. Securities Exchange Law art. 10.

24. Securities Exchange Law art. 10.

25. Securities Exchange Law art. 10.

26. Securities Exchange Law art. 13.

27. Securities Exchange Law art. 13.

28. Securities Exchange Law art. 55.

29. Securities Exchange Law art. 154.

30. Securities Exchange Law art. 76.

ting securities reports³¹ as well as examine corporate books, require submission of reports on business or property and require the attendance of witnesses.³² Further, the Ministry of Finance may go to the courts and seek injunctive relief to proscribe the conduct of those engaged, or about to engage, in any act violative of the securities law.³³

B. *Registration Requirements*

Under the Japanese Securities Exchange Law, the following are classified as securities: government bonds, local government bonds, bonds issued by a juridical entity established under a special law, stocks, warrants, beneficiary certificates of an investment trust or loan trust, securities or certificates issued by foreign countries or foreign juridical entities and such other securities or certificates as may be prescribed by Cabinet Order.³⁴

An important difference between the exemption provisions under the Japanese Securities Exchange Law and those in the United States and other countries is that in Japan domestic bonds that are guaranteed and those secured with property are exempted from registration.³⁵ The rationale for exempting bonds from the registration requirements of the Securities Exchange Law are three-fold: (1) The primary purchasers of bonds are financial institutions capable of investigating the financial condition of the issuing companies. (2) Almost all of the companies issuing bonds are listed companies that provide current public information concerning the status of the issuing company. (3) It is believed that disclosure of financial information about a company is less essential to bondholders than to stockholders since the former are secured by liens on specific company properties. These liens are said to offer bondholders sufficient protection in the event of financial difficulties. However, the real reason for exempting bond issues from registration is probably that the buying and selling that does occur in the relatively undeveloped bond market is done by institutions

31. Securities Exchange Law art. 26.

32. Securities Exchange Law arts. 182-84, 186.

33. Securities Exchange Law art. 187.

34. Securities Exchange Law art. 2.

35. Law No. 4 of Mar. 3, 1971, Supplementary Provisions of the Securities Exchange Law art. 4 (Japan).

that are not in need of extensive protection. Nevertheless, registration has always been required of publicly offered foreign bond issues since these bonds have not been secured with property.

C. *Disclosure Required for Offerings of Securities*

Prior to the enactment of the Securities Exchange Law in 1948, the Commercial Code³⁶ served as the only law regulating security issues in Japan. Under the Commercial Code, the corporate promoters must disclose the required information at the time of incorporation by publishing the articles of incorporation in the official Gazette or in a daily newspaper.³⁷ Therefore, the disclosure requirements of the Commercial Code provide insufficient investor protection. In contrast to the Commercial Code, the Securities Exchange Law is a great advance, requiring publicity and supplying detailed information concerning publicly held companies whose securities do not meet the requirements of "exempted securities" or "exempted transactions."

Under the Japanese Securities Exchange Law, the disclosure mechanism is the registration statement filed with the Ministry of Finance in conjunction with the prospectus that summarizes the more detailed registration statement. A registration statement becomes effective on the 30th day after it is filed or on the 30th day after the filing of an amendment, during which period the Ministry of Finance reviews the statement and determines whether full and fair disclosure has been provided.³⁸ While the Ministry of Finance examines registration statements, it does not guarantee the security or make a judgment of its quality. Rather, the law requires the disclosure of sufficient and accurate facts to enable the investing public to make a reasoned investment judgment. The criteria for determining the essentiality of the required information are provided by a Ministry of Finance ordinance,³⁹ but the ultimate

36. COMMERCIAL CODE (1899) (Japan) [hereinafter cited as COMMERCIAL CODE].

37. COMMERCIAL CODE arts. 166, 173, 175, 183, 184, & 188.

38. Securities Exchange Law art. 8. The effective date may be accelerated by order of the Ministry of Finance, however, if information about the issuer is adequately available for the protection of investors.

39. Securities Exchange Law art. 5 (matters necessary and appropriate for the protection of public interest or investors are prescribed by a Ministry of Finance ordinance).

responsibility for adequate and accurate disclosure lies with the issuer,⁴⁰ and in the event of a deficiency in the registration statement, amendments are required, following which the registration statement becomes effective at the lapse of the pre-effective period designated by the Ministry of Finance.⁴¹ The benefit of this interval between filing and effective registration enables underwriters, prospective purchasers and other interested parties to familiarize themselves with the nature of the offering. On or after the effective date, the registered securities may be offered to the public, but each purchaser must receive a prospectus at or before the sale or delivery of the securities, or at the time of confirmation of his purchase.⁴² During the waiting period that precedes the effective date, however, offers using a temporary prospectus are permitted.⁴³

D. *Financial Information and Accounting Practices*

A comparison between the information required in the typical S-1 registration statement used in the United States and that required by Japanese registration statements discloses that the information contained in the latter is more comprehensive. Although there is not much difference in the nonfinancial information such as "Description of Business," "Plan of Distribution" and "Treatment of Proceeds from Stocks Being Registered," the information included in the financial statements is quite different. Japanese Securities Reports submitted (usually twice a year) to the Ministry of Finance include special items such as "specifications of holding securities," (securities held by the company for temporary or long-term investment), "current term changes in each reserve," and "breakdown of depreciations"—items not covered by periodic reports in the United States.

The important differences between the regulations and problems of the United States and Japan can be seen, for example, in the required form for corporate financial statements, *i.e.* consolidated financial statements are not required in Japan. The Japanese Securities Exchange Law, however, does require that the financial statements of an "important subsidiary company" be attached to

40. Securities Exchange Law arts. 16-18.

41. Securities Exchange Law art. 9.

42. Securities Exchange Law art. 15.

43. Securities Exchange Law art. 15.

the securities report of the parent company.⁴⁴ The Ministry of Finance defines an "important subsidiary" as one whose assets or sales are large enough to have a great effect on the financial situation of the parent company.⁴⁵ Although consolidated statements are most useful to the board of directors and operating officials of the controlling company,⁴⁶ such statements also have great significance for stockholders of the subsidiary company, and because of this significance it is generally recognized that consolidated statements should be introduced in Japan as soon as possible.⁴⁷

E. *Disclosure Requirements Applicable only to Flotation of Foreign Securities*

With the growing internationalization of the Tokyo capital market, it is becoming a regular practice for foreign enterprises, foreign governments and foreign public entities to float their securities in Japan on a public offering basis. Japan is, therefore, faced with the urgent need to institute a well-regulated system that will provide for sufficient disclosure by foreign entities when issuing their securities in Japan.

1. *Disclosure Required of Foreign Governments and Foreign Public Organizations.*—The disclosure requirements of the Securities Exchange Law are generally applicable to the securities floated by foreign governments or foreign public organizations. To regulate this disclosure system the "Ministerial Ordinance Concerning Notification of Offering or Secondary Distribution of Foreign Securities" was promulgated in 1972.⁴⁸ The securities coming

44. Securities Exchange Law arts. 23, 24. See Japan, Ministry of Finance Regulation, *Registration of Offers and Sales of Securities* No. 32, art. 15 (June 1, 1972).

45. Japan, Ministry of Finance Ordinance No. 32, art. 15 (June 1, 1971).

46. W. PATON & W. PATON, JR., *CORPORATE ACCOUNTS AND STATEMENTS* 574 (1964).

47. The following caution should be noted: "The formation of such statements, however, presents many opportunities for concealing rather than revealing the truth. A poorly prepared consolidated statement may be misleading and thus may be worse than nothing." *THE SECURITIES MARKETS* 589 (A. Bernheim & M. Schneider eds. 1935).

48. Japan, Ministry of Finance Ordinance No. 26 (Apr. 2, 1972) [hereinafter cited as Ministry of Finance Ordinance No. 26]. In accordance with this Ministerial Ordinance, Australian Federal Government Bonds for ¥10 billion were

under this Ordinance are defined as government bonds, municipal bonds, securities issued by corporations in accordance with special legislation and those having the nature of investment certificates issued by corporations established in accordance with special legislation.⁴⁹ Collectively these are characterized as "foreign securities."

When foreign securities are offered for sale in Japan, the issuers must submit a registration statement and in addition since each such issuer is based abroad, the issuer is required to appoint an agent or proxy domiciled in Japan and duly authorized to represent the issuer in connection with any and all acts relevant to soliciting securities subscriptions.⁵⁰ The registration statement is to provide the investing public with all the information necessary to enable a reasoned judgment on the investment in the securities. Therefore, the registration statement contains the requisite information for the protection of the investors as well as information necessary to enable investors to form a legitimate judgment on the investment.⁵¹

The issuers of foreign securities are diverse, including governments, public organizations, international institutions and government-affiliated agencies. In the registration statement, the classification of the issuer is contained in the section "General Description of Issuers." The sections for "Basic Matters Relating to Offered Securities," "Purposes of Fund Raising and Uses of Funds," and "Legal Opinions" are required for the protection of investors. In particular, the subsections "Matters Concerning Mortgages and Guarantees," "Duties of Commissioned Banks,"⁵² "Matters Concerning Meeting of Creditors," "Treatment of Taxes," "Applicable Laws and Court of Jurisdiction" have been established under the section "Basic Matters Relating to Offered Securities" with a view toward protecting the investors. The regis-

floated in July 1972 and Quebec Provincial Bonds for ¥10 billion were floated on a public offering basis in September 1972.

49. Ministry of Finance Ordinance No. 26, art. 1.

50. Ministry of Finance Ordinance No. 26, art. 4.

51. Ministry of Finance Ordinance No. 26, art. 5.

52. The roles of commissioned banks in Japan are to perform an originating role in the flotation of bonds; to inform the issuers of current market conditions; to advise them as to the amount of bond issues, the term and timing of offerings; and to hold securities for the creditors.

tration statement is divided into Part I dealing with information to be disclosed to the investing public in the prospectus and Part II containing information that need not be disclosed in the prospectus.⁵³

It is stipulated that the documents attached to the registration statement cover such areas as the proxy letter, various agreements, including the underwriting agreement, written legal opinions, and pertinent articles of related laws and regulations mentioned in the written legal opinions.⁵⁴

Of these accompanying documents, two are thought to be of particular importance from the viewpoint of protecting the investing public: (1) "agreement concerning a contract on entrusting care of securities for the creditors,"⁵⁵ and (2) "written legal opinions prepared by the proper legal experts on the legality of subscription to and sale of the said securities and the pertinent articles of the laws and regulations mentioned in the said legal opinions."⁵⁶

At present, the Japanese Commercial Code does not apply to securities floated by foreign governments or foreign local public organizations.⁵⁷ Accordingly, there is no option except to protect the interests of investors by means of an agreement until satisfactory legal regulations are firmly established. To achieve this end, it is generally requested that an agreement between issuers and commissioned banks, entrusted with the care of securities for the creditors, accompany the registration statement.

Since the issuers of foreign securities are foreign governments and foreign public organizations, legal questions such as applicable laws and jurisdiction are involved. Therefore, the Ministry of Finance has made it mandatory for issuers to attach a written legal opinion to insure the protection of investors. The matters required

53. For a concrete example see *The Industrial Bank of Japan, Ltd., Memorandum-Papua New Guinea, Japanese Yen Gon Von Bonds, Series A (1973/1985), Guaranteed by the Commonwealth of Australia 3-19 (The Industrial Bank of Japan, Ltd. Dec. 1973)*.

54. Ministry of Finance Ordinance No. 26, art. 7.

55. Ministry of Finance Ordinance No. 26, art. 7(3).

56. Ministry of Finance Ordinance No. 26, art. 7(5).

57. According to article 482 of the Commercial Code only a foreign company which establishes its principal office in Japan or the chief object of which is to carry on business in Japan shall comply with the provisions in the Commercial Code.

in the legal opinion include: (1) whether the issue is legal, (2) whether the contents of the contract, under which the issuer entrusts the care of the securities for the creditors, are legal and whether it is admitted by international private law of the issuer's country to designate the applicable laws and court of jurisdiction, (3) whether the contents of the contract relative to the repayment of principal and payment of interest are legal, and (4) whether the provisions for procedure on claim for compulsory execution in the event of default are legal; especially whether a foreign judicial decision will be considered valid; whether it will be possible to carry out execution on the basis of a judgment given by a Japanese court of justice or by a foreign court of justice.

2. *Disclosure Required of Foreign Corporations.*—To establish a well-regulated reporting system for foreign corporations,⁵⁸ inviting subscriptions to stocks or corporate bonds in Japan, the revision of Ministerial Ordinance Concerning Offering or Secondary Distribution of Securities was promulgated in 1973.⁵⁹ When a foreign corporation files its securities registration statement, it must appoint a person domiciled in Japan and duly authorized to represent the foreign corporation and to do any and all acts relevant to making the invitation.⁶⁰ When a foreign corporation attaches the necessary documents to its securities registration statement, such documents, unless written in Japanese, must be accompanied by Japanese translations.⁶¹

The contents of the registration statement, a prospectus and a securities report filed by a foreign corporation are about the same as those required of a Japanese corporation. However, a foreign corporation is allowed some discretion in making entries on their

58. For the purpose of floating 7,500,000 shares of common stock in Japan on a public offering basis, General Telephone & Electronics Corp. (GTE), as a first foreign corporation, filed a registration statement with the Minister of Finance on August 19, 1972. The public offering price per share was set at \$28 ¼, and total subscription payments for ¥6,400,740,000 were completed on October 4, 1972. This is the first stock ever issued in Japan by a foreign corporation on a public offering basis.

59. Japan, Ministry of Finance Ordinance No. 26 (Apr. 1972), *as amended*, Japan, Ministry of Finance Ordinance No. 5 (Jan. 30, 1973) [hereinafter cited as Ministry of Finance Ordinance No. 5].

60. Ministry of Finance Ordinance No. 5, art. 7.

61. Ministry of Finance Ordinance No. 5, art. 4(3).

materials so long as the information given is not misleading:⁶² for instance, when a foreign corporation maintains accounting principles and standards different from those used by a Japanese corporation, it is requested that the points of difference and the matters concerning the amount to be affected be specifically disclosed. Additionally, for a foreign corporation, consolidated financial statements are required to be disclosed.⁶³ As regards matters to be specifically mentioned in a prospectus prepared by a foreign corporation, it is requested that a statement be made to the effect that "its operations may be affected by changes in the exchange rate."⁶⁴ When a foreign corporation files a registration statement, it is necessary to attach a letter evidencing the right of representation, a letter evidencing the right of proxy, and a written opinion of a legal expert, in addition to the documents required of a Japanese corporation.⁶⁵

V. PROSPECTS FOR THE TOKYO INTERNATIONAL CAPITAL MARKET

A. *Recent Government Restrictions*

As one of the recent measures to stem the deficits in the balance of payments, the Japanese Government, in November 1973, relaxed restrictions on foreign investment in Japanese securities on the one hand and in January 1974 decided to reinstitute restrictions on the acquisition of foreign securities with Japanese capital on the other. In the past, for foreigners to be permitted to invest in Japanese securities, a securities house or a foreign exchange bank had to be named as proxy, and the amount of securities that could be bought was limited to the total amount sold. This measure, however, was abolished in November 1973, and there are now no obstacles to the inflow of foreign capital (see Tables 12 and 13).

These measures have drastically altered the function of Tokyo as an international capital market, and as a result, since January 1974 there have been no issues of foreign securities in Japan. At present, issues of yen-denominated bonds on a private placement basis are not considered at all, and applications for public offering

62. Ministry of Finance Ordinance No. 5, arts. 9, 12, 15.

63. Ministry of Finance Ordinance No. 5, art. 10(2).

64. Ministry of Finance Ordinance No. 5, art. 14.

65. Ministry of Finance Ordinance No. 5, art. 10.

are evaluated on a case-by-case basis by the Ministry of Finance. Thus far, there have been no issues of publicly offered foreign currency bonds, but there have been issues of privately placed foreign currency bonds, which are controlled under self-imposed restrictions. Although the public offering of yen-denominated bonds and the private placement of foreign currency bonds are both theoretically permitted, they are actually under severe controls. Since the credit squeeze still continues because of the prevailing domestic environment, issues of these bonds are very difficult to fulfill. Further, restrictions on net increases are strictly applied to the acquisition of bonds in the foreign securities trading market. Also the listing of foreign stocks on the Tokyo Stock Exchange is off for the time being.

B. *The Nature of the Market*

Although temporarily interrupted by the oil crisis, which precipitated an adverse payments balance, the process of internationalization should be considered from a long-range point of view. On this basis, the Tokyo capital market has been moving steadily toward the direction of internationalization. However, to measure Tokyo's progress in internationalization, it is necessary to examine with brevity the international capital markets presently functioning.⁶⁶ The various international capital markets differ considerably because the economic power, historic background, and policies of their respective countries are different. In terms of function, they may be divided into three categories. First, there is the type that exports the capital accumulated by the country in which it is located—a prime example of which is Frankfurt. Secondly, there are the Euro markets such as London and Zurich, which do not always have exportable capital but carry on intermediary functions in the international movement of money through price mechanisms. Euro markets benefit since governments in countries having such markets encourage their development by allowing the free flow of money, by creating a favorable market climate, and by granting financial institutions freedom to use their sophisticated know-how.

66. The presently functioning international capital markets are New York, London, Frankfurt, Paris, Amsterdam, Zurich, Brussels, and Hong Kong. In addition, Beirut and Singapore have recently won notice as an oil dollar market and an Asian dollar market, respectively.

Thirdly, there is the New York market, which performs the functions of both the first and second types. Although New York formerly served as a typical capital export market, this function was interrupted by the adoption of a series of monetary restrictions initiated by the United States in the 1960's, including the institution of an interest equalization tax, aimed at countering the huge deficits in United States international payments balance. In early 1974, however, the United States Government was able to abolish the interest equalization tax as a result of an improvement in its payments balance. Encouraged by improved conditions, the New York market is now expected to import oil money, which will increase its functions as an intermediary in the supply of money.

From this perspective, one must examine the circumstances surrounding the Tokyo capital market. In Japan up to the present, emphasis has been placed on making Tokyo an export-type capital market. Therefore, appropriate measures have not been initiated to foster Tokyo's growth as an intermediary money market. Further, Japan's recent balance of payments problem has unexpectedly halted the development of Tokyo as a capital export-type market. Although it may be too much to expect Tokyo to become a capital export-type market for the time being, in this writer's opinion it is certainly possible for Tokyo to serve as an intermediary in the world of money supply.

When considering the future of the world economy, a factor that can not be ignored is the petro dollar problem. For example, because of the sharp rises in oil prices, the oil revenue of oil-producing countries for 1974 alone is estimated to reach as much as 65 billion dollars.⁶⁷ Granting that a considerable portion of the revenue will be spent for the industrialization of the oil-producing countries and for the higher cost of imported industrial products, a huge amount of idle funds will accumulate, leading eventually to the maldistribution of international liquidity. At present, it is reported that a large part of these idle funds will flow into the New York or Euro market, but the problem of how to assure the flow of these petro dollars back into the money-short countries is one of the most urgent questions confronting the world economy. Under these circumstances, the Tokyo market should work in cooperation

67. The Japan Times, June 17, 1974, at B1.

with Asian international markets, including, of course, Singapore, which serves as the hub of the Asian dollar market. In view of Japan's economic and financial power as well as its firmly established market standing, Tokyo could play a leading role in international cooperation in Asia.

In considering the development of the Tokyo market, one should note particularly the close working relationship between the Japanese Government and private enterprise as well as the relationship between Japanese Government policies and the Japanese capital market. In pursuit of the sound development of the Japanese capital market, the Japanese Government has thus far actively implemented numerous policies designed to improve the market environment and is expected to continue its efforts in this direction. It is quite natural for money to flow into a safe, fully controlled market, provided that such money can be managed as effectively and at the same interest rates as elsewhere. For example, the fact that oil money is beginning to flow into the New York market, not to mention the Euro market, indicates that such conditions of safety and control prevail there. Therefore, the Tokyo market with its safeguards and favorable status will very likely play a much larger role in Asia in the period ahead.

C. Problems Facing the Tokyo International Capital Market

The development of Tokyo as a mature international financial market will take a considerable length of time, since there are many problems to be solved. First is the problem of the internationalization of the yen. However, the internationalization of the Tokyo capital market should not be undertaken for the single purpose of reducing Japan's foreign exchange reserves; rather, Japan should cultivate a long-range view that will allow it to pursue a course toward the internationalization of its capital market. Currently, the yen plays a very small role in international transactions, but in the long run, there is considerable potential for the increased use of the yen as a settlement currency or trade currency. Concomitant with the internationalization of the yen is the further internationalization of the Tokyo market as an intermediary in the money supply field.

Secondly, there is the problem of disclosure required of issuers in making a public-offering of securities. After World War II,

Japan enacted the Securities Exchange Law (based on two American statutes: Securities Act of 1933 and Securities Exchange Act of 1934), which calls for detailed disclosure to insure the protection of investors. The disclosure system in Japan, however, has material defects in comparison with its American counterparts. For instance, the Japanese law does not require the preparation of nonconsolidated financial statements, although consolidated financial statements are customary in the United States and other countries. This difference is important because a consistent internationally oriented governmental policy toward investment and securities regulation is an indispensable prerequisite to the internationalization of the Tokyo market.

Thirdly, there is a problem of improving the primary issue and secondary distribution of the bond markets. Previously, the bond issue market has been a controlled market with fixed interest rates, rather than an unfettered market subject to market fluctuations, while the secondary bond market has not yet fully developed. In both the primary and secondary bond markets, there is no mechanism for allowing issue terms to reflect actual market conditions⁶⁸—a factor which must be dealt with to improve the viability of the Japanese bond market.

Fourthly, the decisive factor in fostering the growth of a first-rate international capital market is the quality of the underwriters, who, along with investors, are the mainstay of the market. Not only is it essential that investors be educated to judge risks and money costs and to recognize the potential impact of international events but it is also essential that the growth of first-grade underwriters capable of meeting various problems be fostered. Underwriters should be provided with adequate information of international currency problems, domestic and foreign financial conditions, and current financial affairs and the future prospects of issuers. Moreover, they should always provide such pertinent information to both issuers and investors alike, and should act with a due sense of discipline even amid excessive and unfair competition.

It has been noted that for the Tokyo capital market to rank with

68. For detailed information on the underdeveloped Japanese bond markets see Misawa, *supra* note 6, at 463-69.

the New York and European markets, it must greatly increase the number of its underwriters. There are currently too few in Tokyo compared to the large number in New York and Europe. In this connection, this writer believes that the oligopolistic position held by the Big Four securities houses in Japan⁶⁹ should be given careful scrutiny. As a measure to enlarge and strengthen the Japanese securities market, it would do well to allow parties other than securities houses, banks for instance, to participate in the underwriting business. To achieve this end, it will be necessary to revise the Securities Exchange Law,⁷⁰ which requires the separation of the securities business from banking. As an additional measure, foreign financial experts, such as merchant banks, investment bankers, and securities houses, in the United States and Europe, should be invited to Japan to participate in their fields so long as such a liberalization does not jeopardize Japan's national interests, for one may see that the close cooperation between Japanese financial experts and their foreign counterparts is a prerequisite to the further development of Tokyo as an international capital market.

69. Nomura, Nikko, Daiwa and Yamaichi.

70. Securities Exchange Law art. 65. This article provides that banks and trust companies may not engage in any securities business, except to buy or sell securities for the account of a customer, or to buy or sell securities for their own investment purposes. For the reason this article was modeled on United States laws see Misawa, *supra* note 6, at 475.

TABLE 1*
International Balance of Payments
(unit: one million dollars U.S.)

Year or Month	Current Trade Balance							Balance of Monetary Movements				
	Current Balance	Trade Balance	Exports	Imports	Services	Transfers	Long Term Capital (a)	Short Term Capital (a)(b)	Error & Omissions	Overall Balance	Gold & Foreign Exchange Reserves	Others
1966												
Jan-Mar	84	570	2,071	1,701	350	-36	185	12	63	6	2	8
Apr-Jun	189	419	2,303	1,639	229	-23	129	14	7	69	5	61
July-Sept	478	631	2,499	1,603	183	-23	217	11	15	235	60	295
Oct-Dec	500	765	2,763	1,698	219	-46	307	51	90	62	30	72
1967												
Jan-Mar	174	102	2,225	2,052	64	-50	182	131	63	-284	3	297
Apr-Jun	70	171	2,165	2,065	20	-50	182	166	37	-206	3	203
July-Sept	137	450	2,673	2,223	297	-36	225	77	23	16	52	63
Oct-Dec	30	337	2,837	2,404	377	-40	225	112	4	97	17	80
1968												
Jan-Mar	118	2,069	2,401	2,401	334	-59	110	114	44	917	43	203
Apr-Jun	191	2,608	3,112	2,688	310	-24	7	68	63	221	13	238
July-Sept	483	3,427	3,743	3,310	317	-47	118	31	1	541	384	167
Oct-Dec	643	4,020	3,743	2,723	325	-47	118	84	27	587	581	166
1969												
Jan-Mar	130	500	3,226	2,676	317	-63	49	7	106	278	(c) 322	44
Apr-Jun	531	913	3,794	2,831	359	-53	186	17	91	375	157	261
July-Sept	672	1,697	4,185	3,438	377	-37	178	141	19	633	334	167
Oct-Dec	766	1,139	4,494	3,633	356	-37	178	141	19	710	270	440
1970												
Jan-Mar	55	679	4,036	3,457	465	-69	438	183	182	16	(d) 372	698
Apr-Jun	373	845	4,586	3,741	422	-50	463	149	39	25	59	22
July-Sept	599	1,105	4,939	3,834	458	-48	315	144	112	63	31	83
Oct-Dec	643	1,434	5,468	3,974	460	-51	315	149	9	717	843	108
1971												
Jan-Mar	434	1,035	4,922	3,897	641	-80	194	131	238	609	(e) 1,020	322
Apr-Jun	1,262	1,748	6,736	3,693	433	-53	177	650	189	2,283	2,141	147
July-Sept	2,100	2,489	6,226	3,747	854	-35	394	1,991	273	4,060	3,765	1,115
Oct-Dec	2,001	2,495	6,672	4,177	410	-84	761	347	173	729	1,351	1,151
1972												
Jan-Mar	920	1,690	6,017	4,327	581	-149	769	827	63	975	(f) 1,423	233
Apr-Jun	1,231	2,012	6,437	4,425	564	-217	711	211	252	419	818	1,237
July-Sept	2,084	2,637	7,383	4,762	491	-62	1,153	434	178	1,633	644	894
Oct-Dec	2,370	2,692	8,115	5,613	255	-37	1,859	969	352	1,859	1,816	67
1973												
Jan-Mar	469	1,045	7,410	6,374	534	-23	2,231	996	68	804	240	664
Apr-Jun	481	638	8,523	7,205	871	-133	2,420	589	1,226	-3,307	-2,223	332
July-Sept	1,115	1,019	9,433	8,430	842	-62	2,332	769	592	-2,110	-405	-1,705
Oct-Dec	315	1,040	10,910	9,870	1,383	-32	2,837	72	713	3,653	-2,649	-1,394
1974												
Jan-Mar	-3,352	-1,850	10,123	11,973	-1,323	54	-1,621	840	132	-4,175	180	-4,355

(a) Shows outflow of Capital (an increase in Assets or a decrease in Liabilities)

(b) Excluding transactions which belong to Monetary Movements

(c) Gold Tranche of 180 million dollars at the end of March, 1964 is included

(d) Includes the allocation of Special Drawing Rights, 122 million dollars

(e) Includes the allocation of Special Drawing Rights, 123 million dollars

(f) Includes the allocation of Special Drawing Rights, etc. 160 million dollars

* Source: The Bank of Japan, *Kokusai Seisaku Toki Goro*, No. 94, May 1974 (Balance of Payments Monthly No. 94, May 1974) 1-6 (The Bank of Japan) (Fiscal 1973 ran from April 1973 to March 1974)

TABLE 2*
List of Yen-Denomination Foreign Issues
(Publicly Offered)

	When issued	Amount Issued (¥ billion)	Issue Terms			Subscriber's Yield (%)	Commissioned Company	Under- writer
			Int. rate (%)	Issue price (%)	Life (yrs)			
ADB (1)	Dec. 1970	6	7.4	99.00	7	7.619	IBJ*, To, Fu	No. Dai, Nichi, Yama
World Bank (1)	June 1971	11	7.75	99.50	10	7.839	IBJ*, To I, Cho	No. Nichi, Dai, Yama
World Bank (2)	Oct. 1971	12	7.5	99.50	10	7.587	IBJ*, To, I, Cho	Nichi, No, Dai, Yama
ADB (2)	Nov. 1971	10	7.4	99.75	7	7.454	IBJ*, To, I	No, Dai, Nichi
World Bank (3)	Feb. 1972	15	7.4	99.50	10	7.487	IBJ*, To, I, Cho	Dai, No, Nichi, Yama
ADB (3)	May 1972	10	7.3	100.00	10	7.300	IBJ*, To, I	No, Dai Nichi, Yama
Australia (1)	July 1972	10	6.9	100.00	10	6.900	To*, IBJ Hishi	No, Dai, Nichi, Yama
World Bank (4)	Aug. 1972	20	7.0	100.00	15	7.000	IBJ*, To, Hishi, Cho	Yama, No, Nichi, Dai
Quebec (1)	Sept. 1972	10	6.9	99.25	12	7.015	To*, IBJ, Hishi	No
World Bank (5)	Dec. 1972	20	7.0	100.00	15	7.000	IBJ*, To, Hishi, Cho	No, Nichi, Dai, Yama
World Bank (6)	July 1973	20	7.5	99.50	15	2.571	IBJ*, To, Ichi, Cho	Nichi, No, Dai, Yama
Mexico	Aug. 1973	10	7.9	99.75	12	7.940	To*, IBJ, Hishi	No

Notes on abbreviations:

Issuer. ADB stands for Asian Development Bank

Commissioned banks:	IBJ	stands	for	Industrial Bank of Japan
	To	"	"	Bank of Tokyo
	To	"	"	Bank of Tokyo
	Fu	"	"	Fuji Bank
	I	"	"	Mitsui Bank
	Cho	"	"	Long-term Credit Bank of Japan
	Hishi	"	"	Mitsubishi Bank
	Ichi	"	"	Daiichi Kangyo Bank
Underwriters:	No	"	"	Nomura Securities
	Nichi	"	"	Nikko Securities
	Yama	"	"	Yamichi Securities
	Dai	"	"	Daiwa Securities

*Source. MINISTRY OF FINANCE, OKURASHO SHOKENKYOKU NENPO, 1973 NENBAN (ANNUAL REPORT—THE MINISTRY OF FINANCE, 1973) 54 (Kinyu Zaisei Jijyo Kenkyukai 1973)

TABLE 3*
Issues of Yen-Denominated Foreign Bonds
(by Year)
 (unit: billions yen)

Year	Publicly Offered		Privately Placed		Total	
	No. of Items	Amount Issued	No. of Items	Amount Issued	No. of Items	Amount Issued
1970	1	6	-	-	1	6
1971	3	33	-	-	4	48
1972	6	85	3	23.8	8	93.8
1973	3	40	4	27.1	7	67.1
1974 (April - June)	-	-	-	-	-	-
Total:	13	164	7	50.85	20	214.85

*Source: THE INDUSTRIAL BANK OF JAPAN, KNYU BINRAN, 1973 NENBAN (INTERNATIONAL FINANCE MANUAL—THE INDUSTRIAL BANK OF JAPAN, 1973) 184 (The Industrial Bank of Japan)

Table 4*
Issues of Yen-Denominated Foreign Bonds
(by Type of Issuer)
 (unit: billions yen)

Issuer	Publicly Offered		Privately Placed		Total	
	No. of Items	Amount Issued	No. of Items	Amount Issued	No. of Items	Amount Issued
International						
Institutions	9	124	2	13	11	137
Countries	3	30	1	5	4	35
Local Public						
Bodies & Public						
Corps.	1	10	1	10	2	20
Private						
Enterprises	-	-	3	22.85	3	22.85
Total:	13	164	7	50.85	20	214.85

*Source: THE INDUSTRIAL BANK OF JAPAN, KINYU BINRAN, 1973 NENBAN (INTERNATIONAL FINANCE MANUAL—THE INDUSTRIAL BANK OF JAPAN, 1973) 184 (The Industrial Bank of Japan)

TABLE 5*

Issues of Foreign Currency Bonds
(Privately Placed)
(By Time of Issue)
(unit: millions dollars U.S.)

	No. of Items	Amount Issued
1972/July - Sept.	6	125
1972/Oct. - Dec.	17	371.6
1973/Jan. - Mar.	13	230.7
1973/Apr. - June	4	100
1973/July - Sept.	3	55
1973/Oct. - Dec.	3	24.5
1974/Jan. - May	0	0
Total:	46	906.8

*Source: MINISTRY OF FINANCE, OKURASHO SHOKENKYOKU NENPO, 1973 NENBAN (ANNUAL REPORT-MINISTRY OF FINANCE, 1973) 55 (Kinyu Zaisei Jijyo Kenkyukai 1973)

TABLE 6*

Issues of Foreign Currency Bonds
(Privately Placed)
(By Type of Issuer)
(unit: millions dollars U.S.)

	No. of Items	Amount Issued
Countries	5	98.8
Local Public Bodies & Public Corps.	5	84
Financial Institutions	16	291.8
Private Enterprises	20	432.2
Total:	46	906.8

*Source: MINISTRY OF FINANCE, OKURASHO SHOKENKYOKU NENPO, 1973 NENBAN (ANNUAL REPORT-MINISTRY OF FINANCE, 1973), 57, 58 (Kinyu Zaisei Jijyo Kenkyukai 1973)

TABLE 7*
List of Foreign Currency Bonds Issues
(Privately Placed)

Issuer	Signing	Amount (million dollars U.S.)	Coupon rate (%)	Term (yrs)	Manager (Co-manager)
European Investment Bank	1972 July	20	7.75	15	Nikko Securities
I. C. I.	August	20	8.25	15	Yamaichi Securities
Mortgage Bank of Finland	August	20	8.00	15	Long-Term Credit Bank of Japan
Texaco	September	25	7.75	15	Industrial Bank of Japan
Gove Alumina	September	10	8.00	5	Nikko Securities
Kingdom of Denmark	September	30	7.75	15	Nomura Securities (Nikko Securities, Yamaichi Securities)
Texaco	October	15	7.75	15	Industrial Bank of Japan
National Bank of Greece S. A.	October	25	8.00	15	Daiwa Securities
Rautaruukki Oy	October	20	8.00	15	Bank of Tokyo
Guardian Royal Exchange Assurance	November	20	8.00	12	Industrial Bank of Japan (Fuji Bank, Mitsubishi Bank)
Fairway Tankers Co.	November	35.1 (10.8 bil. yen)	7.75	20	Bank of Tokyo
Copenhagen County Authority	November	17	7.75	15	Daiwa Securities
Finnair	November	9.8 (50 mil. FFrs.)	7.50	15	Long-Term Credit Bank of Japan
Iran Petro-Chemical (I. P. C.)	November	20	8.00	8	Daiwa Securities
Mineraoes Brasileiras Reunidas	November	20	8.50	14	Sumitomo Bank Bank of Tokyo
Republic of Venezuela	November	24.8	7.20	10	(Mitsui Trust Bank) Yamaichi Securities

Issuer	Signing	Amount (million dollars U.S.)	Coupon rate (%)	Term (yrs)	Manager (Co-manager)
Istituto di Credito per le Imprese di Pubblica Utilita	1972 November	15	7.25	7	Nikko Securities Bank of Tokyo
Fisheries Loan Fund of Iceland	November	10	8.00	15	Nikko Securities
Chrysler Overseas Capital	December	30	7.75	15	Nikko Securities (Mitsubishi Trust Bank)
Montreal Catholic School Commission	December	13.9 (15 mil. Can.\$)	8.25	15	Bank of Tokyo (Long-Term Credit Bank of Japan, Bank of Kobe)
Kingdom of Denmark	December	30	7.75	15	Dai-ichi Kangyo Bank
Electricity Supply Board of Ireland	December	30	7.75	20	Nomura Securities
Ford Int'l Capital Corp. (convertible)	December	60	4.75	15	Nikko Securities (Daiwa Securities, Nomura Securities, Yamaichi Securities)
The Council of Europe Resettlement Fund for National Refugees and Over Population in Europe	December	9.9 (32 mil. DM)	7.00	15	Daiwa Securities
Total		530.5			
Compagnie des Bauxites de Guinee (CBG)	1973 January	30	8.25	15	Nomura Securities
Valmet Oy	January	25	8.00	15	Sanwa Bank
Tradinvest Bank & Trust Co of Nassau	January	15.5 (50 mil. DM)	6.75	10	Dai-ichi Kangyo Bank (Sumitomo Bank)
Amoco	January	30	7.50	15	Industrial Bank of Japan Sumitomo Bank
The Courtaulds International Finance N. V.	January	21.7 (70 mil. DM)	7.25	15	Industrial Bank of Japan

	Signing	Amount (million dollars U.S.)	Coupon rate (%)	Term (yrs)	Manager (Co-manager)
I. B. R. D.	February	32.5 (10 bil. yen)	6.90	10	Industrial Bank of Japan (Sumitomo Trust Bank)
Public Power Corp. (Greece)	1973 February	15	8.00	15	Nikko Securities
Port Authority of Jamaica	February	14	8.75	15	Daiwa Securities
Trust Houses Group, N. V.	February	10	8.00	12	Nippon Fudosan Bank
European Investment Bank	February	17.2 (50 mil. DM)	7.125	15	Mitsubishi Bank Industrial Bank of Japan
Inter-American Development Bank	March	9.7 (3 bil. yen)	7.00	10	Bank of Tokyo
Hambro International Finance	March	21	8.00	18	(Mitsubishi Trust Bank) Yamaichi Securities (Daiwa Securities, Nikko Securities, Nomura Securities)
Kausallis-Osake-Pankki	March	8	8.00	15	Nomura Securities
Rauma-Repola Oy	March	8	8.00	15	Nomura Securities
City Investing Co.	March	15	8.50	15	Nippon Kangyo Kakumaru Sec. (Tokai Bank)
JUJO Banka	April	30 { 10 fixed 20 float	8.00 Euro+1½	8	Fuji-Bank { Mitsui Bank Daiwa Securities Bank of Tokyo
Sagi Tarias Tankers	April	5.0 (1.65 bil. yen)	7.70	11	
BNDE	April	25	8.25	15	Bank of Tokyo (Sumitomo Trust Bank)
Salter, Walker Securities	May	20	8.25	15	Industrial Bank of Japan
Instituto de Desarrollo Urbano (City of Bogota)	June	25	8.50	15	{ Industrial Bank of Japan Bank of Tokyo
Banque Exterieur d'Algerie	July	20	8.50	15	Mitsubishi Bank

Issuer	Signing	Amount (million dollars U.S.)	Coupon rate (%)	Term (yrs)	Manager (Co-manager)
Republic of Nicaragua Solar Tankers	1973 July	10	9.08	15	Sanwa Bank
	August	34.1 (10.5 bil. yen)	8.375	20	Bank of Tokyo (Mitsui Trust Bank, Yasuda Trust Bank)
Occidental Oil	September	25	Euro+1 1/8	8	Daiwa Securities Bank of Tokyo Wells Fargo
Corporacion Hotelera Halmel C.A.	November	7.5	9.125	15	First National Bank of Chicago Bank of Tokyo
Papua New Guinea (Guaranteed by Government of Australia)	December	16.2 (5 bil. yen)	8.20	12	Toyo Trust and Banking Co. Industrial Bank of Japan
Petrolcos Mexicanos	December	32.5 (10 bil. yen)	8.25	15	Daiwa Securities
Trinidad and Tobago	December	4	Euro+1 3/8	12	Nikko Securities Tokai Bank
ELF Congo	December	13	8.75	5	Industrial Bank of Japan
Total		539.9			
Grand Total		1,070.4			

*Source: MINISTRY OF FINANCE, OKURASHO SHOKENKYOKU NENPO, 1973 NENBAN (ANNUAL REPORT-MINISTRY OF FINANCE, 1973) 55 (Kinryu Zaisei Jijyo Kenkyukai 1973)

TABLE 8*
 Issues of Foreign Stocks
 (unit: million dollars U.S.)

	Publicly Offered		Privately Placed		Total		Privately† Placed Stocks	
	No. of Items	Amount	No. of Items	Amount	No. of Items	Amount	No. of Items	Amount
1972/May to 1974/Mar.	3	51	4	37	7	87	23	24

†Part of the stocks offered in foreign markets were sold in Japan in the form of private placement.

*Source: KINYUZASEIJYO KENKYUKAI, KINYUZASEIJYO, No. 1181, MAY 6, 1974 (MONETARY AND FISCAL CONDITIONS, No. 1181, May 6, 1974) 34 (Kinyuzaiseijyo Kenkyukai).

TABLE 9*
 Acquisition of Securities on
 Foreign Trading Markets
 (unit: millions yen)

(Net Increase)	Securities	Stocks	Total
1971, July - December	2,085	4,249	6,334
1972, January - February	13,197	16,364	29,561
1973, January - February	69,483	54,787	124,270
1974, January - February	-47,090	- 356	- 47,446

Note: Minus (-) sign indicates net decrease.

*Source: JAPAN SECURITIES BROKERS' ASSOCIATION, SHOKENGYOHO, No. 287, JUNE 1974, (SECURITIES BROKERS' REPORT, No. 287, JUNE 1974) 98-99 (Japan Securities Brokers' Association)

TABLE 10*
Foreign Stocks Listed in Tokyo Stock Exchange

Issuer (Country)	Outstanding Capital mils.	Fiscal Terms	Dividend	Listing Time	Sales Volume (thous. shares)	Sales Value (thous.)
The Dow Chemical Company (the U.S.)	\$ 485	12	\$0.95	1973/Dec.	155.0	2,652,210
Compagnie Financiere de Paris et des Pays-Bas. (France)	F1,016	12	F9.45	"	11.9	122,804
FNCC (the U.S.)	\$ 499	12	\$0.72	"	60.6	728,426
First Chicago Corporation	\$ 200	12	\$1.62	"	68.0	1,480,352
General Telephone & Electronics Corporation (the U.S.)	\$ 393	12	\$1.66	"	9.9	71,858
IU International Corporation (the U.S.)	\$ 33	12	\$0.75	"	61.9	354,444
Compagnie Francaise des Petroles (France)	F1,068	12	F8.00	1974/Feb.	4.1	42,826

*Source: TOKYO STOCK EXCHANGE, TOSHO TOKAI GEPPU, No. 210, APRIL 1974, (MONTHLY STATISTICS REPORT, No. 210, APRIL 1974) 162 (Tokyo Stock Exchange)

TABLE 11*
Key Statistics on Foreign Stocks

Year and Month	No. of Listed Companies	No. of Shares Listed (thous. shs.)	Total Market Value (¥ mils)	Sales Volume		Sales Volume	
				Total (shs.)	Average (shs.)	Total (¥ thous.)	Average (¥ thous.)
1973/Dec.	6	395,908	4,684,060	359,300	35,930	4,676,347	467,634
1974/Jan.	6	397,137	4,682,799	878,000	39,909	12,988,260	590,375
1974/Feb.	6	397,137	4,608,190	357,400	16,245	4,650,654	211,393
1974/Mar.	7	411,794	4,603,800	371,400	15,475	5,443,920	226,830
1974/Apr.	7	412,666	4,587,510	124,500	5,188	1,598,106	66,587

*Source: TOKYO STOCK EXCHANGE, TOSHO TOKAI GEFFO, No. 210, APRIL 1974 (MONTHLY STATISTICS REPORT No. 210, APRIL 1974) 74, 75 (Tokyo Stock Exchange)

TABLE 12*

Restrictions Placed on the Tokyo Capital Market

- (1) *Restrictions on Issues of Foreign Securities*
- (a) Issues of yen-denominated foreign bonds—No definite standards for restricting issues have been established. Presently, issues are subject to the case-by-case screening of the Securities Bureau, the Ministry of Finance.
- i. Volume of bond issues is adjusted under the "one issue per month" principle.
- Preference:
- First Rank — International institutions in which Japan is a member or with which Japan maintains close relations.
- Second Rank — National government bonds, government agency bonds, and local government bonds, all of which have been issued and rated high in the internal market (see note below).
- Third Rank — Foreign enterprises, whose bonds have been issued and rated high in the international market.
- Note: The yardstick for measuring the rating is that bonds must have been floated at least five times during the past 20 years or at least three times during the past five years.
- ii. Acquisition by non-residents is not allowed.
- iii. Taking them out of Japan in yen currency is not allowed.
Holding and managing them in yen currency in Japan used to be banned.
- (b) Only 83 companies are authorized to acquire foreign currency bonds (in accordance with a notification under the Foreign Investment Law).
- (c) Notwithstanding the above principles, the following instructions were given by the Ministry of Finance in January 1974:
- i. Issue of yen-denominated bonds is forbidden in principle for the time being. (There will be exceptions only in case of renewal of publicly offered bonds.)
- ii. Self-imposed restrictions should be placed on the issue of foreign currency bonds.
- (2) A net increase in the acquisition of foreign securities on overseas securities markets has not been allowed since January 1974.

*Source: Compiled from various oral guidances issued to banks and securities firms by Ministry of Finance.

TABLE 13*

Changes in Restrictions Placed on Foreign Investment
in Japanese Securities

(Restrictions by the Bank of Japan under the
Foreign Investment Law)

	Bonds	Stocks
Before Feb. 1971	Free	Free (except for restrictions on stock holding ratio)
March 1971	Acquisition of Government short-term bonds was banned.	
May 1971	Acquisition of unlisted bonds was banned.	
Oct. 20, 1972 (effective the following day)	Acquisition approved only in the following cases: a. Where a securities house or a foreign exchange bank was named proxy. b. Amount of bonds to be acquired shall not exceed amount of bonds disposed of. Of unlisted bonds, those with a remaining life of more than a year could be acquired; acquisition of bonds with a repurchase agreement within a year was not allowed, but that of those after a year was made possible.	Same as shown on the left side. a. Same as shown on the left side. b. Same as shown on the left side. However, during the period of six consecutive business days, over-buying of shares up to one-third of the amount of disposal during the past three months was approved. (However, shares acquired for the purpose of participating in management and those acquired under new capital increase share warrants were excluded.) Temporary over-buying of shares (proviso to b. above) was banned.
Feb. 5, 1973 (effective the following day)		
Nov. 5, 1973 (effective the following day)	Restrictions were partially relaxed.	Restrictions placed on acquisition were removed.
	a. In calculating the restricted framework, matured proceeds should be included in the amount of disposal.	
	b. Acquisition of convertible bonds aimed at participating in management and their disposal are exempted from application of these restrictions.	

- Nov. 30, 1973
(effective the following day)
- Restrictions placed on acquisition were abolished; provided, however, that acquisition of unlisted bonds (including discount bank debentures) with a remaining life of one year or less and of Government short-term bonds, and trading in bonds with a repurchase agreement on less than a year should continue to be restricted.
- Feb. 1, 1974
- Trading in bonds with a repurchase agreement for more than a year was totally banned (verbally). This means that trading in bonds with a repurchase agreement was totally banned.

*Source: Bank of Japan Order No. 3029 (November 5, 1973), Bank of Japan Order No. 3032 (November 30, 1973) etc.