The Future of Asset Management in Japan
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Welcome Remarks
Scott O'Malia, ISDA Chief Executive

Good afternoon, and welcome to today's forum on the future of asset management in Japan. Let me start by saying how delighted we are to be involved in Japan Weeks this year. This Japanese government initiative to promote the country's asset management sector is incredibly important, and we at ISDA are very supportive of its ambitions and objectives.

Today's event will explore the important policy initiatives to encourage growth and competition in this sector and consider the role that derivatives can play in enhancing investment strategies. Let me take this opportunity to thank our sponsors – Mizuho, MUFG and Nomura – for supporting this event. I'd also like to thank all of our distinguished speakers for participating today and I'm looking forward to hearing what they have to say.

This has been a momentous year for Japan's financial sector. First, the Financial Services Agency (FSA) announced a number of measures last December to reform the asset management sector, as part of a plan to position Japan as a hub for asset management and reaffirm its role as an international financial center.

Then, in March, the Bank of Japan ended its negative interest rate policy after eight years, following up in July with a further increase of its benchmark interest rate, reflecting a normalization of the Japanese economy.

Together, these changes create a very different environment for asset managers in Japan – and, we believe, establish a strong case for the broader use of derivatives across the entire sector.

The reforms to the asset management business alone are profound. The FSA measures include steps to remove barriers to entry and make it easier for firms to enter the asset management business in Japan – a move that should encourage more competition.

Other measures are aimed at strengthening governance, allowing middle- and back-office operations to be outsourced and establishing special zones for asset management companies.

This is on top of other policies to reform asset ownership – for example, by enhancing disclosure by pension funds and promoting reviews of the selection of investment companies.

We very much welcome the intent of these measures. Competition and transparency usually go hand-in-hand with healthy, liquid markets.

However, we believe additional changes would further help the development of a vibrant asset management sector – specifically, greater use of derivatives. As it stands, many domestic asset management firms have been reluctant to use derivatives, limiting their ability to efficiently and cost-effectively manage their portfolios. This is for a variety of reasons –

not least, the long period of negative interest rates and yield curve control, which dampened the need for hedging, but also because of traditionally conservative investment policies and operational challenges.

At ISDA, we strongly believe that derivatives play a vital role in driving risk mitigation, investment, competition, market liquidity, cost reduction and economic growth. Across the globe, asset managers use derivatives to hedge unwanted interest rate or FX risk, protect portfolios against market volatility, take views on specific markets or sectors, and quickly rebalance asset allocations.

Recent market moves suggest the need for tools to manage risk and rebalance portfolios is now more important than ever. The rise in interest rates and increased uncertainty over future direction, combined with recent volatility in the yen and Japanese equities, means derivatives can and should be an essential component of the asset management toolbox.

Our event today is intended to spell out why Japanese asset managers should use derivatives and how they can employ them in their investment strategies. I hope you enjoy the day.

Thank you.