

Asian bond issues in Tokyo: history, structure and prospects

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Overview of Tokyo's capital market

This paper outlines the contribution made by the Japanese capital market to international and in particular Asian bond finance. Drawing on one of the major global pools of savings, the Japanese capital market has provided funding opportunities, both in debt and equity, for international entities including sovereigns, government agencies, corporations and other financing vehicles.

During the last several decades, Japanese money has played an important role in the international capital markets. For example, during the 1980s, the movement of Japanese money exerted crucial influence over the performance of US Treasuries, and all market participants carefully monitored Japanese investors' policy. In the area of primary markets, Japanese securities firms monopolised the top positions in international bond underwriting league tables for a considerable time.

However, with the burst of the bubble economy in the early 1990s, the relative importance of Japanese money and capital markets started to decline. Japanese money retreated home, where domestic government debt issuance increased dramatically in the 1990s. As a result, the share of the yen has also been declining in international bond issuance. At the peak, yen-denominated bonds accounted for about 17% of total international bond issuance, but decreased to less than 2% last year.

However, Japan still has a huge capital market with abundant investor liquidity, so that with right products capturing market trends there should be ample opportunities to mobilise Japanese money for international financing. An example is the recent shift of investor preferences from credit/spread instruments to foreign currencies and equity risk, following the credit events of late 1990s.

Brief historical background

During late 1960s, Japanese foreign currency reserves started to grow and pressure to open up the market and revalue the yen began to intensify. The exchange rate of the yen at that time was fixed at 360 yen per US dollar. It was revalued to 308 yen in 1971 and moved to a floating rate system in February 1973.

In order to divert the foreign exchange pressure, the Japanese government set out around that time to open the Japanese capital market to foreign entities, allowing them to issue yen-denominated bonds.

Japanese foreign currency denominated bond investment started at the same time. In 1970 the first "Samurai" - a yen-denominated bond publicly offered by an international borrower in the domestic market - was issued by the Asian Development Bank.

Development of the Samurai market was followed by liberalisation of euroyen issuance, with the first euroyen bond issue made by the European Investment Bank in 1977. Both developments were aimed at reducing pressure for appreciation of the yen as well as at liberalising the Japanese capital market. However, both the Samurai and the euroyen market

started off under strict government control and there were detailed guidelines on issuer eligibility, bond structure and issuance amounts.

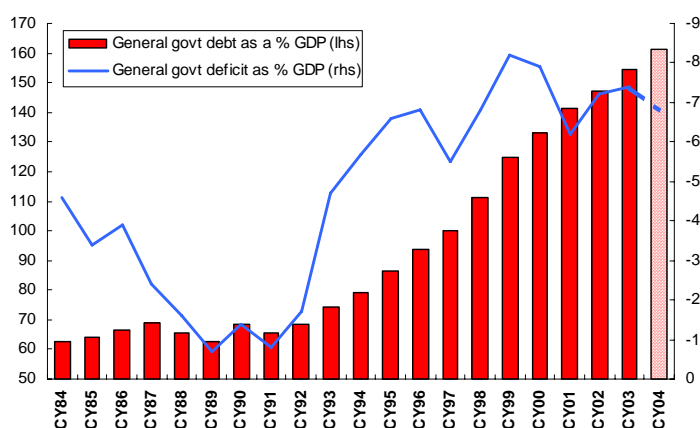
Such controls were gradually eased, attracting a wider range of market participants, and eventually leading to full liberalisation of both markets.

The next section is devoted to the current Japanese bond market and its development, focusing on how Asian and other foreign entities have been using the Japanese market through Samurai and Euroyen bond issuance.

Japan's domestic bond market

In the present-day Japanese bond market, government debt accounts for the lion's share both in terms of primary issuance and secondary turnover. As can be seen from Chart 1, government bond issuance started to surge in the mid-1980s as fiscal policy was deployed in order to stimulate the economy, reaching nearly 80% of all bond issuance in 2003.

Chart 1
Public debt and deficit levels since 1984



Note: 2004 data are estimated.

Source: Ministry of Finance, Japan.

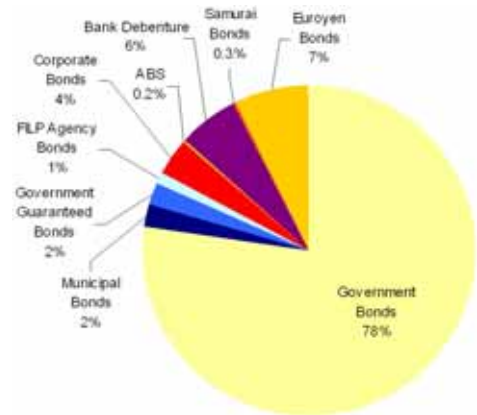
In particular, after the bubble burst at the beginning of the 1990s, Japan government bond issuance accelerated, reaching an estimated 36.4 trillion yen of new bond issuance in FY2003 and bringing the outstanding volume to approximately 500 trillion yen, or an estimated 140% of GDP, at the end of FY2003.

Development of the corporate bond market in Japan has been a slow process, due mainly to the strong influence of commercial banks interested in preserving the importance of lending as the main channel for corporate financing. However, during the last decade, with banks weakened by non-performing loans, corporate bond issuance has been increasing.

For a number of reasons related to events in Japan and internationally, the bulk of the international yen bond market is currently taken by euroyen issuance, with the Samurai market carving out only a very small share, as can be seen in the breakdown of new issuance presented in Chart 2 below.

Chart 2
FY2002 bond issuance by instrument

| | Amount | |
|-----------------------------|--------------|----------------|
| | JPY trn | US\$ bn |
| Government Bonds | 156.7 | 1,424.5 |
| Municipal Bonds | 4.7 | 42.7 |
| Government Guaranteed Bonds | 4.4 | 40.0 |
| FILP Agency Bonds | 2.5 | 22.7 |
| Corporate Bonds | 7.3 | 66.4 |
| ABS | 0.5 | 4.5 |
| Bank Debenture | 12.0 | 109.1 |
| Samurai Bonds | 0.6 | 5.5 |
| Euroyen Bonds | 14.4 | 130.9 |
| Total | 203.1 | 1,846.4 |

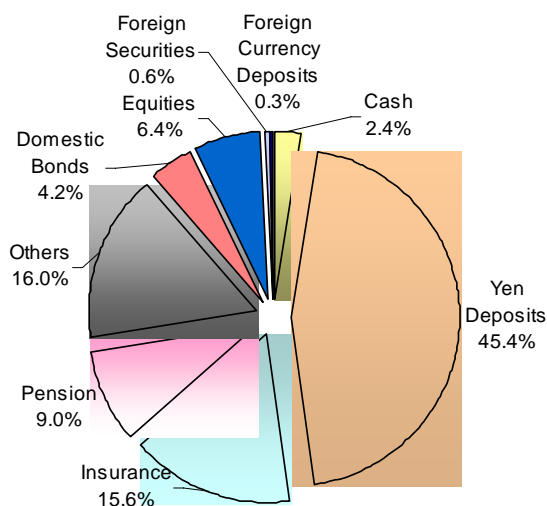


Source: Bank of Japan.

The rather conservative Japanese individual investor portfolio constrains the development of Japan's bond market. Household financial assets numbering 1,400 trillion yen (US\$ 13 trillion) are for the most part held in cash and bank deposits, complemented by significant insurance and pension policy claims, leaving only a relatively small portion of the market for direct securities purchases by Japanese households (Chart 3).

Chart 3
Japanese household financial assets, breakdown and investment channels

As of end-September 2003



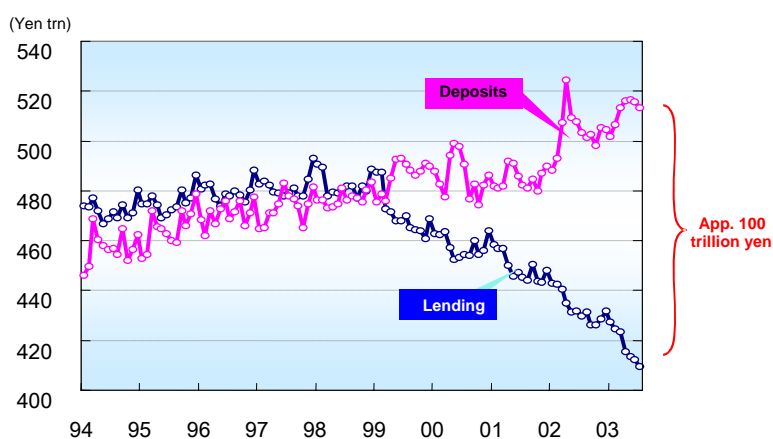
Source: Bank of Japan.

At present, current deposits enjoy unlimited government guarantees in case of bank failure; however, the introduction of a ceiling on such guarantees (10 million yen per depositor per bank), ie the so-called pay-off system, is planned to take effect in April 2005, and is expected to cause significant movement of retail money out of deposits into other financial instruments.

Therefore, current major investors in the Japanese capital market are the banking and insurance sectors, against the backdrop of risk-averse household saving behaviour. Banks and insurers had traditionally channelled funds to the ever-expanding corporate sector; however, slowing economic growth in the mid-1980s created industrial overcapacity and the consequent shrinking of domestic demand for loans. Excessive property investments followed, creating Japan's notorious bubble economy of the second half of the 1980s. The burst of the bubble in 1989-1990 has left a legacy of bad loans and huge loss of savings value, the consequences of which Japan is still dealing with.

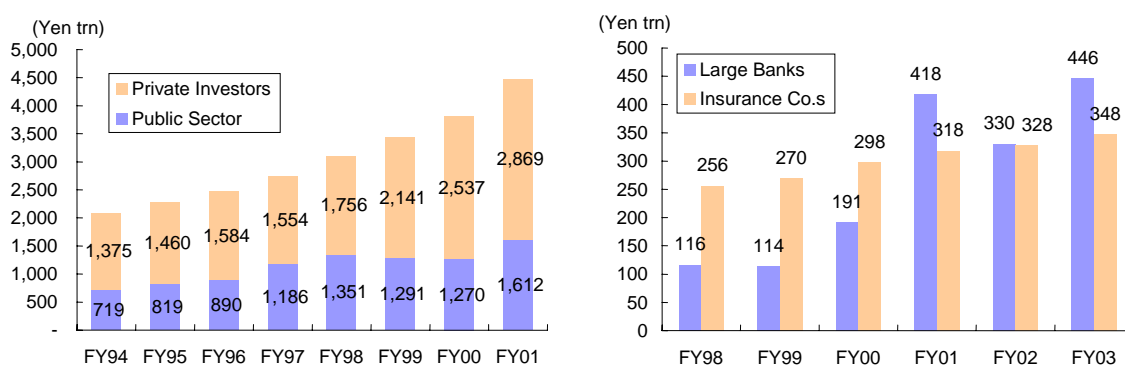
As can be seen in Chart 4, as a result of these trends, Japanese banks had to cope with a continuously widening gap between liabilities (deposits) and assets (lending), causing them to dramatically increase their bond holdings. To a lesser extent, the same applied to the insurance sector. Recent bond holding trends by major investors are shown in Chart 5 below.

Chart 4
Asset-liability mismatch of the banking system



Source: Bank of Japan.

Chart 5
Bond holdings

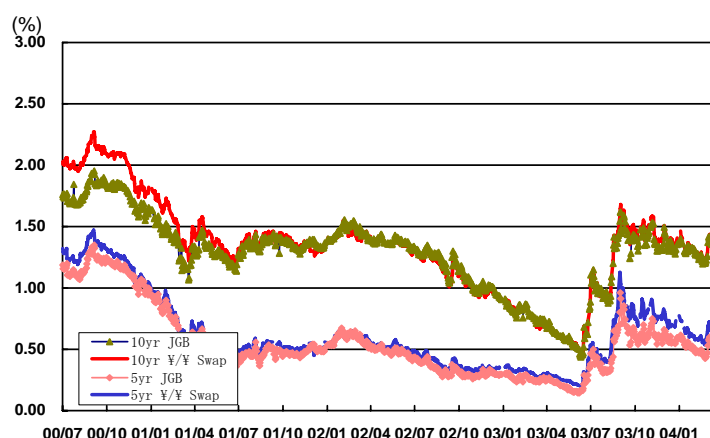


Source: Bank of Japan.

Increased inflow of funds into the bond markets has tended to push down interest rates in Japan since the peak of 1989. As can be seen in Chart 6, while reacting to political and other

factors, interest rates had followed a long-term falling trend, until finally hitting bottom in June 2003, and jumping since then back to the levels of around 2001. In another unique development, as shown in Chart 6, spreads between banking interest rate swap contracts and government bond yields also virtually disappeared around 2001, as markets attached the same risk as the government to the banking system enjoying the government's umbrella guarantee. Interest rates still remain at very low levels which are expected to persist as long as the Bank of Japan maintains zero short-term interest rates in a recovering economy that still suffers from deflation.

Chart 6
**Government bond yields and yen IRS rates
 for 5 and 10 years since 2000**



Source: Nomura.

The Samurai bond market

As can be seen in Chart 6, the amount of Samurai bond issuance accounted for a very small share of issuance in 2003 - only 0.3%.

As we have mentioned above, the Samurai market was set up under pressure to alleviate the external imbalances of the late 1960s, and the inaugural issue was made by the Asian Development Bank in November 1970. The issue amount was 6 billion yen with a 7-year maturity, and it was accepted very well in the market.

Initially, high credit issuers such as the ADB or other supranationals were given priority in access to the market. In order to control the flow of issuance, eligibility criteria were established.

For issuers unable to satisfy such eligibility criteria, there was another way to finance yen through yen-denominated private placement bonds. They were allowed to target a limited number of institutional investors, and issuance terms and liquidity were tightly controlled.

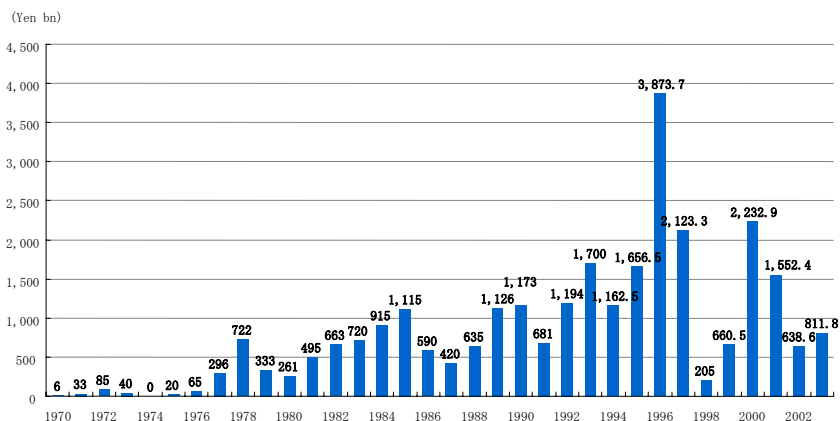
Yen private placement issuance started in 1972; however, with the liberalisation of the Samurai and euroyen markets, the *raison d'être* for private placements diminished, and the market shrank and was replaced by other means of targeting a limited circle of investors.

In the Samurai market, in July 1972 Australia issued the first sovereign bond. The market continued to be gradually opened for more issuers through the easing of eligibility criteria and the liberalisation of new types of bonds. Complicated eligibility criteria were subsequently replaced by requirements for minimum credit ratings and finally abolished.

Later on, bond structures were diversified to allow dual currency or reverse dual currency bonds, with the principal and interest payment in different currencies, while the issuance of floating rate notes and index-linked structures were also liberalised.

As can be seen in Chart 7 below, the Samurai market developed gradually before peaking in 1996, and in the course of its development, it helped to liberalise Japanese bond market in many ways.

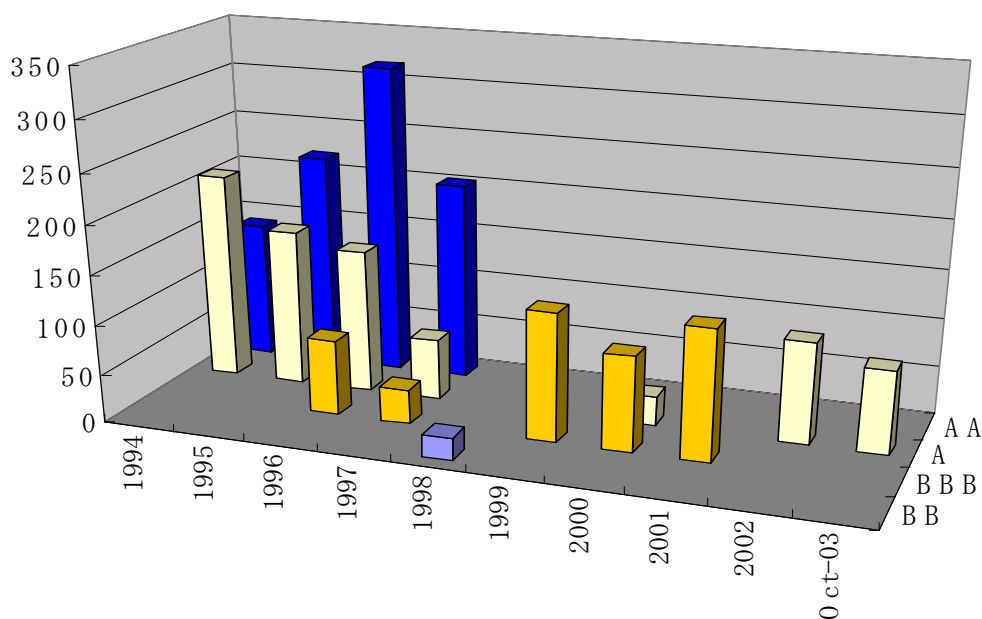
Chart 7
Historical Samurai issuance



Source: Nomura.

Looking at the ratings breakdown of Samurai issuance during its most active period, one can perceive the activity of AA borrowers with structured Samurais in 1994-1998 (popular as the yen was steadily depreciating after hitting a peak in 1995), while between 1999-2001 the market was open mainly for BBB, and more recently mostly for single A, ratings.

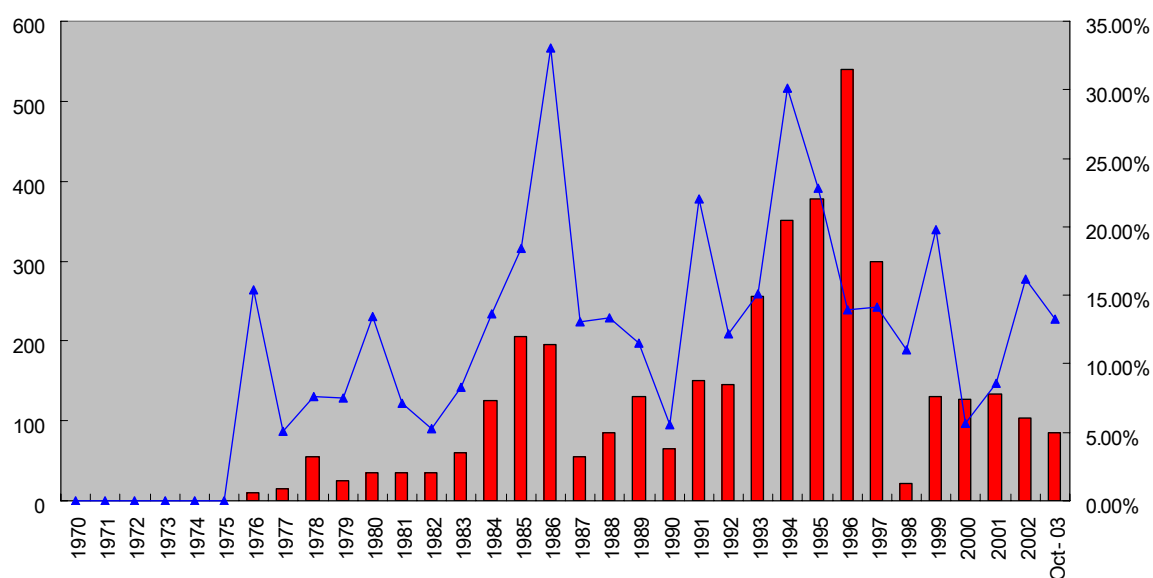
Chart 8
Samurai issuance trends by rating



Source: Nomura.

Many borrowers have tapped this market, and for several countries the Samurai market was at times the most important foreign bond market. Many issues originated from Asian entities. Singapore opened the market for Asian sovereigns in 1976, while the Korea Development Bank made its debut issue in January 1978, followed by multiple issues by various Korean entities. The Asian presence in the Samurai market is shown in Chart 9 and Table 1 below.

Chart 9
Samurai bond issuance in Asia and share of the total



Source: Nomura.

Table 1
Samurai bonds by Asian issuers, 1970 to date

| | Amount (yen bn) | No of issues |
|-------------|-----------------|--------------|
| South Korea | 1,461 | 69 |
| Australia | 1,249 | 64 |
| China | 941 | 49 |
| Malaysia | 292 | 14 |
| ADB | 252 | 9 |
| Thailand | 215 | 16 |
| Hong Kong | 148 | 12 |
| India | 141 | 6 |
| Philippines | 90 | 4 |
| New Zealand | 45 | 2 |

Source: Nomura

Table 2

Deregulation of the Samurai market

| | Deregulation measures | Remarks | Issues¹ | Volume¹ (Yen bil) |
|------|--|--|---------------------------|---|
| 1970 | Supranational issuance allowed | ADB issues the first Samurai bond | 1 | 6 |
| 1972 | Sovereign issuance allowed Yen private placements by non-residents started | Australia becomes first sovereign Samurai issuer, Mexico and Brazil debut in 1973 | 6 | 85 |
| 1979 | Corporate issuance starts | Sears Overseas Finance NV issues the first corporate Samurai bond | 16 | 333 |
| 1984 | Public issuer rating criteria broadened to single A | Bank of China issues debut Samurai | 37 | 915 |
| 1986 | Financial parameters and single A rating as criteria for private issuers | Samurai issuance decreases as Euroyen issuance is widely liberalised | 21 | 590 |
| 1988 | Introduction of shelf registration | First issue by Greece, later to become one of the largest sovereign borrowers | 22 | 635 |
| 1989 | First reverse dual currency Samurai issue | Denmark issued the first reverse dual Samurai Bond - main forex exposure structure to date (currently as PRDC) | 47 | 1,126 |
| 1991 | Sovereigns broadened to BBB, FRN issuance | First BBB-rated sovereign issue takes place in 1994 (Central Bank of Tunisia) | 34 | 681 |
| 1992 | Public sector broadened to BBB | Ankara Municipality issues first BBB public sector Samurai | 53 | 1,700 |
| 1994 | Private sector issuers broadened to BBB | PEMEX issues first BBB rated corporate Samurai | 55 | 1,163 |
| 1995 | First dual currency Samurai issue | Popularity of dual currency structure among retail investors as yen depreciates | 35 | 1,115 |
| 1996 | Lifting of issuance eligibility criteria, but financial institutions remain shut from the market | Brazil issues the first sub-investment grade bond in the Samurai market; market on the way to record in 1996 | 153 | 3,874 |
| 1996 | Foreign non-banks allowed to issue for purposes other than lending | FMCC issues Samurai bond as the first non-bank issuer | | |
| 1997 | Samurai issuance by overseas commercial banks liberated | Citicorp becomes first commercial bank to issue a Samurai | 85 | 2,123 |
| 1998 | Issuance of Nikkei-linked Samurai bonds liberalised | No issuance so far | 14 | 205 |
| 1999 | Foreign non-bankers allowed to issue for general finance purposes | Associates debut in 1999, Household Finance - 7 issues since 2000 | 10 | 661 |
| 2003 | Single A and higher rated foreign non-sovereigns not listed at TSE eligible for shelf registration | Several corporates have already taken advantage of the measure | 27 | 641 |

¹ Excluding private placements.

Again, as can be seen, the gradual expansion of the market reached a peak in 1996 and was arrested by the crisis of 1997, before only partially recovering around 1999, for a less diversified range of issuers. There are several reasons for the relatively inactive market.

There has been criticism as to the rather rigid issue eligibility, the opaque pricing procedure brought about by illiquid trading and cumbersome issue procedures. Some of these problems have been solved. As can be seen in Table 2, all issuance eligibility criteria have been abolished, and almost all the restrictions on types of bonds have been lifted.

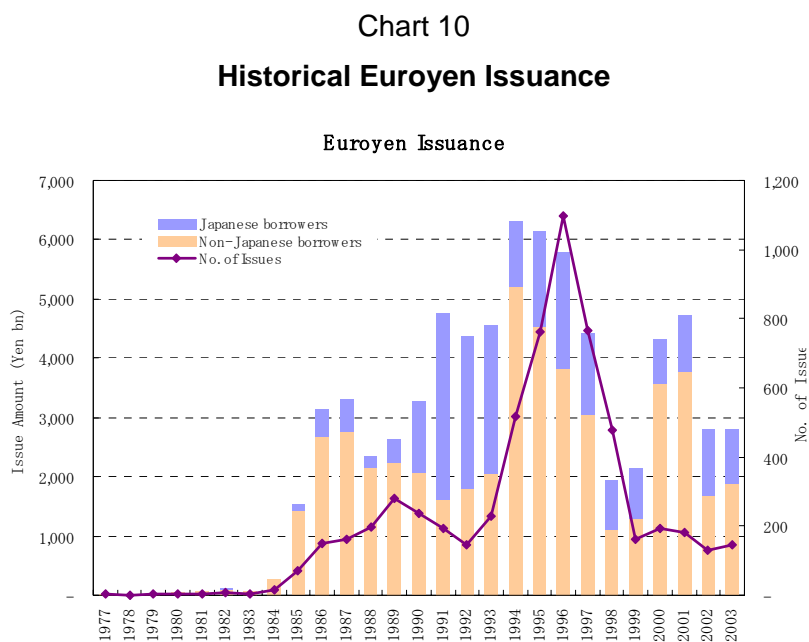
However, there is still some room for improvement. The most important issue is that under the Japanese Securities and Exchange Law, in order to make a public offering, the issuer has to file a Securities Registration Statement with the Ministry of Finance in Japanese.

It used to take 30 days for the Securities Registration Statement to become effective, hindering flexibility to promptly bring an issue to the market. In order to simplify this procedure, the shelf registration system was introduced in 1988 and contributed to significant shortening of the issuance timetable. However, there are still requests to shorten the procedure as well as - since annual and semi-annual statements have to be filed in Japanese - to allow issuers to use English to save both time and costs necessary for translation.

Other practices offering room for improvement include the obsolete registration system, whereby holdings by institutions are “recorded” by the paying agent bank, which also serves as a “recording agency” for each issue. Retail investors, for their part, still receive expensive printed bond certificates. Finally, the commercial law requirement to appoint commissioned banks as trustees also increases issuance expenses in comparison to issuance using just fiscal agents.

The euroyen market

Chart 10 below shows historical volumes of euroyen issuance.



Source: Nomura.

The euroyen market made its appearance in April 1977, with an issue by the European Investment Bank. At the initial stage, the market was highly regulated by the government and remained very small since at the time Japanese monetary authorities considered that full liberalisation of the euroyen market might cause difficulties in conducting its monetary and foreign exchange policy.

In the autumn of 1983, the closed nature of Japan's financial markets and the yen-dollar problem escalated into a political issue. This led to the setting up in 1983 of the Japan-US Yen-Dollar Committee, which presented in May 1984 its famous report.

This report resulted in drastic changes of the government policy. In December 1984, the rating requirement was relaxed from AAA to single A, and non-Japanese houses licensed under Japanese securities law were allowed to lead manage euroyen bonds. Such deregulations accelerated issuance of euroyen bonds, and in 1985 the amount of euroyen bond issuance exceeded that of the Samurai market. Also, by June 1987, three Japanese rating agencies, in addition to three international rating agencies, were approved as official rating agencies.

In 1987, according to *International Finance Review*, euroyen issue amount accounted for 17% of the total euro market issue amount. In June 1989, all eligibility criteria were lifted, while in 1994, as the last major liberalisation measure, restrictions on flowback, ie the secondary market sale of bonds issued offshore back into the Japanese domestic market, were eased, before being fully lifted in 1995.

Since then, Euroyen issuance, with its relatively easier procedures, became even more popular so that nowadays bonds are sometimes issued offshore even when the targeted investor base is domestic Japanese investors. Table 3 presents the history of the liberalisation of this market.

The market is now completely free and has established its position as one of the major global capital markets. A wide range of issuers utilise this market, including Japanese companies seeking funding abroad.

Other structures: Shoguns, Daimyos, globals and the MTN market

Originally both the Samurai and euroyen markets started to develop due to "gaiatsu" (pressure from foreign countries) but internal efforts have also been made to develop the market.

The "Shogun" - foreign currency denominated bonds issued and sold in the Japanese market to provide a domestic instrument for investors interested in purchasing foreign currency bonds, was introduced in 1985, with the IBRD as the inaugural issuer. The liquidity of the market is very important to make the market attractive for both investors and issuers, and efforts to integrate the Japanese market with the international market were subsequently undertaken.

To that end, it was necessary to set up a system to sell and trade bonds not only in the Japanese market but also in European and US markets. "Daimyo" bonds, which later transformed into "global bonds", were created based on the above concept. The idea was to make registration necessary, to make the bond saleable internationally. At the initial stage, supranationals were major issuers as they are exempt from registration requirements in Japan and the US.

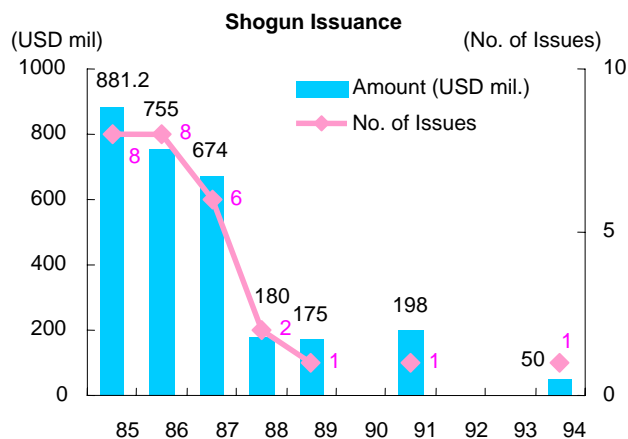
Table 3

Deregulation of the Euroyen Market

| | Issues | Volume (yen bn) | Deregulation Measures |
|---------|---------------|------------------------|---|
| 1977 | 2 | 30.0 | Euroyen issuance by EIB |
| 1978-83 | 22 | 340.0 | |
| 1984 | 13 | 227.0 | Broad relaxation of guidelines: <ol style="list-style-type: none"> 1. Broadening of issuers from supras and governments to municipalities, government agencies and private entities 2. Relaxation of criteria: for public borrowers, from AAA to A; for private, A and compliance with Samurai criteria 3. Quantitative relaxation: from 6-7 annual to no limits on number and amounts of issuance 4. Limits on lead managers: from domestic only to domestic and foreign securities houses |
| 1985 | 66 | 1,445.7 | New types of instruments allowed: FRN, zero-coupon, discount, deep discount and currency conversion bonds |
| 1986 | 141 | 2,551.5 | Quantitative criteria for corporates replaced with rating only and rating criteria broadened to A rated No flowback period shortened from 180 to 90 days Japanese rating agencies recognised Issuance allowed for banks on condition that proceeds would not enter Japan |
| 1987 | 151 | 2,993.9 | Tenors shortened from 5 to 4 years Fitch recognised as rating agency |
| 1988 | 224 | 2,213.0 | |
| 1989 | 395 | 3,557.9 | Lifting of tenor criteria |
| 1990 | 512 | 4,980.9 | |
| 1991 | 314 | 3,290.4 | IBRD issues first global yen; the issue is exempt from flowback limits |
| 1992 | 250 | 3,328.0 | |
| 1993 | 640 | 5,084.8 | Full lifting of issuance criteria |
| 1994 | 2,030 | 10,085.1 | Lifting of flowback limitations for sovereign issues |
| 1995 | 3,015 | 11,515.6 | Lifting of all flowback limitations |
| 1996 | 5,345 | 14,937.4 | |
| 1997 | 5,492 | 16,952.2 | |
| 1998 | NA | 12,300.0 | Under the new Foreign Exchange Law, advance approval requirement replaced by filing of post-transaction report |

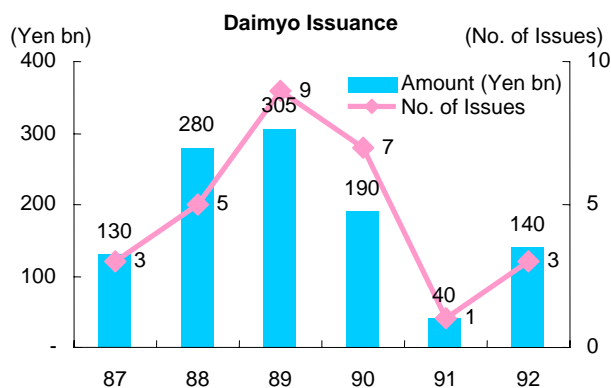
Global dollar bonds and global yen bonds were issued mainly during the 1990s. However, to integrate disclosure requirements, taxation issues and the other administrative requirements of all the markets is not easy, and the majority of issuers continued to be supranationals that enjoy exemption from registration. As a result, as can be seen in Charts 11-13 below, the number of bonds issued has not been that impressive. (We have also presented respective issuance lists and an overview chart of different structures in the annexes).

Chart 11
Historical Shogun issuance



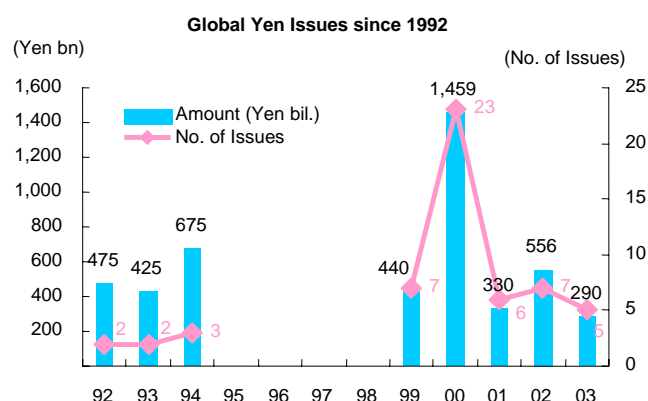
Source: Nomura.

Chart 12
Historical Daimyo issuance



Source: Nomura.

Chart 13
Historical global yen Issuance

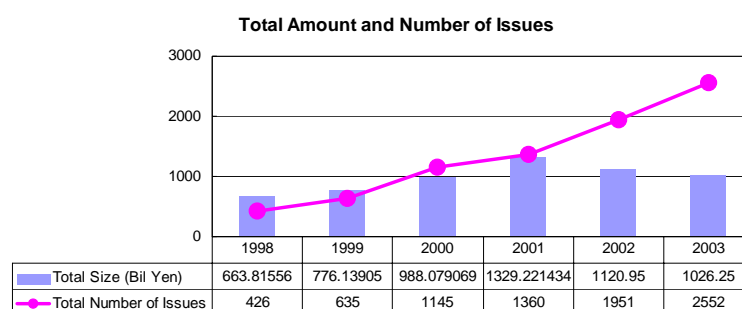


Source: Nomura.

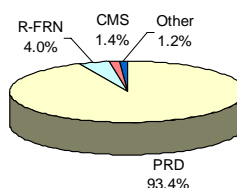
Other efforts have been made to develop new products to satisfy very liquid but conservative domestic investors. Asset-backed securities, index-linked securities and other types of new products have been marketed in Japan. But products offering foreign exchange risk and equity risk have traditionally been, and still are, the most popular ones.

Also, many relatively small, tailor-made transactions targeting the specific requirements of institutional investors are executed through issuers' MTN programmes, with numerous small MTN transactions adding up to an ample market volume, as presented in Chart 14. Again, most issues tend to offer foreign currency exposure through some structure, with the "power reverse dual currency" being the most popular recently.

Chart 14
MTN issuance



Structure Type



Source: Nomura.

The retail market: the Uridashi

In order to make the domestic public offering of foreign securities possible, in 1994 “Uridashi” registration was introduced. Under this registration, bonds denominated in yen or another currency and issued overseas can be sold in Japan through a secondary market registration and selling contract between a domestic Uridashi agent and an overseas underwriter.

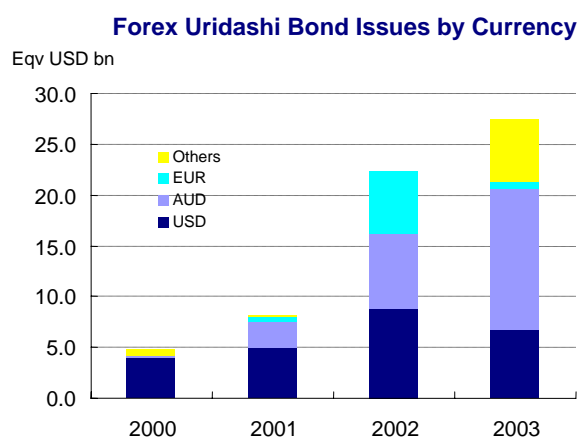
This registration has enabled securities firms to efficiently satisfy domestic retail demand for both foreign currency fixed income and equity-linked products. Some yen straight bond issuers have also sometimes opted for a “euroyen with an Uridashi” structure, notably the Korea Electric Power Corporation.

The Uridashi registration most efficiently serves an issuance structure in which a top-rated foreign, usually corporate, entity issues a foreign currency straight or structured (including equity-linked) instrument. These products normally offer some risk other than the credit risk of the issuer, so that issuers are limited to low-risk entities, while the risk offered is that of a currency popular among retail investors, or of an equity exposure at times of attractive equity market.

Naturally, in recent years, foreign exchange products have enjoyed massive retail demand as Japanese interest rates reached virtually zero. The range of currencies tends to be confined to those of the G7 countries. The US dollar recently conceded popularity to the Australian dollar, with its high interest rates and the robust performance of the Australian economy, the euro on its recent strengthening trend, and, to a lesser degree, the sterling and the Canadian dollar (Chart 15). Some other currencies are also carving out a niche in this market, most notably the South African rand.

Chart 15

Uridashi issuance 2000-2003



Source: Nomura.

Expansion of this market to Asian currencies is a natural issue at hand, and this will require the resolution of a number of market-related, regulatory and technical issues, ie:

- First, acceptance by Japanese investors of AAA or AA rated (such as those issued by the ADB) bonds denominated in Asian currencies;
- Next, opening of the market for Asian local entities issuing in local currencies; this will require further improvement of credit stories across the region (the market traditionally accepts AAA to AA issuance);

- In the secondary market, Japanese investors' portfolios of foreign currency bonds go through much more trading than those for yen bonds (other than Japan government bonds) as investors tend to move to take profits or cut losses at times of wide currency movements. Liquidity is therefore important, making the infrastructure (ie market capacity, as well as such technical points as clearing and settlement systems, hedging and money market tools, etc.) of the bond market of the corresponding currency an important issue for the functioning of the market;
- The issue of correlation with the dollar may be the last point worth mentioning. As is the case with Chinese yuan (renminbi), any prospects of Asian currencies decoupling and appreciating versus the G3 group will justify the emergence of a new market for these currencies.

Current issues

We have outlined above procedural issues still weighing mainly on the Samurai market. However, they can and have been easily overcome, should this market be sufficiently attractive for borrowers. Much more crucially, there are a number of important market-related issues which have been affecting the yen markets in all their facets:

1. As Japan's rating was downgraded to the AA/A category, it became difficult for higher rated borrowers to tap the market. Among Japanese investors, it is invariably difficult to sell any instrument whose terms are better than those for Japanese government bonds.
2. Some emerging market sovereigns, as well as some companies hitherto perceived as top-grade defaulted or suffered downgrades. Until 2001, sub-investment grade issues had been very popular as investors were attracted by their yield pick-up amid ever falling domestic interest rates. As a result, the Japanese market is extensively exposed to the Argentine problem, with no prospect of resolution in sight, souring the current market sentiment toward credit risk.
3. However, for some regular, especially Asian, visitors to the Samurai market, their domestic liquidity became very high and the requirements for international fund-raising diminished. In particular, some Asian countries, such as Thailand, Malaysia and China, which used to be regular issuers in the Samurai market, have seen their international funding requirements drastically reduced.
4. As absolute levels of interest rates elsewhere have been "catching up" with low yen interest rates, the exchange risk associated with borrowing in yen started to outweigh the attractiveness of yen for international borrowers.
5. The emergence of the euro as a single currency and of the associated single capital market has attracted countries in other regions, in particular EU and EU accession countries, to finance in the euro market, taking them further away from alternatives, including the yen market.
6. As regards Asia, the position of the dollar remains very strong, with many currencies pegged to the dollar and foreign reserves also still mainly in dollars. As is widely known, recently Asian central banks, together with Japan, have been supporting the dollar, adding record amounts of US Treasuries to their foreign reserves in the process. It can be observed that not only the yen- but also the euro-denominated issuance is also rather limited in the region.
7. Another obvious reason for the decline of the yen's relative importance in the international markets is that some Japanese demand has shifted to non-yen currencies.

This has left international banks and companies, which require yen funding for their Japanese domestic operations, as the only consistently present issuer category on the Samurai market.

Among sovereign and government agency issuers, the market is currently confined to those with BBB to A ratings, with borrowers from Korea, primarily the KDB, as the most consistent visitors to the market, while the People's Republic of China, the Malaysian Federation or PETRONAS, the Kingdom of Thailand and the Republic of the Philippines are among other potential visitors.

There are also higher rated issuers on the market, but they are essentially accessing the market through structured types of bonds, similar to the MTN market.

For a wider community of issuers, the euroyen format, targeting investors throughout international markets through issuance of large internationally liquid issues, still remains attractive (while such issuance would not work through the Samurai format in terms of flexibility, costs, etc.). Such corporates as GECC and IBM, and the Republic of Italy among sovereigns, are most notable issuers on this market.

Any market has its cycles and, as the Japanese economy is at last showing signs of sustainable recovery, Japanese investors have been regaining some of their confidence and the international yen market has been gradually improving. Subject to global economic and consequent investor liquidity, currency and credit events and other trends, the yen capital market may regain some of its prominence in the years to come.

However, another possible reason for the retreat of the yen market may have been the failure to make the yen a truly international currency, and the lack of medium- and long-term policy to develop the Japanese domestic bond and euroyen markets into truly competitive international markets. Without political and legal commitment from the government, such a goal cannot be achieved, and in our view the authorities still have some role to play in the further development of Asian bond markets.

Annex 1: The Japanese market for Asian equities

While the main focus of this paper is on bonds, the picture of capital flows from Japan to Asia will not be complete without briefly mentioning the equity market. If the underlying theme of this discussion is the flow of Japanese capital into Asian currencies or Asian credits, then while such flow via bonds may have been limited, Japanese investors have made substantial investments in Asian equities.

To briefly recall the history, the opening of the Japanese equity market started around the same time as that of the bond market, and in 1972, the first foreign public equity offering in Japan was made by a US company, General Telephone and Electronics, while in 1973 the first listings on the Tokyo Stock Exchange were made by four US companies joined by their French confrère.

Since then, although there have been ups and downs in the amount and number of companies conducting equity financing in Japan or listed on the Tokyo Stock Exchange, the Japanese market has over the years made an ample contribution to international and Asian equity financing.

This contribution has been particularly visible in recent cases of major global offerings of Chinese companies, on some of which it was reported that they “would not have succeeded without the Japanese demand”. What in our view makes them worth mentioning is that through these equity purchases Japanese investors have been aggressively investing in Asian currencies and Asian corporate credits, implicitly taking Asian sovereign exposure as well.

**Annex 2:
Issuance in various Japanese yen market segments**

List of Shogun issues

| Launch date | Issuer | Currency | Amount (mil) | Coupon | Issue price | Maturity |
|--------------------|---|-----------------|---------------------|---------------|--------------------|-----------------|
| Jun-85 | EIB (Shibo) | ECU | 50 | 9.2 | 99.75 | 10 |
| Aug-85 | World Bank | USD | 300 | 10.5 | 100.000 | 10 |
| Aug-85 | Sallie Mae | USD | 100 | 9.75 | 100.875 | 5 |
| Oct-85 | Victorian Public Authorities Finance Agency | A\$ | 60 | 13.625 | 99.875 | 7 |
| Oct-85 | NSW Treasury Corp | USD | 100 | 10.375 | 100.875 | 7 |
| Oct-85 | Bank of China | USD | 100 | 10 | 100 | 10 |
| Nov-85 | Southern California Edison Company | USD | 100 | 10.5 | 100.65 | 8 |
| Dec-85 | CITIC | USD | 100 | 9.625 | 100.75 | 10 |
| Mar-86 | Farm Credit Corporation | C\$ | 90 | 9.125 | 100.75 | 5 |
| May-86 | State Bank of NSW | USD | 100 | 7.125 | 100.9 | 7 |
| Jul-86 | Hydro Quebec | C\$ | 150 | 9.27 | 100.875 | 10 |
| Aug-86 | Federal Business Development Bank | C\$ | 75 | 9 | 100.95 | 5 |
| Sep-86 | World Bank | C\$ | 100 | 9 | 100.85 | 10 |
| Nov-86 | National Bank of Hungary (Shibo) | USD | 55 | 8.875 | 100 | 7 |
| Nov-86 | NSW Treasury Corp | USD | 100 | 7.75 | 101.375 | 7 |
| Dec-86 | World Bank | USD | 200 | 7.375 | 101.125 | 7 |
| Jan-87 | Standard Oil | USD | 50 | 7.875 | 101.375 | 10 |
| Feb-87 | Ciba Geigy | USD | 50 | 7.5 | 101.355 | 7 |
| Feb-87 | FHLB | USD | 200 | 7.75 | 101.125 | 10 |
| Mar-87 | GTE Finance | USD | 100 | 8 | 101.3 | 7 |
| May-87 | Bell Canada | C\$ | 100 | 9.875 | 101.4 | 9 |
| Oct-87 | Fannie Mae | USD | 200 | 10.1 | 100.19 | 7 |
| Oct-88 | EIB | ECU | 100 | 8 | 101.875 | 10 |
| Oct-88 | World Bank | USD | 100 | 9.04 | 100 | 10 |
| Aug-89 | P&O (Shogun CB) | USD | 175 | 6 | 100 | 15 |
| May-91 | EIB | ECU | 240 | 9 | 101.755 | 8 |
| Jan-94 | HNG | USD | 50 | 5 (A\$) | 100.6 | 4 |

List of Daimyo issues

| Launch date | Issuer | Amount (yen mil) | Coupon | Issue price | Maturity | Book-runner |
|--------------------|-------------------------------|-------------------------|---------------|--------------------|-----------------|--------------------|
| 04/22/87 | World Bank | 40,000 | 4.625 | 101.000 | 05/12/97 | Daiwa |
| 05/15/87 | World Bank | 40,000 | 4.250 | 100.375 | 06/03/97 | Yamaichi |
| 11/12/87 | World Bank | 50,000 | 5.625 | 101.125 | 11/27/97 | Nomura |
| 02/25/88 | World Bank | 100,000 | 5.125 | 100.250 | 03/17/98 | Nikko |
| 04/08/88 | Inter-American Development Bk | 20,000 | 5.000 | 100.000 | 04/14/98 | Nikko |
| 05/27/88 | World Bank | 60,000 | 5.125 | 100.000 | 03/17/98 | Daiwa |
| 08/06/88 | World Bank | 70,000 | 5.250 | 100.500 | 08/19/98 | Yamaichi |
| 09/08/88 | ADB | 30,000 | 5.500 | 100.250 | 09/26/98 | Nomura |
| 03/10/89 | ADB | 40,000 | 5.500 | 100.650 | 03/16/99 | Nikko |
| 04/01/89 | ADB | 40,000 | 5.125 | 100.000 | 04/14/99 | Nomura |
| 04/10/89 | Inter-American Development Bk | 25,000 | 5.125 | 100.375 | 04/19/99 | Yamaichi |
| 07/05/89 | IFC | 20,000 | 5.375 | 100.80 | 07/18/96 | Nomura |
| 09/05/89 | World Bank | 70,000 | 5.250 | 100.750 | 09/20/99 | IBJ |
| 10/17/89 | Inter-American Development Bk | 30,000 | 5.625 | 100.80 | 10/25/99 | Nomura |
| 11/02/89 | African Development Bank | 20,000 | 5.750 | 100.30 | 11/17/99 | Nikko |
| 12/14/89 | World Bank | 50,000 | 5.875 | 100.750 | 12/22/94 | Yamaichi |
| 12/21/89 | IFC | 10,000 | 7.100 | 100.80 | 12/28/94 | Nomura |
| 04/24/90 | African Development Bank | 40,000 | 7.250 | 100.500 | 05/09/97 | Daiwa |
| 06/01/90 | IFC | 15,000 | 8.000 | 100.500 | 06/14/96 | Nomura |
| 07/11/90 | African Development Bank | 30,000 | 7.250 | 100.375 | 07/16/97 | Nomura |
| 07/22/90 | World Bank | 30,000 | 7.000 | 95.000 | 07/30/97 | Nomura |
| 09/18/90 | IFC | 10,000 | 8.000 | 95.000 | 09/28/00 | Yamaichi |
| 10/19/90 | ADB | 30,000 | 7.500 | 100.500 | 11/09/00 | Daiwa |
| 12/18/90 | Inter-American Development Bk | 35,000 | 7.000 | 100.750 | 12/27/00 | Daiwa |
| 04/17/91 | African Development Bank | 40,000 | 7.250 | 100.875 | 04/24/98 | Daiwa |
| 01/23/92 | ADB | 50,000 | 5.625 | 99.60 | 02/12/02 | Yamaichi |
| 01/31/92 | Inter-American Development Bk | 50,000 | 5.375 | 100.450 | 02/25/97 | Nikko |
| 06/09/92 | African Development Bank | 40,000 | 6.200 | 99.80 | 06/18/02 | Yamaichi |

List of global yen issues 1992-2003

| Launch date | Issuer | Amount (yen mil) | Coupon | Issue price | Maturity | Bookrunner |
|--------------------|--------------------------------|-------------------------|---------------|--------------------|-----------------|-------------------------------------|
| 03/10/92 | International Bank for Reconst | 250,000 | 5.250 | 99.230 | 03/20/02 | IBJ-I/J-P-MORGAN(JB)/NOMURA-SEC(JB) |
| 10/14/92 | International Bank for Reconst | 225,000 | 4.500 | 99.80 | 12/22/97 | DAIWA-SEC |
| 02/18/93 | International Bank for Reconst | 200,000 | 4.500 | 99.72 | 03/20/03 | IBJ-I/MS-I(JB)/NIKKO-EUR(JB) |
| 06/30/93 | International Bank for Reconst | 225,000 | 4.500 | 99.983 | 06/20/00 | DAIWA-SEC/GS(JB)/IBJ-I(JB) |
| 01/11/94 | Italy | 300,000 | 3.500 | 99.980 | 06/20/01 | DAIWA-EUR/JPM(JB) |
| 07/13/94 | Italy | 175,000 | Floats | 99.870 | 07/26/99 | MERRILL/NOMURA(JB) |
| 11/08/94 | International Bank for Reconst | 200,000 | 4.750 | 99.404 | 12/20/04 | ML-I/NIKKO-EUR(JB)/NOMURA-INT(JB) |
| 06/29/99 | Inter-American Development Bk | 100,000 | 1.900 | 99.449 | 07/08/09 | MSDW/TMI(JB) |
| 07/19/99 | General Motors Acceptance Corp | 50,000 | Floats | 100.000 | 07/26/02 | BOTMI |
| 10/05/99 | Inter-American Development Bk | 50,000 | 1.900 | 101.834 | 07/08/09 | MSDW |
| 11/01/99 | KFW International Finance Inc | 100,000 | 1.000 | 99.980 | 12/20/04 | DEUTSCHE-ALEX-B |
| 11/09/99 | Toyota Motor Credit Corp | 50,000 | 1.000 | 99.429 | 12/20/04 | MERRILL/NOMURA-SEC(JB) |
| 11/12/99 | General Motors Corp | 50,000 | 1.250 | 99.72 | 12/20/04 | BEAR/MERRILL(JB) |
| 11/30/99 | Procter & Gamble Co | 40,000 | 1.500 | 99.578 | 12/07/05 | SALOMON-SMITH |
| 01/11/00 | Westpac Banking Corp | 50,000 | .875 | 99.604 | 09/22/03 | BOTMI |
| 01/13/00 | OKB | 100,000 | 1.800 | 99.805 | 03/22/10 | NOMURA |

List of global yen issues 1992-2003 (cont)

| Launch date | Issuer | Amount (yen mil) | Coupon | Issue price | Maturity | Bookrunner |
|--------------------|--------------------------------|-------------------------|---------------|--------------------|-----------------|---------------------------------|
| 01/25/00 | Bank of Scotland Treasury Svcs | 100,000 | Floats | 99.968 | 02/01/02 | DEUTSCHE-ALEX-B |
| 01/28/00 | Ford Motor Credit Co | 100,000 | 1.200 | 99.855 | 02/07/05 | GS/MSDW(JB)/BOTMI(JB) |
| 02/03/00 | Mellon Bank NA, Pittsburgh, PA | 10,000 | 1.400 | Market | 02/24/05 | JPM |
| 02/18/00 | Italy | 100,000 | 1.800 | 99.882 | 02/23/10 | MSDW/NOMURA-SEC(JB) |
| 03/02/00 | McDonald's Corp | 15,000 | 2.000 | 99.927 | 03/09/10 | MERRILL/MSDW(JB) |
| 03/02/00 | McDonald's Corp | 15,000 | 1.250 | 99.859 | 03/09/05 | MERRILL/MSDW(JB) |
| 03/08/00 | KFW International Finance Inc | 100,000 | 1.750 | 99.735 | 03/23/10 | JPM/BOT-MITSUBISHI(JB) |
| 04/06/00 | IBM Corp | 100,000 | .900 | 99.97 | 04/14/03 | MSDW/TOKYO-MIT-SEC(JB) |
| 04/14/00 | Westpac Banking Corp | 25,000 | .875 | 99.605 | 09/22/03 | NOMURA-SEC-INTL |
| 04/27/00 | Italy | 50,000 | .375 | 100.010 | 05/12/02 | DEUTSCHE-ALEX-B |
| 05/11/00 | Toyota Motor Credit Corp | 50,000 | .625 | 99.840 | 05/23/03 | SALOMON-SMITH |
| 05/16/00 | Procter & Gamble Co | 50,000 | 1.500 | 100.162 | 12/07/05 | SALOMON-SMITH/BOTMI(JB) |
| 05/16/00 | Procter & Gamble Co | 15,000 | 2.000 | 99.717 | 06/21/10 | SALOMON-SMITH/BOTMI(JB) |
| 05/24/00 | Province of Ontario | 50,000 | 1.875 | 100.241 | 01/25/10 | NOMURA-SEC |
| 06/28/00 | Deutsche Telekom International | 90,000 | 1.500 | 99.805 | 06/15/05 | DEUTSCHE-ALEX-B/GS(JB)/MSDW(JB) |
| 07/03/00 | Japan Development Bank | 100,000 | 1.750 | 99.634 | 06/21/10 | NOMURA |
| 07/10/00 | Citigroup Inc | 45,000 | 1.400 | 99.954 | 07/18/05 | NIKKO-SSB |
| 07/19/00 | Morgan Stanley Dean Witter | 9,400 | .900 | 100.000 | 07/28/03 | MSDW |
| 07/31/00 | Italy | 50,000 | .375 | 100.095 | 05/12/02 | UBS-WARBURG |
| 08/21/00 | OKB | 50,000 | 1.800 | 100.702 | 03/22/10 | NOMURA |

List of global yen issues 1992-2003 (cont)

| Launch date | Issuer | Amount (yen mil) | Coupon | Issue price | Maturity | Bookrunner |
|--------------------|--------------------------------|-------------------------|---------------|--------------------|-----------------|--|
| 08/23/00 | Deutsche Ausgleichsbank | 100,000 | 1.850 | 100.009 | 09/20/10 | DEUTSCHE-ALEX-B/ NOMURA-SEC(JB)/ SALOMON-SMITH(JB) |
| 03/09/01 | Banque Centrale de Tunisie | 20,000 | 4.200 | 100.000 | 03/17/31 | ML-I |
| 03/13/01 | Canada | 50,000 | .700 | 101.027 | 03/20/06 | NOMURA |
| 04/26/01 | Province of Quebec | 50,000 | 1.600 | 99.138 | 05/09/13 | JPM/NOMURA(JB) |
| 06/01/01 | Toyota Motor Credit Corp | 50,000 | .750 | 99.592 | 06/09/08 | DAIWA-SEC/NOMURA(JB) |
| 06/20/01 | GE Financial Assurance | 60,000 | 1.600 | 99.793 | 06/20/11 | NIKKO-SSB/MORGAN-STANLEY(JB) |
| 10/04/01 | Italy | 100,000 | .375 | 99.936 | 10/10/06 | NOMURA/JPM(JB) |
| 02/15/02 | Japan Finance Corp Mncpl Entpr | 130,000 | 1.550 | 99.785 | 02/21/12 | NIKSSE/NOMURA(JB)/UBS-WARBURG(JB) |
| 02/26/02 | Textron Financial Corp | 6,000 | Zero | 99.188 | 03/04/03 | BOTMI |
| 03/21/02 | Italy | 100,000 | .375 | 99.844 | 10/10/06 | NOMURA |
| 04/26/02 | IBM Corp | 100,000 | .400 | 99.968 | 05/10/04 | NIKKO-SSB/BOTMI(JB) |
| 06/20/02 | Development Bank of Japan | 75,000 | 1.400 | 99.71 | 06/20/12 | NOMURA/UBS-WARBURG(JB) |
| 11/27/02 | Japan Finance Corp Mncpl Entpr | 70,000 | 1.550 | 105.813 | 02/21/12 | NIKSSE/UBS-WARBURG(JB) |
| 12/05/02 | Development Bank of Japan | 75,000 | 1.700 | 99.767 | 09/20/22 | NIKKO-SSB/UBS-WARBURG(JB) |
| 02/25/03 | Development Bank of Japan | 30,000 | 1.700 | 105.803 | 09/20/22 | NIKSSE/UBS-WARBURG(JB) |
| 06/24/03 | Development Bank of Japan | 75,000 | 1.050 | 99.354 | 06/20/23 | NOMURA-SEC/UBS-INV-BANK(JB) |
| 10/23/03 | Citigroup | 50,000 | .800 | 99.853 | 10/30/08 | NIKKO-CITIGROUP |
| 11/19/03 | Japan Finance Corp Mncpl Entpr | 130,000 | 1.350 | 99.86 | 11/26/13 | MILTD/NIKKO-CITIGROUP(JB)/ NOMURA-INT(JB) |
| 12/10/03 | Morgan Stanley | 5,000 | Floats | 100.000 | 12/15/06 | MORGAN-STANLEY |

Annex 3: Samurai and euroyen defaults

List of defaulted Samurai bond issues

| Date of default | Launch date | Issuer | Rating (initial) | Amount (yen bn) | Coupon (%) | Maturity | Bookrunner |
|-----------------|-------------|--------------------------|------------------|-----------------|------------|-----------|------------------------|
| 14-Oct-00 | 15-Dec-94 | HITIC | A+(JCR) | 14.5 | 5.000 | 26-Dec-01 | Nikko |
| Feb-02 | 26-Jun-96 | FIEC | A+(JBRI) | 14.0 | 4.100 | 24-Jul-06 | Yamaichi |
| 25-Mar-98 | 10-Jun-97 | Peregrine Investment | BBB+(JBRI) | 10.0 | 2.600 | 30-Jun-00 | Nikko |
| 25-Mar-98 | 10-Jun-97 | Peregrine Investment | BBB+(JBRI) | 10.0 | 6mL+90 | 20-Jun-00 | Nikko |
| 29-Aug-98 | 19-Jun-97 | Dharmala Intiutama Int'l | BBB-(NIS) | 15.0 | 5.450 | 9-Jul-02 | Yamaichi |
| 14-Oct-00 | 9-Sep-97 | HITIC | A+(JCR) | 14.0 | 3.400 | 24-Sep-04 | Nikko |
| 20-Dec-03 | 5-Dec-96 | Argentina | B1/BB(M/SP) | 50.0 | 5.000 | 20-Dec-02 | Nikko |
| 20-Dec-03 | 2-Dec-99 | Argentina | B1/BB(M/SP) | 20.0 | 5.400 | 17-Dec-03 | Nikko SSB |
| 20-Dec-03 | 24-May-00 | Argentina | B1/BB(M/SP) | 60.0 | 5.125 | 14-Jun-04 | Nomura / Merrill Lynch |
| 20-Dec-03 | 22-Aug-00 | Argentina | B1/BB(M/SP) | 61.5 | 4.850 | 26-Sep-05 | Nomura / Nikko SSB |

List of defaulted euroyen bonds

| Date of Default | Launch Date | Issuer | Rating | Amount (yen bn) | Coupon (%) | Maturity | Book-runner |
|------------------------|--------------------|-----------------------|-----------------|------------------------|-------------------|-----------------|-----------------------|
| 20-Dec-03 | 14-Mar-96 | Argentina | B1/BB-(M/SP) | 8.0 | 7.400 | 4-Apr-06 | Yamaichi |
| 20-Dec-03 | 25-Apr-96 | Argentina | B1/BB-(M/SP) | 8.0 | 7.400 | 25-Apr-06 | Nomura |
| 20-Dec-03 | 15-May-96 | Argentina | B1/BB-(M/SP) | 7.0 | 7.400 | 15-May-06 | Nomura |
| 20-Dec-03 | 24-Oct-96 | Argentina | B1/BB-(M/SP) | 50.0 | 6.000 | 24-Mar-05 | Nikko |
| – | 4-Feb-97 | Bakrie Int'l Finance | NR | 14.0 | 0.000 | 12-Feb-00 | Peregrine |
| 20-Feb-02 | 20-Feb-97 | APP Int'l Finance | Ba3(M) | 17.0 | 4.800 | 20-Feb-02 | NA |
| 20-Dec-03 | 30-Apr-97 | Argentina | B1/BB(M/SP) | 50.0 | 4.400 | 27-May-04 | Yamaichi |
| 5-Apr-00 ¹ | 10-Jun-97 | Robinson Dept | NR | 6.8 | 0.000 | 12-Jun-00 | Societe Generale Asia |
| – | 11-Aug-97 | Sierad Produce | NR | 2.0 | 0.000 | 15-Aug-00 | IBJ |
| 20-Dec-03 | 23-Jul-99 | Argentina | Ba3/BB(M/SP) | 18.0 | 3.500 | 11-Aug-09 | Daiwa |
| 24-May-02 | 24-May-00 | Buenos Aires Province | B1/BB(M/SP) | 3.0 | 4.250 | 27-May-03 | NSSB |
| 24-Dec-03 | 31-May-00 | Parmalat Fin BV | NR | 30.0 | 3.650 | 1-Jun-20 | NSSB |
| 2-Dec-01 | 8-May-01 | Enron Corp | Baa1/BBB+(M/SP) | 25.0 | 0.520 | 15-May-02 | Merrill Lynch |
| 2-Dec-01 | 4-Jun-01 | Enron Corp | Baa1/BBB+(M/SP) | 40.0 | 0.000 | 18-Jun-03 | Merrill Lynch |
| 2-Dec-01 | 4-Jun-01 | Enron Corp | Baa1/BBB+(M/SP) | 10.0 | 0.770 | 18-Jun-03 | Merrill Lynch |
| 2-Dec-01 | 5-Jun-01 | Enron Corp | Baa1/BBB+(M/SP) | 10.0 | 0.970 | 18-Jun-04 | Merrill Lynch |
| 2-Dec-01 | 15-Jun-01 | Enron Corp | Baa1/BBB+(M/SP) | 20.0 | 0.493 | 13-Jun-02 | Merrill Lynch |

¹ Date of bankruptcy

Bibliography

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Annex 4: Bond structures in the liberalisation of Japan's capital market: from Samurai via Shogun and Daimyo to euro with Uridashi and global

