

CONTENTS

Feature Articles

This month's focus: **“How Financial Regulation Can Be Market Friendly”**

Overview	<i>Fujio Nakatsuka</i>	2
-----------------------	------------------------	---

Articles

Recent Developments in International Financial Regulations	<i>Yuri Okina</i>	6
---	-------------------	---

International financial regulations are still being tightened even seven years after the collapse of Lehman Brothers: the start of application of Basel III to internationally active banks, the introduction of minimum total loss-absorption capacity (TLAC) to global systemically important banks (G-SIBs), tightening of restrictions on the scope of banks' risk-taking activities, and tightening of regulations on shadow banking. Given various international regulatory reforms as a whole, there is the revival of a trend toward tightening uniform regulations that directly restrict risk-taking activities and take a "command and control approach" toward financial institutions. It may have undesirable side-effects, such as increasing uncertainty in the bank management environment, constraints on economic growth, distortion of financial institutions' incentives, and a negative impact on market liquidity.

Start of Application of ‘After Crisis’ Financial Regulatory Reforms ...	<i>Naohiko Matsuo</i>	18
--	-----------------------	----

Global financial regulatory reform in response to the global financial crisis triggered by the Lehman shock has progressed to its current stage of implementation after having mainly been concerned with market regulations such as those affecting OTC derivative markets and prudential regulations on Systemically Important Financial Institutions (SIFIs), etc. It should be noted that market issues such as volatility are again being tackled as a present concern, and that financial inclusion, financial education, and consumer protection are seen as medium- to long-term challenges.

Foresee Changes in Financial Market After the Crisis	<i>Yasuyuki Kuratsu</i>	25
---	-------------------------	----

Policies to tighten financial regulations, introduced worldwide after the financial crisis, seriously impacted the business strategies of commercial banks and investment banks and led to dampening market transactions such as securities market making. In European and US securities markets, the liquidity of junk bonds and emerging market bonds with low creditability has already started to deteriorate. With the rise in the US policy interest rate and bond yield, some financial experts fear adverse effects on the real economy. In the securities market, the presence of non-banks, that face less stringent

scrutiny, is becoming more eminent than that of traditional banks. And, rapid transactions by them could aggravate financial market distress even more. Speculation that large-scale funds could be targeted for restriction also increases the risk of liquidity shrinking.

Practical details of financial regulations differ from country to county, but in the UK there has been a surge of criticism against financial businesses following the crisis and it is of some concern as to whether the freedom The City used to enjoy will be compromised.

Market Impact of Recent Financial Regulation *Hiroki Tomiyasu* 35

The soundness and resiliency of global banks has significantly improved due to balance sheet reduction and capital increase efforts following recent regulatory reform. These regulatory changes affect market liquidity and have even created new markets. Banks are naturally trying to restructure and reorganize their businesses to cope with the new environment. Each regulation is carefully designed and certain to contribute to stabilizing financial markets. However, the combined impact is hard to gauge. We are starting to see various anomalies in the markets and investors are worried about sudden market moves stemming from shrinking capacity on the part of banks. It is possible that Japanese banks could play a leading role by taking advantage of their healthier financial positions and well-balanced organizational structure.

Prospects

Do Passive Investors Contribute to Corporate Governance? ... *Satoshi Sakamaki, CMA* 47

Economic and Industrial Analysis

Indonesia's Current Economic Situation and Future Prospects..... *Hideki Fujie* 52

Point of View *Yukihiro Asano* 65

Article

Stock Market Seasonality and Seasonal Change in Investor Risk Aversion
..... *Masato Ishibe, CMA, CIIA / Yasuo Kakuta / Satoshi Sakamaki, CMA* 68

Previous studies on stock return seasonality—such as the ‘Sell in May’ effect and first half of the year effect—have been lacking in sufficient explanation. This article seeks to redress this absence and, assuming the effects are generated by a change in investor risk aversion, shows that the specific risk premium for CAPM depends on season. Explanations are given in some detail.

Book Reviews *Hideichiro Nishimura, CMA, CIIA / Keisuke Ito, CMA, CIIA / Daisuke Yasaku* 88

SAAJ News 97